ANNUAL INTEGRATED REPORT 2013

owner-manager culture

innovation

entrepreneurship

franchise value

FIRSTRAND

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FIRSTRAND

1966/010753/06
Certain entities within the FirstRand Group are Authorised Financial Services and Credit Providers
This analysis is available on the Group's website: www.firstrand.co.za

Email questions to investor.relations@firstrand.co.za

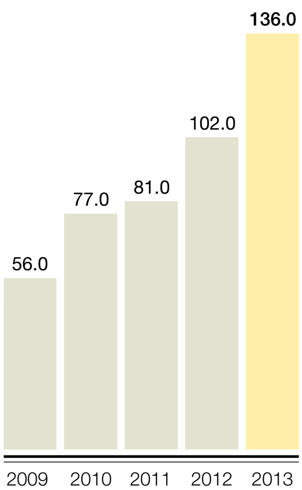
FINANCIAL HIGHLIGHTS

33%
Ordinary dividend per share

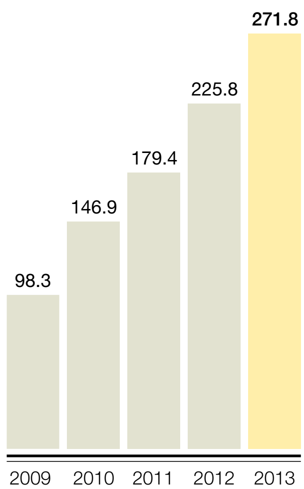
20%
Diluted normalised earnings per share

14%
Normalised net asset value per share

Ordinary dividend per share (cents)



Diluted normalised earnings per share (cents)



FirstRand's objective is to build long-term franchise value and the diversified portfolio of the Group has delivered strong growth in earnings, assets and dividends.

This track record has been achieved through a combination of organic growth, acquisitions, and creating extra sources of revenue through the start up and development of completely new businesses.

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

FNB First National Bank
RMB
WesBank
ASHBURTON

FIRSTRAND'S SUSTAINABILITY FRAMEWORK

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

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

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

CORE PURPOSE

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

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

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

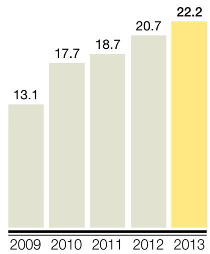
These strategies are executed through its portfolio of operating franchises, within a framework set by the Group. An overview of progress on these strategic objectives and the financial and operational performance of each franchise can be found on pages 35 to 44 of this report.

MEASURING PERFORMANCE

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

Core purpose

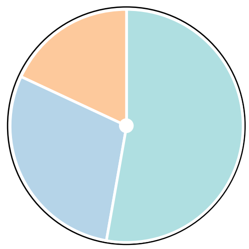
The Group believes that the true measure of value creation is return on equity (ROE). As can be seen from this chart the Group is currently at the top of its ROE target range for normal economic cycles of 18% to 22% and believes that this range is sustainable going forward.



Normalised ROE (%)

Portfolio management

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

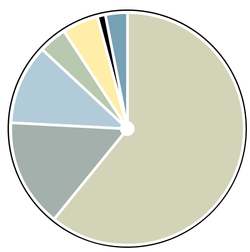


Franchise diversification (normalised earnings)
2013

53% FNB
29% RMB
18% WesBank

Sustainability

The Group believes its client franchise is key to sustainability and therefore analyses the proportion of revenues generated from client activities as this represents the highest quality of earnings. This chart shows that 90% of NIR emanates from client activities, if NII is included 95% of gross revenue is generated from the client franchise.



NIR breakdown
2013

61% Transactional income
15% Investment banking transactional income
11% Insurance
4% Other client

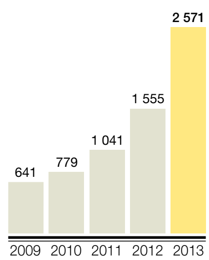
Client activity 91%

5% Investing
1% Fair value trading income
3% Other income

Risk income & investing 9%

Values and culture

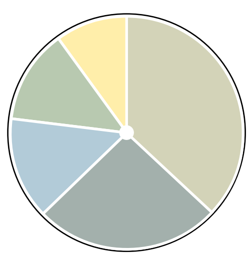
One of the key drivers of the Group's growth has been its ability to leverage a culture of innovation across its business. This chart indicates the growth in number of innovations implemented since 2009.



Innovations implemented

Stakeholders

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



Economic impact
2013

37% Providers of funding
26% Employees
14% Suppliers
13% Expansion
10% Government

INTEGRATED HIGHLIGHTS

R million	2013	2012	% change
Financial highlights			
Attributable earnings to ordinary equityholders	**14 539**	13 196	10
Headline earnings	**15 114**	12 642	20
Normalised earnings	**15 323**	12 730	20
Diluted headline earnings per share (cents)	**273.3**	226.9	20
Diluted normalised earnings per share (cents)	**271.8**	225.8	20
Ordinary dividend per share (cents)	**136.0**	102.0	33
Normalised return on equity (%)	**22.2**	20.7	
Average normalised net asset value per share (cents)	**1 303.1**	1 142.4	14
Non-financial highlights			
Economic value added to society	**68 704**	64 774	6
Total workforce (number)	**37 231**	36 398	2
South African workforce (number)	**32 363**	32 175	1
% ACI employees (SA operations %)	**71**	70	
Skills development investment	**405**	340	19
Retail customers (millions)	**10**	9	11
BEE procurement spend (%)	**84**	78	
Carbon emissions (tonnes)	**271 258**	285 562	(5)


Laurie Dippenaar / chairman

CHAIRMAN'S STATEMENT

A renewed focus on the basics of banking is what I believe the Group has achieved since 2010 when we restructured our business model in response to the global crisis.

Regular readers of my chairman's statement (I believe one or two such people do exist) will know that I have covered the topic of bank bashing a number of times over the years. In this financial year alone, I don't think many days have gone by when I haven't read some negative commentary or editorial on banks – sometimes this commentary is considered and insightful, sometimes it verges on hysterical ranting. Banks are deeply unpopular and yet all over the world they continue to survive and (in some instances) thrive. This seems paradoxical and not particularly logical and it led me to ask myself the question why, if they are so maligned and so damaging, do banks exist at all?

They have certainly been around for a very long time – in fact since ancient times. In 1800 BC in Egypt and Mesopotamia, gold was compressed into a convenient form and deposited in certain temples for safekeeping, and around the same time the first loan ever recorded was granted in Babylon. Much later, in the 4th century BC, Greeks and Romans introduced services such as deposit taking, making loans, testing coins for weight and purity and also changing money from one currency to another. Moreover, book transactions were made such that a payment was accepted in one city and a credit was arranged in another, thereby avoiding the transportation of gold. To assist me further in answering the question I then hit Google and typed in "why do banks exist?" Google answered:

"Banks exist first and foremost as a secure place to store wealth held in the form of readily available money.

Banks make money by granting loans from a portion of the deposits and charging interest on those loans. Banks compete for deposits through interest rates offered on deposits. Banks also charge fees for various services, all of which involve moving money from one account to another or making payments. Plus there are fees for processing these activities.

As a result of these various activities banks are considered vital to economic development through their prudent investment of portions of the wealth stored in them. Banks are also considered integral to various other functions related to the management of the nation's money supply and systems of credit."

On this basis banking would seem a vital and constructive force in the economy. It doesn't, therefore, explain the fact that banks are currently not perceived that way, in fact the other day I read an article with the headline *Doctors are rapidly becoming as unpopular as bankers.* So what has gone so badly wrong in the world of banks?

The answer is both simple and complex. The first thing that went wrong was that in the late 1990s many of the world's large banks stopped focusing on their core business and became overly enamoured with something called the "leveraged return". The timing was perfect – low borrowing costs and a willingness by the banks to lend lots of money – both of these conditions came together perfectly in the years leading up to the global credit crisis.

The second thing that happened was an expectation from equity markets that earnings in any year must be greater than in the prior year. In pursuit of growth, assets rocketed to historical highs and leverage at major financial institutions increased from around 20 to 35 times capital. Management teams felt immense pressure to keep profits growing. More leverage was piled upon leverage to keep the house of cards intact; eventually it all came crashing down. The rest, as they say, is history.

So what is the point of this? Well one of the lessons learned was that when banks focus on their core business of making money by granting loans from a portion of deposits and charging interest on those loans and charging fees for various services, which involve moving money from one account to another or making payments, they are an incredibly useful instrument – the oil that lubricates the wheels of the economy. That is why banks exist.

A renewed focus on the basics of banking is what I believe the Group has achieved since 2010 when we restructured our business model in response to the global crisis. Whilst excessive leverage was not a characteristic of the South African banking system, over heated asset prices and cheap money was – and it proved to be unsustainable. When I consider the Group's performance for the year to June 2013 I am struck by the

Today 84% of RMB's income is generated from client activities, resulting from some definitive management actions to deliver less volatile and more sustainable returns to shareholders.

degree to which going back to basics; such as winning new customers, providing them with channels to transact on that are cheap, user friendly, convenient and rewarding; lending good customers money at the right price; and building a deposit franchise – has benefited FNB. This approach, combined with a deeply embedded culture of innovation, has allowed them to take significant but profitable market share. I am also struck by the high quality of the earnings RMB now generates, particularly when compared to 2009 when 39% was from client activities and 32% from proprietary trading activities. Today 84% of RMB's income is generated from client activities, resulting from some definitive management actions to deliver less volatile and more sustainable returns to shareholders.

On the back of these strategies the Group has again produced a very strong financial and operational performance, achieving normalised earnings of R15 323 million, an increase of 20% on the previous period and a normalised ROE of 22.2% (2012: 20.7%).

Despite the fact that the operating environment continues to be challenging, and it gets tougher every year to grow, somehow the business gathers momentum and delivers superior profits and returns to shareholders. This year, the level of profitability has also allowed us to create meaningful impairment overlays, which I believe will stand us in good stead in the next few years as, when assessing the operating environment going forward, there is no doubt that some of the tail winds the economy has benefited from are rapidly disappearing. More detail on these overlays can be found in the *COO & CFO's report*.

Our economy continues to be negatively impacted by shifts in both global and domestic risk dynamics. Previous high levels of capital inflows, a strong rand, low bond yields, elevated commodity prices and robust growth in household incomes created good opportunities for growth. However, the US economy has recently started to improve and its central bank may start to unwind current monetary policy stimulus. Just the suggestion of such a development immediately impacted emerging market flows, which had previously benefited from low US rates, and for South Africa this has already resulted in some currency weakness. If this trend continues and the currency weakens further, the country may be forced to raise interest rates, which, in turn, would negatively impact internal growth generation. There are some significant vulnerabilities in our macro environment which we need to take cognisance of. Domestic GDP continues to slow as a result of lower levels of activity in both the household and business sectors of the economy. Slowing consumer and investment spend is resulting in lower credit extension and a muted housing market.

Given these issues many South African corporates with large shares of the domestic market are seeking growth in the rest of Africa. FirstRand is no exception, although I believe our approach to growth on the rest of the continent is differentiated from our peers.

In the 2011 annual integrated report both myself and the FirstRand CEO, Sizwe Nxasana, commented in some detail on how we would approach growing the Group's franchise outside of South Africa. I actually relooked at my Chairman's statement that year and our position has remained very consistent.

My statement in 2011 reads "what really matters to us is that as we grow in Africa, we create long-term value and returns for our shareholders. We are, therefore, committed to a highly disciplined approach, which I believe we demonstrated when we did not proceed with the Sterling Bank transaction in Nigeria".

FirstRand has been recently criticised in some quarters for "failing to complete transactions in Nigeria, Zambia and Ghana". We do not see it that way at all, particularly as our strategic preference has always been to grow organically. However, we always consider acquisitions if they make commercial sense – and in both instances Sterling and MBG did not. This is not "failing" this is success! This is what management teams must do; deploy capital into assets and activities that will generate a proper return.

The other "conventional wisdom" we are often offered is that a large physical footprint is the golden key to growing in Africa. Given what is happening throughout the world – banking on electronic and mobile devices is growing exponentially and every bank in the world is shrinking branch networks – the traditional infrastructure may turn out to be very, very expensive and ultimately redundant. Africa is no different to other markets. In fact the geographical challenges in some African countries make mobile banking very attractive. Large distances between communities can be effectively addressed through mobile technology, particularly given the high penetration of cellphones in all of the countries we are targeting for growth.

In his *CEO report* this year, Sizwe provides a more comprehensive overview of what our franchises are achieving in the rest of Africa. As a board we are very comfortable with the approach; an incremental growth strategy in the main, a mix of organic, bolt-on acquisition and the utilisation of skills and balance sheet. Growing quality earnings anywhere is tough, growing quality earnings in new territories requires patience and discipline – we will continue to exercise both on behalf of our shareholders.

During the year patience and discipline finally played out in our long-standing legal dispute with a former service provider linked to the "International Tax Institute". This litigation has been ongoing for over ten years and resulted from the termination of a contract for non-performance. The litigant spent many of those years using the media to embarrass and malign FirstRand, accusing the Group of a number of very serious offences such as money laundering and tax evasion.

Our strategy was always to fight our case in the Law Courts rather than in the media. This approach was eventually vindicated and for the record, below is an extract from the recent judgement exonerating FirstRand from any wrongdoing relating to allegations against the company, its clients and its officials.

"…there is absolutely no evidence of whatever nature that supports the repeated attacks upon the defendant or the FirstRand Group by the plaintiffs, accusing the former of being involved in Exchange Control violations, money laundering, dealing in embezzled funds, fraud, and unlawful destruction of statutory records or maintaining bogus accounts. The gratuitous accusations levelled at the defendant's clients and the defendant itself, intended to tarnish captains of industry and defendant's employees and directors with the brush of dishonesty, were and remain baseless and unsubstantiated."

I mention this issue because as a direct result of the actions of this one litigant, much has been written in the media about the Group which was designed to question our credibility and cast aspersions on our honesty. We are very pleased to lay this long-standing issue to rest.

This year I am not planning to cover executive remuneration again, we continue to work on increased disclosure in the report of the remuneration committee (see page 81) and our philosophy remains intact – management reward must be directly aligned to shareholder returns.

What I would like to cover, however, are the various management changes we recently announced.

In May we informed shareholders that after ten years in the role, Michael Jordaan is stepping down as CEO of FNB at the end of this calendar year to spend more time with his family.

Michael's tenure at FNB has been incredibly successful. Much of which can be attributed to his passion for innovation which, backed up by his knowledge of the intersection of banking, technology and social media, has delivered strong growth and excellent returns for the Group and its shareholders.

Jacques Celliers, who replaces him as CEO, is a member of the FNB executive committee and we expect this to be a very smooth succession. Jacques joined FNB 12 years ago and has managed a number of initiatives particularly focusing on innovative entry strategies in new markets. During his career at FNB Jacques has demonstrated a unique ability to bring leadership and innovative thinking to many aspects of FNB's operations. He is one of FNB's most seasoned and "highly decorated" innovators. I am confident that the FNB management team, under his leadership, will continue on its successful growth path.

In September we announced that Johan Burger, currently FirstRand Group Financial Director and Group COO is appointed Group Deputy CEO from 1 October 2013, although he will retain the Group Financial Director role until 31 December 2013. Following his appointment as Group CFO and COO in 2009, Johan's role and responsibilities expanded significantly. We believe this new role (which also incorporates the COO role) frees him up to spend more time on managing the financial resources of the Group, namely capital, funding and risk, and driving strategic cross-franchise initiatives.

At the same time Harry Kellan was appointed FirstRand Bank CFO and will take over the role of Group Financial Director from Johan effective 1 January 2014. Harry joins the Group from our largest franchise FNB, where he was CFO since 2007.

Brian Riley retires as CEO of WesBank on 31 December 2013 and Chris de Kock, who is currently General Manager: Sales and Marketing at WesBank, replaces him as CEO from 1 January 2014.

This probably seems like a great deal of change over a relatively short period, but the board is very comfortable with these appointments. Given our owner manager culture and the level of empowerment that our management teams enjoy, moving people into senior roles is quite straightforward and seamless. We have overseen many changes in our management teams – at both a Group and franchise level – over the past ten years, and, thanks to the depth and quality of our people, these transitions have been smooth and have ensured continuity and momentum in our operations.

Looking forward, we see some headwinds emerging in our operating environment; however, we expect to continue to produce good organic growth. I believe that our businesses are extremely well positioned to weather a difficult cycle; our balance sheet is strong in that we are well capitalised and well provided. Our operating franchises are in great shape and our growth strategies are playing out as expected. This does not mean that we can be in any way complacent. We have very fierce competition in all of our markets and we must never underestimate them.

In closing I would like to thank Tim Store, who having reached retirement age, retired from the board on 31 May 2013. He has been a stalwart of the board and other Group committees for many years.

During this tenure he was chairman of the audit, risk, capital management and compliance, the social and ethics large exposure and model risk valuation committees. He also played a leading role in developing the mandates of some of these committees. His wisdom and experience will be missed and we wish him a happy retirement.

I also wish Brian Riley, the very best in his retirement, he has overseen an incredibly successful period of growth at WesBank.

I would like to thank Michael Jordaan for the ten years he has spent at FNB, building the business into one of the most powerful financial services franchises in South Africa. We fully understand Michael's desire to spend more time with his young family, and recognise that his five years of commuting weekly from Cape Town has been a significant sacrifice. We wish him luck in his new ventures, which no doubt will be successful and highly innovative in nature.

Finally, thank you to all of the employees of FirstRand, for your hard work and commitment. It is reflected in the Group's performance – let's keep it up!

LL Dippenaar

Laurie Dippenaar
Chairman

Sizwe Nxasana | CEO

CEO'S REPORT

Our operating franchises FNB, RMB and WesBank outperformed the market on most financial and operational metrics.

A STRONG PERFORMANCE

FirstRand's diversified financial services portfolio produced another strong performance for the year to June 2013, demonstrating once again the quality and resilience of our operating franchises, FNB, RMB and WesBank; all of which outperformed the market on most financial and operational metrics. A detailed explanation of our financial performance can be found in Johan Burger's COO & CFO's report on page 14.

CONSISTENT EXECUTION ON OUR STRATEGY

This year's performance was again underpinned by the consistent execution on a number of growth strategies as we strive to meet the Group's overall objective; to create long-term franchise value and deliver superior and sustainable returns to our shareholders.

The growth strategies are executed at a franchise level and more detail on progress can be found in the *Review of operations* on pages 35 to 44.

The strategies exist within a strategic Group framework to:

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

When considering the first objective; growing in all of the profit pools in South Africa, the first consideration is just how competitive the landscape is, both in terms of traditional and new entrants. When markets are this competitive, it is critical to differentiate.

Over the past few years FNB has successfully grown profitable shares in many of its target markets through developing a highly differentiated customer offering. This has been possible due to its ability to innovate and take new ways of banking to market in a compelling but cost-effective way. For example, FNB's recent growth has been driven by a focus on growing and retaining core transactional accounts by offering customers a uniquely structured banking proposition, supported by exciting rewards programmes and platform innovations such as the banking app, cellphone banking and eWallet. Positive outcomes from this strategy have been the strong increase in transactional volumes, which this year contributed significantly to FNB's overall growth in non-interest revenue, and growth in retail deposits.

Shareholders often ask about the sustainability of FNB's market leadership, and we cite the business's ability to innovate as a key component of ensuring market leadership, particularly when the operating environment becomes even more difficult. We understand that to determine the future performance of a large and complex business on a concept as seemingly "woolly" as innovation may appear simplistic. Therefore, this year we have tried to provide some concrete linkages between FNB's innovation programme and profitability. These examples are described in the *FNB review of operations* on page 36 of this report.

FNB's challenge is to keep innovating and stay ahead of its customers' expectations and needs.

Testament to the success of the innovation programme, FNB was named the most innovative bank in the world during the year under review – a truly remarkable achievement.

Going forward there is no doubt that our competition will continue to "copy" our new products and channels, so FNB's challenge is to keep innovating and stay ahead of its customers' expectations and needs. Having said that however, we also believe it will be difficult for our peers to overtake us, particularly as FNB's innovation programme, which this year alone resulted in over 2 500 implemented innovations, has taken ten years to build. It now has considerable momentum and a deeply embedded business culture driving that momentum. This is not that easy to replicate

Innovation is also an integral part of RMB's DNA and is a key differentiating factor from both a client facing and operational excellence perspective. RMB provides bespoke solutions and unique structures that are tailored to client needs, and in several instances, introduce new products to the South African market. RMB has implemented the NOVA initiative, which is a programme focused on harnessing innovative thinking throughout the organisation so as to improve operational and risk management processes and generate business growth through new products, marketing and customer services.

At WesBank there is a strong focus to innovate and introduce labour saving and customer enhancing propositions, in addition to value-added products. Examples include:

- iContract in motor was introduced about a year ago and allows for customers to contract online at the point of sale, improving turnaround times and, therefore, positively impacting new business volumes (iContract penetration in the past four months exceeds 70% of deals done).

- FleetVantage was recently launched; the only fuel management system that enables fleet management functionality regardless of card service provider and allows for integration into related interfaces. It is the first fully fledged aggregator of fleet management requirements in the market place and generates additional revenue as it is a "charged for" service.
- The first fleet EMV (credit card chip-based) card was launched late in the financial year in conjunction with FNB. It will result in a major reduction in fraud.
- An inbound corporate acquisition process in the commercial segment is expected to drive growth. It is an automated asset-based finance application and approval process for companies with turnover between R10 million and R40 million. The current turnaround on smaller finance requirements has, to a degree, constrained origination, however, this new electronic application and approval process takes less than 24 hours, is scorecard driven and has grown to around 1 500 applications per month.
- On the operations side, WesBank introduced Dealer on Line, a self-help online process, which has reduced call centre volumes by 20 000 calls per month.

Turning now to those markets or profit pools where we believe we are under-represented. During the year under review, we formally introduced to investors the Group's new generation investment management franchise, Ashburton Investments; FirstRand's fourth financial services franchise sitting alongside FNB, RMB and WesBank.

Since Momentum was unbundled from the Group in 2009, asset management was an identified gap in the Group's portfolio and we recognised that we had the appropriate platforms and skills to now enter the investment management space with innovative investment products. The Group has a track record in creating new businesses that challenge conventional thinking and bring new propositions to customers. To this end we use the track records, skills and operational platforms of our existing businesses as the building blocks for new and disruptive franchises such as Discovery and OUTsurance and now Ashburton Investments. By accessing the origination capabilities of our existing franchises – particularly RMB – we can bring new investment and asset classes to retail and institutional investors. This will be in the form of both alternative and traditional products, which will provide investors with a far wider investment choice than currently exists, offering more sources of return and making it easier for South Africans to save.

Ashburton Investments will differentiate itself by offering sources of return that are not available elsewhere to individual and institutional investors.

The strategic objective of Ashburton is to become the leading new generation investment manager in Africa offering South African, African, Asian and Chinese investment opportunities. In addition to providing traditional, long-term investments in single manager, multi manager and offshore funds, Ashburton Investments will differentiate itself by offering sources of return that are not available elsewhere to individual and institutional investors. For example, we will offer investors the chance to invest in debt financing, private equity and credit investments alongside Ashburton Investments, on the same terms. Product providers to Ashburton Investments will be RMB and Ashburton.

Ashburton Investments is managed completely separately from the banking businesses, namely FNB, RMB and WesBank, which will avoid potential conflicts of interest. Systems are ring-fenced to ensure client information confidentiality.

GROWING IN NEW MARKETS TAKES TIME BUT WE ARE MAKING PROGRESS

I would now like to focus on the progress we are making in our non-domestic growth strategies, the rest of Africa and India.

FirstRand has been consistently executing on its strategy to grow its franchise on the African continent, matched with a highly disciplined approach to protecting shareholder returns. As Laurie stated in his chairman's statement in the 2011 annual integrated report:

"The Group has undertaken to protect its ROE as it builds its presence outside of its core South African operations.

It prefers greenfields operations or small rather than significant acquisitions, and whilst this means that expansion takes longer, potential dilution of returns can be contained."

We believe this strategy is on track and making good progress and there are three pillars to its execution.

1. Utilise the capabilities of the South African franchise, particularly the domestic balance sheet, intellectual capital and its international platforms. The Group believes this is very effective in those territories where a physical presence is not required in the short to medium term. RMB has been particularly successful in executing on this strategy, and in total has conducted 28 transactions in 13 African countries, to a value of R19.5 billion. It has also grown advances in the rest of Africa 75% from R9.4 billion to R16.4 billion, representing 11% of RMB's structured lending book.

2. Start an in-country franchise and grow organically (greenfields). Over and above its established franchises in Botswana, Namibia, Swaziland and Lesotho, FNB continues to build its operating footprint in Zambia, Mozambique and Tanzania and has successfully rolled out both traditional and electronic products and platforms in these markets. The African subsidiaries of FNB, which also include WesBank's vehicle and asset finance (VAF) operations in those countries, contributed normalised earnings of R695 million, despite the significant investment taking place in the newer territories.

   In addition, since 2010, RMB has successfully deployed Global Markets and Investment Banking teams into the FNB subsidiaries. These activities have generated a compound annual growth rate in profits of over 40%.

   RMB has been granted an investment banking licence in Nigeria and this presence, along with the representative office in Kenya, is generating good profits from cross-border activity in both the east and west African economic hubs and with the Asian investment corridors.

3. Corporate action. The Group will undertake small or medium sized acquisitions in the rest of Africa where it makes commercial sense and if these are platforms that can contribute scale and/or provide access to local deposits, skills and client bases. The Group does not, however, believe that large transformational acquisitions, which can significantly dilute returns, are necessarily the most effective way to establish a footprint in other African economies given the trade off between the sometimes significant legacy costs of a physical infrastructure and revenues that can potentially be generated from economies with very nascent retail markets. The Group is also of the view that mobile and electronic innovation is transforming the nature of banking footprints globally and this will also play out in Africa over time. FNB's strong track record in developing such platforms in South Africa means it can build a competitive advantage in this space in a number of other territories.

The growth rate, absolute size and return profile of the Group's growing presence in the rest of Africa is already apparent. Much of this has been achieved through organic expansion which has had the desired effect of protecting the ROE.

FirstRand remains the only South African bank with a branch in India, focusing on trade finance, investment banking, fixed income, currency and commodity products as well as debt capital markets and other structured products. It also started offering retail and commercial banking products.

The India platform is incrementally gaining good traction in-country and adding value to the African expansion strategy as a whole. Since the year end, RMB facilitated the largest ever investment by an Indian company in South Africa, when it advised Mumbai-listed pharmaceutical group, Cipla India, in its acquisition of South Africa's Cipla Medpro for R5 billion. This was a very significant cross-border transaction in the India/Africa corridor and is indicative of the opportunities that exist.

LOOKING FORWARD, IT REMAINS TOUGH

The global economic situation will continue to place pressure on our earnings and growth potential in the 2013/14 financial year. Macros are a large driver of earnings growth and are becoming tougher. Despite increased domestic headwinds FirstRand expects to continue to produce good organic growth and our franchises have compelling strategies to grow their respective toplines.

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

Sizwe Nxasana
Chief executive officer

Johan Burger | COO & CFO

COO & CFO'S REPORT

FirstRand believes that the increase in focus on integrated financial resource management will allow it to fully optimise the financial, strategic and operational levers required to maximise returns to shareholders.

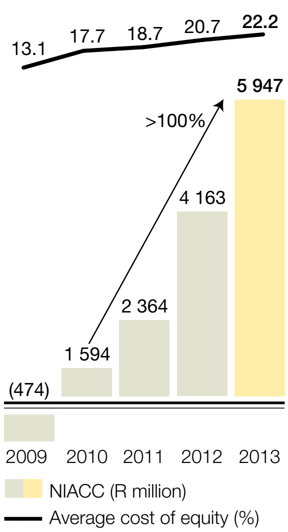
OVERVIEW OF RESULTS

FirstRand produced excellent results for the year ended 30 June 2013, achieving normalised earnings of R15 323 million, an increase of 20% on the previous period, and a normalised ROE of 22.2%, which is at the top end of the targeted range. Dividend per share increased 33% as the dividend cover was reduced to 2.0x (2012: 2.2x). ROA increased to 1.87% (2012: 1.73%), reflecting the Group's higher non-interest revenue (NIR) generating business model and discipline in using the balance sheet only where it can achieve appropriate returns.

Note: all information in this report is presented on a normalised basis.

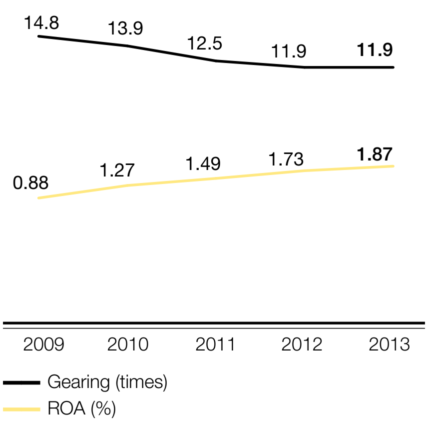
The Group believes the appropriate measure of value creation for shareholders is the return above cost of equity. As shown in the chart below, since 2010 the Group has improved ROE from 17.7% to 22.2%, and economic profits or net income after capital charge (NIACC) increased >100% from R1 594 million to R5 947 million. This is particularly pleasing as it was generated from an improved ROA and not gearing.

NIACC



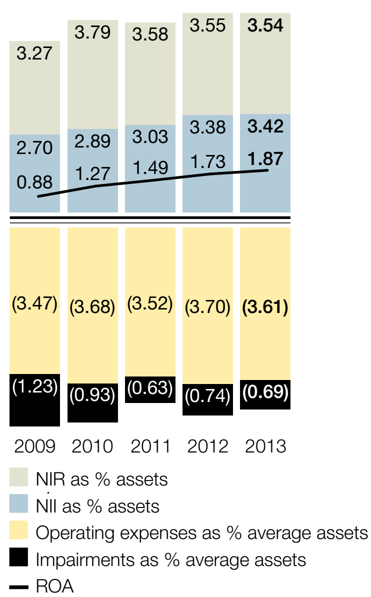
The following chart illustrates that gearing actually decreased from approximately 15x in 2009 to around 12x in the current year, whilst ROA increased from 0.88% to 1.87% over the same period.

ROA



ROA quality has also improved, however, it is now at a cyclical high.

ROA quality has also improved over this period with the client franchise contributing 95% of revenues. It is important to note that the Group's current ROA is cyclically high given that bad debts are still below the bottom end of the long-run average range.

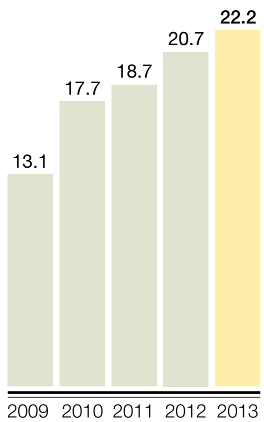


Each item is shown before taxation and non-controlling interests as a percentage of average assets. The ROA reflects normalised earnings after tax and non-controlling interests as a percentage of average assets.

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

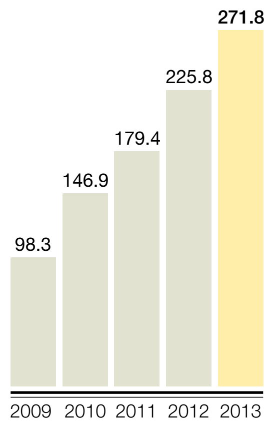
Key performance indicators

ROE (%)



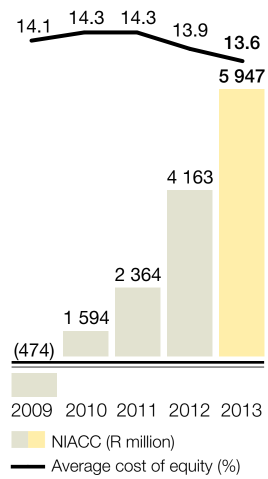
When the Group analyses ROE, it also takes into account the relationship between ROA and gearing levels. The Group's long-term ROE target range is 18% to 22% for normal economic cycles.

EPS (cents)



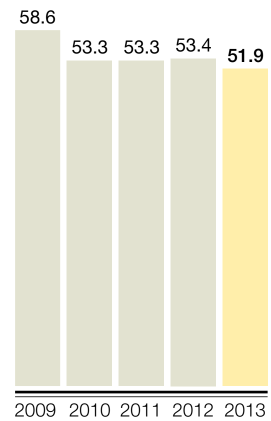
The Group targets earnings growth of 3% to 5% in excess of nominal GDP growth over the long term, as this will vary from year-to-year dependent on economic cycles.

NIACC



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

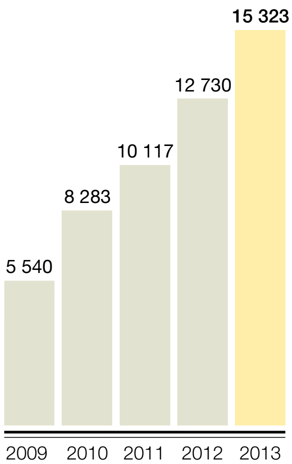
Cost-to-income ratio (%)



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

Normalised earnings

(R million)



Other key ratios are indicated in the table below.

Group key ratios – normalised

	Year ended 30 June	
	2013	2012
Earnings (R million)	**15 323**	12 730
ROE (%)	**22.2**	20.7
Diluted earnings per share (cents)	**271.8**	225.8
Return on average assets (%)	**1.87**	1.73
Credit loss ratio (%)	**0.99**	1.08
Credit loss ratio (%) excluding the impact of the merchant acquiring event	**0.95**	0.94
Net asset value per share (cents)	**1 303.1**	1 142.4
Dividend per share (cents)	**136.0**	102.0
Normalised cost-to-income ratio (%)	**51.9**	53.4
Tier 1 ratio (%)	**14.8**	13.2
CET1 ratio (%)	**13.8**	12.3
Net interest margin (%)	**4.97**	4.92
Gross advances (R billion)	**612**	536

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

Sources of normalised earnings

for the year ended 30 June

R million	**2013**	% composition	2012	% composition	% change
FNB	**8 162**	53	6 666	53	22
RMB	**4 426**	29	3 654	29	21
WesBank	**2 852**	19	2 599	20	10
Corporate Centre and consolidation adjustments	**(178)**	(1)	(703)	(6)	(75)
FirstRand Limited (company)*	**358**	2	789	6	(55)
NCNR preference dividend	**(297)**	(2)	(275)	(2)	8
Normalised earnings	**15 323**	100	12 730	100	20

* *Included in the 2013 figure is the consolidation adjustment of R589 million (2012: R818 million) to bring the IFRS 2 costs from cash settled in the underlying subsidiaries to equity settled at the Group level.*

CONSISTENT STRATEGIES DRIVING FINANCIAL PERFORMANCE

The Group's strong financial performance was driven by the on-going execution of certain strategies which have the objective to provide shareholders with:

- earnings resilience, growth and sustainability;
- balance sheet strength; and
- quality returns.

These strategies are summarised in the table below. Further analysis on these strategies and their impact on financial performance follows-on.

		Strategies
Earnings resilience and growth (income statement)		diversification; client franchise businesses; appropriate risk appetite; and positive operating jaws.
Balance sheet strength	Assets Liabilities and equity	appropriate action in new business origination; managing NPLs and coverage ratios; grow the deposit franchise and improve liquidity profile; and maintain strong capital position.
Quality of returns (performance management)		maintain ROE within target range with focus on ROA not gearing; and discipline in deployment of capital.

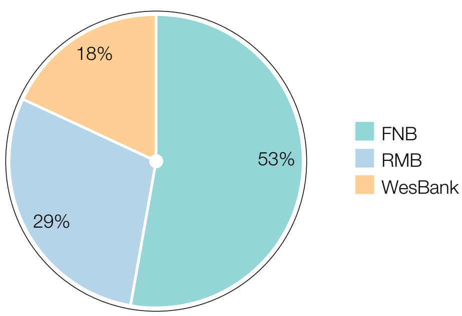
DIVERSIFICATION

FirstRand's portfolio of franchises provides good diversification and represents the appropriate mix of business activities, at both a franchise and segment level. The Group believes, however, that it remains under-represented in certain segments, markets and products and has clear strategies to address these gaps. For instance, the Group launched its new investment management franchise, Ashburton Investments, and more details of this strategy can be found in the *CEO's report*.

Franchise diversification

Normalised earnings (R million)	2013	2012	% change
FNB	**8 162**	6 666	22
RMB	**4 426**	3 654	21
WesBank	**2 852**	2 599	10
Other*	**(117)**	(189)	(38)
Total normalised earnings	**15 323**	12 730	20

* *Comprises FirstRand and dividends paid on NCNR preference shares, Corporate Centre and consolidation adjustments.*

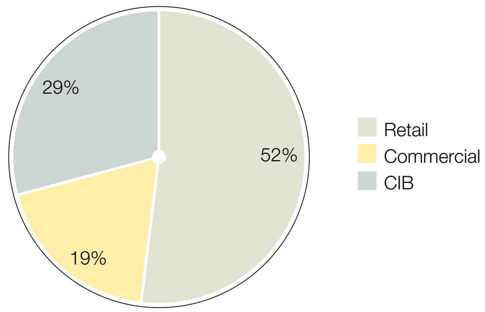


Segment diversification

Normalised earnings (R million)	2013	2012	% change
Retail	**8 027**	6 442	25
Commercial*	**2 987**	2 823	6
Corporate and investment banking (CIB)	**4 426**	3 654	21
Other	**(117)**	(189)	(38)
Total normalised earnings	**15 323**	12 730	20

* *Includes FNB Commercial and WesBank Corporate.*

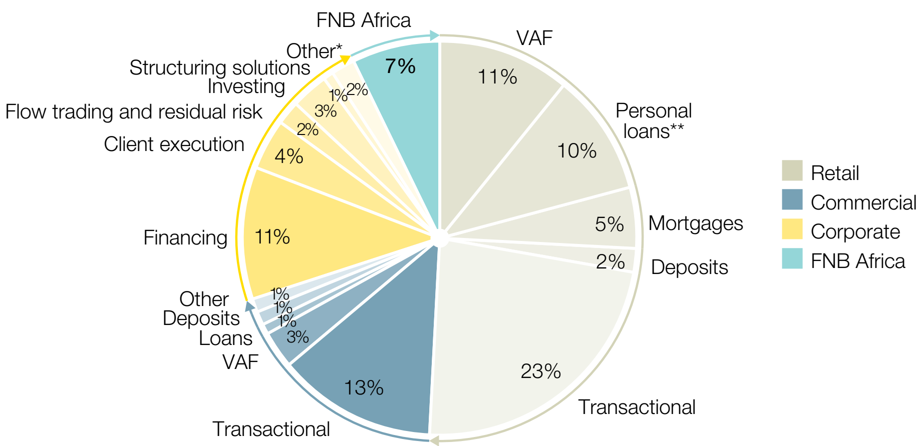
Normalised earnings mix**



** *Excludes FirstRand Limited (company) and dividends paid on NCNR preference shares, Corporate Centre and consolidation adjustments.*

The segment diversification in the year under review reflects the relative positioning of the Group's franchises, with strong contributions from the retail and corporate and investment banking segments. Excluding certain investments in growth initiatives (refer to page 36 of the *FNB review of operations*), the commercial segment produced double digit growth. The overall contribution from retail increased to 52% (2012: 50%) of gross revenue, with corporate and investment banking and commercial contributing 29% and 19%, respectively.

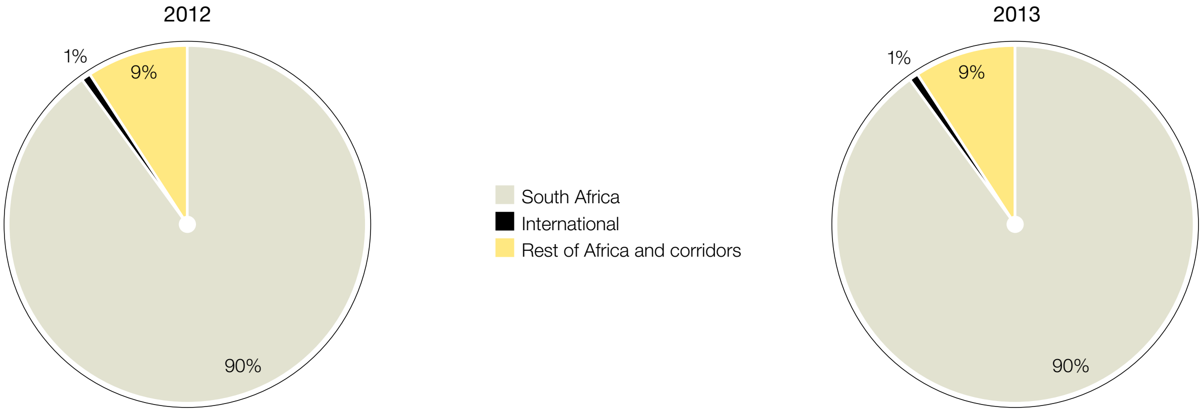
Product diversification



Based on gross revenue, excluding Corporate Centre and consolidation adjustments.
* *Includes VAF Corporate.*
** *Includes WesBank personal loans.*

The Group has deep product diversification across its various segments which further underpins its objective to mitigate earnings volatility through an over reliance on specific revenue streams.

Geographic diversification

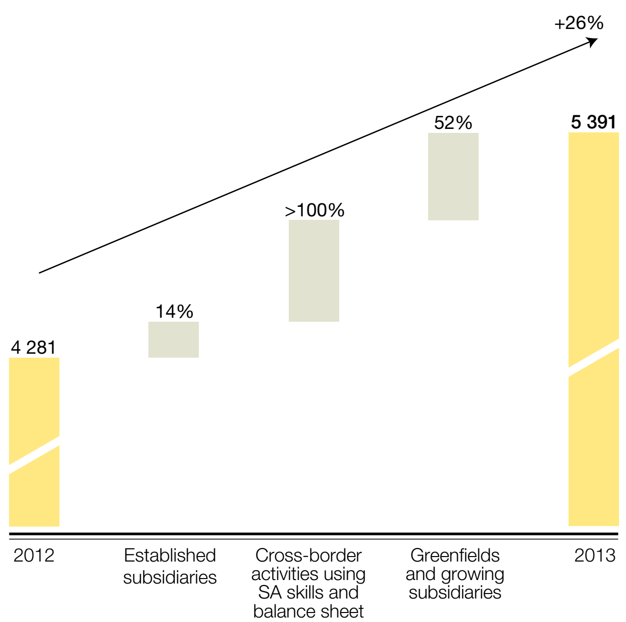


Based on gross revenue, excluding Corporate Centre and consolidation adjustments.

As illustrated above the Group remains concentrated in its domestic market with 90% of revenues generated in South Africa. The ratio has not shifted year-on-year but this is due to the strong rate of growth in the domestic businesses and because the rest of Africa is achieving growth rates similar to the South African business.

FirstRand is making good progress on the execution of its growth strategy in the rest of Africa. This strategy has three pillars, and is outlined in detail in the *CEO's report*. The chart below shows a breakdown of rest of Africa revenue growth (+26%) across the three pillars.

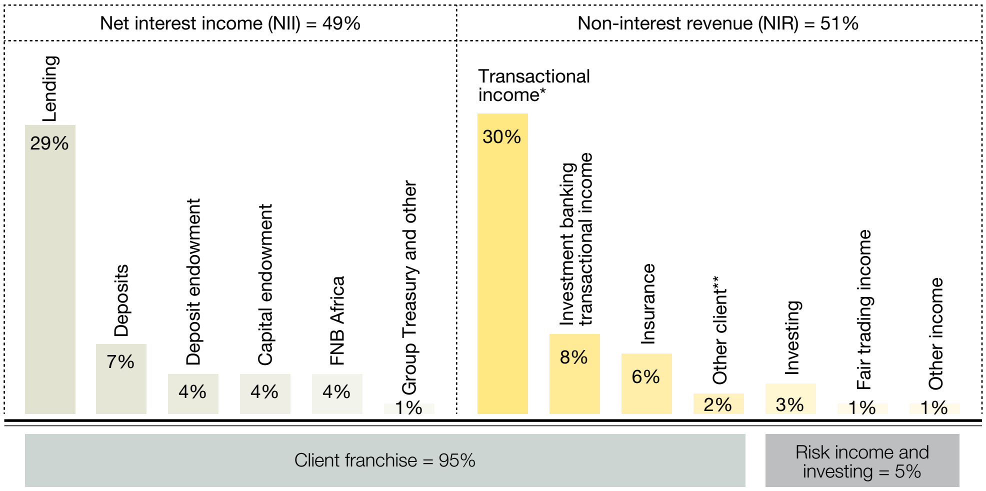
Gross revenue
(R million)



The established rest of Africa subsidiaries produced a 30% ROE, with returns from the growing subsidiaries still negative at (1.3%). It will take time for these operations to start meeting hurdle rates, however, the Group has remained disciplined in limiting the dilution of the return profile in line with the strategic framework.

GROW CLIENT FRANCHISE BUSINESSES

The chart below illustrates the success of the Group's continued focus on building its client franchises, which now contribute 95% of revenues. Lending and transactional income is the largest contributor at 59% of gross income. The Group's success in building its non-interest revenue franchises is reflected in the 51% contribution to total revenue.



* From retail, commercial and corporate banking.
** Includes WesBank associates.

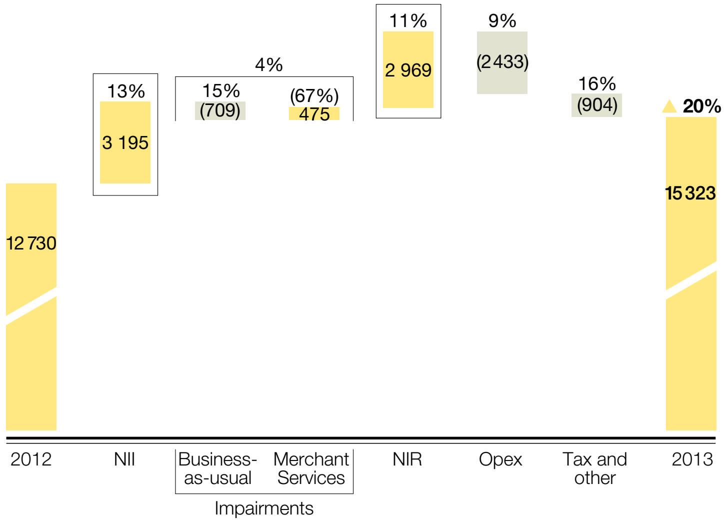
FirstRand is making good progress on the execution of its growth strategy in the rest of Africa and has remained disciplined in limiting the dilution of the return profile.

STRONG TOPLINE UNDERPINS EARNINGS GROWTH

The following chart illustrates that the Group's performance was driven by strong topline growth with NII increasing 13% and NIR growing 11%.

Normalised earnings

(R million)

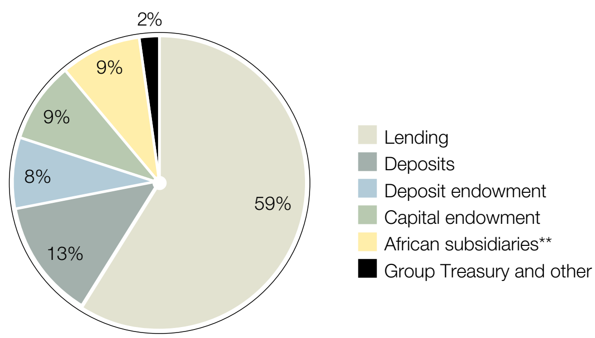


Net interest income growth of 13%

Lending remains the largest contributor to NII (59%), which has grown 21% as a result of both good asset growth and margin expansion. The lower growth from the deposit and endowment portfolios is a function of margin compression due to lower interest rates and competitive pressures.

NII breakdown

Net interest income* (R million)	2013	2012	% change
Lending	**16 648**	13 738	21
Deposits	**3 753**	3 629	3
Deposit endowment	**2 294**	2 117	8
Capital endowment	**2 337**	2 187	7
African subsidiaries	**2 386**	2 137	12
Group Treasury and other	**646**	1 061	(39)
Total net interest income	**28 064**	24 869	13

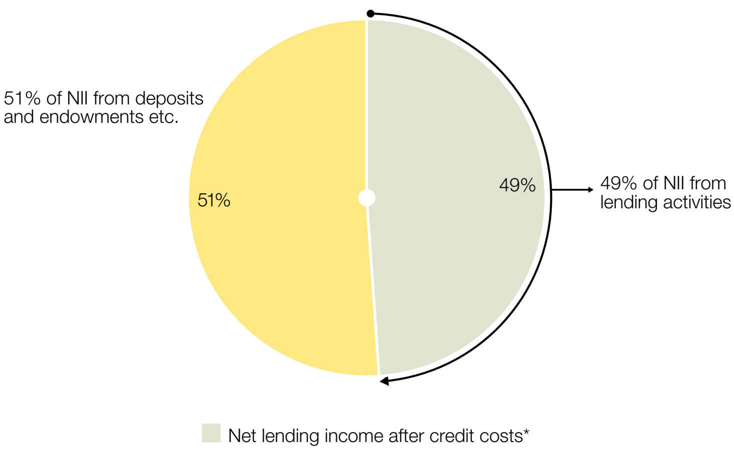


* *After taking funds transfer pricing into account.*

** *Reflects legal entity view.*

After adjusting for risk cost, which the Group believes is the appropriate approach to assessing the margin businesses, the picture is more balanced, as can be seen from the following chart.

Net interest income adjusted for risk cost (i.e. after impairment of advances)



* *Excludes African subsidiaries.*

Margins

Net interest margin improved from 4.92% to 5.07% year-on-year, positively impacted by changes in asset mix to higher margin products and continued repricing, offset by lower margins on capital and deposit endowment as a result of lower interest rates.

Two treasury issues reduced the margin by 10 bps to 4.97%;

- a real cost of 4 bps resulted from the strategy to run a conservative USD liquidity position to deal with rollover risk and provide a buffer for deal pipeline; and
- accounting mismatches (fair value vs accrual) relating to different treatment of assets and liabilities, which reverse over the remaining term of the assets and liabilities.

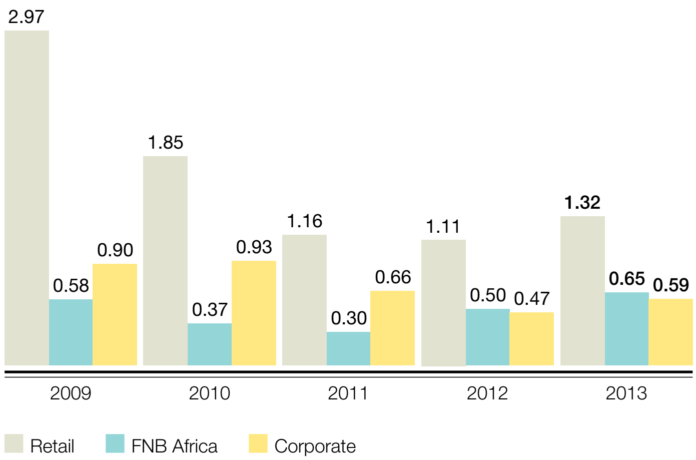
As a percentage of average interest-earning banking assets	%
Normalised margin – June 2012	**4.92**
Capital and deposit endowment	**(0.11)**
Advances	**0.26**
Changes in balance sheet mix	**0.18**
Asset pricing	**0.08**
Liabilities	**–**
Changes in balance sheet mix (deposits)	**0.03**
Changes in balance sheet mix (capital)	**0.01**
Term funding cost	**–**
Deposit pricing	**(0.04)**
Margin before Treasury impacts	**5.07**
Treasury strategies	**(0.10)**
Foreign currency liquidity buffer cost	**(0.04)**
Accounting mismatches	**(0.06)**
Normalised margin – June 2013	**4.97**

Impairments within the long-run average

Bad debts, excluding the impact of the merchant acquiring event, increased from 94 bps to 95 bps, which remains in line with expectations and includes credit impairment overlays, primarily at FNB and RMB. These overlays reflect the Group's view that the benign credit cycle has bottomed and are considered prudent given the strong book growth. The overlays do not reflect any specific stresses in the Group's portfolios, all of which are tracking as anticipated.

Credit loss ratio

(%)



Credit loss ratio (%)	**2013**	2012
Retail – secured	**0.62**	0.58
Residential mortgages	**0.32**	0.56
VAF	**1.14**	0.62
Retail – unsecured	**6.20**	5.37
Credit card	**0.19**	0.24
Personal loans	**9.70**	8.57
Retail – other	**7.47**	8.47
Total retail	**1.32**	1.11
Corporate	**0.59**	0.47
FNB Africa	**0.65**	0.50
Total credit loss ratio*	**0.95**	0.94

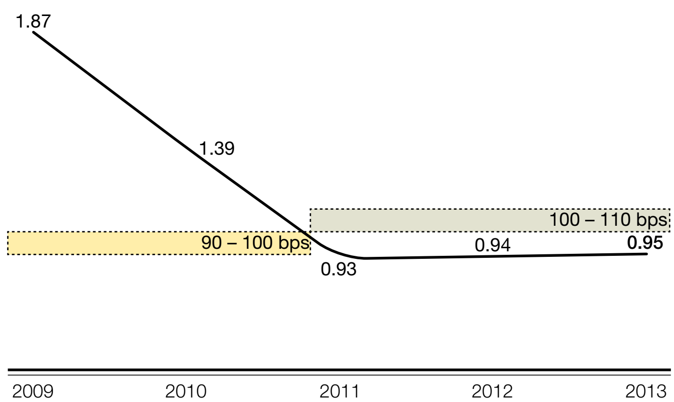
* *Excluding the impact of the merchant acquiring event.*

The retail portfolio impairment charge reflects increasing arrears and portfolio provisioning. The residential mortgage and card books depict prudent actions taken with regard to write-off policies and origination strategies. Defaults in the corporate book are still at very low levels, however, the charge includes increases in portfolio provisions.

As can be seen from the following chart, impairments are still below the long-run average of 100 to 110 bps, however, bad debts are expected to move into and/or above the long-run average going forward.

Credit loss ratio*

(%)

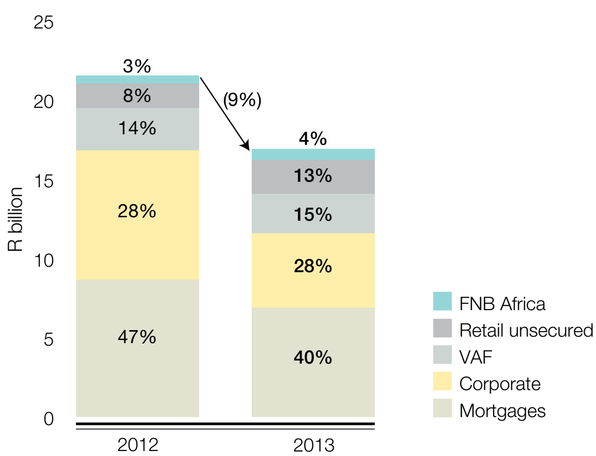


* *Excludes impact of the merchant acquiring event of 4 bps in 2013 (2012: 14 bps).*

Absolute levels of non-performing loans (NPLs) decreased 9%, however, total coverage increased from 60% to 74.3% year-on-year, driven by:

- the shift in the NPL mix from secured to personal loans where losses are higher (more detail on this below); and
- higher portfolio impairments.

NPLs

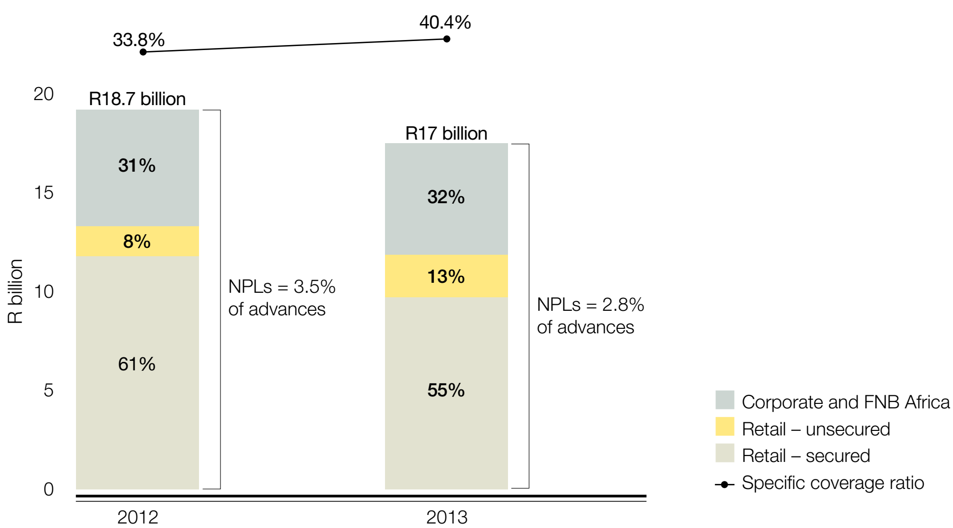


Coverage ratios (%)	2013	2012
Retail – secured	**25.3**	23.5
Residential mortgages	**21.7**	19.9
VAF	**35.0**	35.2
Retail – unsecured	**75.5**	79.7
Credit card	**71.9**	65.7
Personal loans*	**74.5**	80.4
Retail – other	**80.8**	91.2
Corporate	**54.6**	41.2
FNB Africa	**39.1**	48.0
Specific impairments	**40.4**	33.8
Portfolio impairments**	**34.0**	26.2
Total coverage ratio	**74.3**	60.0

* *Includes FNB loans and WesBank loans.*
** *Includes central portfolio overlays.*

The following chart illustrates the NPL mix change. Retail secured now represents 55% (2012: 61%) of NPLs whilst the proportion of retail unsecured NPLs increased from 8% to 13% year-on-year, which in turn has driven higher coverage against NPLs.

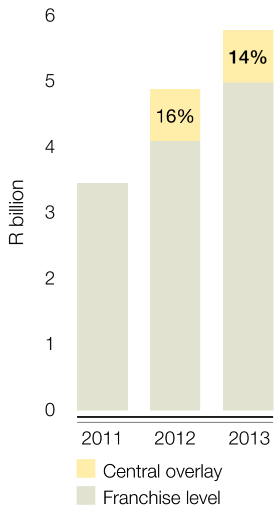
NPL mix



Increased portfolio provisions reflect book growth, resultant arrears and specific prudent actions taken last year. The central overlay constitutes 14% of total portfolio provisions as can be seen from the chart below.

The Group believes that expressing portfolio provisions as a percentage of the performing book is a more meaningful measure than as a percentage of the non-performing book. On this basis, the coverage has increased from 0.76% in 2011 to 0.97% in 2013 and represents approximately one year's bad debt charge.

Portfolio impairment



	2013	2012	2011
Portfolio impairments as % of performing book	**0.97**	0.95	0.76
Bad debt charge* (%)	**0.95**	0.94	0.93
Portfolio impairments (R million)	**5 775**	4 892	3 457

* *Excluding the impact of the merchant acquiring event.*

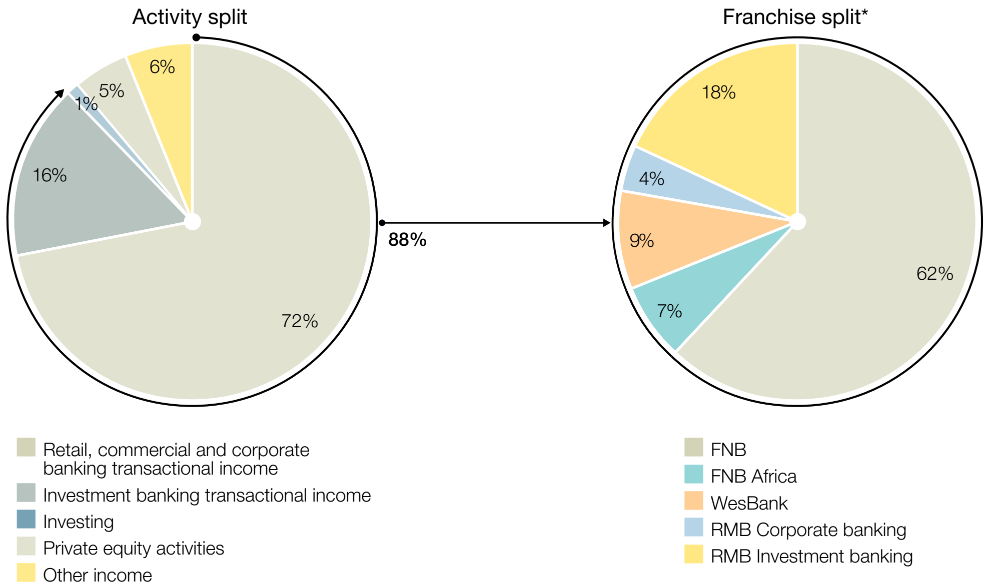
Non-interest revenue up 11%

R million	% of composition of total NIR	2013	2012	% change
Transactional non-interest revenue	88	**25 691**	23 014	12
Retail, commercial and corporate banking	72	**20 946**	18 867	11
Investment banking	16	**4 745**	4 147	14
Private equity activities	5	**1 340**	1 123	19
Investment income	1	**154**	152	1
Other income*	6	**1 876**	1 803	4
Non-interest revenue	100	**29 061**	26 092	11

* *Includes WesBank associates.*

The Group has consistently executed on strategies to drive growth in NIR and, in the year under review, this resulted in 12% growth in transactional revenue NIR, which contributes 88% of total NIR, with retail, commercial and corporate banking revenues increasing 11% and investment banking revenues up 14%. Private equity activities grew 19% as a result of some realisations.

NIR breakdown



* *Excludes Corporate Centre and consolidation adjustments.*

The FNB franchise is the largest contributor to transactional revenue at 62%, followed by RMB at 18% and WesBank at 9%. Refer to the *Review of operations* on pages 35 to 44 for more detail on the franchise NIR strategies and growth.

Cost containment

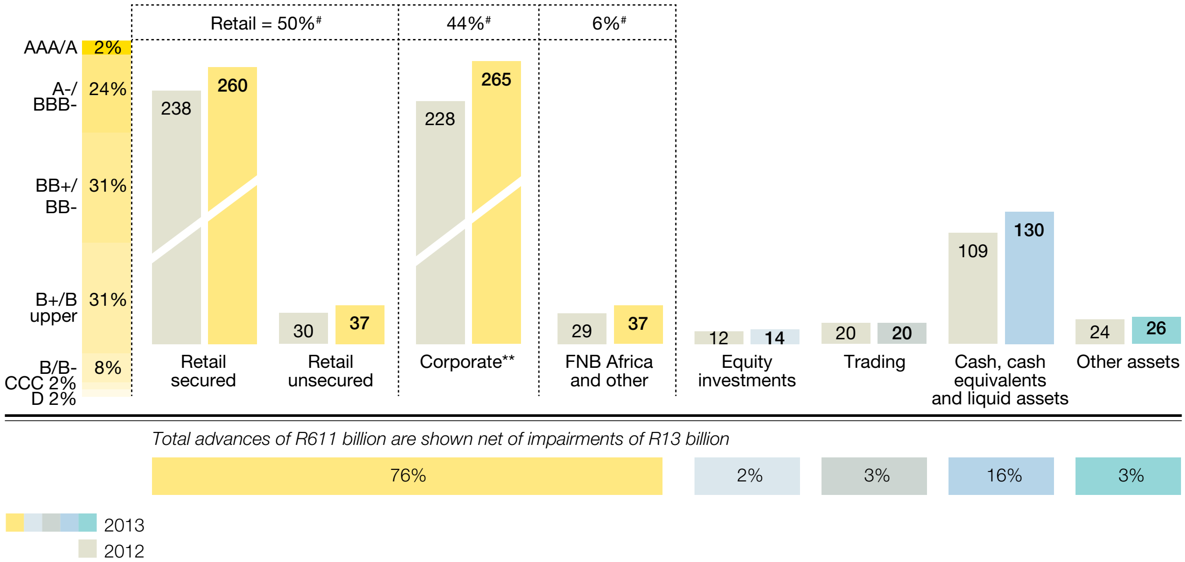
The Group's cost-to-income ratio reduced to 51.9% (2012: 53.4%) reflecting strong topline growth of 12% against cost growth of 9%, which the Group considers a good performance given the current level of investment in growth initiatives.

> The Group has consistently executed on strategies to drive NIR growth, resulting in 12% growth in transactional NIR which contributes 88% of total NIR.

BALANCE SHEET STRUCTURE AND RISK PROFILE

Asset profile reflects appropriate risk appetite actions

Assets*
(R billion)



* Non-recourse-, derivative-, securities lending- and short-term trading position assets and liabilities have been netted off.
** Included in corporate advances are African deals on the SA balance sheet of R14.6 billion (2012: R8.2 billion).
\# Percentage of advances.

The Group's asset profile is dominated by a high-quality diversified advances portfolio, which constitutes 76% of total assets. Retail represents 50% and corporate 44% of total advances. In terms of credit quality, 57% of the portfolio has a credit rating of BB- or better. Cash, cash equivalents and liquid assets represent 16% of total assets, with only a small portion related to the investment and trading businesses.

Credit risk

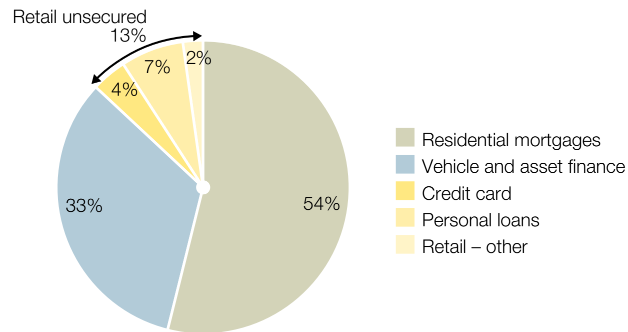
Retail portfolio

The retail portfolio achieved 11% asset growth in the year under review. The strongest growth came from vehicle and asset finance (VAF), credit card and personal loans. Growth in personal loans is, however, slowing given the actions taken in the past 18 months.

Secured lending still constitutes 87% of total retail advances (mortgages 54% and VAF 33%) with unsecured lending at 13%, split between credit card (4%), personal loans (7%) and other retail (2%).

Retail advances breakdown

R million	2013	2012	% change
Residential mortgages	**163 046**	157 851	3
Vehicle and asset finance	**100 598**	81 867	23
Credit card	**13 001**	11 291	15
Personal loans	**20 132**	17 631	14
FNB loans	**12 885**	11 730	10
WesBank Loans	**7 247**	5 901	23
Retail – other	**6 909**	3 742	85
Total retail advances	**303 686**	272 382	11



The chart below provides insight to certain risk appetite actions the Group took, which explain below- or above-market trend growth in the underlying retail products.

Risk appetite actions in the retail portfolios

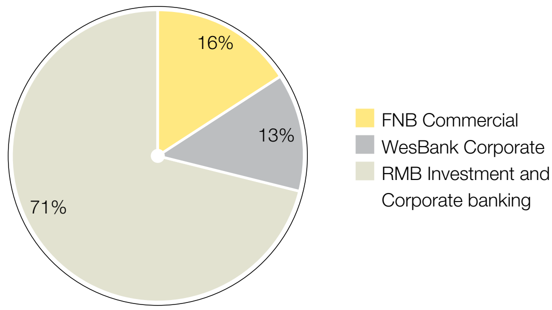
Retail				
Mortgages	**VAF**	**Card**	**Personal loans**	**Other**
→	→	→	↓	→
Remain conservative with focus on low-risk FNB customers	Gradual reduction of higher-risk with volumes tracking vehicle sales	Conservative, but growing FNB base and increased utilisation driven by rewards	Cut back risk in 2011 and 2012 and tightened affordability as lower-income highly geared	Risk neutral, strongly targeting FNB base as under-represented

Corporate and commercial portfolios

Successful lending strategies in RMB corporate and investment banking (CIB) and FNB Commercial have delivered good growth of 16%. CIB is the largest component of the portfolio at 71%. Growth has been achieved whilst maintaining credit quality.

Corporate advances

R million	2013	2012	% change
FNB Commercial	**42 834**	35 960	19
WesBank Corporate	**34 210**	31 621	8
RMB Corporate banking	**5 101**	2 669	91
RMB Investment banking	**187 865**	162 574	16
Core advances	**147 363**	124 092	19
Repurchase agreements	**40 502**	38 482	5
Total corporate advances	**270 010**	232 824	16



The following chart again illustrates certain risk appetite actions taken in the corporate and commercial portfolios and provides insight on the asset growth numbers.

Risk appetite actions in the commercial portfolios

Commercial				
Commercial property finance	**Agri finance**	**Asset-backed finance**	**Debtor and leverage finance**	**Rest of Africa**
↑	↑	→	↑	↑
Growing as under-represented – focus on banked, owner-occupied	Diversifying exposure across commodities and geographically	Focus on lower risk and banked customers across target asset classes	Focus on banked customers and driving facility utilisation	Leverage growing footprint to target SA clients and low risk domestics

Risk appetite actions in the corporate portfolios

Corporate			
Working capital finance	**Infrastructure finance**	**Cross-border rest of Africa**	**SA corporate**
→	↗	↑	↑
Tracking nominal SA GDP	SA renewable energy projects with strong drawdown pipeline projected	Primarily structures financing in hard and soft commodities within strategic African countries	Lead arranger of the larger acquisition and leveraged finance transactions for SA debt capital markets

A detailed overview of the Group's credit risk profile and risk management practices is provided on pages 129 to 229 of the *Risk and capital management report*.

Market risk

RMB continues to assume market risk in relation to its client activities (market making in local markets, hedging and client facilitation). Market risk exposures are strictly monitored and managed with risk appetite and limits set in relation to the size of the earnings and capital base. VaR and ETL limits are dealt with in more detail on page 203 of the *Risk and capital management report*.

Equity investment risk

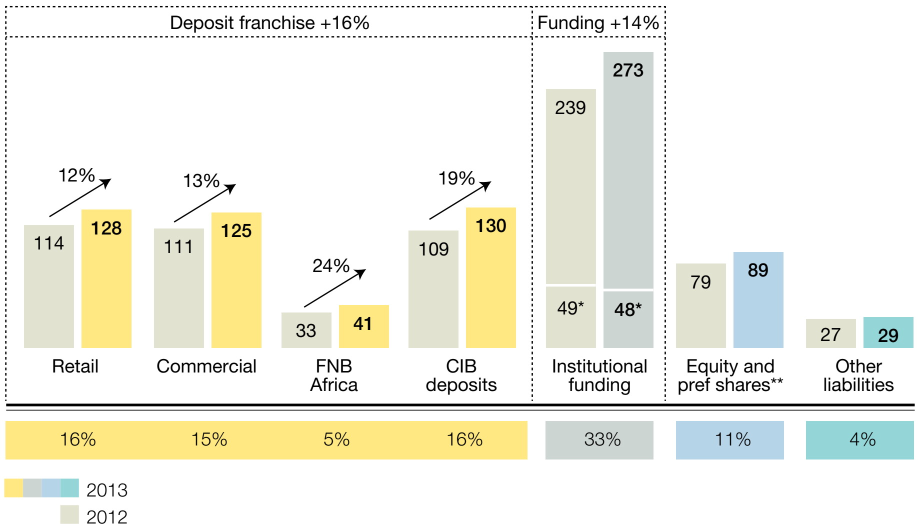
Equity investment risk stems primarily from RMB's private equity activities. The Group's portfolio is diversified across different investment teams, industries and counters.

The private equity portfolio is equity accounted or consolidated (as applicable), and not marked-to-market. The significant unrealised value of approximately R1.7 billion (2012: R1.6 billion) mitigates earnings volatility. Refer to pages 211 to 213 of the *Risk and capital management report* for more detail.

The Group's risk appetite remains conservative in retail lending portfolios. Growth in corporate and investment banking advances has been achieved whilst maintaining credit quality.

Liability profile reflects strengthening deposit franchise and liquidity management and strong capital position maintained

Liabilities# and equity
(R billion)



* CIB institutional funding.
** Includes ordinary equity, non-controlling interests, NCNR preference shares and Tier 2 liabilities.
# Net of derivatives and short trading positions.
Non-recourse deposits and securities lending included in deposits.

Funding and liquidity

The Group has continued to grow its deposit franchise and take proactive liquidity management actions, resulting in deposit franchise growth outpacing institutional funding growth.

The deposit franchise grew across all segments, with retail up 12% on the back of customer acquisition and innovative products, commercial up 13% as a result of dedicated sales teams and product development, and 19% growth in CIB driven by focused sales teams and innovative liquidity products.

Since 2010, better source and term deposits contributed 83% of liability growth:

- 70% of the growth came from the deposit franchise, 13% from capital markets and 17% from other institutional funding; and
- the weighted average remaining term of institutional funding has been further extended from 17.4 months in 2010 to 20.4 months.

Capital

FirstRand's capital management strategy is aligned to the Group's overall objective to deliver sustainable returns to shareholders within appropriate levels of volatility.

The Group's philosophy, given the uncertain macro environment, is to operate at the higher end of its targeted capital levels to ensure balance sheet resilience. Current targeted ranges and ratios are summarised in the table.

Capital ratios and targets

	CET1	Tier 1	Total
Regulatory minimum (%)	4.5	6.0	9.5**
Target (%)	9.5 – 11.0	11.0	12.0 – 13.5
FirstRand actual (%)	**13.8**	**14.8**	**16.3**
FRB* actual (%)	**12.6**	**13.3**	**14.9**

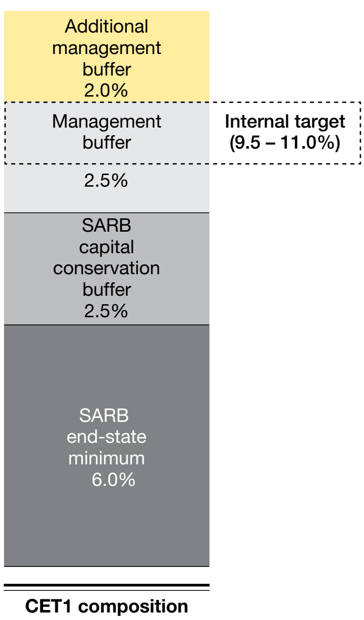
* *Reflects solo supervision, i.e. FRB excluding foreign branches.*
** *The regulatory minimum excludes the bank-specific individual capital requirement.*

The Group's actual CET1 ratio is 13.8%, however, this includes foreign currency translation and available-for-sale reserves, which the Group considers to be too volatile to include as available capital. When these reserves are excluded and the Basel III end-state changes are included, the CET1 ratio is 13%. This ratio is the basis from which the Group manages its capital strategy and is made up of the following:

- SARB end-state minimum of 6%;
- SARB capital conservation buffer of 2.5%;
- a management buffer of 2.5% which covers business as usual organic growth, stress and volatility and sufficient flexibility for possible regulatory change; and
- an additional management buffer of 2% (R10 billion) which is currently allocated for deployment in support of the Group's expansion strategy.

This breakdown is shown in the chart below.

Breakdown of Group's economic view of CET1



The appropriateness of the level of payout to shareholders will be re-evaluated on an annual basis.

Dividend strategy

When assessing the appropriate level of payout to shareholders the Group considers the following:

- to ensure that the ROE remains within the target range of 18% to 22%, FirstRand assesses the robustness of the ongoing capital generation of its business. The Group is currently of the view that its ROE is at a cyclical high and, therefore, a reduction in dividend cover needs to be sustainable on a risk view as well as a core view;
- the anticipated growth in risk weighted assets (RWA) given the operating environment and the overall organic growth plans of the operating franchises; and
- the Group's objective to protect the R10 billion of capital currently allocated to its expansion strategy.

Following a comprehensive analysis of the above factors, the Group has reduced its dividend cover to 2.0x (2012: 2.2x) and considers this to be both appropriate and prudent as all of its buffers will remain intact even under a severe risk scenario. The appropriateness of the level of payout will be re-evaluated on an annual basis.

Interest rate risk in the banking book

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

FINANCIAL RESOURCE MANAGEMENT

The Group's strategic financial resource management objectives are aligned to the requirements of key stakeholders, namely, shareholders, debt holders (including depositors) and regulators. These objectives are to:

- generate sustainable and less volatile returns; and
- maintain a strong balance sheet.

In line with this mandate, the Group has implemented an integrated financial resource management approach.

The ultimate objective of the financial resource management process is to manage the level of volatility in the Group's earnings. To achieve this objective, the Group requires a deep understanding of the risk inherent in its earnings base as this is a primary determinant of the Group's actual risk capacity (refer to page 140 of the *Risk and capital management report* for more detail on risk appetite and capacity). The Group also assesses how much of its risk capacity should be utilised by each franchise in different macroeconomic scenarios.

The financial resource management function manages three critical pillars:

- deployment of capital;
- allocation of funding and liquidity; and
- risk capacity allocation and utilisation to achieve desired volatility profile.

The Group sets minimum balance sheet and return targets (top-down) for different economic cycles. Based on the relative size of a franchise's earnings, it sets a volatility profile (bottom-up) aligned to the overall Group objectives. The targets for a normal cycle are outlined below.

Balance sheet and return targets

Description	Target
Targeted capital adequacy ratio (CAR)	12% to 13.5%
ROE target	18% to 22%
Liquidity coverage ratio	60%
Credit rating	Sovereign rating

CONCLUSION

When assessing the results for the year to June 2013 it is pleasing to note that FirstRand continues to deliver on its strategic objectives. Going forward the Group will measure, monitor and refine these objectives. FirstRand believes that the increase in focus on integrated financial resource management will allow it to fully optimise the financial, strategic and operational levers required to maximise returns to shareholders.

Johan Burger
Chief operating officer and chief financial officer

Review of operations

22% *normalised earnings* **35.6%** *return on equity* **14%** *total deposits*

FNB represents FirstRand's activities in the retail and commercial segments in both South Africa and the broader African continent. It is growing its franchise strongly in existing and new markets on the back of innovative products and delivery channels, particularly focusing on electronic and digital platforms.

Michael Jordaan / CEO
First National Bank

EXECUTION ON STRATEGY

FNB's performance in the year under review can be attributed to its primary strategy to grow and retain core transactional accounts through offering a compelling value proposition to the customer; innovative products and channels at an acceptable cost, supported by rewards programmes, such as eBucks, SLOW lounges and fuel, data and airtime rewards. The banking app, cellphone banking and eWallet innovations also continued to attract and retain customers.

This has resulted in a net increase of 1.1 million active accounts in the year under review. In addition, FNB's success in cross selling to its customers also increased the average products per customer. A further positive outcome from this growth is the commensurate increase in deposits and transactional volumes, particularly on the back of FNB's deliberate objective to drive customers onto its electronic platforms.

Innovation remains central to FNB's growth strategy, with the internal innovation programme producing 2 571 innovations implemented during the period, all of which have contributed to earnings.

There are four strategic drivers to FNB's innovation;

- gain new customers and migrate customers onto low cost electronic channels;
- retain and increase cross-sell to existing customers;
- drive operational efficiencies and reduce fraud; and
- return value to customers through rewards.

Examples of how particular innovations arising from these drivers have directly impacted FNB's performance include:

- 20% growth in Business Banking customers since the launch of eBucks for Business;
- increased cross-sell from 2x to 2.13x with more take-up to come from the existing base;
- lower credit card fraud despite higher card turnover;

- 16% reduction in customers teller cash volumes while ADT cash deposits are up 47%;
- branch costs are flat for another year whilst card swipes are up 26%; and
- manual transactions have dropped 0.6% and electronic transactions have increased 17%.

FNB's technology has created a safe and secure way for customers to bank online and through smart devices and cellphones. Savings and economies of scale generated from the use of electronic channels are passed on to customers through lower fees and attractive rewards, hence total NIR growth is lower in percentage terms to that of volume growth.

PERFORMANCE COMMENTARY

FNB produced strong topline growth resulting in a 20% increase in normalised profit before tax and an ROE of 35.6%. This was achieved despite pressures from lower interest rates, continued investment in the expansion into the rest of Africa and higher bad debts.

	FNB SA			FNB Africa			Total FNB		
R million	**2013**	2012	%	**2013**	2012	%	**2013**	2012	%
Net interest income	**13 175**	11 073	19	**2 375**	2 132	11	**15 550**	13 205	18
Non interest revenue	**16 166**	14 715	10	**1 793**	1 476	21	**17 959**	16 191	11
Operating expenses	**(16 059)**	(14 414)	11	**(2 353)**	(2 061)	14	**(18 412)**	(16 475)	12
Income before indirect tax	**10 457**	8 665	21	**1 627**	1 432	14	**12 084**	10 097	20
Indirect tax	**(388)**	(382)	2	**(55)**	(47)	17	**(443)**	(429)	3
Income before direct tax	**10 069**	8 283	22	**1 572**	1 385	14	**11 641**	9 668	20
Normalised earnings	**7 467**	6 150	21	**695**	516	35	**8 162**	6 666	22
Advances	**238 675**	220 574	8	**32 720**	25 420	29	**271 395**	245 994	10
Total deposits	**242 572**	216 179	12	**40 771**	33 403	22	**283 343**	249 582	14
NPLs (%)	**4.2**	5.3		**2.1**	1.9		**4.0**	4.9	
Cost-to-income ratio (%)	**54.7**	55.8		**56.4**	57.0		**54.9**	56.0	
Credit loss ratio (%)	**1.25**	1.28		**0.65**	0.50		**1.18**	1.20	
ROA (%)	**3.16**	2.78		**1.6**	1.38		**2.92**	2.58	
Advances margin (%)	**3.21**	2.64		**4.83**	4.76		**3.21**	2.64	

FNB's strategy to grow core transactional banking accounts and drive activity across its electronic platforms resulted in strong growth in transactional volumes (up 13%) and fee and commissions (up 14%). Overall NIR increased 11% driven mainly by activity in the Retail business (up 10%), with Commercial and Africa contributing increases of 9% and 21%, respectively.

FNB's overall operating expenditure increased 12%, which includes investment costs in the operating footprint, particularly in Africa, (costs up 14%). However, the business continues to deliver positive operating jaws.

FNB's NII increased 18% underpinned by good growth in both advances (+10%) and deposits (+14%). The 57 bps improvement in SA asset margins was driven by the mix change to unsecured lending and the repricing of newly-originated residential mortgages. SA deposit margins, however, reduced 23 bps due to endowment impact and mix change to lower margin products in line with competitive pressures. Deposit and advances growth was generated across all segments as indicated in the following table.

	Deposit growth		Advances growth	
Segments	%	**R billion**	%	**R billion**
Retail banking	12	**13.2**	6	**11.2**
FNB Africa	22	**7.4**	29	**7.3**
Commercial	13	**13.2**	19	**6.9**

Within the retail banking segment, residential mortgages grew 3% (reflecting FNB's deliberate strategy to only originate in low-risk categories), card issuing grew 15% on the back of new customer acquisition and personal loans grew 10% year-on-year. On a rolling six-months basis personal loans grew only 2% reflecting the ongoing adjustments in credit appetite in that segment. The R1.8 billion decrease in NPLs in residential mortgages also positively impacted NII.

Overall NPLs decreased 11% despite NPLs in the personal loans portfolio increasing R233 million. Bad debts increased 7% which is within expectations given the cycle and the growth in unsecured lending. FNB has, however, taken the prudent decision to increase portfolio provisions, resulting in a total increase of 16%, excluding the impact of the merchant acquiring event. Overall credit quality across all portfolios is well within risk appetite and coverage ratios have increased. In residential mortgages this was driven mainly by the Wealth portfolio. Coverage ratios in Commercial have also increased due to a reducing proportion of property finance.

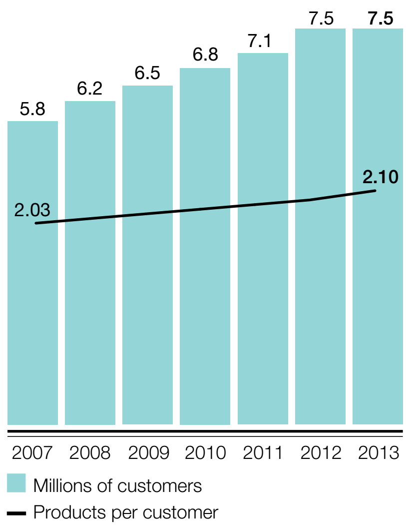
NPLs in FNB's residential mortgages book reduced over R1.8 billion reflecting the strategy to proactively work out NPLs from early 2008 with the consequential write-offs. FNB continues to reap the benefits of programmes such as QuickSell and QuickFix, which aim to minimise FNB's loss. QuickSell has been effective in selling over 7 200 properties into the market since inception of the programme.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

- the 7-Day Interest Plus deposit book growth of 72% year-on-year;
- eBucks rewards payout grew 34% to R723 million;
- properties in possession in SA reduced 51% year-on-year to 290 and reflect a total value of R14 million;
- active banking app users increased more than 100% year-on-year to 535 000;
- Africa point of sale devices rollout increased 31% year-on-year;
- 51% growth in cellphone banking prepaid purchases in rest of Africa;
- the renewed focus on Business Banking increased active sales 25%;
- assets under execution in the FNB Securities business grew 22% year-on-year;
- commercial property term loans achieved a record payout of R4.6 billion year to date; and
- 71% growth eWallet transaction volumes.

CUSTOMER FRANCHISE AND OPERATING FOOTPRINT

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



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

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

FNB's overall score is 67, with 81% of customers having a positive experience (rating between 8 and 10 out of 10) with 2% of customers having a negative experience (rating between 0 and 2 out of 10).

FNB believes the quality of its franchise can also be measured by independent endorsements such as awards. Awards received by FNB SA in the year include:

- Most Innovative Bank in the World.
- SA's Strongest Brand.
- Largest financial institution on all major social media platforms in SA.

- Winner of M&G Top Companies Reputation Index Awards 2012 in the Bank and Financial Company Categories.
- SA's Leader in Cellphone Banking & SA's Leader in Online Banking.
- Best Branch Strategy of the year award from Retailer Banker International for the work done in Branch Cash Management & Optimisation.
- Sunday Times Generation Next Coolest Bank Award for the second year in a row.
- SA's Most Reputable Bank.
- Ministers Award for Excellence in the Technology Top 100 Awards.

FNB's African subsidiaries also received recognition, including:

- FNB Namibia received the 'Banker of the Year Award' for the best bank in Namibia. This is the fourth consecutive year.
- FNB Swaziland was voted the Best Bank in Swaziland by the 'The Banker' magazine for the third time (2010, 2011, 2012).
- FNB Zambia received the following awards: Best Bank of the year by Kitwe Chamber of Commerce, Best Electronic Banking products in Zambia, Best VAF bank in Zambia, Best Customer Service in the Financial Services Industry in Zambia and PMR diamond and gold award for best business banking and personal banking respectively.
- FNB Mozambique was awarded the 'PMR Golden Arrow Award' in 2013 for excellence in personal banking.

FNB continued to increase its operating footprint in both South Africa and its African subsidiaries. FNB Mozambique extended its footprint with two new branches and an expansion in the ATM network along with the launch of numerous new products.

FNB was awarded:

- **most innovative bank in the world**
- **SA's strongest brand**
- **SA's most reputable bank**

FNB Zambia grew its branch network from seven to ten branches year-on-year, resulting in increases in customer numbers and balance sheet. During the period, FNB Zambia opened the first SLOW Lounge outside of South Africa. FNB Swaziland increased its ATM footprint adding 12 new ATMs and now represents the largest ATM network in Swaziland. The purchase of prepaid electricity across all channels (ATM, cellphone banking and online banking) was also successfully rolled out.

	FNB – South Africa			FNB – Rest of Africa		
	2013	2012	% change	**2013**	2012	% change
Banking channels:						
Representation points (branches, agencies)	**771**	775	(1)	**117**	108	8
ATMs	**4 582**	4 816	(5)	**534**	523	2
ADTs	**1 040**	806	29	**–**	–	
Total ATMs (including ADTs)	**5 622**	5 622	–	**534**	523	2

RMB REVIEW OF OPERATIONS

21%	24.8%	20%
normalised earnings	*return on equity*	*core advances*

RMB represents the Group's activities in the corporate and investment banking segments in South Africa, the broader African continent and India. Recognised as South Africa's leading investment banking franchise, RMB also has a growing physical presence in the rest of Africa and India.

Alan Pullinger / CEO
Rand Merchant Bank

EXECUTION ON STRATEGY

RMB continues to benefit from its strategy to generate more income from client-driven activities, which is anchored around a risk appetite designed to effectively manage the trade offs between earnings volatility, profit growth and returns. This strategy is delivering a high quality and sustainable earnings profile. When assessing the relative revenue contribution across the portfolio the largest contributors to client activities were financing and client execution.

During the year, in support of FirstRand's investment management strategy, RMB has invested in both its product and platform capabilities which is expected to provide further stability to earnings as this initiative gains momentum. RMB is originating ETFs, structured products and specialised fund products; produced by Global Markets and the Investment Banking Division, which are supplied to and distributed by Ashburton Investments and other Group franchises.

The rebranding of the Group's corporate banking business to RMB Corporate Banking and the alignment of this franchise under RMB also supports RMB's client-centric strategy, by offering holistic corporate and investment banking solutions to the large corporate and institutional segment. During the year the transactional banking sales teams across Global Markets and RMB Corporate Banking merged to create a Treasury Solutions team, which will strengthen this client offering.

RMB has continued to expand its franchise outside of South Africa. RMB Nigeria was launched during February 2013 and good progress has been made to establish RMB's offering in the Nigerian and broader west African market. In addition RMB's physical presence "on the ground" has generated leads and opportunities for the broader Group. RMB generated strong growth in its corporate advances from the rest of Africa by leveraging its footprint and through suitcase banking activities, with transactions being booked on in-country, South African and London balance sheets. Financing revenues grew strongly on the back of balance sheet growth (up 76% to R16.4 billion) in the rest of Africa. The profit contribution from the rest of Africa is around 7% of RMB's profits, after related expansion costs.

RMB's in-country presence in India has also yielded benefits by enabling the business to capture corridor flows. In addition to the successful Global Markets' gold and fixed income operations, opportunities provided by RMB's physical presence have provided the Investment Banking Division with significant cross-border transactions in the strategic India/Africa corridor.

PERFORMANCE COMMENTARY

	Investment banking			Corporate banking		
	Year ended 30 June			Year ended 30 June		
R million	**2013**	2012	% change	**2013**	2012	% change
Income before indirect tax	**5 585**	4 770	17	**585***	549	7
Indirect tax	**(60)**	(67)	(10)	**(33)**	(15)	>100
Income before direct tax and special impairment	**5 525**	4 703	17	**552**	534	3
Special impairment	**–**	–	–	**(15)**	(300)	(95)
Income before direct tax	**5 525**	4 703	17	**537**	234	>100
Normalised earnings	**4 035**	3 482	16	**391**	172	>100
Total assets	**350 244**	328 890	6	**5 331**	3 087	73
ROE (%)	**24.2**	24.1		**30.6**	12.5	
ROA (%)	**1.19**	1.20		**9.89**	5.75	
Cost-to-income ratio (%)	**39.0**	41.5		**65.0***	69.7	

* *Includes add back of software impairment of R248 million.*

RMB produced an excellent result for the year to June 2013 growing pre-tax profits 23% to R6 062 million and generating an ROE of 24.8% (2012: 23.2%). Excluding the impact of the once-off merchant acquiring event, pre-tax profits grew 16%, a strong operational performance reflecting the strength of the RMB domestic franchise, growth from the African expansion strategy and focus on cost containment.

The strength of RMB's franchise is recognised by a number of major awards during the year including:

- **DealMakers**
  - 1st in Mergers and Acquisitions (by value and volume)
  - 1st in General Corporate Finance (value)
  - 1st in General Corporate Finance Sponsors
- **PWC Banking Peer Survey**
  - 1st M&A and Listings
  - 1st in Underwriting
  - 1st in Rates Trading
  - 1st in Equities Trading
- **African Banker awards**
  - Investment Bank of the Year
- **EMEA Finance**
  - Best convertible bond in EMEA
  - Best corporate bond in Africa
  - Best telecoms deal in Africa
  - Best sustainability deal in EMEA
  - Best project finance deal in Africa
- **The Banker Deal of the Year (DOTY) Awards**
  - Corporate Bonds African DOTY
  - FIG Capital Markets African DOTY
  - Sovereign Bond African DOTY
  - Restructuring African DOTY

Divisional results

Normalised profit before tax R million	Year ended 30 June		
	2013	2012	% change
Global Markets	**1 931**	1 628	19
Investment Banking	**3 418**	2 857	20
Private Equity	**688**	815	(16)
Other	**(512)**	(597)	14
Investment banking	**5 525**	4 703	17
Corporate Banking	**537**	234	>100
RMB	**6 062**	4 937	23

The Global Markets division delivered strong growth in profits of 19% to R1 931 million. This performance continued to be supported by the African subsidiaries, which contributed pre-tax profit growth of 44%. In addition, the Structured Trade and Commodity Finance business which has also focused on Africa, delivered good balance sheet growth during the period. Domestically, Global Markets benefited from participating in a number of large structured transactions and, in particular, significantly benefited from movements in nominal and real interest rate markets.

The Investment Banking division (IBD) also delivered strong results increasing pre-tax profits 20% to R3 418 million. The growth was balance sheet-led with advances up approximately 16%, which was higher than the broader domestic market growth levels and included strong growth from the African portfolio. IBD also benefited from strong deal flow in healthcare, renewable energy and telecommunications sectors.

Private Equity results are lower year-on-year, with profit before tax of R688 million (2012: R815 million). Earnings from associates and subsidiaries were higher, however, this was softened by the conservative valuation of certain fund investments during the year. Investment continued across the Corvest, Ventures and Capital Partners portfolios.

RMB's presence in India has provided significant cross border opportunities in the strategic India/ Africa corridor.

RMB's Resources business was again negatively impacted by weakening commodity prices, with valuations of junior mining counters falling sharply. Unrealised mark-to-market losses were again incurred, but reduced year-on-year. As junior mining counters remain under pressure, new equity investments have been restricted until portfolio performance improves.

RMB's Corporate Banking division performed well with solid growth achieved year-on-year. This result was driven by good deposit growth, which is reflected in the improved net interest income. The creation of a Treasury Solutions initiative will allow RMB to better leverage both the skills set and client base across Global Markets and Corporate Banking.

WESBANK REVIEW OF OPERATIONS

WesBank

10%	32.8%	19%
normalised earnings	*return on equity*	*advances*

WesBank represents the Group's activities in asset-based finance in the retail, commercial and corporate segments of South Africa and the asset-based motor finance sector through MotoNovo Finance in the UK. Through the Direct Axis brand, WesBank also operates in the unsecured lending market in South Africa. WesBank's leading position in its chosen markets is due to its long-standing alliances with leading motor manufacturers, suppliers and dealer groups and strong point-of-sale presence.

Brian Riley / CEO
WesBank

EXECUTION ON STRATEGY

WesBank's strong performance for the year reflects its strategy to build long-standing alliances with leading motor manufacturers, suppliers and dealer groups. This has allowed WesBank to continually strengthen its market leading position in its chosen markets. WesBank follows a similar dealer-driven strategy in the UK business, operating under the MotoNovo Finance brand.

WesBank continues to focus on growing its core business, while concurrently developing meaningful and sustainable earnings streams from businesses complementary to the core retail-based asset finance operation in South Africa. The retail motor business has seen further strengthening of its alliances with manufacturers and dealers. WesBank believes its point-of-sale presence, strong relationships and alliances, coupled with efficient acquisition processes and competitive commission structures, allows it to originate high-quality business.

WesBank's corporate and commercial offering is gaining significant traction and now incorporates a full suite of products, including traditional instalment finance, leases and rentals (through its subsidiary RentWorks), Auto Card and Fleet Management services and Full Maintenance Rental. The collaboration efforts between WesBank, FNB Commercial and RMB have also increased and are contributing more material origination volumes and efficient acquisition and risk management processes.

The MotoNovo Finance motor retail business, predominantly represented in the independent dealer used-vehicle sector, has also enhanced its presence in that market.

The unsecured lending business, marketed under a number of alliance brands, including Direct Axis, CashPower, Telesure and Clientele personal loans, has also shown good new business and advance growth. In spite of customer affordability concerns in the market, the personal lending business has not experienced material deterioration in the quality of its in-force or newly originated book, a consequence of the application of a consistent and disciplined credit appetite.

Given the cyclical nature of WesBank's core business, through these strategies to diversify revenue streams, from both a sector and geographical perspective, coupled with more effective credit risk management, the franchise is expected to deliver sustainable returns with lower levels of earnings volatility.

PERFORMANCE COMMENTARY

For the year ended 30 June 2013, WesBank grew its normalised pre-tax profits 10% to R4 016 million and delivered an ROE of 32.8% and ROA of 2.14%. This performance was underpinned by strict credit discipline, effective and efficient origination channels and rigid cost management.

Financial performance

R million	Year ended 30 June 2013	2012	% change
Net interest income	**6 852**	5 849	17
Impairments	**(1 632)**	(1 100)	48
Non-interest revenue*	**3 461**	3 045	14
Operating expenses	**(4 446)**	(3 938)	13
Income before indirect tax	**4 235**	3 856	10
Indirect tax	**(219)**	(206)	6
Normalised profit before tax	**4 016**	3 650	10

* *Includes share of profits from associates.*

Other key performance metrics are incorporated in the table below.

Key ratios

%	Year ended 30 June 2013	2012
ROE	**32.8**	33.9
Cost-to-income ratio	**43.1**	44.3
Credit loss ratio	**1.25**	0.99
NPLs	**2.73**	3.47
ROA	**2.14**	2.33
Interest margin	**5.30**	5.22

Interest margins were maintained at similar levels to the prior year. Repricing efforts over the past several years, in addition to the shift in the mix of new business to a greater proportion of fixed rate, has now vested fully in the origination of new business and pricing is coming under renewed competitive pricing pressures.

ROE and ROA remain strong despite some downward pressure due to the increase in the credit loss ratio, which is expected at this stage of the credit cycle. The increase in credit losses do not relate to worsening trends in default accounts, which have actually improved in the core retail motor business year-on-year, but rather reflect an increase in portfolio and IBNR provisioning, in contrast to releases in the prior year. NPLs (as a percentage of advances) have reduced 21% since the 2012 financial year end, in spite of the proportion of debt review accounts performing in respect of renegotiated repayment terms increasing from 13% of NPLs to 18%.

Credit appetite in the local retail lending businesses has remained conservative and is very closely monitored. Arrear and vintage performances continue to track within expectation and the overall risk profile remains well within agreed risk thresholds.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

- Advances growth of 19% to R142 billion:
  - new business growth of 17% to R79.5 billion;
  - motor new business growth of 16% to R53.9 billion;
  - corporate new business growth of 13% to R13.4 billion;
  - unsecured lending new business growth of 27% to R5.4 billion; and
  - MotoNovo new business growth of 30% to R6.8 billion.
- Three new alliances in unsecured lending business.
- Introduction of online self-help functionality to support customer service deliverables.
- Enhancement of the iContract origination process and increased automation at point-of-sale.
- Good traction in the Full Maintenance Rental business, with the book in excess of R1.5 billion.
- Geographic and product expansion in MotoNovo Finance.
- Introduction of innovative fleet management portal in support of the Fleet Card business.
- Continued positive outcomes in respect of customers under debt review.

FIVE YEAR REVIEW
CONTINUING AND DISCONTINUED OPERATIONS

R million	2009	2010	2011*	2012	**2013**	Compound growth %
Statement of financial position – IFRS						
Total assets	809 851	845 240	697 927	769 765	**869 669**	2
Average assets	816 898	827 546	771 584	733 846	**819 717**	–
Net advances	416 488	434 793	464 593	524 507	**598 975**	10
Average advances	431 387	425 641	449 693	494 550	**561 741**	7
Impairment of advances	9 591	8 972	8 022	8 840	**9 386**	(1)
NPLs	24 227	22 205	19 790	18 666	**17 001**	(8)
Gross advances before impairments	426 079	443 765	472 615	533 347	**608 361**	9
Deposits	478 083	507 522	552 879	606 281	**697 005**	10
Capital and reserves attributable to equityholders of the Group	50 004	55 951	61 150	67 040	**76 704**	11
Treasury shares	5 976	6 077	2 226	1 795	**1 460**	(30)
Ordinary dividends	3 764	2 955	4 179	8 742	**6 175**	13
Total equity before dividends and treasury shares	59 744	64 983	67 555	77 577	**84 339**	9
Total ordinary equity	45 485	51 432	56 631	62 521	**72 185**	12
Assets under administration	965 484	1 006 475	790 758	908 722	**1 040 508**	2
Income statement – IFRS						
Net interest income before impairment of advances	17 289	16 350	17 369	21 882	**24 715**	9
Impairment of advances	(8 024)	(5 686)	(3 778)	(5 065)	**(4 812)**	(12)
Non-interest income	20 055	28 892	29 565	29 494	**31 614**	2
Share of profit of associates and joint ventures after tax	1 161	253	531	1 120	**824**	(8)
Operating expenses	(22 408)	(26 803)	(24 584)	(28 422)	**(31 486)**	9
Earnings attributable to ordinary equityholders	6 501	9 444	20 065	13 196	**14 539**	22
Headline earnings	6 939	9 453	9 856	12 642	**15 114**	21
Normalised earnings	7 151	9 963	10 805	12 730	**15 323**	21
Earnings per share (cents)						
– Basic	124.9	179.9	372.7	241.7	**266.2**	21
– Diluted	124.7	178.1	365.3	236.8	**262.9**	21
Headline earnings per share (cents)						
– Basic	133.3	180.1	183.1	231.5	**276.7**	20
– Diluted	133.1	178.3	179.4	226.9	**273.3**	20
Normalised earnings per share (cents)						
– Basic	126.8	176.7	191.6	225.8	**271.8**	21
– Diluted	126.8	176.7	191.6	225.8	**271.8**	21
Dividend per share (cents)	56.0	77.0	81.0	102.0	**136.0**	25
Dividend cover based on headline earnings	2.4	2.3	2.3	2.3	**2.0**	
Dividend cover based on normalised earnings	2.3	2.3	2.4	2.2	**2.0**	
Special dividend per share (cents)	–	–	70.0	–	**–**	
NCNR preference dividends per share (cents)						
– February	518.94	342.30	313.55	305.20	**320.30**	(11)
– August	423.09	355.00	305.20	333.08	**320.25**	(7)
Net asset value per ordinary share (cents)	873.55	980.00	1 051.82	1 145.00	**1 321.71**	11
Shares in issue (millions)	5 637.9	5 637.9	5 637.9	5 637.9	**5 637.9**	–
Weighted average number of shares in issue (millions)	5 206.9	5 248.2	5 384.1	5 460.4	**5 461.5**	1
Diluted weighted average number of shares in issue (millions)	5 213.6	5 302.4	5 492.8	5 572.5	**5 529.8**	1

* *During the year, Momentum and OUTsurance were disposed of.*

FIVE YEAR REVIEW
CONTINUING AND DISCONTINUED OPERATIONS CONTINUED

R million	2009	2010	2011	2012	**2013**	Compound growth %
Key ratios						
Return on ordinary equity based on headline earnings (%)	15.5	19.5	18.2	21.2	**22.4**	
Price earnings ratio based on headline earnings (times)	10.6	10.0	10.8	11.4	**10.5**	
Price to book ratio (times)	1.6	1.8	1.9	2.3	**2.2**	
Market capitalisation (R million)	79 269	101 821	111 913	148 785	**163 106**	20
Closing share price (cents)	1 406	1 806	1 985	2 639	**2 893**	20
Cost-to-income ratio (%)	57.6	56.5	51.8	54.1	**55.1**	
Impairment charge as % of average advances	1.9	1.3	0.8	1.0	**0.9**	
NPLs as a % of gross advances (%)	5.69	5.00	4.19	3.50	**2.79**	
Non-interest income as a % of total income (%)	51.5	61.3	63.6	56.2	**55.3**	
Return on average total assets based on headline earnings (%)	0.8	1.1	1.3	1.7	**1.8**	
Interest margin on average advances (%)	4.0	3.8	3.9	4.4	**4.4**	
Exchange rates						
Rand/USD						
– Closing	7.73	7.66	6.77	8.19	**10.01**	
– Average	8.88	7.59	6.96	7.78	**8.84**	
Rand/GBP						
– Closing	12.71	11.48	10.83	12.83	**15.22**	
– Average	14.08	11.96	11.08	12.31	**13.86**	
Statement of financial position (USD)*						
Total assets	104 794	110 379	103 044	94 044	**86 880**	(5)
Advances	53 893	56 779	68 594	64 080	**59 838**	3
Deposits	61 864	66 923	81 744	74 070	**69 631**	3
Total equity	6 470	7 307	9 028	8 190	**7 663**	4
Assets under administration	124 933	131 435	116 750	110 955	**103 947**	(4)
Income statement (USD)**						
Earnings attributable to ordinary equityholders	732	1 245	2 883	1 696	**1 645**	22
Headline earnings	781	1 246	1 416	1 625	**1 710**	22
Normalised earnings	805	1 313	1 552	1 636	**1 733**	21
Statement of financial position (GBP)*						
Total assets	63 689	73 657	64 396	59 986	**57 140**	(3)
Advances	32 749	37 889	42 867	40 874	**39 354**	5
Deposits	37 604	44 658	51 085	47 246	**45 795**	5
Total equity	3 933	4 876	5 642	5 224	**5 040**	6
Assets under administration	75 940	87 708	72 962	70 828	**68 365**	(3)
Income statement (GBP)**						
Earnings attributable to ordinary equityholders	462	790	1 811	1 072	**1 049**	23
Headline earnings	493	791	890	1 027	**1 090**	22
Normalised earnings	508	833	975	1 034	**1 106**	21

* *The statement of financial position is converted using the closing rates as disclosed.*
** *The income statement is converted using the average rate as disclosed.*

R million	2009	2010	2011	2012	**2013**	Compound growth %
CONTINUING						
Normalised earnings attributable to ordinary equityholders	4 820	7 963	9 889	12 586	**15 142**	33
Headline earnings	5 194	7 789	9 258	12 642	**15 114**	31
Normalised earnings	5 540	8 283	10 117	12 730	**15 323**	29
Earnings per share (cents)						
– Basic	91.4	150.7	183.1	228.8	**277.3**	32
– Diluted	98.4	149.2	179.5	224.2	**273.8**	29
Headline earnings per share (cents)						
– Basic	98.5	147.4	171.4	231.5	**276.7**	29
– Diluted	98.4	145.9	168.0	226.9	**273.3**	29
Normalised earnings per share (cents)						
– Basic	98.3	146.9	179.4	225.8	**271.8**	29
– Diluted	98.3	146.9	179.4	225.8	**271.8**	29
Normalised net asset value (R million)	44 166	49 382	58 858	64 409	**73 470**	14
ROE based on normalised earnings (%)	12.6	17.7	18.7	20.7	**22.2**	
Cost-to-income ratio (%)*	57.6	53.1	53.3	53.4	**51.9**	

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

STATEMENT OF HEADLINE EARNINGS – IFRS (AUDITED)

R million	Year ended 30 June 2013	2012	% change
Profit for the year (refer page 251)	**15 678**	14 369	9
Non-controlling interests	**(842)**	(898)	(6)
NCNR preference shareholders	**(297)**	(275)	8
Earnings attributable to ordinary equityholders	**14 539**	13 196	10
Adjusted for:	**575**	(554)	(>100)
Loss on disposal of investment securities and other investments of a capital nature	**13**	20	
Gain on disposal of available-for-sale assets	**(33)**	(154)	
Losses/(gains) on disposal of investments in associates or joint ventures	**1**	(473)	
Gain on disposal of investments in subsidiaries	**(63)**	(266)	
Loss on the disposal of property and equipment	**77**	49	
Fair value of investment properties	**(7)**	(12)	
Impairment of goodwill	**438**	115	
Impairment of assets in terms of IAS 36	**306**	7	
Gain from a bargain purchase	**(14)**	–	
Other	**(122)**	41	
Tax effects of adjustments	**(41)**	43	
Non-controlling interests adjustments	**20**	76	
Headline earnings	**15 114**	12 642	20

RECONCILIATION FROM HEADLINE TO NORMALISED EARNINGS (AUDITED)

	Year ended 30 June		
R million	**2013**	2012	% change
Headline earnings	**15 114**	12 642	20
Adjusted for:	**209**	88	>100
IFRS 2 Share-based payment expense	**43**	77	(44)
Treasury shares*	**39**	251	(84)
Total return swap adjustment	**85**	(240)	(>100)
Private equity subsidiary realisations	**42**	–	–
Normalised earnings	**15 323**	12 730	20

* *Includes FirstRand shares held for client trading activities.*

DESCRIPTION OF DIFFERENCE BETWEEN NORMALISED AND IFRS RESULTS

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

SHARE-BASED PAYMENTS AND TREASURY SHARES: CONSOLIDATION OF STAFF SHARE TRUST

IFRS 2 requires that all share-based payment transactions for goods or services received must be expensed with effect from financial periods commencing on or after 1 January 2005.

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

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

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

ECONOMIC HEDGE AGAINST SHARE-BASED PAYMENT OBLIGATIONS

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

In terms of IAS 39, the TRS is accounted for as a derivative instrument at fair value with the full fair value change recognised in profit or loss.

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

For purposes of calculating normalised earnings, the Group defers the recognition of the fair value gain or loss on the hedging instrument for the specific reporting period to the period in which the IFRS 2 impact will manifest in the Group's results. This reflects the economic substance of the hedge and associated IFRS 2 impact for the Group.

FIRSTRAND SHARES HELD FOR CLIENT TRADING ACTIVITIES

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

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

In addition, in terms of IAS 28, upstream and downstream profits are eliminated when equity accounting is applied, and, in terms of IAS 32, profits or losses cannot be recognised on an entity's own equity instruments. For the income statement, the Group's portion of the fair value change in FirstRand shares is therefore deducted from equity accounted earnings and the investment recognised using the equity accounted method.

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

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

Where the client trading position is itself an equity instrument, then neither gains nor losses on client trading positions or FirstRand shares held to hedge these are reflected in profit or loss or on the statement of financial position.

ECONOMIC HEDGES

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

FAIR VALUE ANNUITY INCOME – LENDING

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

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

CONSOLIDATED PRIVATE EQUITY SUBSIDIARIES

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

REALISATIONS ON THE SALE OF PRIVATE EQUITY SUBSIDIARIES

In terms of *Circular 2/2013, Headline Earnings per Share*, gains or losses from the sale of subsidiaries are excluded from headline earnings.

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

IMPAIRMENT OF BJM AND ASHBURTON GOODWILL AND SOFTWARE ASSETS

In the current year the goodwill relating to BJM and Ashburton was impaired. In addition, RMB's Corporate Banking Division impaired IT-related intangible assets. These impairments have been excluded from both headline earnings (*Circular 02/2013, Headline Earnings per Share*) and normalised results.

TRACKER AND RONALD SEWELLS

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

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

Profits resulting from the disposal of Ronald Sewells and the 15.76% shareholding in Tracker were excluded from both headline earnings *(Circular 2/2013, Headline Earnings per Share)* and normalised results in the comparative period.

MMI NAMIBIA

The Group concluded the disposal of its 51% shareholding in Momentum Life Assurance Namibia Limited (MMI Namibia) on 30 June 2012, for effective economic value on 1 July 2011. The profit on disposal of MMI Namibia was excluded from both headline earnings *(Circular 2/2013, Headline Earnings per Share)* and normalised results in the comparative period.

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE

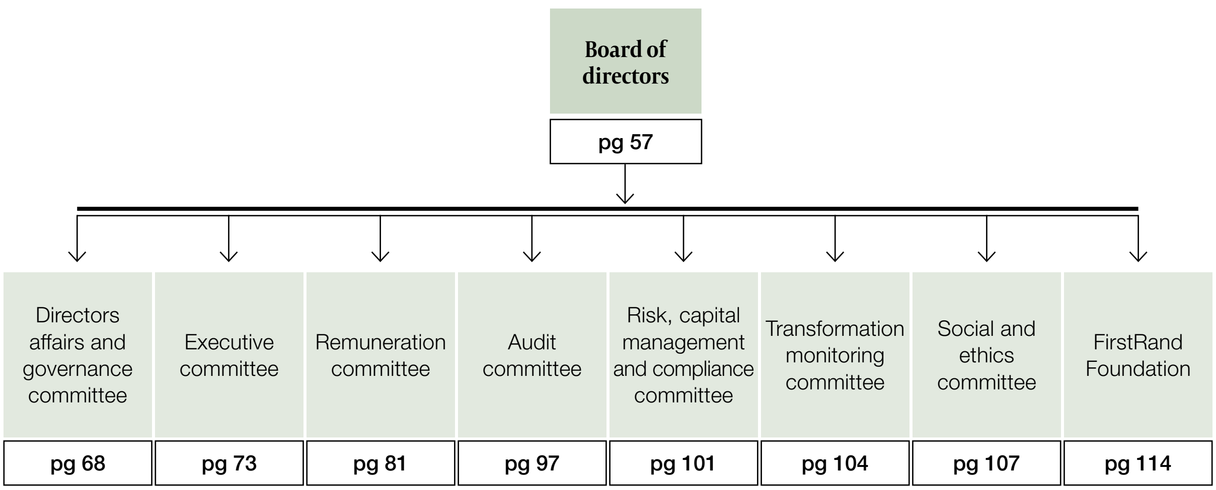
FirstRand's board of directors and its committees ensure alignment of Group strategy with the people, systems and processes that measure, monitor and manage the successful implementation of strategy in the short-, medium- and long-term.

FirstRand's board of directors implements the highest standards of corporate governance at all operations. The board understands and values long-term and ethical client relationships, and has well-established governance processes for ensuring a balance between achieving business growth and meeting the expectations of our customers, regulators and society as a whole.

The board is ultimately responsible to shareholders and other stakeholders for creating and delivering sustainable value through the management of the Group's businesses. In order to be effective, the board and its committees continually demonstrate ethical leadership and promote the Group's collective vision, purpose, values, culture and business behaviours.

GOVERNANCE STRUCTURE

Each board committee has a clearly defined set of responsibilities supporting the long-term success of the FirstRand Group.



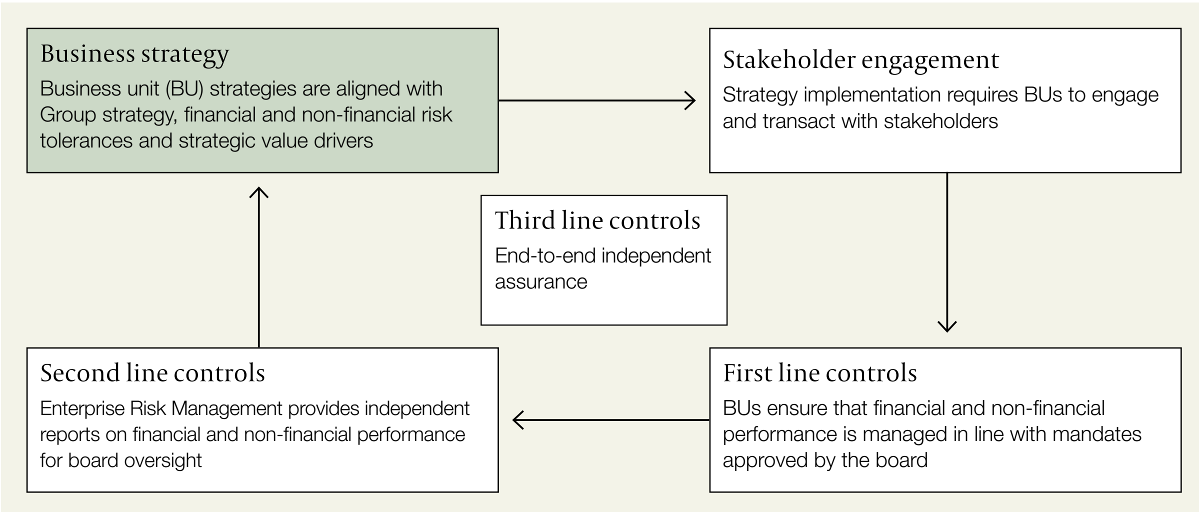
Notes: *The Group structure, including major operating divisions and local and international subsidiaries, is set out on page 433.*

ECONOMIC IMPACT

	2013		2012	
	R million	**%**	R million	%
Value added				
Net interest income after impairments	**39 009**	**56.8**	36 270	56.0
Non-operating income	**32 608**	**47.5**	31 320	48.4
Non-operating expenditure	**(2 913)**	**(4.3)**	(2 816)	(4.4)
Value added by operations	**68 704**	**100.0**	64 774	100.0
To employees				
Salaries, wages and other benefits	**17 530**	**25.5**	16 208	25.0
To providers of funding	**25 578**	**37.2**	28 470	44.0
Dividends to shareholders	**6 472**		9 017	
Interest paid	**19 106**		19 453	
To suppliers	**9 760**	**14.2**	8 578	13.3
To government	**6 541**	**9.5**	5 136	7.9
Normal tax	**5 876**		4 542	
Value added tax	**639**		539	
Capital gains tax	**6**		114	
Other	**20**		(59)	
To communities				
CSI spend	**115**	**0.2**	83	0.1
To expansion and growth	**9 180**	**13.4**	6 299	9.7
Retained income	**8 364**		4 454	
Depreciation and amortisation	**2 180**		2 341	
Deferred income tax	**(1 364)**		(496)	
Total value added	**68 704**	**100.0**	64 774	100.0

INTEGRATED GOVERNANCE MODEL

FirstRand's integrated governance model allows for coherence between Group strategy implementation and the long-term interests of its stakeholders. This is achieved through ensuring that the Group's three lines of defence are appropriately aligned using a risk-based approach to identifying, monitoring and managing material issues.



STAKEHOLDER ENGAGEMENT

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

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

FirstRand's stakeholder policies are developed and implemented at both Group and subsidiary levels.

In cases where policies are required to address specific needs of business units and their stakeholders, these are developed and applied at business unit level with appropriate Group oversight via the executive committee.

Non-financial reporting policies

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

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

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

Memberships and associations

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

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

Precautionary principle

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

BOARD OF DIRECTORS

FirstRand has a **unitary board of 20 members**. 17 of FirstRand's directors are non-executive, 9 of whom are independent. A **strong contingent** of independent directors exists on the boards of **the Group's major subsidiaries**. The roles of the chairman and CEO are separate and the **composition of the board** ensures a **balance of authority** precluding any one director from exercising **disproportionate powers** of **decision making**.

2013 Board attendance

	Sep 2012	Nov 2012	Feb 2013	April 2013	May 2013
LL Dippenaar*	✓	✓	✓	✓	✓
SE Nxasana**	✓	✓	✓	✓	✓
VW Bartlett#	✓	✓	✓	A	✓
JJH Bester#	✓	✓	✓	✓	✓
MS Bomela*	✓	✓	✓	✓	✓
JP Burger**	✓	✓	✓	✓	✓
P Cooper (appointed July 2013)	–	–	–	–	–
L Crouse*	✓	✓	✓	✓	✓
JJ Durand*	✓	✓	✓	✓	✓
GG Gelink# (appointed January 2013)	–	–	✓	✓	✓
PM Goss#	✓	✓	✓	✓	✓
NN Gwagwa#	✓	✓	✓	✓	✓
PK Harris*	✓	✓	✓	✓	✓
WE Jardine#	✓	✓	✓	✓	✓
EG Matenge-Sebesho#	✓	✓	✓	✓	✓
AT Nzimande*	✓	✓	✓	✓	✓
D Premnarayen**	✓	✓	✓	✓	✓
KB Schoeman*	✓	✓	✓	✓	✓
RK Store# (retired May 2013)	✓	✓	LOA	✓	✓
BJ van der Ross#	✓	✓	✓	✓	✓
JH van Greuning#	✓	✓	✓	✓	✓

* *Non-executive director.*
** *Executive director.*
# *Independent non-executive director.*
A – apologies tendered and accepted.
LOA – approved leave of absence.

Definition of independence

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

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

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

SKILLS AND EXPERIENCE

Lauritz Lanser (Laurie) Dippenaar (64)

Non-executive chairman

MCom, CA(SA)

Appointed July 1992

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

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

FirstRand – committee memberships

– Directors' affairs and governance
– Remuneration

Directorships – FirstRand Group

– FirstRand Bank Limited – chairman
– First National Bank*
– Rand Merchant Bank*

Directorships – external

– RMB Holdings Limited
– Rand Merchant Insurance Holdings Limited
– OUTsurance Holdings Limited – chairman

* Divisional board

Sizwe Errol Nxasana (55)

Chief executive officer

BCom, BCompt (Hons), CA(SA)

Appointed January 2006

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

He joined the board of FirstRand Bank Holdings in 2003 and was appointed CEO with effect from January 2006.

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

FirstRand – committee memberships

– Audit – *ex officio*
– Ethics
– Executive – chairman
– Large exposures
– Remuneration – *ex officio*
– Risk, capital management and compliance – *ex officio*
– Strategic executive – chairman

Directorships – FirstRand Group

– FirstRand Bank Limited – CEO
– FirstRand EMA Holdings Limited
– FirstRand Investment Holdings Proprietary Limited
– First National Bank* – chairman
– Rand Merchant Bank* – chairman
– FirstRand Foundation – chairman
– FirstRand Empowerment Foundation – chairman

Directorships – external

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

* Divisional board

Johan Petrus Burger (54)

Financial director and chief operating officer

BCom (Hons), CA(SA)

Appointed January 2009

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

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

FirstRand – committee memberships

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

Directorships – FirstRand Group

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

Directorships – external

- MMI Holdings Limited
- Momentum Group Limited
- Metropolitan Life Limited
- University of Johannesburg

* Divisional board

Vivian Wade (Viv) Bartlett (70)

Independent non-executive director

AMP (Harvard), FIBSA

Appointed May 1998

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

FirstRand – committee memberships

- Audit
- Directors' affairs and governance
- Large exposures
- Remuneration
- Credit portfolio review

Directorships – FirstRand Group

- FirstRand Bank Limited
- First National Bank*
- WesBank*
- RMB Co-investment Trust – Trustee

* Divisional board

Jurie Johannes Human Bester (71)

Independent non-executive director

BSc Eng Elect (Pret), ISMP (Harvard)

Appointed July 2010

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

He serves as chairman or a member of a number of risk and audit committees and subcommittees of the FirstRand Group.

FirstRand – committee memberships

- Audit
- Directors' affairs and governance
- Remuneration
- Risk, capital management and compliance – chairman
- Large exposures – chairman

Directorships – FirstRand Group

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

Mary Sina Bomela (40)

Non-executive director

BCom (Hons), CA(SA), MBA

Appointed September 2011

Mary Bomela was appointed to the position of CEO of the Mineworkers Investment Company Proprietary Limited (MIC) in July 2010 and was appointed to the board in September 2011.

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

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

FirstRand – committee membership

- Directors' affairs and governance
- Ethics
- Transformation monitoring
- Risk, capital management and compliance

Directorships – FirstRand Group

- FirstRand Bank

Directorships – external

- BP Southern Africa Proprietary Limited
- Envision Trust – Trustee
- Metrofile Holdings Limited
- Peermont Global Holdings Proprietary Limited
- Primedia Proprietary Limited
- Set Point Technology Holdings Proprietary Limited

Peter Cooper (57)

Alternate non-executive director

B Com (Hons), CA(SA), H Dip Tax,

Appointed July 2013

Peter Cooper graduated from the University of Cape Town. After qualifying as a chartered accountant in 1981 he worked in the financial services sector, first as a tax consultant and later specialising in structured finance. Peter joined RMB's Special Projects division in 1992 and transferred to RMB Holdings Limited in 1997. He is CEO of RMB Holdings (FirstRand's most significant shareholder) as well as of its sister company, Rand Merchant Insurance Holdings Limited, both of which are listed on the JSE Limited.

FirstRand – committee memberships

– Directors' affairs and governance

Directorships – FirstRand Group

– FirstRand Bank Limited

Directorships – external

– RMB Holdings Limited – CEO
– Rand Merchant Insurance Holdings Limited – CEO
– Discovery Limited
– OUTsurance Holdings Limited
– RMB Structured Insurance Limited Group – chairman

Leon Crouse (60)

Non-executive

CA(SA)

Appointed September 2008

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

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

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

FirstRand – committee memberships

– Audit
– Directors' affairs and governance
– Risk, capital management and compliance

Directorships – FirstRand Group

– FirstRand Bank Limited

Directorships – external

– CIV Fibre Network Solutions Proprietary Limited
– Dark Fibre Africa Proprietary Limited
– MMI Holdings Limited
– Remgro Limited
– RMB Holdings Limited
– Rand Merchant Insurance Holdings Limited
– Total SA Proprietary Limited

Jan Jonathan (Jannie) Durand (46)

Non-executive director

BAcc (Hons), MPhil (Oxon), CA(SA)

Appointed October 2012

Jannie Durand studied at the University of Stellenbosch and after obtaining his BAccountancy degree in 1989 and BAccountancy (Hons) degree in 1990, he obtained his MPhil (Management Studies) degree from Oxford in 1992. He qualified as a chartered accountant in 1995.

He joined the Rembrandt Group in 1996. He became the financial director of VenFin Limited in 2000, becoming the CEO of VenFin Limited in May 2006. He was appointed chief investment officer of Remgro Limited in November 2009, and appointed CEO from 7 May 2012.

FirstRand – committee memberships

- Directors' affairs and governance
- Remuneration

Directorships – FirstRand Group

- FirstRand Bank Limited

Directorships – external

- Discovery Holdings Limited
- Distell Group Limited
- Grindrod Limited
- Mediclinic International Limited
- Rainbow Chicken Limited
- RMB Holdings Limited
- Unilever SA Holdings Limited

Grant Glenn Gelink (63)

Independent non-executive director

B Compt (Hons) B Com (Hons), CA(SA)

Appointed January 2013

Grant Gelink has had extensive work experience within Deloitte South Africa, which includes the following positions that span over 26 years – CEO (2006 to 2012), CEO: human capital corporation (2004 to 2006), managing partner: consulting and advisory services (2001 to 2006), and partner in charge Pretoria office (1997 to 1999).

FirstRand – committee memberships

- Audit
- Directors' affairs and governance
- Risk, capital management and compliance

Directorships – FirstRand Group

- FirstRand Bank Limited

Directorships – external

- Santam Limited
- Allied Electronics Corporation Limited (ALTRON)
- Grindrod Limited
- Eqstra Holdings Limited
- MTN Zakele (RF) Limited

Patrick Maguire (Pat) Goss (65)

Independent non-executive

BEcon (Hons), BAccSc (Hons), CA(SA)

Appointed May 1998

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

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

FirstRand – committee memberships

- Directors' affairs and governance
- Remuneration – chairman

Directorships – FirstRand Group

- FirstRand Bank Limited
- Rand Merchant Bank*

Directorships – external

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

* Divisional board

Nolulamo Nobambiswano (Lulu) Gwagwa (54)

Independent non-executive director

BA (Fort Hare), MTRP (Natal), MSc (cum laude) (London), PhD (London)

Appointed February 2004

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

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

FirstRand – committee memberships

- Directors' affairs and governance
- Transformation monitoring – chairman

Directorships – FirstRand Group

- FirstRand Bank Limited

Directorships – external

- Cisco Technology and Services Proprietary Limited
- Lereko Investments Proprietary Limited
- Massmart Holdings Limited
- Sun International Limited
- Tsebo Holdings Proprietary Limited

Paul Kenneth Harris (63)

Non-executive director

MCom

Appointed July 1992

Paul Harris graduated from the University of Stellenbosch and joined the Industrial Development Corporation in 1974. He was a co-founder of Rand Consolidated Investments in 1977, which acquired control of Rand Merchant Bank in 1985, at which time he became an executive director. He spent four years in Australia where he founded Australian Gilt Securities (later to become RMB Australia) and returned to South Africa in 1991 as deputy managing director of RMB. In 1992, he took over as CEO. Subsequent to the formation of FirstRand, he was appointed CEO of FirstRand Bank Holdings in 1999, a position he held until December 2005 when he was appointed CEO of FirstRand. He retired at the end of 2009 and remained on the boards as a non-executive director.

FirstRand – committee memberships

– Directors' affairs and governance

Directorships – FirstRand Group

– FirstRand Bank Limited

Directorships – external

– Remgro Limited
– RMB Holdings Limited

William Rodger (Roger) Jardine (48)

Independent non-executive director

BSc (Physics), MSc (Radiological Physics)

Appointed July 2010

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

Roger was the CEO of Aveng Limited between July 2008 and August 2013. He was appointed to the boards of FirstRand Bank during 2004 and FirstRand Limited during 2010.

FirstRand – committee memberships

– Directors' affairs and governance – chairman
– Large exposures

Directorships – FirstRand Group

– FirstRand Bank Limited

Directorships – external

– The Sharks Proprietary Limited

Ethel Gothatamodimo Matenge-Sebesho (58)

Independent non-executive director

MBA (Brunel), CAIB (SA)

Appointed July 2010

Ethel Matenge-Sebesho has considerable experience in the banking and financial services sector at strategic and policy level and in several microfinance initiatives in Southern Africa.

Ethel started her career in banking with Standard Chartered Bank Botswana Limited from 1973 to 1996, during which time she studied for an MBA from Brunel University of London. She was the first person in Botswana to obtain the Institute of Bankers' Associate Diploma (CIAB) South Africa.

She is currently working for Home Finance Guarantors Africa Reinsurance, whose main objective is to facilitate access to housing finance in the low to medium income market in Africa. Her main role is to drive the establishment of new markets for the company in a number of African countries.

Ethel has served on various bodies, among them, Air Botswana (as vice chairman), Oikocredit (an international development financial institution based in the Netherlands), Botswana Housing Corporation and WDB-micro finance.

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

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

Directorships – external
- Finmark Trust – Trustee
- Momentum Ability Limited
- Momentum Structured Insurance Limited
- Momentum Alternative Insurance Limited
- Momentum Investments Proprietary Limited
- Botswana Investment and Trade Centre

* Divisional board

Amanda Tandiwe (Tandi) Nzimande (42)

Non-executive director

BCom, CTA (UCT), CA(SA), H Dip Co Law (Wits)

Appointed February 2008

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

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

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

Directorships – FirstRand Group
- FirstRand Bank Limited

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

Deepak Premnarayen (67)

Executive director

BA Economics (Hons) India

Appointed January 2009

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

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

He is currently:

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

FirstRand – committee memberships

– Directors' affairs and governance

Directorships – FirstRand Group

– FirstRand Bank Limited

Directorships – external

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

Kgotso Buni Schoeman (49)

Non-executive director

BA Economics, Advanced Financial Management Diploma

Appointed May 2008

Kgotso Schoeman is currently the CEO of Kagiso Trust. He has been involved with the trust for over 15 years. He successfully managed the trust's transition from being dependent on international grants from donors like the EU, Japanese Government and Swedish Development Agency, to a trust that is now self-financed through its investment company. He is responsible for managing the R260 million budget of the trust.

Over the years he led the design of very strategic and important programmes for Kagiso Trust and partner organisations. He is leading the team responsible for the design of the current strategy of the trust, which has unlocked partnership funding agreements with the private sector and government. The two flagship programmes of the trust are the R190 million partnership agreement with the Free State Education Department and the R400 million partnership agreement between Shanduka Foundation, Kagiso Trust and the Free State Education Department.

FirstRand – committee memberships

– Directors' affairs and governance
– Transformation monitoring

Directorships – FirstRand Group

– FirstRand Bank Limited

Directorships – external

– Kagiso Tiso Holdings Proprietary Limited
– Kagiso Enterprises Private Equity Fund Proprietary Limited
– Kagiso Activ Training Proprietary Limited
– Kagiso Trust Consultancy Proprietary Limited

Benedict James van der Ross (66)

Independent non-executive director

Dip Law (UCT)

Appointed May 1998

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

FirstRand – committee memberships

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

Directorships – FirstRand Group

- FirstRand Bank Limited
- First National Bank*
- WesBank* – chairman

Directorships – external

- Distell Group Limited
- Lewis Group Limited
- Naspers Limited
- Naspers Investments Limited
- Pick 'n Pay Stores Limited
- Strategic Real Estate Management Proprietary Limited – chairman

* Divisional board

Jan Hendrik (Hennie) van Greuning (60)

Independent non-executive director

DCom (Economics), DCompt (Accounting Science), CA(SA), CFA

Appointed January 2009

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

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

He was involved in three World Bank publications: International Financial Reporting Standards, Analysing Banking Risk and Risk Analysis for Islamic Banks, as well as a CFA Institute publication on International Financial Statement Analysis.

FirstRand – committee memberships

- Audit – chairman
- Social and ethics – chairman
- Directors' affairs and governance
- Risk, capital management and compliance

Directorships – FirstRand Group

- FirstRand Bank Limited

Directorships – external

- BIBD, Brunei

DIRECTORS' AFFAIRS AND GOVERNANCE COMMITTEE

Roger Jardine
Chairman

FirstRand's directors' affairs and governance committee oversees continual refinements in the Group's corporate governance structures and processes. This ensures that corporate governance **provides a solid foundation for the development and execution of business strategy**.

COMPOSITION

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

ROLE

The committee is responsible for overseeing the implementation of effective governance and assurance processes across the Group and ensures that FirstRand implements the highest standards of corporate governance in all operations.

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

2013 Highlights

Focus area	Actions
Governance effectiveness	Oversaw projects to further enhance links between governance oversight and executive assurance functions.
Board, board committees and executive succession planning	Reviewed the effectiveness of the board of directors and its subcommittees, and ensured sound and effective succession planning at both board and executive level.
Compensation of non-executive directors	Received recommendations from remco on compensation of non-executive directors for recommendation to shareholders.

DIRECTOR RESPONSIBILITIES

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

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

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

BOARD COMPOSITION

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

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

SUBSIDIARY BOARDS AND BOARD COMMITTEES

At FirstRand achieving excellence in corporate governance means achieving synergy between procedural rigour and the good judgement of individual directors and board committees as a whole.

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

Additional board committees exist at divisional level. These boards assist FirstRand Limited's board in overseeing the activities of FirstRand's operating franchises, which are also subject to the oversight of the divisional advisory boards and their board committees.

GOVERNANCE EFFECTIVENESS

Internal assurance programme

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

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

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

Director and committee effectiveness

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

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

The evaluations include an appraisal of the chairman of the Board or committee being evaluated. The performance of the chief executive is also formally evaluated at least annually against a balanced scorecard, which is described in the *Remuneration committee report* on page 81. Evaluations conducted for the period under review identified no material concerns in respect of board, board committees or individual director performance.

Succession planning

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

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

APPOINTMENT OF DIRECTORS

There is a clear policy in place detailing procedures for appointments to the board. Such appointments are formal and a matter for the board as a whole, assisted by DAG. Prior to the appointment of a new director, a nominations committee is appointed by DAG. This committee is responsible for interviewing the nominations for the role and making recommendations to DAG as to his or her suitability.

The nominations committee is constituted exclusively of non-executive directors, the majority of whom are independent, and is chaired by the chairman of DAG, who is also an independent director.

When appointing directors the board takes cognisance of its needs in terms of different skills, experience, cultural diversity, size and demographics. A staggered rotation of directors ensures continuity of experience and knowledge. The reappointment of non-executive directors is not automatic and is subject to performance and eligibility for reappointment.

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

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

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

TRADING IN COMPANY SHARES

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

DIRECTORS' INTERESTS

It is not a requirement of the company's memorandum of incorporation or the board charter that directors own shares in the company. Certain directors have also disclosed their effective interest in FirstRand as a result of their shareholding in RMB Holdings Limited, which holds 33.9% (2012: 33.9%) of the issued share capital of FirstRand.

According to the register of directors' interests, maintained by FirstRand in accordance with the provisions of Section 75 of the Companies Act, directors have disclosed the following interests in FirstRand at 30 June 2013. Where necessary, prior year figures have been amended to reflect the new disclosures required in terms of the JSE Listings Requirements.

Ordinary shares (audited)

	Direct beneficial (thousands)	Indirect beneficial (thousands)	Held by associates (thousands)	Indirect via RMBH (thousands)	**Total 2013 (thousands)**	Percentage holding %	Total 2012* (thousands)
Executive directors and prescribed officers:							
SE Nxasana	636	–	–	–	**636**	0.01	642
JP Burger	698	–	932	1 602	**3 232**	0.06	2 906
M Jordaan	658	–	–	–	**658**	0.01	302
A Pullinger	2 025	–	17	–	**2 042**	0.04	1 482
Non-executive directors:							
VW Bartlett	3 193	–	–	–	**3 193**	0.06	3 569
JJH Bester	20	–	–	–	**20**	0.00	20
P Cooper (appointed July 2013)	1 731	–	891	5 096	**7 718**	0.14	–
LL Dippenaar	5 383	7 006	6	102 640	**115 035**	2.04	115 035
GG Gelink (appointed January 2013)	30	–	–	–	**30**	0.00	–
PM Goss	1	–	–	16 219	**16 220**	0.29	15 672
PK Harris	–	4 816	96	18 807	**23 719**	0.42	26 158
Total	14 375	11 822	1 942	144 364	**172 503**	3.06	165 786

* *2012 restated to take cognisance of implications of Royal Bafokeng interest in RMBH.*

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

B preference shares (audited)

	Indirect beneficial (thousands)	**Total 2013 (thousands)**	Percentage holding %	Total 2012 (thousands)
Non-executive directors:				
VW Bartlett	16	**16**	0.04	–
LL Dippenaar	566	**566**	1.26	566
Total	582	**582**	1.29	566

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

PROCEEDINGS AND PERFORMANCE REVIEW

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

	Sep 2012	Nov 2012	Apr 2013
VW Bartlett	✓	✓	✓
JJH Bester	✓	✓	✓
MS Bomela	✓	✓	✓
L Crouse	✓	✓	✓
LL Dippenaar	✓	✓	✓
JJ Durand	✓	✓	✓
PM Goss	✓	✓	✓
GG Gelink (appointed January 2013)	–	–	✓
NN Gwagwa	A	A	✓
PK Harris	✓	✓	✓
WR Jardine – chairman	A	✓	✓
EG Matenge-Sebesho	✓	✓	✓
AT Nzimande	✓	✓	✓
D Premnarayen	✓	✓	✓
KB Schoeman	✓	✓	✓
RK Store	✓	✓	✓
BJ van der Ross	A	✓	✓
JJH van Greuning	✓	✓	✓

A – apologies tendered and accepted.

The chairman attends the annual general meeting.

Company secretary

FirstRand's company secretary assists the board as a whole and directors individually with detailed guidance as to how their responsibilities should be properly discharged in the best interests of the FirstRand Group and its stakeholders. Where necessary the company secretary facilitates induction and training for directors and assists the CEO in determining the annual meeting timetable. An assessment of the performance of the company secretary is included in the annual director and board assessment process.

Mr BW Unser is FirstRand Limited's company secretary. He is suitably independent, qualified and empowered and has been the company secretary for FirstRand Bank since 1992 and FirstRand Limited since 2010 and generally maintains an arms-length relationship with the board and its directors as far as reasonably possible.

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

LOOKING FORWARD

Looking forward the committee will continue to improve the Group's governance processes with an emphasis on continually strengthening assurance processes between management, the board and its committees.

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

WR Jardine
Chairman, directors' affairs and governance committee

9 September 2013

EXECUTIVE COMMITTEE

Sizwe Nxasana
Chief executive officer

COMPOSITION

FirstRand's exco is chaired by the CEO and comprises the COO and CFO, chief audit executive, CEOs of the Group's major operating franchises, CRO, heads of Regulatory Risk Management, Investor Relations, Group HR, Financial Resource Management, Group Treasury, Finance and certain other members of senior management.

ROLE

Exco ensures **alignment of franchise strategies and the optimal deployment of the Group's financial and non-financial resources**.

2013 Highlights

Focus area	Actions
BEE	Ensured integration of BEE strategy into business processes at franchise and business unit level, providing regular reports on progress to the transformation monitoring committee.
Responsible lending	Implemented measures for increasing mainstream market access to financial services while carefully monitoring and managing credit risk and operational risk with affordability being carefully scrutinised among all customers on a current and forward-looking basis.
Internal controls	The Group's combined assurance programme is firmly entrenched within risk and assurance processes across all franchises. Regular reports on risk and control themes are reported on and discussed at governance meetings. Management have formal and proactive processes for resolving any control deficiencies identified.
IT governance and information security	Achieved measurable improvements in Group IT efficiencies through further leveraging of synergies across the franchises, which have included a material saving on Group IT expenses.
Enterprise risk management	Ensured credit origination strategies were aligned with deteriorating macroeconomic risk indicators. Origination strategies were changed where necessary and performance of the various portfolios is actively monitored. Focus was placed on IT risk and continued improvement of operational risk controls across the Group.
Regulatory risk management (RRM)	Given the high volume, pace and complexity of regulatory reforms post the 2008 global financial crisis, the Group's RRM function continues to dedicate resources in a cost-efficient manner to ensure that the Group proactively manages all compliance issues identified in this context. The RRM function made further progress in partnering with senior management and, through working closely with regulators, is minimising the impact of the changing regulatory landscape on FirstRand's diversified business activities. The Group remains committed to fostering close interaction and cooperation with its regulators.
Investor relations and reputation	The Group engages proactively with existing and potential investors, both debt and equity, in the domestic market and certain international markets. The Group did not suffer any major reputational issues during the year under review. In addition, its financial performance for the year was well received by the market.

Focus area	Actions
Treasury and financial resource management	Key measures implemented include: • maintaining and improving capital, liquidity and foreign exchange buffers over and above prudential limits; • maintaining and improving contact and interaction with the market and counterparties relating to settlement and messaging; • setting aside the appropriate core equity for the Group's expansion efforts; • introducing sophisticated behavioural liquidity funds transfer pricing; • ensuring soundness of asset and liability management processes for off balance sheet guaranteed risk and related investment processes; • managing the Group's net open foreign position, residual risk, interest rate risk, liquidity risk and foreign exchange risk within conservative and appropriate limits; and • increasing funding from the deposit franchise, thereby reducing reliance on institutional funding; lengthening the effective maturity for institutional funding.
Human capital management	Oversaw the implementation of the Group human capital strategy, with special focus on employment equity, succession planning and the resourcing of new operations both in SA and the rest of Africa.
Sustainable supply chain management	Completed the first phase of the Group's procurement business transformation project. This included: • achieving cumulative savings of R1 billion within three years (originally a four-year target); • 15 employees completing a development programme with the Chartered Institute of Purchasing and Supply, while a further 30 employees participated in additional supply chain management skills programmes; • ensuring further improvements in BEE procurement in line with the implementation of new targets; and • leveraging supplier relationships to contribute to the Group's ability to bank its suppliers with a reciprocal business programme.

STRATCO

FirstRand's strategy committee (stratco) is composed of the CEO, COO and CFO, and the CEOs of the Group's franchises. The committee is responsible for identifying the strategic priorities for the Group.

Stratco takes a portfolio view of the Group, enabling it to leverage and capitalise on potential opportunities that exist between the operating franchises. It provides the strategic framework within which the franchises execute on business objectives.

During the year stratco and exco focused on strategic priorities which included:

- ensuring that the portfolio is represented in all financial profit pools, using existing platforms and skills to enter segments where the Group is absent or underpresented. Such initiatives include the creation of the Ashburton asset management pillar and the alignment of corporate banking under RMB;
- identifying and coordinating opportunities for international expansion into Africa and capitalising on international financial flows between China, India and Africa;
- ensuring seamless integration of the Ashburton asset management franchise within the Group's formal management and governance processes;
- ensuring the highest standards of ethics, governance and risk management are implemented at all operations;
- implementing a human capital plan that meets the Group's skills needs and satisfies diversity objectives; and
- ensuring that the Group's activities contribute positively to socio-economic development and BEE as strategic imperatives in their own right.

ETHICS, GOVERNANCE AND RISK MANAGEMENT

Ethics management and fraud prevention

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

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

Stakeholders are referred to pages 107 to 113 for a detailed review of how the Group's ethics management processes complement existing operational risk management activities for preventing and combating fraud.

Information management and privacy

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

The identification and management of IT risk is fully integrated with the Group's enterprise risk management function. To this end, enterprise-wide IT forums have been embedded at each franchise to focus on:

- combating cybercrime to protect the Group from IT fraud and other malicious intentions such as hacking, denial of service attacks, loss of data etc.;
- protecting the confidentiality of customer information;
- ensuring succession planning and skills development for critical IT skills;
- ensuring business continuity systems are appropriate; and
- maintaining data quality and records management.

The Group subscribes to the Code of Banking Practice of The Banking Association South Africa and complies with the Consumer Protection Act and King III (Chapter 5), all of which require that personal client information be treated as private and confidential. The Group actively manages its compliance with Financial Intelligence Centre Act, Financial Advisory and Intermediary Services Act and the Electronic Communications and Transactions Act.

Independent assurance on the effectiveness and integrity of the Group's IT governance framework is provided by Group Internal Audit and the Group's external auditors

BLACK ECONOMIC EMPOWERMENT

During the year FirstRand retained level 2 BEE status, with exco being responsible for the implementation of the Group's BEE strategy and the management of performance against targets.

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

For more information on the Group's BEE programme stakeholders are referred to pages 104 to 106 of the *transformation monitoring committee report*.

RESPONSIBLE LENDING

Mainstream market access to financial services

Sustainable low cost banking models, that maintain high quality products and services, can only be achieved by migrating customers from expensive to low cost electronic platforms. These offer customers several advantages including lower banking fees, convenience, no travelling and queues, and improved personal safety. Some of these channels include:

- depositing cash at ADT (automatic deposit teller) machines which is significantly cheaper than a branch teller;
- using debit cards to swipe at points of sale for free; this allows customers to reduce the inconvenience and risk associated with carrying cash; and
- using cellphone banking to check account balances, make payments and transfers and buy pre-paid airtime and electricity.

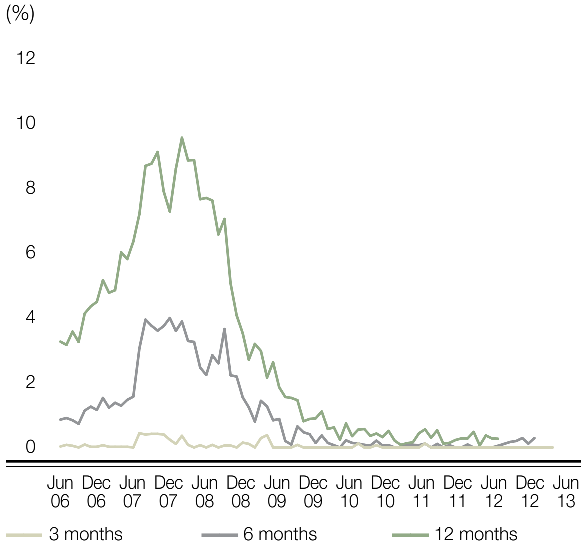
The Group's progress in promoting financial stability and inclusion is underpinned by FNB's innovative products and channels for the mainstream market such as affordable housing loans, eWallet and cellphone banking.

Customer indebtedness

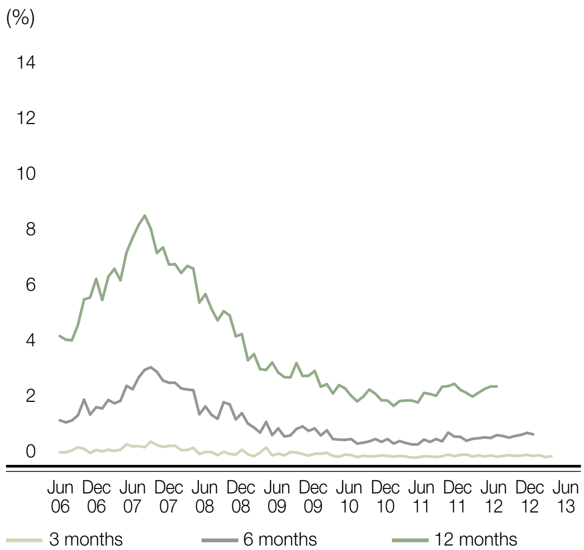
Exco continues to ensure that its lending franchises assist customers to make informed decisions when acquiring debt. Individual loan affordability assessments are rigorously applied during the credit application process and these processes are complemented by analytical tools that allow the Group to understand the levels of affordability of debt among its customers and respond proactively.

FNB and WesBank continue to focus on customer quality. The graphs below compare the rates of default on FNB HomeLoans and WesBank retail lending across three, six and twelve month periods after the initiation date for each loan. For FNB HomeLoans, the three, six and twelve month cumulative historical analysis shows a marked improvement in the affordability of loans provided since mid-2008.

FNB HomeLoans default rate



WesBank retail default rate



At WesBank, repossessions continue to decline due to the implementation of a range of measures to ensure that customers are able to afford the loans granted. Some of these measures are developed within the context of various regulatory frameworks such as:

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

Stakeholders are referred to pages 140 to 154 for a comprehensive review of FirstRand's performance and practices.

Debt remediation

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

Under certain conditions the Bank will renegotiate the original terms and conditions of some loans with the objective of avoiding a situation where a customer is no longer able to meet the original obligations. These arrangements are normally based on different re-payment terms (e.g. a reduction in payments for a specified period of time, changes in the payment profile or debt counselling payment plans) with formally defined criteria for determining if and when customers are eligible for such arrangements.

FNB continues the success of programmes such as QuickSell and QuickFix, which aim to minimise losses due to defaults. QuickFix assists customers in understanding their cashflow profile and actively working with debt counsellors to improve their HomeLoan repayments, ultimately assisting them to stay in their homes.

Renewable energy and sustainable finance products

FirstRand recognises that facilitating the development of renewable energy, clean technology and infrastructure development is essential for promoting sustainable economic growth.

During the year RMB made significant balance sheet commitments across all segments of the renewable energy market, waste water treatment, water infrastructure finance and financing of green buildings and green property developments.

Specific commitments were made in support of the renewable energy sector during the South African Government's Renewable Energy Independent Power Producer Procurement (REIPPP) Programme. RMB committed over R12 billion to renewable energy projects in the wind and solar industries during the first and second rounds of the bidding process.

To further support the Group's commercial customer base in reducing environmental impacts, FNB launched the ecoEnergy Loan which is offered to clients in the FNB business banking and commercial banking segments. The purpose of this loan is to provide funds for businesses to decrease operating costs and environmental footprints by making commercial properties more energy efficient.

HUMAN CAPITAL MANAGEMENT

FirstRand's People practices committee facilitates and coordinates the implementation of the Group's human capital strategy, which ensures that the Group has the appropriate skills required to successfully implement its business strategy.

Succession planning

During the year the Group's human capital processes focused on careful consideration of succession planning processes, with particular focus on ensuring that all key areas are addressed. In so doing, Exco has also ensured that the Group's international expansion efforts are appropriately resourced. Employment equity, diversity management and skills development have been significant drivers of the Group's succession planning activities.

Workforce movements

	2013	2012	% change
SA staff complement at 1 July	**32 175**	30 600	5
Group transfers through restructure	**–**	1 242	(100)
New appointments	**4 180**	4 222	(1)
Resignations	**(2 945)**	(2 656)	11
Retrenchments	**(237)**	(157)	51
Dismissals	**(469)**	(500)	(6)
Deaths and disabilities	**(54)**	(55)	(2)
Other*	**(287)**	(521)	(45)
SA staff complement at 30 June	**32 363**	32 175	1
Rest of Africa	**4 444**	4 113	8
Other countries	**424**	110	>100
Total workforce	**37 231**	36 398	2
Number of ACI employees (SA operations)	**22 998**	22 578	2
ACI employees as a % of SA workforce (%)	**71**	70	

* *Other consists of retirements, non-renewal of contracts, secondments and internal transfers.*

Employment equity and diversity management

While approximately 71% of the Group's overall workforce is composed of African, Coloured and Indian (ACI) employees, progress has been slow in achieving a similar demographic at more senior management levels. This challenge is considered to be symptomatic of the global skills shortage and is not viewed as an exclusively South African issue. The Group is implementing a long-term strategy for ensuring that skills development initiatives, including career and succession planning are coordinated in a way that will help to develop African, Coloured and Indian business leaders from within the Group.

Skills development

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

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

Skills development investment

R million	2013	2012	% change
ACI skills development investment	**345**	271	27
Other skills development investment	**60**	69	(13)
Total skills development investment	**405**	340	19
ACI skills development investment as % of total skills	**85**	80	–

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

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

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

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

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

SUPPLY CHAIN MANAGEMENT

FirstRand has proactively engaged with its largest suppliers to enhance their awareness and performance on internal practices related to BEE, labour practices, environmental impact and business ethics.

BEE procurement

FirstRand is a founder member of the South African Diversity Council (SASDC), and is actively involved in sponsoring black-owned and black women-owned business forums in collaboration with development agencies. A formal BEE procurement strategy has been rolled out in all of the Group's franchises and provides guidance for ensuring sustainable long-term empowerment.

BEE procurement spend

R million	**2013**	2012	% change
BEE procurement spend	**10 074**	6 414	57
Other procurement spend	**1 937**	1 807	7
Total discretionary procurement spend	**12 011**	8 221	46
BEE as % of total measured procurement	**84**	78	–

Performance disclosed on a calendar year basis per regulatory reporting.

Environmental impact

FirstRand's direct environmental impact is primarily the result of energy consumption, therefore reducing the Group's carbon emissions is a key focus with 250 online meters installed in the retail branch network to measure and manage energy efficiency projects.

One of FNB's provincial head offices, based in Portside Cape Town, is being jointly developed by FirstRand and Old Mutual. This building received a 5 Green Star SA design rating and is the tallest building in South Africa to achieve a 5 star rating from the Green Building Council. FirstRand will be seeking green accreditation for all of its new buildings.

Carbon emission reduction is a continuous process which also supports the Group's objectives to reduce its environmental impact, reduce operating costs and negate the proposed implementation of carbon tax. Savings achieved through energy efficiency initiatives during the year amounted to R62.6 million and a reduction of 58.7 million kWhs (as measured against 2008-base year).

In 2012 FirstRand set carbon reduction targets in line with South Africa's COP 17 commitment of 34% reduction. The Group has subsequently reduced its carbon emissions by 5% against the 2008 baseline.

Carbon footprint

Carbon emissions (Metric tonnes of CO_2 equivalents)	**2013**	2012	% change
Fuel use	**181**	390	(54)
Business fleet travel	**8 268**	8 008	3
Electricity	**238 434**	257 172	(7)
Paper use	**3 301**	2 729	21
Business road travel	**5 854**	8 087	(28)
Business air travel	**11 703**	6 003	95
Refrigerants	**1 803**	3 173	(43)
Fuel-well to tank emissions*	**1 714**	–	–
Total carbon emissions	**271 258**	285 562	(5)
Total electricity used (Kw/h) (thousands)	**238 434**	259 769	(8)
Total electricity saved from 2007 baseline (Kw/h) (thousands)	**58 797**	37 795	56
Total value of savings from 2007 baseline (R thousand)	**62 626**	34 219	83

* *2012 fuel-well to tank emissions not calculated.*

PROCEEDINGS AND PERFORMANCE REVIEW

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

SE Nxasana
Chief executive officer

9 September 2013

REMUNERATION COMMITTEE

Pat Goss
Chairman

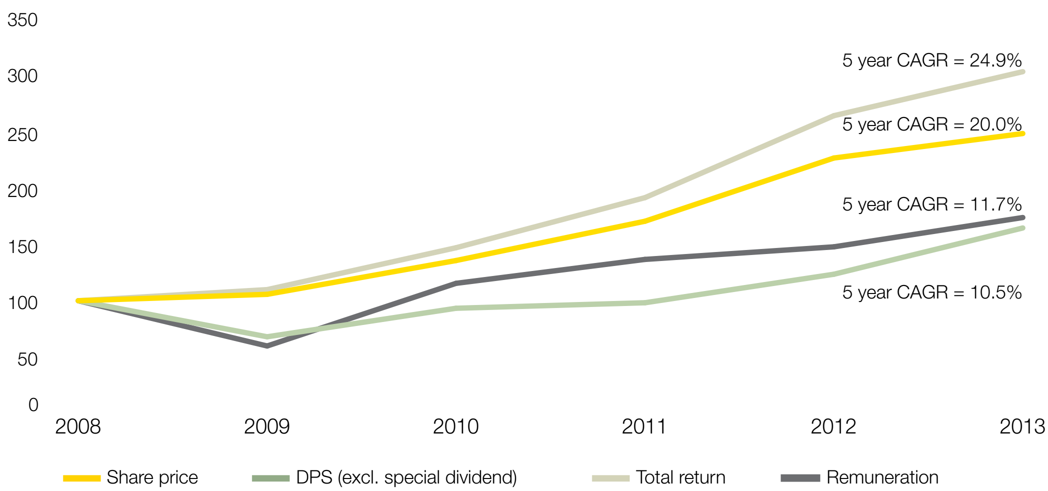
COMPENSATION SUMMARY

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

- long-term incentives have never vested unless corporate performance targets (CPTs) have been met; and
- variable compensation has consistently been aligned with shareholder returns through determining the size of the variable compensation pool in proportion to NIACC.

The graph below compares growth in shareholder returns with growth in the combined compensation of the Group's prescribed officers over a five-year period. The trend lines demonstrate that growth in shareholder returns is substantially higher than growth in prescribed officer compensation, which indicates the appropriate alignment between shareholder returns and the Group's compensation practices.

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



In 2013 FirstRand produced excellent results for the year to June 2013. The compensation of the Group's chief executive, chief operating officer and other prescribed officers reflected these improved results.

Composition

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

Role

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

The committee provides oversight of all forms of compensation and reward to executive directors and senior management including fees, guaranteed pay and variable compensation, other benefits and long-term incentive awards. The committee is also responsible for reviewing proposals to DAG and shareholders on non-executive director compensation.

Compensation policy

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

- attracting, retaining and motivating people with the ability, experience and skills to successfully implement business strategy;
- creating recognisable alignment between rewards for employees, particularly executive directors and senior management, and the risk exposure of shareholders and other stakeholders;
- incentivising employees to deliver consistent performance in line with strategic goals and risk tolerances, and rewarding success appropriately;

Compensation is determined on the basis of risk-adjusted profits, subject to claw back provisions for deferred compensation in the event of poor individual, business unit or Group performance.

- delivering compensation that is affordable and reasonable in terms of, and in accordance with, the value created for shareholders; and
- encouraging behaviour consistent with FirstRand's code of ethics, business philosophy and corporate culture.

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

- variable compensation pools shaped by Group profitability and performance metrics, divisional profitability, risk taken within risk appetite compared to realised returns and sustainable future profitability;
- individual performance measured against specific quantitative financial and non-financial performance criteria, individual behaviour and competitive performance;
- variable compensation which reduces or disappears in the event of poor Group, divisional, business unit or individual performance (in line with the claw back principle);

- no multi-year guaranteed incentives, substantial severance arrangements or compensation linked to revenue generation by formula;
- significant deferral of senior management's variable compensation in share-linked instruments for a period of two years; and
- transparency to enable stakeholders to make reasonable assessments of reward practices and underlying governance processes.

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

During the year to June 2013 the Group implemented the following actions pertaining to compensation.

2013 Highlights

Focus area	Actions
Shareholder endorsement compensation policy	In December 2012, the Group's compensation policy was put to a shareholders vote at the annual general meeting and was endorsed with an overwhelming majority.
Review of compensation practices	Special attention was paid to ensuring the effective application of the Financial Stability Board's Principles for Sound Compensation Practices and the Financial Service Authority's compensation code of practice.
Aligning risk and reward	The chairman of the risk, capital management and compliance committee is a remco member and formally confirmed that the risk element of FirstRand's compensation policy has been duly considered, while ensuring appropriate compensation for risk managers and discouraging inappropriately risky behaviour.
Deferral of variable compensation	Between 20% and 40% of all performance payments above R1.5 million was deferred by a conditional award in terms of the FirstRand conditional incentive plan for two years. 40% applies to exco members and 30% to other employees earning bonuses in excess of R5 million.

Review of compensation practices

Remco consults with local and international consultants to ensure that it obtains independent advice on both general and specific compensation practices.

During the year remco reviewed a comprehensive gap analysis of the Group's compensation practices relative to international best practice, notably those recommended in Regulation 43 of the South African Banks Act and the Financial Stability Board's Principles of Sound Compensation Practices and Implementation Guidelines. Based on the outcome of this exercise, the committee is satisfied that the Group's compensation practices are in line with international best practice and the requirements of the Banks Act.

Compensation structure

Remco recognises that performance drivers for successful implementation of business strategy may vary from year-to-year relative to the economic cycle, specific business, regulatory or market conditions. FirstRand's compensation practices are accordingly tailored to respond to such changes within the parameters of its mandate and policy fundamentals.

Instrument	Business objective	Remco policy
Guaranteed pay	Compensation designed to attract and retain human resources in line with the scope, nature and skills requirements of the role.	In most cases benchmarked relative to skills, experience, performance and complexity of the business.
Retirement contribution	Ensure that employees have appropriate savings resources for their retirements.	Employer contribution matches employee contribution in line with the applicable tax legislation.
Medical aid and travel	Ensure that employees have appropriate medical aid and transport resources to fulfil their roles.	All staff contractually obliged to belong to a medical aid.
Performance related	Rewards and incentivises achievement of individual, business unit and Group out-performance.	Measured against specific performance metrics.
Long-term incentive awards	Reinforces loyalty of key resources and aligns employee interests with those of shareholders and other stakeholders.	Subject to performance conditions set for, and measured over, a three year rolling period.

Three-year mix

Various compensation instruments are used for implementing different elements of the remco's compensation policy and philosophy. Remco is ultimately responsible for ensuring that both the quantum and the mix applied are in line with the interests of the Group's stakeholders.

Total compensation

				Variable compensation	
Cash package	Retirement contribution	Medical aid contribution	Travel allowances	Performance related	Long-term incentive awards
25.72%	3.52%	0.70%		45.34%	24.72%

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

Alignment of risk and reward

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

The *Risk and capital management report* on page 129 provides comprehensive detail on all risk types the Group is exposed to and describes methods used to measure, manage and report on these risks. This report covers the overall incentive pools for business units and the individual incentive awards of senior managers and executives. In determining the size of the variable compensation pool, remco pays specific attention to issues covered in the Group's risk framework.

These include:

- internal audit findings on weaknesses in the internal control environment;
- breaches of regulatory requirements applicable to operations;
- operational risk losses;
- risk appetite breaches;
- limit breaches, particularly by trading desks; and
- breaches of the credit risk control environment.

Material risk takers and control staff

Material risk takers are defined with reference to their influence over the activities of the Group or a part of it and the relationship between this and risk assumed in the course of conducting business. Remco defines material risk takers and control staff as the Group's executive officers as defined in the South African Banks Act and the Group heads of risk and control functions.

In terms of the Companies Act 71 of 2008, prescribed officers are defined as employees who exercise general executive control over and management of the whole, or a significant portion, of the business activities of the Group. FirstRand defines its prescribed officers as members of Group stratco: Group CEO, Group COO and CFO, and the CEOs of the Group's operating franchises (FNB, RMB and WesBank) are so defined and their compensation is included as part of the emoluments table on pages 91 to 93.

Forward looking measures

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

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

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

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

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

To ensure the Group delivers sustainable returns to its shareholders, the performance of each business is evaluated using both ROE and NIACC. NIACC measures the value added by each business unit after taking into account the cost of capital. Stakeholders are referred to the *COO and CFO's report* on page 15 for a more detailed discussion on the Group's NIACC performance.

The variable compensation pool allocation incorporates both the earnings generated and risk introduced by the business unit. This is achieved through basing the capital levels used in the NIACC calculations on net asset value (existing capital). The NAV allocation reflects the risk introduced by the business unit.

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

Compensation of risk, compliance and internal audit personnel

Risk and compliance personnel are compensated based on performance measures related to the achievement of function objectives.

Remuneration of employees in the risk and compliance functions is reviewed annually and steps are taken to ensure that remuneration is market related and adequate to attract and retain qualified and skilled staff. The heads of Group Enterprise Risk Management and Group Regulatory Risk Management provide input into the compensation levels of risk managers and key employees across the Group.

A subcommittee of remco, the risk and compliance remuneration committee, which has non-executive director representation, plays an independent oversight role of the remuneration of employees in the various risk and compliance functions at franchise and Corporate Centre level.

Deferral of variable compensation

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

2013 Deferral structure

Performance payment	Deferred conditional awards	Payment date			
		Aug 2013	Dec 2013	Jun 2014	Sep 2015
≤ R500k	No	100%	–	–	–
≤ R1.5 million	No	R500k + 33% of balance of cash portion	33% of balance of cash portion	33% of balance of cash portion	–
> R1.5 million	20% – 40% of amount above R1.5 million	R500k + 33% of balance of cash portion	33% of balance of cash portion	33% of balance of cash portion	Qualifying awards vest
> R1.5 million (all employees earning variable compensation above R5 million)	30% of amount above R1.5 million	R500k + 33% of balance of cash portion	33% of balance of cash portion	33% of balance of cash portion	Qualifying awards vest
> R1.5 million (FirstRand and franchise exco members only)	40% of amount above R1.5 million	R500k + 33% of balance of cash portion	33% of balance of cash portion	33% of balance of cash portion	Qualifying awards vest

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

Deferred portions of cash bonuses are subject to performance criteria. These include:

- the relevant business unit still being profitable, the aggregate of all the divisional contributions of the Group being positive and individual performance maintained; and
- FirstRand not receiving notice of, or termination of service for any reason whatsoever, either by the employee or the Group, before the due date of any of the variable pay.

Long-term incentive awards

The long-term incentive schemes operated by the Group support the retention of key executives and employees and ensure alignment of their interests with those of FirstRand's shareholders.

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

CPTs for the Group's long-term incentive schemes are clearly defined in the schedule in note 29 of the annual financial statements. These criteria are set by remco for each annual award to ensure alignment with performance and shareholder returns and are not adjusted retrospectively. Therefore, the failure to meet targets results in outstanding share-based payments being forfeited. For example, performance targets for the 2006 award were only partially met and not met for the 2007 award.

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

Dilution risk does not apply to the FirstRand long-term incentive schemes as the Group does not issue shares in order to meet its obligations.

Remco has the discretion to determine the total amount of long-term incentive awards made to any employee. At 30 June 2013, no employee's participation in the Group's long-term incentive schemes exceeded 2% of the total number of award shares in terms of the schemes.

Corporate performance targets

Remco sets CPTs based on the expected prevailing macro economic conditions anticipated during the performance period for the Group's long-term incentive schemes, the conditional share plan and the conditional incentive plan. These criteria, which must be met or exceeded to enable vesting, vary from year-to-year, depending on the macro conditions expected to prevail over the vesting period.

In terms of the scheme rules, participants do not receive dividends on their LTI allocations during the performance period, nor do these accrue to them during the performance period.

The criteria for the schemes are as follows:

- **2007 (CPTs not met)** – Normalised earnings per share (EPS) must grow at a rate per annum which equals or exceeds CPIX plus 10%, measured on a cumulative basis from base year end 30 June 2007, for the five-year performance period to enable 100% vesting. Should CPIX plus 10% not be achieved, remco may sanction partial vesting of the appreciation right, which is calculated *pro rata* to the performance which exceeds CPIX.
- **2008 (CPTs met)** – 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 (vested)** – 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 2009, to enable 100% vesting. In addition, FirstRand's NIACC must be positive over the three-year performance period.
- **2010 (CPTs met)** – 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 base year end 30 June 2010, to enable 100% vesting. In addition, NIACC must be positive over the three-year performance period.
- **2011** – Normalised EPS growth must equal or exceed South African nominal GDP (defined as South African GDP plus CPIX) plus 1.5%, measured on a cumulative basis from base year end 30 June 2011 to enable 100% vesting. In addition, NIACC must be positive over the three-year performance period. Should nominal GDP plus 1.5% not be achieved, remco may sanction a partial vesting of conditional shares, which is calculated *pro rata* to the performance which exceeds nominal GDP.
- **2012** – FirstRand must achieve growth in normalised EPS which equals or exceeds the South African nominal GDP plus 3% growth on a cumulative basis over the life of the conditional award, from base year end 30 June 2012 to the financial year end immediately preceding the vesting date. In addition, NIACC must be positive over the three-year performance period. Should nominal GDP plus 3% not be

achieved, remco may sanction a partial vesting of conditional shares, which is calculated *pro rata* to the performance which exceeds nominal GDP.

- **2013** – FirstRand must achieve growth in normalised EPS which equals or exceeds the South African nominal GDP plus 1.5% growth on a cumulative basis over the life of the conditional award, from base year end 30 June 2013 to the financial year end immediately preceding the vesting date. In addition, NIACC must be positive over the three-year performance period. Should nominal GDP plus 1.5% not be achieved, remco may sanction a partial vesting of conditional shares, which is calculated *pro rata* to the performance which exceeds nominal GDP.

Guarantee pay and benefits

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

Benchmarking forms the cornerstone of determining employees' guaranteed pay and is conducted against the financial services industry and other companies in the market with similar market capitalisation.

The following independent salary surveys are used to benchmark against the market:

- PwC Remchannel®;
- Global Remuneration Solutions; and
- Other *ad hoc* salary surveys.

An individual's guaranteed pay is determined by:

- determining the appropriate salary range for the job matched role by using market benchmarks (pay for the role); and
- then positioning the individual's guaranteed pay based on the value he/she adds to FirstRand (pay for the person) in relation to the expected outcomes for a specific position/role.

This approach ensures that guaranteed pay packages are competitive allowing FirstRand to attract and retain the right calibre of employee for the position.

Guaranteed pay for employees is reviewed annually by franchise remcos and ultimately Group remco. This review considers market trends (both in South Africa and globally) as well as the current economic environment, the Group's business strategy and growth forecasts.

In reviewing annual increases for executives and prescribed officers remco considers the percentage increase for all other employees, but ultimately makes a decision in this regard based on the Group business strategy and executive resources required to execute this strategy.

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

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

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

Executive compensation

The basis for remunerating executive directors and prescribed officers is similar to that of senior management and comprises guaranteed pay plus benefits, variable compensation and participation in the long-term incentive schemes.

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

Executive compensation is designed to align with shareholder returns and drive creation of long-term franchise value, through delivering superior and sustainable returns within acceptable levels of earnings volatility.

In line with the Group's objective to drive the delivery of long-term franchise value, there are deferral structures within the variable compensation component. Furthermore, the vesting of long-term incentives depends on the Group achieving the CPTs. Deferral structures and long-term incentive vesting criteria applied to executive directors' compensation is identical to those applied to prescribed officers.

Franchise performance criteria

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

The Group uses a balanced scorecard in its remuneration process that is directly linked to its key performance metrics as indicated on page 16. This process takes into account the delivery of KPIs at Group and franchise levels. During the year, FirstRand's franchises achieved the following financial measures.

Franchise key measurements

	2013	2012	% change
FNB*			
Normalised profit before tax	**11 641**	9 668	20
Normalised profit before tax growth (%)	**20**	23	
ROE (%)	**35.6**	35.0	
RMB			
Normalised profit before tax	**6 062**	4 937	23
Normalised profit before tax growth (%)	**23**	(8)	
ROE (%)	**24.8**	23.2	
WesBank**			
Normalised profit before tax	**4 016**	3 650	10
Normalised profit before tax growth (%)	**10**	43	
ROE (%)	**32.8**	33.9	

* *2012 performance excludes profit on disposal of MMI Namibia.*
** *2012 performance excludes profit on disposal of investments.*

Non-executive director compensation

Non-executive directors receive fees for their services as directors and for services provided as members of board committees. These fees vary depending on the role of the committee. Non-executive directors do not participate in normal long-term incentive schemes. Fees paid to non-executive directors are based on current market practice. The fees are reviewed by the directors' affairs and governance committee and are approved in advance by shareholders at the annual general meeting.

In terms of FirstRand's 2005 BEE transaction as approved by shareholders on 21 April 2005, 15 million FirstRand shares were allocated to a black non-executive director's trust. Allocations of participation rights in the black non-executive directors' trust have been made to certain black non-executive directors in the FirstRand Group. In terms of the Group's remuneration policy these allocations are not considered to be incentive schemes as their *raison d'être* is one of BEE ownership. Details on the functioning of the trust are disclosed in note 29.

Proceedings and performance review

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

	July 2012	April 2013	May 2013	June 2013
VW Bartlett	A	A	✓	✓
JJH Bester	✓	✓	✓	✓
LL Dippenaar	✓	✓	✓	✓
JJ Durand (appointed October 2012)	–	✓	✓	✓
PM Goss (chairman)	✓	✓	✓	✓
AT Nzimande	✓	✓	✓	✓
BJ van der Ross	✓	✓	✓	✓

A – apologies tendered and accepted.

The chairman attends the annual general meeting.

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

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

PM Goss
Chairman, remuneration committee

9 September 2013

DIRECTORS' AND PRESCRIBED OFFICERS' EMOLUMENTS

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

Directors' and prescribed officers' emoluments (audited)

	2013			2012		
	Services as directors[1]		**Total**	Services as directors[1]		Total
R thousand	**FSR**	**Group**	**2013**	FSR	Group	2012
Executive director						
D Premnarayen[2,4]	**852**	**99**	**951**	787	29	816
Non-executive directors						
LL Dippenaar (chairman)	**3 402**	**206**	**3 608**	2 865	125	2 990
VW Bartlett[3]	**884**	**631**	**1 515**	707	238	945
JJH Bester[3]	**1 330**	**2 266**	**3 596**	1 270	1 624	2 894
MS Bomela	**607**	**76**	**683**	371	29	400
L Crouse	**843**	**50**	**893**	771	11	782
JJ Durand (appointed October 2012)	**485**	**50**	**535**	–	–	–
G Gelink[3] (appointed January 2013)	**502**	**–**	**502**	–	–	–
PM Goss[3]	**677**	**122**	**799**	615	116	731
NN Gwagwa[3]	**541**	**50**	**591**	484	56	540
PK Harris	**426**	**50**	**476**	396	5	401
WR Jardine[3]	**582**	**62**	**644**	453	29	482
EG Mantenge-Sebesho[3]	**639**	**303**	**942**	584	213	797
AP Nkuna (retired July 2011)	**–**	**–**	**–**	35	15	50
AT Nzimande	**600**	**50**	**650**	548	44	592
KB Schoeman	**483**	**62**	**545**	440	29	469
RK Store[3] (retired May 2013)	**1 014**	**267**	**1 281**	803	387	1 190
BJ van der Ross[3]	**711**	**402**	**1 113**	564	262	826
JH van Greuning[3,4]	**1 183**	**2 782**	**3 965**	1 052	1 605	2 657
MH Visser (deceased April 2012)	**–**	**–**	**–**	504	11	515
Total non-executive directors (ZAR)	**14 909**	**7 429**	**22 338**	12 462	4 799	17 261

All executive directors and prescribed officers have a notice period of one month. Non-executive directors are appointed for a period of three years and are subject to the provisions relating to removal set out in the Companies Act 71 of 2008. In certain cases this age may be extended subject to board approval.

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

Prescribed officers

R thousand	2010	2011	2012	**2013**
SE Nxasana[1]				
Cash package	5 101	6 220	6 614	**7 037**
Retirement contributions	617	616	786	**834**
Other allowances[2]	93	97	81	**68**
Subtotal	5 811	6 933	7 481	**7 939**
Performance related[3]	5 820	8 190	9 600	**11 460**
Share awards for performance[4]	5 180	4 460	5 400	**6 640**
Subtotal	11 000	12 650	15 000	**18 100**
Total	16 811	19 583	22 481	**26 039**
JP Burger[1]				
Cash package	4 699	5 503	5 776	**6 103**
Retirement contributions	698	679	866	**915**
Other allowances[2]	62	74	118	**156**
Subtotal	5 459	6 256	6 760	**7 174**
Performance related[3]	5 520	7 470	8 760	**10 440**
Share awards for performance[4]	4 480	3 980	4 840	**5 960**
Subtotal	10 000	11 450	13 600	**16 400**
Total	15 459	17 706	20 360	**23 574**
M Jordaan				
Cash package	3 898	4 283	4 604	**4 917**
Retirement contributions	692	760	816	**945**
Other allowances[2]	133	144	149	**46**
Subtotal	4 723	5 187	5 569	**5 908**
Performance related[3]	5 400	6 360	7 512	**10 320**
Share awards for performance[4]	2 600	3 240	4 008	**5 880**
Subtotal	8 000	9 600	11 520	**16 200**
Total	12 723	14 787	17 089	**22 108**

Notes

All 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. Benefits derived by executive directors in terms of their long-term incentive schemes are disclosed on pages 95 to 96.

1. *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.*
2. *Other allowances includes travel and medical.*
3. *Variable compensation paid in cash in respect of the year ended 30 June, is paid (with an interest factor) in three tranches, during the following year ending 30 June.*
4. *Performance payments deferred as a conditional award in terms of the FirstRand conditional incentive plan vest two years after the award date. Refer to note 29 in the annual financial statements.*

R thousand	2010	2011	2012	2013
A Pullinger				
Cash package	1 571	1 743	1 981	**2 037**
Retirement contributions	298	330	339	**407**
Other allowances[2]	100	110	99	**122**
Subtotal	1 969	2 183	2 419	**2 566**
Performance related[3]	11 280	13 416	11 400	**13 200**
Share awards for performance[4]	6 520	7 944	6 600	**7 800**
Subtotal	17 800	21 360	18 000	**21 000**
Total	19 769	23 543	20 419	**23 566**
B Riley				
Cash package	2 315	2 572	2 746	**2 887**
Retirement contributions	268	297	270	**432**
Other allowances[2]	100	106	163	**52**
Subtotal	2 683	2 975	3 179	**3 371**
Performance related[3]	3 000	4 200	5 400	**6 000**
Share awards for performance[4]	1 000	1 800	2 600	**3 000**
Subtotal	4 000	6 000	8 000	**9 000**
Total	6 683	8 975	11 179	**12 371**

Co-investment scheme

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

R thousand	2013	2012
JP Burger[1]	**649**	1 928
M Jordaan	**324**	964
SE Nxasana[1]	**143**	428
A Pullinger	**853**	2 570

Notes

All 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. Benefits derived by executive directors in terms of their long-term incentive schemes are disclosed on pages 95 to 96.

1. *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.*
2. *Other allowances includes travel and medical.*
3. *Variable compensation paid in cash in respect of the year ended 30 June, is paid (with an interest factor) in three tranches, during the following year ending 30 June.*
4. *Performance payments deferred as a conditional award in terms of the FirstRand conditional incentive plan vest two years after the award date. Refer to note 29 in the annual financial statements.*

Aggregate compensation disclosures

	2013
Employees receiving variable awards (number of employees)	
Employees receiving variable compensation	**17 023**
Employees receiving union-agreed variable compensation[1]	**19 975**
Total variable awards	**36 998**
Employees receiving sign on and severance (number of employees)	
Sign on awards granted	**42**
Severance awards	**305**
Total sign on and severance awards	**347**
Sign on and severance (R million)	
Value of sign on awards granted	**13**
Value of severance awards	**51**
Total value of sign on and severance awards	**64**
Portion of compensation not deferred (R million)	
Guaranteed compensation	**11 090**
Union-agreed variable compensation[1]	**173**
Variable compensation[2]	**2 904**
Vested share-based long-term incentives (LTIs) exercised and paid[3]	**1 640**
Total value of non-deferred compensation	**15 807**
Portion of compensation deferred[4] (R million)	
Second and third cash tranches of variable compensation[5]	**637**
Portion of 2013 variable compensation deferred in shares[6]	**236**
2013 share-based LTI award	**1 053**
Total value of deferred compensation	**1 926**
Cumulative outstanding deferred compensation at 30 June 2013[4,7] (R million)	
Second and third cash tranches of variable compensation	**637**
Portion of variable compensation deferred (cumulative 2011, 2012 and 2013)	**245**
Share-based LTI awards (cumulative 2011, 2012 and 2013)	**1 676**
Share-linked LTI awards	**936**
Total cumulative outstanding deferred compensation	**3 494**
Total deferred compensation clawed back (R million)	**9**

Notes

1. *Guaranteed bonuses paid to non-managerial employees in the form of 13th cheques in terms of the Group's annual union negotiations. Where employees receive amounts over and above the union agreement these are disclosed under variable compensation.*
2. *Includes tranche 1 of cash-settled variable compensation.*
3. *LTIs are share-based incentives that only become exercisable subject to clearly defined vesting criteria. Refer to page 87 for detailed disclosure of the Group's vesting criteria.*
4. *All deferred compensation is subject to clearly defined performance criteria to ensure alignment of employee remuneration with company performance. Refer to page 86 for a detailed description of the Group's deferral policy.*
5. *Portion of cash bonus deferred to 2nd and 3rd tranche payments in December and June respectively of the proceeding financial year.*
6. *Cash portion of variable compensation deferred in FirstRand shares and subject to vesting criteria.*
7. *The values disclosed for LTIs have been determined on pro rata vesting basis assuming that the conditions precedent have been met. These incentives are however still subject to individual, business unit and corporate performance criteria before becoming exercisable as set out in the vesting criteria note on page 87.*

Executive directors' and prescribed officers' interests

	Opening balance (number of shares)	Strike price (rand)	Expiry date	Granted/ taken up this year (number of shares)	Portion not exercisable due to vesting criteria not been met (number of shares)	Closing balance (number of shares)	Benefit derived (rand)
Sizwe Nxasana							
Forfeitable shares MMI	108 416		16/09/2011	(108 416)	–	–	2 264 810
Forfeitable shares	642 405		16/09/2012	(642 405)	–	–	17 682 776
Bonus deferral CSP	302 213		13/10/2012	(302 213)	–	–	8 035 844
CSP	715 647		17/10/2012	(715 647)	–	–	18 248 998
APR	1 000 000	17.00	01/11/2012		(1 000 000)	–	–
Bonus deferral CSP	228 882		13/10/2013	–	–	228 882	–
CSP	621 165		14/10/2013	–	–	621 165	–
APR	2 000 000	10.48	03/12/2013	–	–	2 000 000	–
CSP	576 567		13/10/2014	–	–	576 567	–
Bonus deferral CIP	–		31/10/2014	194 325	–	194 325	–
FirstRand black non-executive directors	1 000 000	12.28	31/12/2014	–	–	1 000 000	–
FirstRand black employee share trust	1 000 000	14.91	31/12/2014	–	–	1 000 000	–
CIP	–		31/10/2015	432 604	–	432 604	–
Subtotal	**8 195 295**			**(1 141 752)**	**(1 000 000)**	**6 053 543**	**46 232 428**
Johan Burger							
Forfeitable shares MMI	100 672		16/09/2011	(100 672)	–	–	2 067 994
Forfeitable shares	596 519		16/09/2012	(596 519)	–	–	15 211 234
Bonus deferral CSP	261 373		13/10/2012	(261 373)	–	–	7 639 518
CSP	536 736		17/10/2012	(536 736)	–	–	13 686 768
APR	900 000	17.00	01/11/2012		(900 000)	–	–
Bonus deferral CSP	204 249		13/10/2013	–	–	204 249	–
CSP	473 268		14/10/2013	–	–	473 268	–
APR	1 500 000	10.48	03/12/2013	(1 000 000)	–	500 000	19 020 000
CSP	461 870		13/10/2014	–	–	461 870	–
Bonus deferral CIP	–		31/10/2014	174173	–	174 173	–
CIP	–		31/10/2015	346545	–	346 545	–
Subtotal	**5 034 687**			**(1 974 582)**	**(900 000)**	**2 160 105**	**57 625 514**
Deepak Premnarayen							
APR	1 536 385	10.48	03/12/2013	(768 192)	–	768 193	15 876 652
Subtotal	**1 536 385**			**(768 192)**		**768 193**	**15 876 652**

	Opening balance (number of shares)	Strike price (rand)	Expiry date	Granted/ taken up this year (number of shares)	Portion not exercisable due to vesting criteria not been met (number of shares)	Closing balance (number of shares)	Benefit derived (rand)
Michael Jordaan							
Bonus deferral CSP	151 690		13/10/2012	(151 690)	–	–	4 433 657
CSP	447 280		17/10/2012	(447 280)	–	–	11 405 640
APR	800 000	17.00	01/11/2012		(800 000)	–	–
Bonus deferral CSP	166 273		13/10/2013	–	–	166 273	–
CSP	385 321		14/10/2013	–	–	385 321	–
APR	666 667	10.48	03/12/2013	–	–	666 667	–
CSP	410 551		13/10/2014	–	–	410 551	–
Bonus deferral CIP	–		31/10/2014	144 232	–	144 232	–
CIP	–		31/10/2015	308 040	–	308 040	–
Subtotal	**3 027 782**			**(146 698)**	**(800 000)**	**2 081 084**	**15 839 297**
Alan Pullinger							
Bonus deferral CSP	380 393		13/10/2012	(380 393)	–	–	11 118 282
CSP	447 280		17/10/2012	(447 280)	–	–	11 405 640
APR	250 000	17.00	01/11/2012		(250 000)	–	–
Bonus deferral CSP	309 035		13/10/2013	–	–	309 035	–
CSP	385 321		14/10/2013	–	–	385 321	–
APR	1 250 000	10.48	03/12/2013	–	–	1 250 000	–
CSP	359 232		13/10/2014	–	–	359 232	–
Bonus deferral CIP	–		31/10/2014	237 508	–	237 508	–
CIP	–		31/10/2015	269 895	–	269 895	–
Subtotal	**3 381 261**			**(320 270)**	**(250 000)**	**2 810 991**	**22 523 922**
Brian Riley							
Bonus deferral CSP	58 342		13/10/2012	(58 342)	–	–	1 705 244
CSP	322 041		17/10/2012	(322 041)	–	–	8 212 046
APR	400 000	17.00	01/11/2012		(400 000)	–	–
Bonus deferral CSP	92 374		13/10/2013	–	–	92 374	–
CSP	277 432		14/10/2013	–	–	277 432	–
APR	666 667	10.48	03/12/2013	(333 333)	–	333 334	6 339 994
CSP	266 858		13/10/2014	–	–	266 858	–
Bonus deferral CIP	–		31/10/2014	93 564	–	93 564	–
CIP	–		31/10/2015	200 226	–	200 226	–
Subtotal	**2 083 714**			**(419 926)**	**(400 000)**	**1 263 788**	**16 257 284**

Definitions:

CSP – conditional share plan
APR – share appreciation rights
CIP – cash incentives scheme

AUDIT COMMITTEE

Hennie van Greuning
Chairman

ROLE

FirstRand's audit committee is an independent statutory committee appointed by FirstRand's shareholders with a formal charter approved by the board of directors. It has executed its duties during the past year in accordance with the approved charter.

In addition to having specific statutory responsibilities in terms of the Companies Act, the audit committee assists the board through oversight on financial and non-financial reporting, monitoring the integrity of internal controls and assessing the effectiveness of external and internal audit functions.

COMPOSITION

The committee is composed of six non-executive directors, five of whom are independent. FirstRand's CEO, COO and CFO, chief audit executive, external auditors, heads of finance, risk and compliance, and other assurance providers attend committee meetings in an *ex officio* capacity. The external auditors and chief audit executive meet independently with the non-executive members as and when required. The composition of the committee is designed to include members with practical banking expertise.

2013 Highlights

Focus area	Actions
Audit planning process	Internal Audit initiated an audit planning workshop with audit committee members and external auditors. An integrated risk based approach to planning was adopted incorporating combined assurance, leveraging management's assessment and external auditors' evaluation of the risk environment. This enabled a common view of risks that underpin the audit planning process. The audit planning process is flexible and will be reviewed on a quarterly basis as the organisation's risks, governance and controls processes evolve.
Streamlining the audit committee agenda and reports	Collaborative efforts with affected areas resulted in defining the audit committee agenda to ensure that all areas mandated by regulation and good governance are covered and that sufficient time is devoted to the most significant matters. Reporting expectations of various role players was considered and report templates have been established that cater for the respective needs. Reporting now enables committee members to evaluate in a focused manner and interrogate matters affecting key risk and control issues in a more consistent and meaningful way. This will occasionally be recalibrated as risks evolve in the organisation.

Statutory duties

In execution of its statutory duties during the financial year under review the committee:

- Recommended the appointment of the external auditors at the annual general meeting.
- In consultation with executive management, the audit committee agreed to the engagement letter, terms of engagement, the audit plan and budgeted audit fees for the 2013 financial year. The external audit plan was carefully aligned with a risk-based approach taking cognisance of the internal audit plan and the work plans of the Group's combined assurance community.
- There is a formal procedure that governs the process whereby auditors are considered for non-audit services and the committee has pre-approved a service agreement for the provision of these by the external auditors.
- The committee is satisfied that the external auditors were independent of the company, as set out in section 94(8) of the Companies Act. This has included consideration of previous appointments of the auditors, the extent of other work undertaken by the auditors for the company, compliance with criteria relating to independence or conflicts of interest and internal governance processes within the audit firms.
- FirstRand has formal processes in place whereby whistle blowers can anonymously inform the audit committee of any concerns relating to the integrity of the Group's financial controls and reporting. During the year the committee did not receive any concerns or complaints relating to FirstRand's internal financial controls, accounting practices, internal and external audits or annual financial statements.
- The committee has reviewed a documented assessment, including key assumptions of the going concern assertion of the company and reviewed budgets for the next three years. Based on the information provided by management the committee has concluded that the Group will continue to be a going concern in the foreseeable future.

Internal controls and internal audit

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

Financial services institutions are inherently complex in nature with a number of areas exposed to the risk of control failure. In general, most internal control systems require continuous review and refinement of business processes to ensure best market practice as well as elimination of the potential for human error or deliberate manipulation of control activities. During the year the committee received regular reports from Group Internal Audit on any weaknesses in controls that were identified, including financial controls, and considered corrective actions to be implemented by management. The audit committee receives regular progress reports on the improvement of business processes and detailed disclosures on the functioning of the Group's internal controls during the year under review which are included in the *Risk and capital management report* on pages 146 to 148.

When issues are detected that require longer-term solutions the audit committee places strong focus on the integrity of controls that management puts in place as mitigating measures. While acknowledging that the organisation is exposed to potential risk, the promptness and attention of management in implementing remedial measures is carefully monitored.

The committee has assessed the performance of the chief audit executive and is satisfied that the internal audit function is independent and appropriately resourced, and that the chief audit executive has fulfilled the obligations of the position.

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

Combined assurance

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

During the year the committee monitored alignment of all assurance providers to achieve elimination of multiple approaches to risk assessment and reporting. The combined assurance process aims to ensure that any loss events or control breakdowns are used to help synchronise complementary risk and assurance functions through a focus on root-cause analysis and related management actions.

Integrated reporting

The committee has overseen the Group's integrated reporting processes and the effectiveness of the internal control environment underpinning these. In so doing, the committee considered the recommendations of independent assurance providers in reviewing the consistency of the information disclosed in the annual integrated report. In September 2013, the committee accordingly recommended the integrated report to FirstRand's board.

Relationship with risk committee

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

Compliance with key regulations

Based on the reports received throughout the year the committee is able to confirm to FirstRand's stakeholders that the Group has implemented appropriate processes for complying with the spirit and the letter of key regulations impacting the Group.

Information and technology governance

The audit committee receives regular reports from the Group's risk, capital management and compliance committee, which monitors refinements to the Group's information and technology governance framework as well as providing a comprehensive and transparent review of the effectiveness of the information and technology governance mechanisms within the Group. Information governance is receiving appropriate attention in the Group and regular reports are presented to the audit committee. Based on the reports received, the audit committee is satisfied that the Group is able to effectively manage its information and technology resources as well as plan appropriately for potential future IT risks.

Stakeholders are referred to page 225 of the *Risk and capital management report* for a detailed review of Group's IT risk governance processes.

Finance function

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

Annual financial statements

Based on the above activities and assurances obtained, the committee agrees to and accepts the external auditors' report on the annual financial statements and has recommended the approval thereof to the board. The financial statements will be open for discussion at the forthcoming annual general meeting.

Looking ahead

Changing environment

Developments in global banking practices appear to demonstrate continuing lapses in ethics and risk management. In this context, feedback and analysis by the Group ethics officer is included in committee proceedings to determine whether similar events could undermine risk management and internal control in the Group.

Committee effectiveness

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

The committee holds additional meetings to enable in depth discussion of matters affecting their mandate. During the year the committee attended regular technical sessions, in addition to scheduled audit committee meetings to facilitate a thorough understanding of the accounting and IFRS developments and their application to the Group's annual financial statements.

Proceedings and performance review

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

	Sep 2012	20 Nov 2012	30 Nov 2012	Feb 2013	May 2013
VW Bartlett (appointed February 2009)	✓	✓	✓	A	✓
JJH Bester (appointed July 2010)	✓	✓	✓	✓	✓
L Crouse (appointed July 2010)	✓	✓	✓	✓	✓
GG Gelink (appointed January 2013)	–	–	–	✓	✓
EG Matenge-Sebesho (appointed July 2010)	✓	✓	✓	✓	✓
RK Store (retired May 2013)	✓	✓	✓	LOA	–
JH van Greuning – chairman (appointed September 2009)	✓	✓	✓	✓	✓

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

JH van Greuning
Chairman, audit committee

9 September 2013

RISK, CAPITAL MANAGEMENT AND COMPLIANCE COMMITTEE

Jurie Bester
Chairman

In recent years innovations in financial markets and the **internationalisation of financial flows** have changed the nature of banking.

Capital adequacy requirements began to increase, particularly in respect of proprietary activities, prompting a shift from proprietary to client-focused activities. Banks have responded by entering into new business areas focusing on superior information and knowledge management. Risk committees have accordingly had to keep up with these developments.

COMPOSITION

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

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

ROLE

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

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

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

During the year the RCC committee reviewed reports from the chief risk officer, subsidiary risk committees and the head of Regulatory Risk Management to ensure that significant issues are adequately addressed across the Group.

2013 Highlights

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

Stakeholders are referred to the comprehensive *Risk and capital management report* set out from pages 129 to 229 for a detailed review of the risk and capital management processes and responsibilities undertaken by the Group.

ACTIVITIES DURING THE YEAR

FirstRand's combined assurance model underlines the importance of an effective relationship between the RCC and audit committees. To this end, the committees work closely together to ensure that risk management processes and information appropriately reflects the evolving nature of risks affecting financial institutions.

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

- approved risk management policies, standards and processes as required;
- received the CRO reports from the Group, franchise CROs and specialised risk functions, which highlighted the effectiveness of risk management processes;
- noted corrective actions implemented and initiated additional corrective actions where necessary across all risk types;
- received compliance and regulatory reports and noted corrective actions implemented, and initiated additional corrective actions where necessary. This included updates on new and pending regulatory changes;
- received presentations on emerging risks and topics requiring detailed analysis;
- reported the consolidated risk profile and risk management effectiveness to the board and highlighted areas of concern;
- approved regulatory capital models;
- reviewed and approved changes to board limits and risk appetite;
- oversaw the Group's stress testing processes used to assess capital adequacy and to determine internal policies and exposure limits approved by the board;
- liaised with the audit committee to exchange information relevant to risk; and
- conducted a risk assessment of current and future risks and communicated the outcome and concerns to management and the board for incorporation into strategic planning and risk management processes.

PROCEEDINGS AND PERFORMANCE REVIEW

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

	Aug 2012	Nov 2012	Nov 2012	Feb 2013	May 2013
JJH Bester – chairman	✓	✓	✓	✓	✓
MS Bomela (appointed February 2013)	–	–	–	✓	✓
L Crouse	✓	A	✓	✓	✓
GG Gelink (appointed January 2013)	–	–	–	✓	✓
Z Roscherr	✓	✓	✓	✓	✓
RK Store	✓	✓	✓	✓	✓
JJH van Greuning	✓	A	✓	✓	✓

A – apologies tendered and accepted.

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

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

JJH Bester
Chairman, risk, capital management and compliance committee

9 September 2013

TRANSFORMATION MONITORING COMMITTEE

Lulu Gwagwa
Chairman

FirstRand is proud to have retained a **level 2 BEE rating for the 2012 calendar year**.

COMPOSITION

FirstRand's transformation monitoring committee (TMC) is chaired by an independent non-executive director and comprises five non-executive directors, two of whom are independent. The chief executives of FirstRand's operating franchises and other members of senior management attend in an *ex officio* capacity.

ROLE

The committee is a subcommittee of the board charged with overseeing the development and successful implementation of the Group's BEE transformation strategy.

2013 Highlights

Focus area	Actions
BEE risk reporting	Oversaw the integration of BEE risk into the Group's enterprise risk management processes.
Employment equity and talent management	Oversaw the finalisation of the Group's 2013-2016 employment equity plan.
Accelerated development programme	Launched the FirstRand accelerated development programme focusing on senior management and enhancing the Group's black leadership pipeline.
Transformation scorecard	Oversaw the Group's dti scorecard. The 2012 calendar year was measured under the dti Codes of Good Practice. The transition from dti to Financial Sector Code scorecard reporting commenced in January 2013 and covers additional components such as access to financial services and empowerment financing.

MEASURABLE PROGRESS

The Group retained level 2 BEE status notwithstanding an increase in dti targets for employment equity and procurement. The committee received regular reports from management on all elements of its BEE scorecard and oversaw alignment of divisional and Group BEE performance.

%	Target	**2013**	2012	% change
Equity ownership	20	**18.93**	18.56	2.0
Management control	10	**6.94**	6.94	–
Employment equity	15	**8.84**	11.07	(20.1)
Skills development	15	**12.42**	12.02	3.3
Preferential procurement	20	**18.45**	18.48	(0.2)
Enterprise development	15	**15.00**	15.00	–
Socioeconomic development	5	**5.00**	5.00	–
Total	100	**85.58**	87.07	(1.71)

WORKPLACE DIVERSITY

The term of the Group's 2010 – 2013 employment equity plan ended on 30 June 2013. Some progress was made and there is improved representation of ACI employees at junior and middle management. The main challenge remains in the representation of African males at all managerial levels, and Coloured employees, women and people with disabilities at senior levels.

A new employment equity plan has been developed effective from 1 July 2013. A rigorous process was followed to ensure that the targets set are attainable and aligned to the Group's talent pipelines. One of the key strategic objectives is to develop and retain key black talent in order to reinforce a strong pipeline for top and senior management. The Group will achieve this through targeted recruitment, skills and leadership development programmes, and further alignment of succession planning with EE targets.

Workforce profile

	Male				Total	Female				Total	Foreign	
Occupational levels	African	Coloured	Indian	White	male	African	Coloured	Indian	White	female	nationals	**Total**
Top management	2	1	5	33	41	2	2	1	2	7	4	**52**
Senior management	77	33	143	645	898	59	35	49	278	421	27	**1 346**
Middle management	1 040	395	832	2 208	4 475	874	653	805	1 973	4 305	100	**8 880**
Junior management	1 729	605	518	773	3 625	3 117	1 908	977	2 075	8 077	62	**11 764**
Semi-skilled	2 104	439	278	256	3 077	4 150	1 159	496	899	6 704	26	**9 807**
Unskilled	242	43	3	3	291	197	25	–	–	222	1	**514**
Total South Africa	5 194	1 516	1 779	3 918	12 407	8 399	3 782	2 328	5 227	19 736	220	**32 363**

Leadership development

FirstRand's vision is to be an employer of choice and a key aspect of FirstRand's philosophy is to empower its people.

The Group launched a first of its kind accelerated development programme to provide senior managers with the requisite theoretical and practical knowledge and skills in the critical areas of managing a banking business and, in so doing, create a new generation of leaders. Thirty three delegates were selected to participate in the inaugural programme.

FirstRand also participates in the BANKSETA international executive development programme, which focuses on investment banking and provides senior management with both academic and practical exposure to key elements of the banking industry.

The abovementioned programmes are examples of FirstRand's commitment to grow its own talent and build a strong succession pipeline of future leaders.

TRANSFORMATION PHILOSOPHY

FirstRand believes that transformation is a process towards achieving diversity in all areas of the business and it is about more than scorecards or BEE credentials. The TMC's role is to ensure that the Group's transformation strategy takes cognisance of the Group's strategic objectives as well as the environment in which this has to be delivered.

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

PROCEEDINGS AND PERFORMANCE REVIEW

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

	Sep 2012	Nov 2012	Feb 2013	Jun 2013
MS Bomela	✓	✓	✓	✓
NN Gwagwa – chairman	✓	✓	A	A
AT Nzimande	✓	✓	✓	✓
KB Schoeman	✓	✓	✓	✓
BJ van der Ross	A	A	✓	✓

A – apologies tendered and accepted.

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

NN Gwagwa
Chairman, transformation monitoring committee

9 September 2013

SOCIAL AND ETHICS COMMITTEE

Hennie van Greuning
Chairman

The importance of good ethics in banking cannot be overemphasised, because as a trust business, ethics is core to the success of the financial services industry.

Safeguarding and promoting good ethics at FirstRand is considered prudent stakeholder relationship management for ensuring that regulators, investors, employees, customers, business partners, depositors and broader society trust the Group to be a good corporate citizen.

COMPOSITION

The FirstRand social and ethics committee (SECOM) is constituted exclusively of non-executive directors, two of whom are independent. The CEO, COO and CFO attend two meetings in an *ex officio* capacity. The Group ethics officer is a permanent special advisor to the committee and is responsible for the preparations of SECOM. The Group head of human capital and the chief risk officers of the Group's franchises are invitees.

ROLE

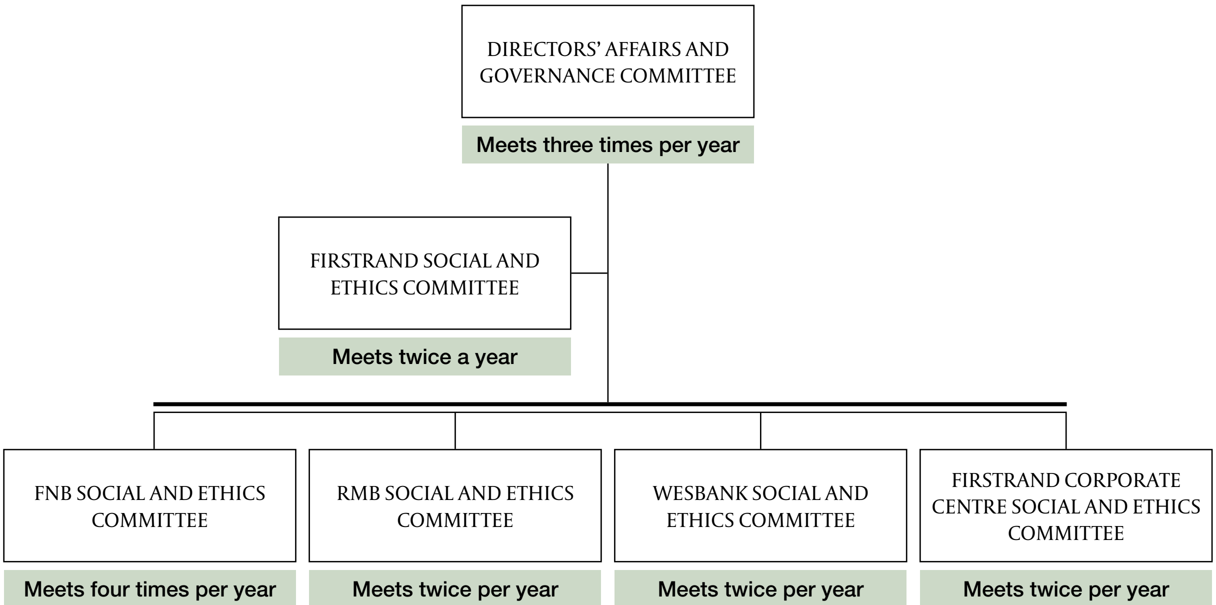
The committee is constituted as a subcommittee of FirstRand's directors affairs and governance committee in accordance with the statutory requirements set out in Section 72 and regulation 43 of the Companies Act 71 of 2008. It is charged with promoting responsible business practices across the FirstRand Group.

2013 Highlights

Focus area	Actions
Code of ethics	Oversaw enterprise-wide institutionalisation of the Group code of ethics.
Ethical culture assessments	Conducted major organisational culture audits in several franchises.
Safe whistle blowing	Oversaw gradual improvements in reporting rates as employees gain confidence in the safety and effectiveness of the process.
Leading light campaign	Launched a new whistle-blower reward programme while also rewarding employees who design and implement innovations that assist the Group in combating theft, fraud or corruption.
Responsible competitive practices	Oversaw the institutionalisation of the Group Responsible Competitive Practices Policy.
Treating customers fairly	Established processes to prepare the Group for new market conduct regulation.

FRANCHISE ETHICS COMMITTEES

The SECOM is supported by several franchise ethics committees as set out in the diagram below.



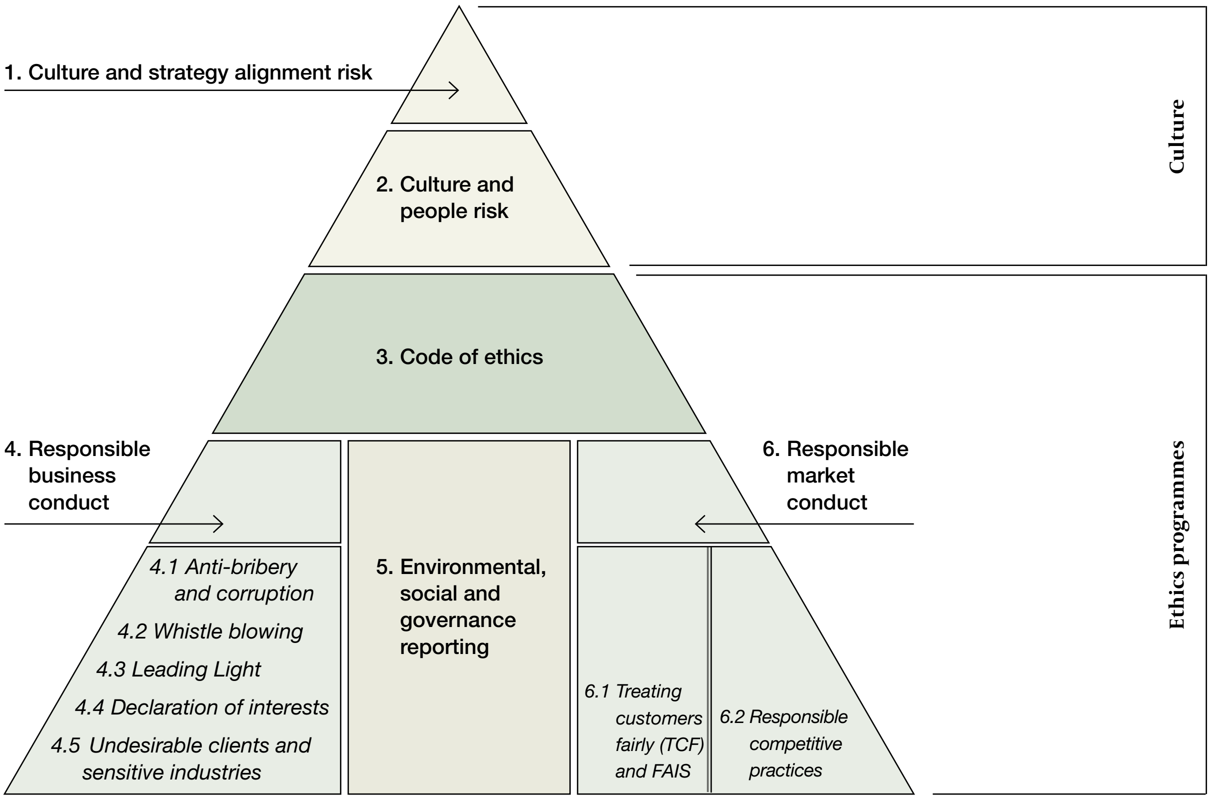
The Group ethics officer is the chairman of each franchise ethics committee, while the respective franchise chief risk officers are charged with the implementation of the Group ethics framework.

Among the issues addressed by the Group ethics committee structures are detailed reports from the following officers or committees:

- Group ethics officer on rollout of ethics governance.
- Franchise chief risk officer on ethics framework performance.
- Transformation committee on BEE transformation.
- Regulatory Risk Management (Compliance).
- Social and environmental risk unit.

GROUP ETHICS FRAMEWORK

FirstRand's ethics framework has six strategic focus areas as outlined in the diagram below. Where appropriate these focus areas are underpinned by individual work streams.



Culture and strategy alignment

The Group ethics office regularly conducts culture risk assessments within business areas and is able to use the information obtained to advise leadership whether the culture in an affected area is capable of facilitating the realisation of the relevant business' strategic objectives.

During the reporting period three such strategy and culture alignment studies were conducted in the Group, the outcomes of which were used to further align organisational culture to business strategy where appropriate.

Culture and people risk assessment

Culture is determined by how employees live their own values and how these align with the values of the business area in which they operate. The better the understanding of the culture and people risk profile of a business area, the more proactive risk management practice can be in anticipating risks rather than just responding to risks.

Culture and people risk assessments generate important management information enabling leadership and several risk functions to better understand and address any challenges identified.

During the reporting period a total of nine such people and culture assessments were completed in the Group's franchises.

Group code of ethics

FirstRand's code of ethics sets the standards and good conduct provisions within the Group, for individual business units and in every country in which the Group operates.

During the year 12 000 employees received live ethics training on the code of ethics. The Group has also increased the digital reach of its ethics management framework by issuing an extended office video suite, which profiles management and reinforces the messages of the code of ethics.

Responsible business conduct

The ethics framework maintains programmes designed to ensure responsible business conduct, underpinned by five interdependent work streams.

Anti-bribery and corruption

FirstRand has further institutionalised its zero-tolerance attitude towards bribery and corruption through an anti-bribery policy that provides its internal and external stakeholders with specific guidance on conduct to be followed in the areas of bribery and corruption.

The anti-bribery policy is the cornerstone of the Group's anti-bribery and corruption programme. Specific guidance is tailored to meet the needs of different business units while ensuring alignment of global regulatory and best practice requirements.

Whistle blowing

The committee oversees continued focus on enabling a culture of transparency and safe whistle blowing through ensuring that safe and effective whistle-blowing facilities are available to employees.

FirstRand's ethics line allows employees to report instances of suspected or actual unethical behaviour anonymously, partially anonymously and confidentially, and is managed by Deloitte Tip Offs Anonymous.

During the year, 205 reports were received via the FirstRand ethics line, representing a 20% increase from the 171 reports received during the 2012 financial year.

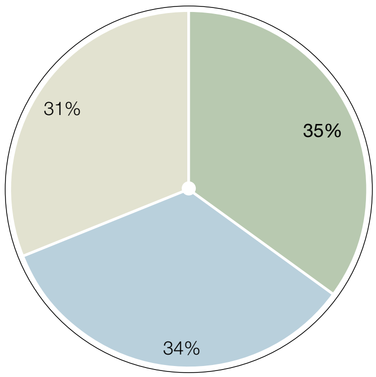
The increased call volume demonstrates increased trust in the whistle-blowing process. The Group ethics office ensures that legitimate instances of whistle blowing are thoroughly investigated and resolved.

2013 Ethics line calls

Number of calls	**2013**	2012	% change
Quarter 1	**58**	44	32
Quarter 2	**58**	50	16
Quarter 3	**36**	34	6
Quarter 4	**53**	43	23
Total	**205**	171	20

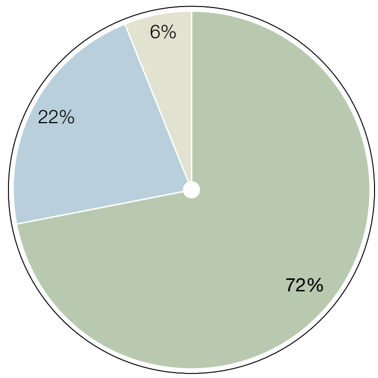
Ethics line activity tends to be higher in the first and second quarter of each year. Since the launch of the ethics line in 2011, the majority of reports received related to the retail banking businesses such as FNB Banking Channels and WesBank. This has since improved with a noticeable increase in the number of reports received from other business areas across the Group.

2013 tipoffs by channel
(%)



Theft, fraud and corruption
Human resource issues
Other

2013 types of cases
(%)



Calls
Email
Website

The FirstRand ethics line contact details:

FirstRand Group ethics line toll free numbers
0800 00 33 12 (South Africa and Namibia)
0808 238 75 00 (United Kingdom)
000800 100 79 00 (India)

FirstRand Zambia ethics line toll free number
50800 (Zambia Airtel users)

FirstRand Botswana ethics line toll free numbers
0800 600 644 (Botswana Telecoms users)
1144 (Orange users)
71119711 (Mascom users)

FirstRand Group ethics line email
report@firstrandethicsoffice.com

FirstRand Group ethics line website
www.firstrandethicsoffice.com

Leading Light

The Group has instituted a rewards programme named Leading Light to incentivise whistle blowing on suspected cases of theft, fraud and corruption, and to incentivise innovations that prevent or detect theft, fraud or corruption.

During the year, seven innovations were short listed for a Leading Light Innovation Award. Four awards totalling R1.55 million were made as follows:

- silver prize: R150 000 to an innovator in the FirstRand Corporate Centre;
- gold prize: R400 000 to an innovation team in FNB;
- gold prize: R400 000 to an innovation team in FNB; and
- diamond prize: R600 000 to an innovation team in FNB.

Declarations of interests

In an effort to achieve transparency and proactive detection of potential conflicts of interest, the Group has developed an electronic declaration of interests platform. Regular declarations of interest processes are completed throughout the Group.

A corporate and investment bank detection and prevention of conflicts of interests policy was developed and issued during the year to ensure adequate and proactive management of conflicts of interests and to promote the responsible use of material non-public information in the investment banking business.

Undesirable clients and sensitive industries

SECOM oversees a list of undesirable clients and sensitive industries which is periodically updated. Policy positions on investments in sensitive industries guide the Group's adherence to social and environmental risk management practice, including the Equator Principles to which the Group is a signatory.

Environmental social and governance (ESG) reporting

The committee is an integral part of the Group's ESG control framework, providing oversight of policy matters and exceptions affecting ESG management and reporting. ESG policy is set at franchise ethics committee level, with the exception of BEE transformation which is dealt with by the Group's transformation monitoring structures.

Responsible market conduct

The ethics framework maintains programmes designed to ensure responsible market conduct. These are underpinned by work streams in treating customers fairly and responsible competitive practices.

Treating customers fairly and FAIS

During the year a fair market conduct policy and framework was developed and treating customers fairly (TCF) assessment issued by the Financial Services Board was completed. The results of this assessment are being applied to further improve controls for ensuring fair customer treatment. In the year to follow market conduct will receive particular focus, notably in the context of proposed twin-peaks regulation for the financial services industry.

Responsible competitive practices

SECOM maintains a strong emphasis on FirstRand's responsible competitive practices (RCP) programme. In addition to raising continued awareness of the RCP policy, live management training has been conducted across the Group. This training has been extended to identify high-risk groups of employees and an electronic responsible competitive practices platform has been developed to ensure access to related information and continued learning by all affected employees. The FirstRand RCP policy addresses the regulatory requirements of South Africa's Competition Act in addition to other global regulatory and best practice requirements.

ADMINISTRATIVE MATTERS, REGULATORY AND COMPLIANCE REQUIREMENTS

The King III code adopts an apply or explain principle whereby a reasonable explanation for non-application of a certain principle results in compliance. FirstRand has two areas where it adopts the apply or explain principle.

King III Chapter 2 – boards and directors

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

FirstRand's chairman, Mr LL Dippenaar, is non-executive but not independent in terms of the definition of independence adopted by the JSE. Mr Dippenaar is a major shareholder in RMB Holdings Limited, which owns 33.9% of the issued share capital of FirstRand. The board believes that his specialist knowledge of the financial services industry and of the FirstRand Group make it appropriate for him to hold this position. In line with the JSE Listings Requirements and the King III code, a lead independent non-executive director was formally appointed.

King III Chapter 3 – audit committees

King III principle 3.2 states that audit committee members should be suitably skilled and experienced independent non-executive directors. The code also recommends that the audit committee should be constituted of at least three independent members.

FirstRand's audit committee is composed of six non-executive directors, five of whom are independent. One of the members, Mr Leon Crouse, is not independent in terms of the JSE definition. The committee is, therefore, not composed exclusively of independent directors as recommended by King III. The board is of the opinion that Mr Crouse's specialist skills, experience, knowledge of the FirstRand Group and the value that these bring to audit committee deliberations warrant his ongoing membership.

POCEEDINGS AND PERFORMANCE REVIEW

The committee met twice during the year. Membership and attendance were as follows:

	October 12	May 13
H van Greuning (appointed May 2013)	–	✓
RK Store – chairman (retired May 2013)	✓	–
MS Bomela	✓	✓
BJ van der Ross	A	✓

A – apology received.

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

JH van Greuning
Chairman, social and ethics committee

9 September 2013

FIRSTRAND FOUNDATION

Sizwe Nxasana
Chairman

COMPOSITION

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

ROLE

The Foundation is the principal vehicle for FirstRand's corporate social investment activities. **It strives to be the foremost corporate social investor** and **knowledge collaborator** contributing to the development of a better South Africa.

2013 Highlights

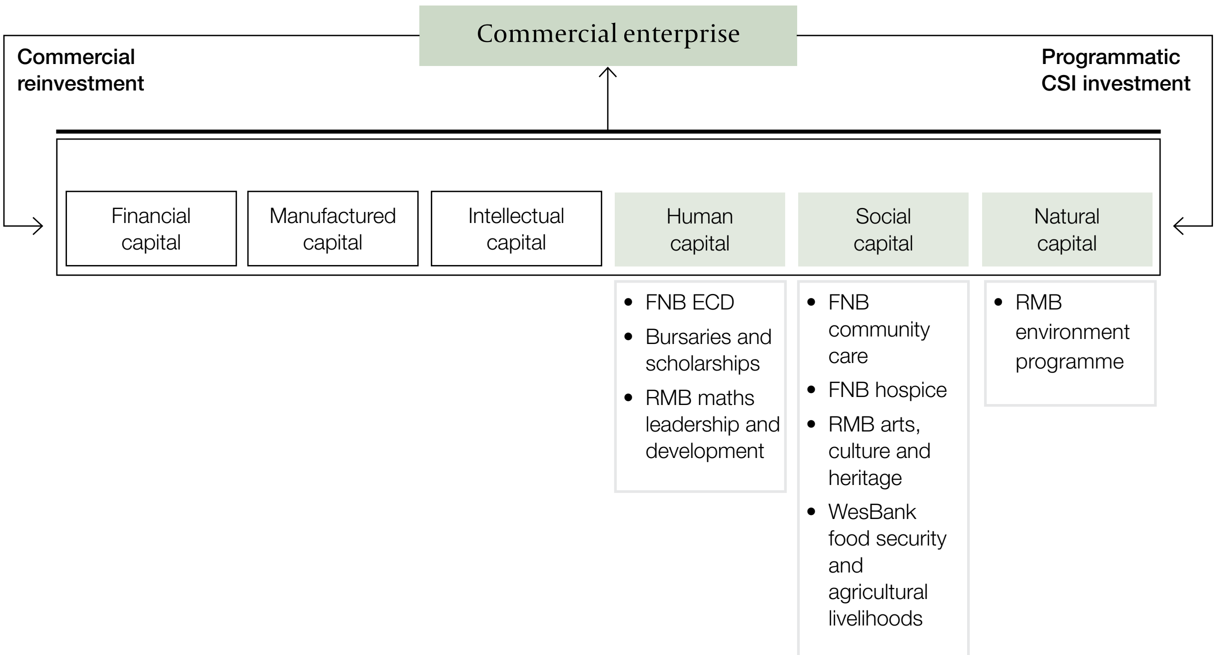
Focus area	Actions
Grant making and beneficiary engagement	The Foundation has overseen the granting of more than R115 million to beneficiary organisations. Programmes are in place to ensure ongoing engagement with these organisations.
Employee volunteers	The Foundation provides ongoing funding for FirstRand's employee volunteer initiatives. Since the launch of the programme in 2003, employees have donated over R30 million. This amount has been matched by FirstRand with a further R30 million.
Monitoring and evaluation	The FirstRand Foundation uses stringent pre-funding assessments, along with post-funding reporting requirements, on-site visits, face-to-face engagements and the deployment of a dedicated in-house monitoring and evaluation team.

SUSTAINABLE CSI

Strong and healthy societies are generally built on the strength of their different types of capital. In the commercial world the concept of capital has historically been restricted to financial, manufactured and intellectual capital. However, FirstRand takes a progressive view, recognising the essential contributions made by human, social and natural capital.

Through strategic, measurable CSI, the Foundation invests in a variety of programmes that aim to improve the state of human, social and natural capital available within our society. Focus is placed on ensuring that funding is targeted in the most effective way possible and that tangible impact is realised across programmes. At the same time, the Foundation prides itself on being a learning organisation, which understands development as a complex and long-term issue, immune to easy solutions or quick fixes. The diagram on the following page contextualises the work of the FirstRand Foundation as an important component of the Group's broader relationship with the economies and communities within which it operates.

Programmatic CSI



Since its establishment in 1998, the Foundation has invested over R950 million in development interventions across South Africa. Each year the Foundation's disclosures have focused on the amount of funding that has been directed to various focus areas. This year a different reporting format is introduced. Instead of simply providing stakeholders with the amount of money donated – in other words basic inputs – this report outlines some of the key outputs and outcomes of the Foundation's social investments.

In the following pages, statistics speaking to the reach of each programme are provided. These developments mark an important step in the evolution of FirstRand's portfolio management approach to CSI. In the coming years, this reporting will evolve and improve as FirstRand moves towards its ultimate goal: to ensure that societal returns to the investments are made and measured with the rigour and attention to detail expected of any world-class investment process.

FNB hospice programme

FNB's hospice programme focuses on providing dignified, high-quality care to people across the country, primarily through home-based support. The programme has invested in strengthening the national hospice sector's monitoring and evaluation by funding the development and maintenance of the Hospice Palliative Care Association's Hospice Data Management System (HDMS). The HDMS tracked more than 28 000 patients last year, helping to provide improved services and support.

Hospice investments	2013
Investment value (R thousand)	**8 442**
Patients reached	**28 863**
Direct HIV/Aids-related care	**11 237**
Direct cancer-related care	**7 067**
Direct chronic illness-related care	**10 559**

Bursaries and scholarships

The FNB Fund provides full and partial bursaries to students studying commerce, science and engineering because building an educated workforce in these crucial areas is critical to South Africa's economy and development. In 2012, 80% of FNB bursars passed their various courses, equivalent to the Department of Higher Education and Training's desired national norm. In addition, the FirstRand Foundation provides the opportunity for exceptional young South Africans to study postgraduate degrees abroad through the FirstRand Laurie Dippenaar and Momentum Dippenaar Scholarship programmes.

Bursary and scholarship investments	2013
Investment value (R thousand)	**12 968**
Bursars enrolled in the FNB tertiary bursary programme	**203**
Passed and are continuing to study	**109**
Passed and graduated	**53**
Failed some modules, but are continuing to study	**13**
Left the programme*	**5**
Dropped out of the programme**	**23**
International postgraduate scholarships and bursaries awarded	**6**
– Master's level full scholarships	**2**
– Master's level assistance bursaries	**4**

* *Refers to bursars who left the FNB programme after successfully finding bursary support from other sources.*
** *Refers to bursars whose bursaries will be discontinued due to poor performance.*

FNB early childhood development (ECD)

Of the 4.96 million children in South Africa, only 1.685 million had access to either formal or informal ECD service in 2012 according to the South African Institute of Race Relations. The FNB Fund ECD programme helped to ensure access for 1% of these children by exposing more than 3 000 children to ECD services for the first time and supporting more than 150 practitioners in obtaining an ECD certificate.

ECD investments	2013
Investment value (R thousand)	**7 924**
Children reached	**11 231**
– through community-based ECD services	**5 846**
– through ECD practitioner training	**4 985**
– through capacity-building activities	**400**
Children exposed to ECD services for the first time	**3 379**
ECD practitioners reached	**871**
– through direct training	**574**
– through ECD centre capacity-building	**297**
ECD practitioners obtaining ECD qualifications*	**159**
Trained practitioners demonstrating measurable improvements in teaching practice	**315**
ECD centres supported through capacity-building	**162**

* *Many ECD practitioner training programmes run for two years, so not all trained practitioners obtain a qualification in a given year.*

RMB arts, culture and heritage

The RMB Fund supports the disciplines of music, dance, drama, visual art and heritage to enable transformation, equitable access and excellence in the arts sector. The programme aims to expose people who would not normally get such an opportunity to the arts, increase awareness about the power of arts and culture to strengthen society and promote the sector's contribution to the economy.

Arts, culture and heritage investments	2013
Investment value (R thousand)	**10 475**
Communities reached	**136**
Arts, culture and heritage-related jobs created	**214**
People reached through arts, culture and heritage events/shows	**176 245**
People trained in the arts	**14 543**
Professional artists created or supported	**626**
Schools reached	**13 966**

RMB environment programme

The RMB Fund is acutely aware of the interdependence between the natural environment and an effectively functioning society. The environment programme plays a critical role in conserving biodiversity, protecting endangered species and educating communities about reducing environmental degradation, deforestation, pollution and creating "green" jobs. The programme contributed to conservation efforts of more than 170 species and 500 000 hectares of land.

Environment investments	2013
Investment value (R thousand)	**7 036**
People trained in environmental conservation	**45 487**
Environment-related jobs created	**35**
Endangered species protected/conserved	**171**
Hectares under protection	**536 967**

WesBank food security and agricultural livelihoods programme (FSAL)

In 2012 the Children's Institute's Child Gauge reported a substantial increase in household food security nationwide. Nevertheless, there were still over three million children in South Africa who experienced hunger. The WesBank Fund FSAL aims to empower communities with skills and knowledge to increase household food security through backyard and community food gardens, and invests in the establishment of self-sustaining support centres that can provide gardeners with useful resources and knowledge.

FSAL investments	2013
Investment value (R thousand)	15 180
People trained in food gardening	5 035
New food gardens established and supported	2 305
Gardens established that remain active	2 247
New permanent, self-sustaining food gardener support service centres established	2

Maths leadership development programme (MLD)

The MLD aims to strengthen the teaching and learning of maths and science in secondary schools around the country. In addition to a variety of teacher development initiatives, in 2012 the RMB Fund supported a total of 243 grade 12 learners who wrote final mathematics exams and 183 grade 12 learners who wrote final physical science exams. Of these candidates, 95% passed maths and 88% passed physical science.

MLD investments	2013
Investment value (R thousand)	9 331
Maths and science teachers participating in training programmes	121
– completed short-term accredited programmes	21
– completed short-term non-accredited programmes	25
– completed honours-level programmes	16
– completed masters-level programmes	16
– continuing with accredited, non-accredited, honours or masters programmes	36
– failed/dropped out of accredited, non-accredited, honours or masters programmes	7

	2013				
Mathematics enrolment and performance	**0 – 29%**	**30 – 49%**	**50 – 69%**	**70 – 100%**	**TOTAL**
Total learners	202	415	385	174	1 176
– Grade 9 learners	22	53	89	31	195
– Grade 10 learners	159	162	87	41	449
– Grade 11 learners	8	109	100	72	289
– Grade 12 learners	13	91	109	30	243
Physical science enrolment and performance					
Total learners	50	275	261	47	633
– Grade 9 learners	1	11	69	14	95
– Grade 10 learners	16	100	75	15	206
– Grade 11 learners	11	74	53	11	149
– Grade 12 learners	22	90	64	7	183

FUTURE OUTLOOK

From time-to-time the Foundation makes changes to its CSI investments based on where it is able to maximise impact. This occasionally results in the phasing out of certain programmes. The Foundation supports a number of programmes complementing its CSI strategy, which have not been integrated into the Group's CSI impact tables as the programmes are either winding down or because data is not yet available.

Maths education chairs

The maths education chairs initiative (R8.77 million), a flagship programme, is providing funding over five years for six research and development chairs at four universities. These will serve as beacons of excellence through initiating and coordinating teacher education and research projects that focus on improving the quality of mathematics teaching and learning. The Foundation looks forward to publicly disclosing the lessons learned from this initiative in the coming years.

New skills and education programmes

The Foundation established three new programmes in 2013. In future statistics on these programmes will be provided.

- **The FNB Fund primary education programme** (R5.31 million) focuses on primary schools within specific education districts. The programme includes interventions that focus on principal and school leadership teams, teacher development and addressing other barriers to education. The ultimate goal of the programme is to improve learner performance.
- **The FirstRand Foundation leadership programme** (R7.55 million) aims to help develop South Africa's current and future leaders, as well as contribute to the country's knowledge base. In order to reach this objective, the Foundation invests in leadership initiatives within four specific focus areas: education, non-profit organisations, youth and thought leadership.
- **The *KhulaSangam* programme** (R2 million) aims to address the critical skills shortage that exists in South Africa by bridging the gap between tertiary education and employability. It exposes unemployed South African graduates to the workplace through extended internships in India with corporate partners.

Strategic partners programme

FirstRand strategic partners programme (R7.13 million), which is closing this year, aimed to support organisations doing important, nationally-significant work related to capacity-building of the non-profit sector, research, policy and advocacy. Strategic partners have included organisations whose work cut across the various focus areas of the Foundation, demonstrated an alignment with the organisational values of the FirstRand Group and assisted the Foundation in furthering its overall aims and objectives.

PROCEEDINGS AND PERFORMANCE REVIEW

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

SE Nxasana
Chairman, FirstRand Foundation

9 September 2013

INDEPENDENT ASSURANCE REPORT ON SELECTED NON-FINANCIAL INFORMATION TO THE DIRECTORS OF FIRSTRAND LIMITED

We have undertaken an assurance engagement on selected non-financial information, as presented in the FirstRand Limited Group annual integrated report for the year ended 30 June 2013.

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

DIRECTORS' RESPONSIBILITY

The directors' are responsible for:

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

INTERNAL AUDIT RESPONSIBILITY

Internal Audit's responsibility is to express assurance conclusions on the selected non-financial information based on the procedures performed. We have conducted our engagement applying guidance from the International Standard on Assurance Engagements (ISAE 3000), Assurance Engagements Other Than Audits or Reviews of Historical Financial Information. The Standard requires that we plan and perform our engagement to obtain limited assurance about whether the selected sustainability information is free from material misstatement.

Our procedures selected and the extent of our procedures depend on our judgement including the risks of material misstatement of the selected sustainability information. In making our risk assessments, we considered internal controls relevant to FirstRand's preparation of the report. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our limited assurance conclusions.

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

The following items were included in the scope:

- Verification and review of the accurate transfer and aggregation of information from the franchise records to the FirstRand Limited annual integrated report relating to:
  - workforce movements;
  - workforce profile; and
  - ethics line calls.
- Review of the accurate transfer and aggregation of the following information from the source data subjected to external assurance to the FirstRand Limited ESG report:
  - BEE scorecard, skills development, BEE procurement spend and BEE ownership. This information is included in the scope of the review of the dti scorecard performed by Sizwe Ntsaluba VSP; and
  - carbon data for the South African operations is prepared in accordance with the World Resources Institute (WRI) Greenhouse Gas Reporting Guidelines and is assured by PricewaterhouseCoopers Inc. for the purposes of the FirstRand Limited 2014 Carbon Disclosure Project submission.
- Review of the accuracy, validity and completeness of the CSI spend information with reference to the reports provided by Tshikululu Social Investments NPC.
- Review of the accurate transfer of financial data from the audited annual financial statements to the FirstRand Limited ESG report.
- Assurance work was not replicated by the above service providers and reliance was placed on the assurance opinion issued by the other parties where warranted.

Based on the results of the work performed on the selected non-financial information as presented in FirstRand's annual integrated report for the year ended 30 June 2013, Internal Audit confirms that:

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

J John
Chief audit executive

Sandton

9 September 2013

FirstRand Group annual financial statements

CONTENTS

FIRSTRAND GROUP

DIRECTORS' RESPONSIBILITY STATEMENT

TO THE SHAREHOLDERS OF FIRSTRAND LIMITED

The directors of FirstRand Limited are responsible for the preparation of the consolidated and separate annual financial statements in terms of the Companies Act 71 of 2008. In discharging this responsibility, the directors rely on management to prepare the consolidated and separate annual financial statements in accordance with International Financial Reporting Standards and for keeping adequate accounting records in accordance with the Group's system of internal control. As such, the annual financial statements include amounts based on judgements and estimates made by management.

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

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

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

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

It is the responsibility of the Group's independent external auditors, Deloitte & Touche and PricewaterhouseCoopers Inc., to report on the fair presentation of the annual financial statements. These annual financial statements have been audited in terms of section 29(1) of the Companies Act 71 of 2008. Their unqualified report appears on page 125.

The consolidated annual financial statements of the Group, which appear on pages 129 to 229 and 230 to 404 and the separate annual financial statements of the company, which appear on pages 404 to 426, and specified sections of the *Risk and capital management report* were approved by the board of directors on 9 September 2013 and are signed on its behalf by:

LL Dippenaar
Chairman

SE Nxasana
Chief executive officer

Sandton

9 September 2013

GROUP SECRETARY'S CERTIFICATION

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

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

BW Unser
Company secretary

Sandton

9 September 2013

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF FIRSTRAND LIMITED

We have audited the consolidated and separate financial statements of FirstRand Limited, set out on pages 230 to 426, which comprise the consolidated and separate statements of financial position as at 30 June 2013, the consolidated and separate income statements, the consolidated and separate statements of comprehensive income, consolidated and separate statements of changes in equity, and consolidated and separate statements of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of FirstRand Limited as at 30 June 2013, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Other reports required by the Companies Act

As part of our audit of the consolidated and separate financial statements for the year ended 30 June 2013, we have read the directors' report, the audit committee's report and the company secretary's certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited consolidated and separate financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited consolidated and separate financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

Deloitte & Touche

Deloitte & Touche
Registered auditor
Per: Kevin Black
Partner

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Registered auditor
Director: Tom Winterboer

Sandton

9 September 2013

DIRECTORS' REPORT

for the year ended 30 June

NATURE OF BUSINESS

FirstRand Limited is a public company and registered bank controlling company. The Group provides banking, insurance and investment products and services to retail, commercial, corporate and public sector customers through its portfolio of market-leading franchises; First National Bank (FNB), the retail and commercial bank, Rand Merchant Bank (RMB), the corporate and investment bank, WesBank, an instalment finance provider, and Ashburton Investments, the Group's newly-established investment management business. FirstRand Limited is the holding company of the FirstRand group of companies and is listed on the securities exchange of JSE Limited (JSE) (under Financial – Banks, share code: FSR) and the Namibian Stock Exchange (NSX) (share code: FST).

Whilst the Group is predominantly South African based, it has subsidiaries in Namibia, Botswana, Zambia, Mozambique, Tanzania, Nigeria, Swaziland and Lesotho. The Bank has branches in India and the United Kingdom, and representative offices in Dubai, Kenya, Angola and China.

Refer to page 433 for a simplified group structure.

INTEGRATED REPORT

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

DIVIDENDS

Ordinary shares

The following ordinary cash dividends were declared in respect of the 2013 financial year.

	Year ended 30 June	
Cents per share	**2013**	2012
Interim (declared 5 March 2013)	**55.0**	44.0
Final (declared 9 September 2013)	**81.0**	58.0
	136.0	102.0

The salient dates for the final dividend are as follows:

Last day to trade cum-dividend	Friday 4 October 2013
Shares commence trading ex-dividend	Monday 7 October 2013
Record date	Friday 11 October 2013
Payment date	Monday 14 October 2013

Share certificates may not be dematerialised or rematerialised between Monday 7 October 2013 and Friday 11 October 2013, both days inclusive.

The final dividend of 81.0 cents per share carries an STC credit of 4.67730 cents per share. Shareholders who are exempt from Dividend Withholding Tax (DWT) will receive the full 81.0 cents per share. For shareholders who are subject to DWT, tax will be calculated at 15% (or such lower rate if a double taxation agreement applies for foreign shareholders), after taking into account the STC credit.

For South African shareholders who are subject to DWT the net final dividend after deducting 15% tax will be 69.55160 cents per share.

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

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

B preference shares

Dividends on the B preference shares are calculated at a rate of 75.56% of the prime lending rate of FNB, a division of FirstRand Bank Limited.

Dividends declared and paid

	B preference shares	
Cents per share	**2013**	2012
Period:		
30 August 2011 – 27 February 2012		305.2
28 February 2012 – 27 August 2012		333.1
28 August 2012 – 25 February 2013	**320.3**	
26 February 2013 – 26 August 2013	**320.3**	
	640.6	638.3

SHARE CAPITAL

Details of FirstRand's authorised share capital as at 30 June 2013 are shown in note 28 to the company's financial statements.

Ordinary share capital

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

Preference share capital

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

SHAREHOLDER ANALYSIS

The following shareholders have a beneficial interest of 5% or more in FirstRand's issued ordinary shares.

%	2013	2012
RMB Holdings Limited	**33.9**	33.9
Public Investment Corporation	**8.9**	11.3
FirstRand Empowerment Trust and related parties	**8.1**	8.1
Financial Securities Limited (Remgro)	**3.9**	3.9

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

EVENTS SUBSEQUENT TO REPORTING DATE

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

DIRECTORATE

Details of the board of directors are on pages 57 to 67.

BOARD CHANGES

Mr Jan Jonathan (Jannie) Durand was appointed to the board as a non-executive director with effect from 23 October 2012. Mr Durand joined the board as a shareholder representative of Financial Securities Limited (Remgro).

Mr Grant Glenn Gelink was appointed to the board as an independent non-executive director with effect from 1 January 2013.

Mr Ronald Keith (Tim) Store, having reached retirement age, retired from the board on 31 May 2013.

Mr Peter Cooper was appointed as an alternate non-executive director with effect from 9 July 2013.

DIRECTORS' AND PRESCRIBED OFFICERS' INTERESTS IN FIRSTRAND

Details of the directors' and prescribed officers' interests in the issued ordinary and preference shares of FirstRand have been disclosed in the *Corporate governance report* (page 71).

DIRECTORS' AND PRESCRIBED OFFICERS' EMOLUMENTS

Details of directors' and prescribed officers' emoluments and their participation in share incentive schemes have been disclosed in the *Corporate governance report* (pages 91 to 96). Further information relating to the determination of directors' and prescribed officers' emoluments, share option allocations and related matters are included in the *Remuneration committee report* (pages 81 to 90).

AUDIT COMMITTEE REPORT

The *Audit committee report* appears on pages 97 to 100.

MANAGEMENT BY THIRD PARTIES

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

DIRECTORS' INTEREST IN CONTRACTS

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

DISPOSALS

There were no significant disposals during the year under review.

ACQUISITIONS

Acquisition of associate of FirstRand Investment Holdings Proprietary Limited

Volkswagen Financial Services South Africa Proprietary Limited – registration number 2013/133698/07 (VWFS) was registered in terms of Section 14 of the Companies Act 71 of 2008, as amended in accordance with the Notice of Incorporation with effect from 5 August 2013. FirstRand Investment Holdings Proprietary Limited holds 49% of the issued share capital of VWFS.

PROPERTY AND EQUIPMENT

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

INSURANCE

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

SUBSIDIARIES AND ASSOCIATES

Interests in subsidiary and associate companies, which are considered material in view of the Group's financial position and its results, are included in notes 38 and 14.

COMPANY SECRETARY AND REGISTERED OFFICES

Mr BW Unser is the company secretary. FirstRand's business and postal addresses appear on page 436. These addresses are also those of the registered offices.

SPECIAL RESOLUTIONS DURING 2013

Special resolution by FSR

1. Pursuant to the requirements of Section 16 (1) (c) (ii) of the Companies Act 71 of 2008, as amended and Regulation 15 (3) an amendment; an amendment to the Memorandum of Incorporation was duly approved by the shareholders on 29 November 2012. The amendment was registered with the Commissioner of CIPC on 29 November 2012.

Special resolutions by subsidiaries (8.63(i))

Ashburton Investments Holdings Limited

2. A special resolution was passed on 17 April 2013 to change the company name from Barnard Jacobs Mellet Holdings Limited to Ashburton Investments Holdings Limited. This change was registered with the Commissioner of CIPC on 10 May 2013.

Adoption of new Memorandum of Incorporation in respect of all subsidiaries in the FSR Group

3. Pursuant to the requirements of item 4 (2) (a) of schedule 5 to the Companies Act 71 of 2008 as amended, all new Memorandum of Incorporations were adopted by the shareholders of the subsidiaries of FirstRand Limited and submitted to the Commissioner of CIPC for registration.

LL Dippenaar
Chairman

SE Nxasana
Chief executive officer

9 September 2013

Risk and capital management report

RISK AND CAPITAL MANAGEMENT REPORT

OVERVIEW

FirstRand Limited (FirstRand or 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 shareholders. It is, therefore, deeply embedded in the Group's tactical and strategic decision making. The Group aligns its risk management approach to its strategy.

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.

Risk taking is an essential part of the Group's business and FirstRand explicitly recognises risk identification, assessment, monitoring and management as core competencies and important differentiators in the competitive environment in which it operates. Through its portfolio of leading franchises namely, FNB, RMB, WesBank and the newly-established investment management business, Ashburton Investments, FirstRand aims 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 create long-term value through sustainable earnings pools managed within acceptable earnings volatility parameters.

MANAGING THE RISK PROFILE

The Group's focus areas to manage its risk profile and optimise its portfolio, are:

Earnings resilience and balance sheet strength

- Strong earnings resilience through diversification, growth in client franchise businesses, improved margins and cost containment.
- Maintain balance sheet strength through:
  - an asset profile that reflects an appropriate balance between corporate and retail lending activities;
  - optimal retail asset mix; and
  - improved asset quality.
- A diversified and competitive deposit franchise.
- Maintain ROE.
- Fund the Group's activities in a sustainable, efficient and flexible manner, underpinned by strong counterparty relationships within prudential limits and requirements.
- Maintain the Group's strong capital position post-Basel III. Current targeted levels and ratios are summarised in the following table.

Capital adequacy position

%	CET1	Tier 1	Total
Regulatory minimum	4.5	6.0	9.5*
Target	9.5 – 11.0	11.0	12.0 – 13.5
Actual	**13.8**	**14.8**	**16.3**

* *The regulatory minimum excludes the bank-specific individual capital requirement (ICR).*

Risk governance

- Balance the Group's overall risk capacity with a bottom-up and consolidated view of the planned risk profile for each business, in line with the board risk appetite principles.
- Strong risk governance with multiple points of control consistently applied throughout the organisation.

TOP AND EMERGING RISKS

- Although the debt crisis in Europe has stabilised somewhat, concerns exist that the slowdown in emerging market economies, coupled with US quantitative easing tapering, pose a risk to growth prospects.
- South Africa currently runs a large current account deficit. This imbalance reflects the country's dependence on foreign capital inflows to fund growth. The dependence renders the economy vulnerable to adverse global or domestic economic developments that could affect foreign capital inflows, increasing the risks to growth and commodity prices.
- The tailwinds (commodity super cycle and foreign capital flows) that benefited the South African economy over the past few years are fading, putting pressure on an already weak exchange rate, and a higher inflation rate relative to domestic demand conditions.
- Consumers' disposable income will remain constrained resulting in continued pressure on the retail credit book performance and growth. This may also result in increased levels of non-performing loans (NPLs) including unsecured lending portfolios.
- Regulatory changes that are currently being planned for unsecured lending may affect business models and could result in a number of consequences across the industry.
- With global cybercrime increasing, renewed focus is being placed on protecting the Group against external and internal attacks.
- A changing and tougher regulatory landscape (Financial Intelligence Centre Act, Consumer Protection Act, Treating Customers Fairly, Basel III) with concomitant high compliance costs. This is further exacerbated by international requirements such as Foreign Account Tax Compliance Act and Office of Foreign Asset Control Sanctions, which do not form part of South African law, but which banks have to apply in order to maintain correspondent banking relationships and secure inward funding.

RECENT AND FUTURE REGULATORY CHANGES

The year under review was characterised not only by announcements relating to comprehensive future regulatory reforms but also by amended legislation, ongoing amendments and proposed enhancements to the banking, regulatory and supervisory framework.

Basel III

The most notable regulatory change was the implementation of the Basel III framework through the amended *Regulations relating to Banks* (the Basel III regulations), which became effective on 1 January 2013. The regulatory reforms in respect of the Basel III framework are mainly focused on banks capital and liquidity, and details on these can be found in the relevant sections of this report. The Group expects that, in order to ensure that the South African regulatory framework for banks remains aligned to internationally-agreed regulatory and supervisory standards, future amendments to banking legislation will continue. The Group will continue to actively and constructively support and participate in working and task groups.

Twin peaks

An important development in respect of the regulatory framework was a document issued for public comment in February 2013 by the Financial Regulatory Reform Steering Committee. This provides information on a wide-ranging set of reforms and proposals relating to, amongst others, the implementation of a twin peaks model of financial regulation in South Africa; details of which were initially published during February 2011 in a policy document, *A safer financial sector to serve South Africa better*. In a pure twin peaks model, prudential and market conduct regulation is undertaken by separate regulators. A dedicated prudential regulator performs the safety and soundness supervision function and a dedicated market conduct regulator performs the market and business conduct supervision function. It is expected that the financial regulation reforms will be implemented in two phases, along with the development of necessary legislation to enable the relevant regulators to deliver on revised mandates.

The design and implementation of a twin peaks model of financial regulation is a complex undertaking that requires considerable consultation and the Group will, as a key stakeholder, continue to foster close interaction and cooperation with the regulators.

Below is a high-level overview of strategic, operational and functional outcomes resulting from execution of strategy, and related risk management focus areas.

Outcomes	Risk management focus areas
Capital management	
• Basel III was successfully implemented on 1 January 2013. The final capital framework was released in October 2012 and the impact on the Group's CET1 capital ratio is positive given the add-back of certain disclosable reserves, most notably the share-based payment, available-for-sale and foreign currency translation reserves. • Tier 1 and Total capital ratios will be negatively impacted by 2019 as the existing Additional Tier 1 (AT1) and Tier 2 instruments do not meet the Basel III qualifying criteria. These instruments will be grandfathered from 2013 over ten years.	• The Group continues to focus on the most optimal capital mix following guidance from the South African Reserve Bank (SARB) on the loss absorbency requirements for capital instruments, as well as capacity for new issuance in the capital markets. • In addition, the Group will look at: – maintaining strong capital levels, with particular attention on the quality of capital; and – optimising the Group's risk-weighted assets (RWA) and capital mix during the transitional period of implementing Basel III.
Credit risk	
• Steady growth in retail advances attributable to affordable housing loans, card advances, personal loans, FNB Africa and vehicle and asset finance (locally and internationally). • Growth in corporate advances particularly in infrastructure finance (including renewable energy), resource finance (predominantly Africa), larger listed property funds and other structured lending transactions. • Mortgages continue to show improvement with the vintages at multi-year lows, although slow growth reflects continuing pressure in the property market vintages and arrear levels in vehicle and asset finance at consistently low and stable levels. • Impairments are at the bottom of the cycle and lower than the FirstRand impairment highway of roughly 100 – 110 bps, however, given the level of consumer indebtedness, further rate increases would negatively impact impairments. • Improvements in NPLs emanating from reductions in mortgages, driven by the low interest rate environment, which positively impacted customers ability to service debt, lower levels of new inflows into NPLs and ongoing focus on enhanced collection processes across the Group. • Credit tightening actions taken in the unsecured loans portfolios are expected to result in continued slower growth in these portfolios going forward.	• Monitoring credit concentration in industries affected by labour unrest. *Retail credit portfolio* • Continued focus on credit strategy and consumer affordability to capture appropriate levels of new business utilising credit capacity calculation and risk appetite drivers. • Refining origination scorecards to ensure optimal credit quality of new business in the unsecured lending portfolios as well as the other retail portfolios. • Ongoing focus on low risk business in the retail bank and banked clients is expected to improve the risk profile of the book further. *Commercial credit portfolio* • Credit strategy to capture appropriate levels of new business utilising credit capacity and more granular risk appetite drivers. • Further developing commercial lending skills and product offerings, especially across Africa and India, to strengthen advances growth in support of our global product ownership and African corridor strategies. *Wholesale credit portfolio* • Ensuring movements in facilities are in line with origination strategy, i.e. predominantly to better-rated counterparties, medium and low volatility industries and strong growth in the Africa portfolio.

Outcomes	Risk management focus areas
Counterparty credit risk	
• Successful implementation of the Basel III credit value adjustment (CVA), asset value correlation (AVC) and central clearing capital charges. • Improvement in the risk profile of the prime financing portfolio with the implementation of bespoke risk frameworks for each individual business line.	• Continued incorporation of the African businesses into the counterparty credit risk process. • Extracting gains through the optimal management of collateral. • Risk management of credit and funding fair value adjustments of derivatives.
Market risk	
Market risk in the trading book	
• Overall levels of market risk remained fairly low compared to prior periods, particularly following the strategic decision to cease outright proprietary trading activities. • Integration of the remaining equities businesses into Global Markets and the consolidation of market risk analysis across the division. • Incorporation of the African subsidiaries into the overall RMB market risk process.	• Continued improvements to the overall RMB market risk process, with a focus on producing risk analytics on an intra-day basis.
Interest rate risk in the banking book	
• During the year under review, the average repo rate dropped by 48 bps, resulting in a negative endowment impact, which was managed through hedges.	• Improving the quality and frequency of interest rate risk identification, management and analysis throughout the Group.
Equity investment risk	
• Regular portfolio churn with a number of realisations during the year. • Certain industries presented new investment opportunities for the Group. • Established Ashburton Investments, the Group's new investment management business.	• Basel III impact on the treatment of investments in financial entities and optimisation of these requirements.
Foreign exchange and translation risk in the banking book	
• Continued to strengthen principles for management of foreign exchange positions, funding and support from FirstRand to its foreign entities. • Net open forward positions in foreign exchange (NOFP) limits were set for each of the Group's foreign entities, together with a reporting and management framework and the foreign exchange market risk framework and limits.	• Management of foreign exchange assets and foreign exchange exposures on the balance sheets of the Group's foreign entities. • Continually assess and review the Group's foreign exchange exposure and enhance the quality and frequency of reporting.

Outcomes	Risk management focus areas
Funding and liquidity risk	
- The latest release of the Basel III liquidity coverage ratio has alleviated the requirement for the SARB committed liquidity facility due to a reduction in the outflow factors and an increase in available assets.	- The Basel III liquidity regime continues to be a focus area for the Group with emphasis on both funding and market liquidity risk management, and particular attention on the structural funding constraints of the South African market. - Optimising a risk-adjusted diversified funding profile in line with Basel III requirements for the liquidity coverage ratio (LCR), which measures short-term liquidity stress (effective from January 2015) and the net stable funding ratio (NSFR), which measures the stability of long-term structural funding (effective 1 January 2018).
Operational risk	
- Risk maturity assessments were conducted across the Group to identify key processes requiring improved levels of maturity in each division. - Progress with process mapping activities with an initial focus on end-to-end mapping of high risk processes and the identification of risks, controls and handover points. - Process-based risk and control identification and assessment methodology was rolled out. - Progress on automation of operational risk tools. - Approval of Group and divisional operational risk appetite enabling the Group and its divisions to measure and monitor operational risk profiles against approved operational risk appetite levels, and to set the boundaries for operational risk within which the business can achieve its strategic objectives.	- Integration and automation of the Group's operational risk management tools onto a single platform to enhance operational risk management processes. - Key themes identified during the risk maturity assessment initiative have resulted in the initiation and prioritisation of several projects across the Group which will address identified operational risks. - Roll-out of the process-based risk and control identification and assessment methodology. - Definition of operational risk appetite at Group and franchise levels.
Regulatory risk	
- The Basel III framework was implemented in the amended *Regulations relating to Banks*, which became effective on 1 January 2013. - Announcements by the authorities on the proposed implementation of a twin peaks model of financial regulation in South Africa.	- Continued support for the regulatory objectives and endorsement of improvements in risk management and governance practices, and cooperation with regulatory authorities.

BASEL PILLAR 3 DISCLOSURE

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

The COO and CFO's report provides a high level overview of the Group's financial condition, performance and risk profile for the year ended 30 June 2013.

FirstRand Limited is the listed holding company and regulated bank-controlling company. The wholly-owned subsidiaries of FirstRand are:

- FirstRand Bank Limited (the Bank or FRB);
- FirstRand EMA Holdings Limited (FREMA);
- FirstRand Investment Holdings Proprietary Limited (FRIHL), all of which are regulated; and
- Ashburton Investments Holdings Limited (Ashburton Investments).

Banking operations are included under the Bank, FREMA includes the banking operations in Africa, Ashburton Investments is the newly-established investment management business of FirstRand and all other activities are included under FRIHL. A simplified group structure can be found on page 433 of this annual integrated report.

Some differences exist between the practices, approaches, processes and policies of the Bank and its fellow wholly-owned subsidiaries and these are highlighted by a reference to the appropriate entity, where necessary. This report has been internally verified by the Group's governance processes in line with the Group's public disclosure policy. All information in this report is unaudited unless otherwise indicated.

IMPROVED DISCLOSURE

An assessment of the Group's Basel Pillar 3 disclosure in terms of the Financial Stability Board's (FSB) *Report of the Enhanced Disclosure Task Force* on risk disclosure of banks identified a number of recommendations which have been included in the Group's disclosure previously. The Group's risk disclosure has been improved in response to recommendations from regulators, investors, shareholders, the *Enhanced disclosure report* (not previously included) and other users of the Pillar 3 report, including disclosure of:

- top and emerging risks affecting the Group;
- the Group's risk culture and how procedures and strategies are applied to support the culture;
- the differences between statutory and regulatory consolidation;
- SARB's RWA calculation approaches per risk type applicable to FirstRand;
- additional information on the components of RWA calculations;
- exposure-weighted average risk weights for major credit risk portfolios;
- nominal amounts of exposure at default (EAD) and the RWA/EAD ratios for major credit risk portfolios;
- additional qualitative information regarding securitisations;
- description of the limitations of the use of the Value-at-Risk (VaR) methodology relevant to market risk;
- quantitative information for Africa subsidiaries using the standardised approach for market risk; and
- market risk factors relevant to the Group's market risk portfolio in addition to interest rates, foreign exchange, commodity and equity measures.

BASEL APPROACHES

The following approaches are adopted by the Group for the calculation of RWA.

Risk type	FirstRand Bank domestic operations	SARB approval date	Remaining FirstRand subsidiaries and FRB foreign operations	FRIHL entities
Credit risk	Advanced internal ratings-based (AIRB) approach	January 2008	Standardised approach	Not applicable
Counterparty credit risk	Standardised approach	May 2012	Current exposure method	Current exposure method
Market risk	Internal model approach	July 2007	Standardised approach	Standardised approach
Equity investment risk	Market-based approach: simple risk-weighted method	June 2011	Market-based approach: simple risk-weighted method	Market-based approach: simple risk-weighted method
Operational risk*	Advanced measurement approach (AMA)	January 2009	The standardised approach (TSA)	Basic indicator approach (BIA), TSA, AMA*
Other assets	Standardised approach	January 2008	Standardised approach	Standardised approach

* *All entities on AMA and TSA for operational risk were included in the approval for use of AMA and TSA from January 2009; some entities were moved to FRIHL with a subsequent legal entity restructure but remained on the same approaches. All other entities in FRIHL are on the BIA approach.*

BASIS OF CONSOLIDATION

Consolidation of all entities for accounting purposes is in accordance with International Financial Reporting Standards (IFRS) and for regulatory purposes in accordance with the requirements of Basel, the Banks Act and accompanying regulations. There are some differences in the manner in which entities are consolidated for accounting and regulatory purposes. The following table provides the basis on which the different types of entities are treated for regulatory purposes.

Regulatory consolidation treatment

<table>
<tr><th>Shareholding</th><th>Banking, security firm or financial entity</th><th>Insurance entity</th><th>Commercial entity</th></tr>
<tr><td>Between 10% and 20%</td><td colspan="2">› refer to threshold rules*.</td><td>Internal ratings-based approach risk weight up to maximum of 1250%.</td></tr>
<tr><td>Between 20% and 50%</td><td>Legal or de facto support:
› proportionately consolidate.
No other significant shareholder:
› refer to threshold rules*.</td><td rowspan="2">Refer to threshold rules*.</td><td rowspan="2">Individual investment greater than 15% of CET1, AT1, Tier 2:
› risk weight at 1250%.
Individual investment up to 15% of CET1, AT1 and Tier 2:
› risk weight at no less than 100%.</td></tr>
<tr><td>Greater than 50%</td><td>Entity conducting trading activities/ other bank, security firm or financial entity:
› consolidate.</td></tr>
</table>

* *As per regulation 38(5) of the Regulations relating to Banks.*

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; strategic and business risks, financial risks and operational risks.

Risk category reference	Risk components	Definition
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.
		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.
		Reputational risk is the risk of reputational damage due to compliance failures, pending litigations, 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	The Group manages capital by allocating resources effectively in terms of its risk appetite and in a manner that maximises value for shareholders.
	Credit risk	The risk of loss due to the non-performance of a counterparty in respect of any financial or other obligation. For fair value portfolios, the definition of credit risk is expanded to include the risk of losses through fair value changes arising from changes in credit spreads. Credit risk also includes credit default risk, pre-settlement risk, country risk, concentration risk and securitisation risk.
	Securitisations	Securitisation is the structured process whereby loans and other receivables are packaged, underwritten and sold in the form of asset-backed securities.
	Counterparty credit risk	The risk of a counterparty to a contract, transaction or agreement defaulting prior to the final settlement of the transaction's cash flows.
	Market risk in the trading book	The risk of adverse revaluation of any financial instrument as a consequence of changes in market prices or rates.
	Interest rate risk in the banking book	The sensitivity of a bank's financial position and earnings to unexpected, adverse movements in interest rates.

Risk category reference	Risk components	Definition
Financial risks	Equity investment risk	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.
	Foreign exchange and translation risk in the banking book	Foreign exchange risk is the risk of losses occurring or a foreign investment's value changing from movements in foreign exchange rates. A bank is exposed to currency risk in its NOFP and foreign investments. Translation risk is the risk associated with banks that deal in foreign currencies or hold foreign assets. The greater the proportion of asset, liability and equity classes denominated in a foreign currency, the greater the translation risk.
	Funding and liquidity risk	Funding liquidity risk is the risk that a bank will not be able to meet current and future cash flow and collateral requirements (expected and unexpected) without negatively affecting its reputation, daily operations and/or financial position. Market liquidity risk is the risk that market disruptions or lack of market liquidity will cause the bank to be unable (or able, but with difficulty) to trade in specific markets without affecting market prices significantly.
Operational risks	Operational risk	The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. 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.
	Regulatory risk	The risk of statutory or regulatory sanction and material financial loss or reputational damage as a result of failure to comply with any applicable laws, regulations or supervisory requirements.

RISK APPETITE AND FINANCIAL RESOURCE MANAGEMENT

The Group's risk appetite and financial resource management process frames all organisational decision making and is fully integrated with the Group's strategic objectives. The Group's risk appetite is not equal to its absolute risk capacity. When setting risk appetite, the Group takes into consideration the following:

- growth expectations;
- operating environment;
- targeted return profile, capital levels, liquidity position and credit rating; and
- acceptable volatility in earnings through different economic cycles.

Risk capacity is quantified in terms of:

- level, growth, volatility and mix of earnings;
- regulatory capital requirements; and
- level of liquidity buffers and diversification of funding sources.

The financial resource management process sets minimum targets for these resources. Business and strategic decisions and the setting of risk appetite are aligned to these targets to ensure they are met during a normal cyclical downturn. Therefore, at a business unit level, strategy and execution are managed through the availability and price of financial resources, earnings volatility limits and required hurdle rates.

The Group's balance sheet and return targets are outlined in the table below.

Balance sheet and return targets

Description	Target
Targeted capital adequacy ratio (CAR)	12% to 13.5%
ROE	18% to 22%
Liquidity coverage ratio	60%
Credit rating	Sovereign rating

RISK APPETITE

When setting risk appetite, the Group considers the requirements of key stakeholders, namely, regulators, debt holders (including depositors) and shareholders. Business units are ultimately tasked with the generation of sustainable returns within risk appetite limits. These limits act as a constraint on the assumption of increasing risk in the pursuit of profits – both quantum and type. The financial resource management process would, for example, prevent a marginal increase in return in exchange for disproportionately more volatile earnings. Certain types of risk, such as reputational, fall outside risk appetite.

The board has established risk appetite principles against which business is measured. These include:

- not excessively gearing the balance sheet;
- off-balance sheet exposure should be limited relative to own capital and funding base;
- ensure true risk transfer, avoid accounting or regulatory arbitrage;
- sources of income should be widely diversified across business entities, products, market segments, investments, financial and commodity markets and regions;
- the potential impact of severe downturn and stress conditions must be identified, measured, quantified, understood and contained in accordance with capital preservation and earnings volatility parameters;
- limit concentration in higher risk asset classes;
- diversify sources of funding;
- hold sufficient buffers for capital and liquidity purposes; and
- contain losses arising from operational process breakdowns.

In setting the risk appetite, the executive committee (exco) and the board balance the organisation's overall risk profile 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 delivered to shareholders.

The board assumes responsibility for ensuring that risks are adequately managed and controlled through the risk, capital management and compliance (RCC) committee and subcommittees, as described in the *Risk governance* section.

Risk appetite measures and stress and scenario results are included in risk and management reports across the businesses and at board level and are continually refined.

SCENARIO PLANNING

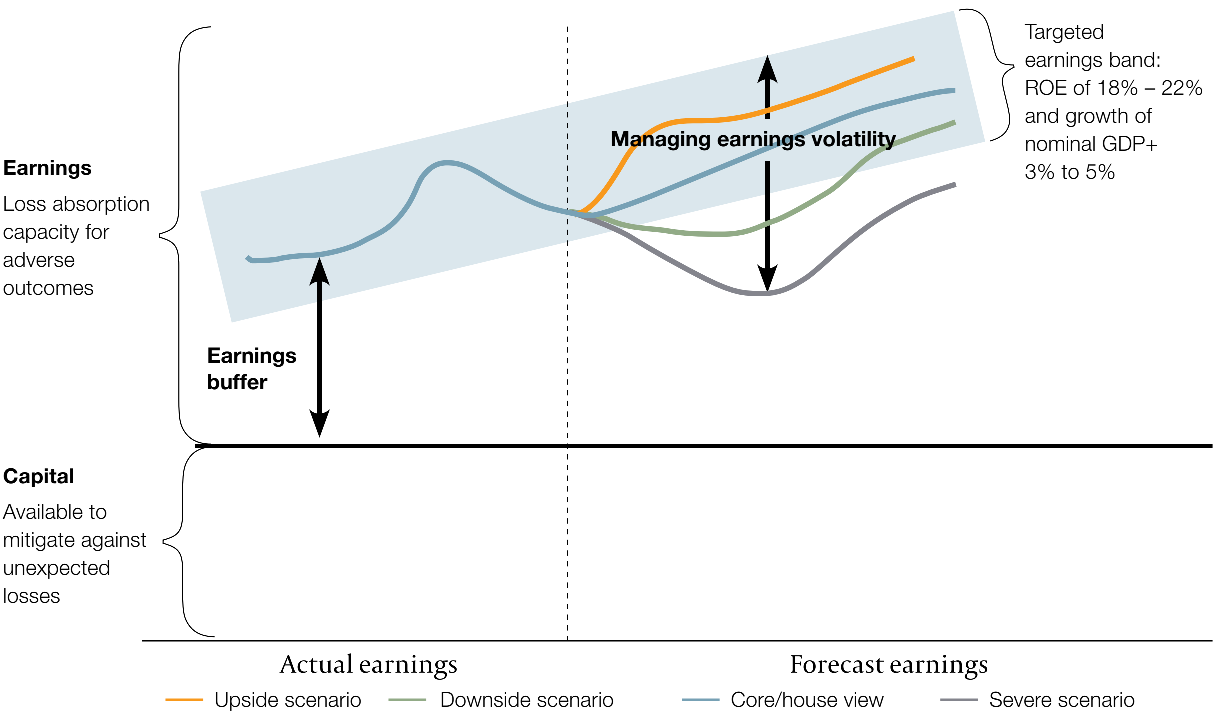
The Group offers value to its shareholders by undertaking to deliver sustainable earnings within a desired risk profile. The ability to deliver this profile is regularly evaluated with stress and scenario planning. The value of the franchises is ultimately supported by the Group's financial strength, quality of its earnings and a management approach that seeks to deliver the desired risk and return profile.

Shifts in the macro environment are critical to any strategic adjustments. FirstRand manages its business based on the Group's house view which is used for budgeting, forecasting and credit origination strategies. The house view focuses on the key macroeconomic variables that impact the balance sheet and income statement. The macro outlook is reviewed on a monthly basis and spans a three-year forecast horizon. The business plan for the next three years is included in the budget and forecasting process. Scenario planning is then used to assess whether the desired profile can be delivered and whether the business stays within the constraints it has set itself. The scenarios are based on changing macroeconomic variables, plausible event risks and regulatory and competitive changes.

The Group employs a comprehensive, consistent and integrated approach to stress testing and scenario planning. The impact of risk scenarios on the business is evaluated and the need for adjustment to origination is considered and appropriate actions are taken. More severe scenarios are run less frequently but are critical to inform the buffers, capital and liquidity planning, validate existing quantitative risk models and understanding required management action.

The following chart illustrates the strategy to manage earnings volatility through the cycle.

Managing earnings volatility through the cycle



FINANCIAL RESOURCE MANAGEMENT

The strategy, risk and financial resource management processes described above influence the capital and funding plans of the Group. The capital position provides the final buffer against adverse business performance under extremely severe economic conditions. Thorough analysis and understanding of value drivers, markets and macro environment will also affect the portfolio optimisation decision and the price and allocation of financial resources.

To be successful in the process of allocating financial resources, a common understanding of the implications for the balance sheet and income statement is needed.

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

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

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP)

ICAAP outlines the process to ensure the Group achieves its capital management objectives.

In order to achieve this objective the Group needs to:

- ensure that at least the minimum amount of regulatory capital is held at all times for the SARB to allow the Group to conduct business;
- hold sufficient capital that will instil confidence in the Group's ongoing solvency and status as a creditworthy counterparty for all stakeholders;
- allocate capital to businesses based on an understanding of the risk and reward drivers of the income streams and to ensure that appropriate returns are earned on capital deployed;
- ensure that the buffer over the minimum regulatory capital requirement is sufficient to cater for income and capital volatility and economic risk which may manifest through business disruption, regulatory intervention or credit downgrades, where applicable;
- consider the returns on a risk-adjusted basis to assess business performance; and
- ensure that FirstRand's capital adequacy ratios and other limits remain within approved thresholds during different economic and business cycles.

The optimal level and composition of capital is determined after taking into account business units' organic growth plans as well as investor expectations, targeted capital ratios, future business plans, plans for the issuance of additional capital instruments, appropriate buffers in excess of minimum requirements, rating agencies considerations, proposed regulatory changes and risk appetite of management and board.

Additionally, this requires that the Group develops and maintains a capital plan that incorporates, among others, the following:

- anticipated capital utilisation;
- planned issuance of capital instruments;
- stress tests and scenario analysis;
- appropriation of profits and dividend payments;
- desired level of capital, inclusive of a buffer;
- expansion and strategic initiatives; and
- general contingency plan for dealing with divergences and unexpected events.

ICAAP is an integral tool in meeting the above capital management objectives and is key to the Group's risk and capital management processes. ICAAP allows and facilitates:

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

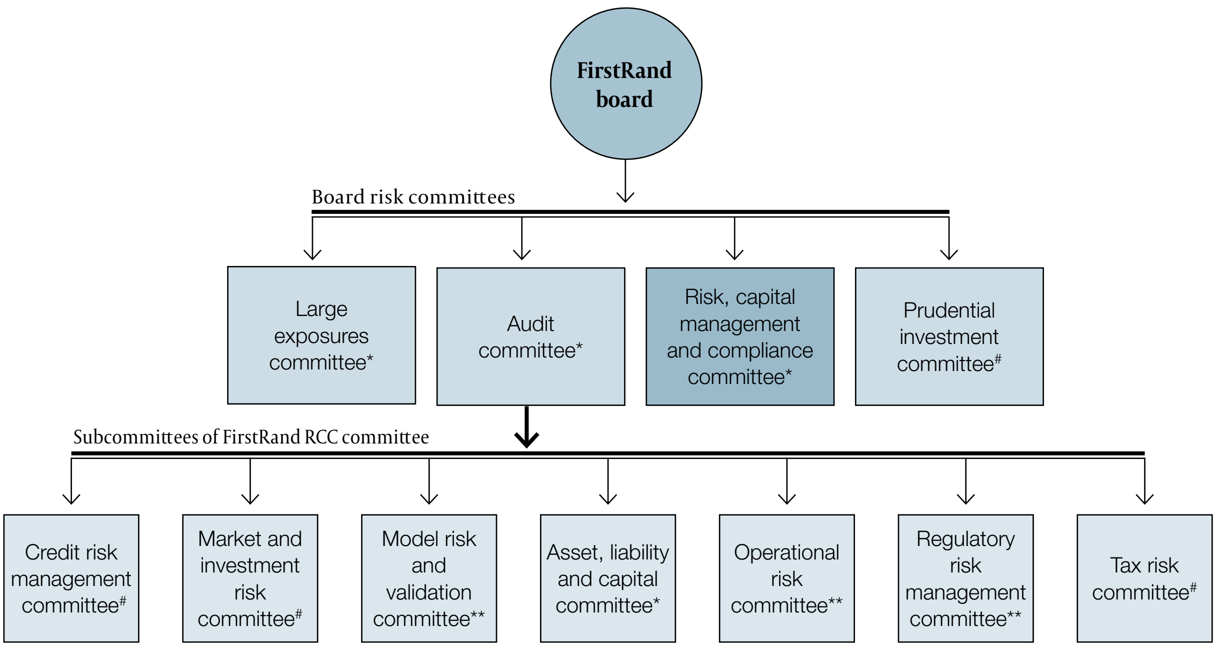
RISK GOVERNANCE

The Group believes that effective risk management is based on effective governance structures and policy frameworks as well as a risk-focused culture. Strong governance structures and policy frameworks foster the embedding of risk considerations in existing business processes and ensure that consistent standards exist across the Group. In line with the Group's corporate governance framework, the board retains ultimate responsibility for providing strategic direction and ensuring that risks are adequately identified, measured, monitored, managed and reported on.

RISK GOVERNANCE STRUCTURE

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.

Risk governance structure



* *Chairperson is an independent non-executive board member.*
** *Chairperson is an external member.*
\# *Chairperson is a member of senior executive management. The credit risk management committee has non-executive board representation.*

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 board and highlights control issues to the audit committee. The responsibilities of the board risk committees and the subcommittees of the RCC committee are included in the following tables. Further detail on the roles and responsibilities of the RCC committee and its subcommittees relating to each particular risk type is provided in the major risk sections of this report.

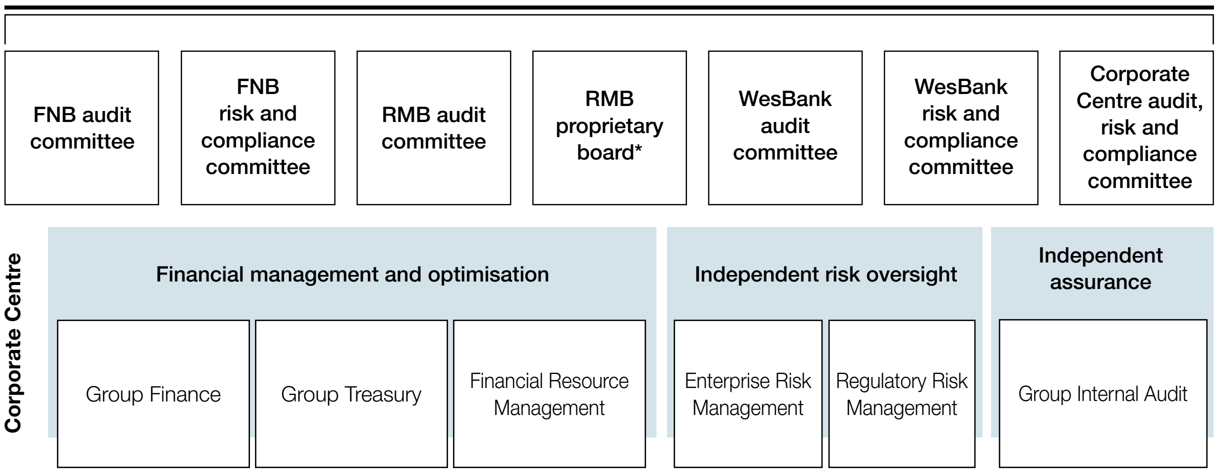
Responsibilities of the board risk committees

Committee	Responsibility
Large exposures committee (LEC)	approves credit exposures in excess of 10% of the Group's capital; and delegates the mandate for the approval of group and individual facilities to the FirstRand wholesale credit, commercial credit and retail credit committees, as appropriate.
Audit committee	assists the board with its duties relating to the safeguarding of assets, operation of adequate systems and controls, assessment of going concern status and ensuring that relevant compliance and risk management processes are in place; reviews work performed by the external auditors and internal audit function; and considers financial information and integrated reports which are provided to shareholders and other stakeholders for approval by the board.
Risk, capital management and compliance (RCC) committee	approves risk management policies, standards and processes; monitors Group risk assessments; monitors effectiveness of risk management and high priority corrective actions; monitors Group's risk profile; initiates corrective action, if required; monitors compliance with the *Regulations relating to Banks*; and approves regulatory capital models, risk and capital targets, limits and thresholds.
Prudential investment committee (PIC)	ensures investment exposures comply with FirstRand's prudential investment guidelines.

Responsibilities of the subcommittees of the RCC committee

Committee	Responsibility
Credit risk management committee	approves credit risk management and risk appetite policies; independent analysis, evaluation and ongoing oversight of credit portfolio quality and performance relative to credit risk appetite thresholds; monitors quality of the in-force business and new business origination, and underlying assets in the securitisation process; monitors scenario and sensitivity analysis, stress tests, credit economic capital utilisation, credit pricing and credit concentrations; ensures uniform interpretation of credit regulatory requirements and acceptable standards of credit reporting; and reviews credit economic conditions outlook as described in the Group's house view and ensures that business units align credit origination strategies accordingly.
Market and investment risk committee (MIRC)	approves market and investment risk management policies, standards and processes; monitors the effectiveness of market and investment risk management processes; monitors the market and investment risk profile; and approves market and investment risk-related limits.
Model risk and validation committee (MRVC)	considers and recommends the approval of all material aspects of model validation work including credit ratings and estimations, internal models for market risk and advanced measurement operational risk models for the calculation of regulatory capital.
Asset, liability and capital committee (ALCCO)	approves and monitors effectiveness of management policies, assumptions, limits and processes for liquidity and funding risk, capital risk and market risk in the banking book (interest rate risk in the banking book, foreign exchange and translation risk); monitors the management of funding of the Group's balance sheet; provides governance and oversight of the level and composition of capital, and considers the supply and demand of capital across the Group; approves buffers over regulatory capital minimum requirements and monitors capital adequacy ratios; and approves frameworks and policies relating to internal funds transfer pricing (FTP) for the Group.
Operational risk committee (ORC)	provides governance, oversight and coordination of relevant operational risk management practices and initiates corrective action where required; reviews and recommends the operational risk appetite for approval to the RCC committee; and approves the operational risk management framework (ORMF) and all its subframeworks used in the management of operational risk in the specialist areas including fraud risk, legal risk, business resilience, information governance, information technology and physical security.
Regulatory risk management (RRM) committee	approves regulatory risk management principles, frameworks, plans, policies and standards; and monitors the effectiveness of regulatory risk management across the Group and initiates corrective action where required.
Tax risk committee	monitors tax management processes, effectiveness of tax management processes and corrective actions.

Franchise risk governance structure



* *The RMB proprietary board is the risk and regulatory committee for RMB.*

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 previous chart. The board committees are staffed by members of the respective committees of the individual franchise boards so as to ensure a common understanding of the challenges business faces and how these are addressed across the Group.

RISK GOVERNANCE FRAMEWORK

Effective risk management also requires multiple points of control or safeguards that should be consistently applied at various levels throughout the organisation. There are three primary lines of control across the Group's operations, which are explicitly recognised in the BPRMF:

- first line of risk control – risk ownership;
- second line of risk control – risk control; and
- third line of risk control – independent assurance.

In the 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 identifying and managing risk appropriately. Business owners, the board and exco are supported in these responsibilities by Group Treasury and Financial Resource Management (FRM) in the Corporate Centre.

In the second line, risk control, business heads are supported 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. Divisional and segment risk management activities are overseen by the independent, central risk control functions, Enterprise Risk Management (ERM) and 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.

In the third line, Group Internal Audit (GIA) and external advisors provide independent and objective assurance to the board, Audit committee and regulators. The assurance is provided on the overall adequacy and effectiveness of governance, risk management and control within the Group as established by the first (management oversight) and second (management of risk) lines of control. GIA is headed by the chief audit executive (CAE) and reports to the board through the audit committee chairman. The CAE has direct, unrestricted access to the Group CEO and executives, and respective subsidiaries as well as to all FirstRand business unit functions, records, property and personnel.

GIA conducts work in accordance with international internal audit standards and practices and its activities are assessed annually by the external auditors.

The responsibilities of different areas in the three lines of risk control model are outlined in the following diagram.

Responsibilities in the lines of risk control

First line

Heads of business

- act in accordance with mandates approved by the board or its delegated authority;
- identify, quantify and monitor key risks to business under normal and stress conditions;
- implement strategy within approved risk appetite;
- design business and risk management processes that will ensure that risks are appropriately managed;
- specify and implement early warning measures, associated reporting, management and escalation processes through governance structures;
- implement risk mitigation strategies;
- implement timeous corrective actions and loss control measures as required; and
- ensure staff understand responsibilities in relation to risk management.

Financial Resource Management

- provides an integrated approach to financial resource management;
- optimises the Group's portfolio to deliver sustainable returns within an acceptable level of risk; and
- performs scenario analysis and stress testing.

Group Treasury

- manages the Group's capital, liquidity, funding, interest rate risk in the banking book and foreign exchange mismatch.

Second line

Deployed risk management

- ensures that risk policies and tools are implemented and adhered to;
- approves the design of business and risk management processes that will ensure that risks are appropriately managed;
- identifies process flaws and risk management issues and initiates and monitors implementation of corrective action; and
- compiles, analyses and escalates risk reports on performance, risk exposures and corrective actions, through governance structures in appropriate format and frequency.

Enterprise Risk Management

- maintains risk frameworks and governance structures;
- develops and communicates risk management strategy and challenges risk profiles;
- reports risk exposures and performance to management and governance structures;
- ensures appropriate risk skills and risk management culture for risk taking;
- performs risk measurement validation; and
- manages regulatory relationships with respect to risk matters.

Regulatory Risk Management

- monitors that business practices, policies, frameworks and approaches are consistent with applicable laws.

Third line

Group Internal Audit

GIA determines whether the Group's processes and controls are adequate to ensure:

- risks are appropriately identified, quantified and controlled by approved business and risk procedures; if not, initiate corrective action;
- management and financial information systems incorporate sound controls;
- financial reports, accounting records and operating information is accurate, valid, complete, reliable and timeous;
- employees execute duties in compliance with policies, standards, applicable laws and regulations;
- resources are acquired economically, used efficiently and effectively; and
- adequate processes are implemented to ensure protection of assets.

Combined assurance

Formal enterprise-wide governance structures for enhancing the practice of combined assurance at Group and subsidiary levels are overseen by the audit committee. The primary objective of the Group and assurance forums is for the assurance providers to work together with management to deliver the right assurance in the right areas by people with the best skills and experience as cost effectively as possible. The assurance providers in this model include GIA, senior management, ERM, RRM and external auditors. The combined outcome of independent oversight, validation and audit tasks performed by the assurance providers ensure a high standard across methodological, operational and process components of the Group's risk and capital management processes.

The outcomes of the combined assurance work indicate greater efficiency of the assurance processes through the elimination of duplication, more focused risk-based assurance against key control areas and heightened awareness of emerging issues resulting in the implementation of appropriate preventative and corrective action plans.

Regular risk reporting and challenge of current practices

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

ERM, together with the independent review by GIA, ensure that all pertinent risk information is accurately captured, evaluated and escalated appropriately and timeously. This enables the board and its designated committees to retain effective management control over the Group's risk position at all times.

RISK CULTURE

The Group and its investors, debt holders and regulators recognise that effective risk management requires the maintenance of a proper risk culture, in addition to appropriate risk governance structures, policy frameworks and effective risk and capital methodologies.

Culture, the net result of how the organisation lives its values, is a strong driver of behaviour. Understanding and managing cultural attitudes towards risk and cultural attitudes that create risk, receive significant attention in the Group. ERM, in conjunction with people and culture risk specialists in the Group's Ethics Office, collaborate closely to identify and manage risk culture.

The Group believes its risk culture is influenced by the interaction of the following:

- competent and ethical leadership in setting the strategy, risk appetite and a positive attitude towards appropriate risk practices;
- robust risk governance structures to ensure risk policy frameworks are implemented, and that appropriate committee memberships and structures exist;
- best practice risk and capital methodologies for the appropriate identification, measurement, monitoring, management and reporting of risk and allocation of capital;
- accurate assessment of the broader organisational culture which determines business ethics practices and supports or detracts from risk goals; and
- a people risk profile that provides a balance between skills and ethical values and the appropriate allocation of resources and accountability for performance.

The Group has established four parameters as the dominant drivers impacting the risk rating of its culture, outlined in the following table.

Risk culture parameters

Parameters	Activities
Leadership living good values	ensure that leaders set the appropriate tone in terms of responsible business conduct.
Setting risk goals	ensure risk management goals are set and properly communicated throughout the organisation; ensure that ethics and accountability to risk management parameters are not overshadowed efficiency, innovation and profit messages; avoid expediency/quick fix mentalities which may create medium- to long-term risk; and create space for subordinates to challenge superiors.
Providing resources	ensure risk management goals are attainable by adequately resourcing risk management functions; apply fit and proper tests for key risk roles; ensure comprehensive culture and people risk data is obtained from the Group culture and people risk assessment specialists within the Ethics Office; combat overloading of human and systems infrastructure; and combat unhealthy internal competition over scarce resources.
Aligning measurement and rewards	ensure risk metrics are incorporated into measurements and the way business rewards performance.

RISK AND CAPITAL METHODOLOGIES

Best practice risk and capital management methodologies have been developed in and for the relevant business areas. The detailed sections 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.

STRATEGIC AND BUSINESS RISK

INTRODUCTION AND OBJECTIVES

Any business runs the risk of choosing an inappropriate strategy or failing to execute its strategy appropriately. The Group's objective is to minimise this risk in the normal course of business.

Business risk is considered in 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 and minimises the chance of adverse outcomes.

In an environment of continued weakness in the South African economy and the risks imposed by the weak global economy, FirstRand continues to focus on cost containment whilst pursuing growth opportunities both locally and in selected African markets.

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 Group Treasury, FRM and ERM review the external environment, industry trends, potential emerging risk factors, competitor actions and regulatory changes as part of strategic planning. Through this review, as well as regular scenario planning and stress-testing exercises, the risk to earnings and level of potential business risks 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 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 processes.

Volume and margin risk

Volume and margin risk is part of strategic planning and is regularly assessed through the Group's management and governance processes, and ICAAP. Volume and margin risk could result in a situation where the operating income of the Group is insufficient to absorb the variability in income and operating costs.

Reputational risk

As a financial services provider, the Group's business is one inherently built on trust and close relationships with its clients. Reputational risk can arise from environmental, social and governance issues or as a consequence of financial or operational risk events.

The Group's reputation is built on the way in which it conducts business and it protects its reputation by managing and controlling these risks across its operations. It seeks to avoid large risk concentrations by establishing a risk profile that is balanced 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, RCC and audit committees.

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

Equator Principles and environmental and social risk analysis (ESRA)

FirstRand embraces sustainable development practices in project finance transactions by integrating social and environmental management principles into its decision making. FirstRand implements its commitment to promote environmental and social management and sustainability by:

- defining requirements for environmental and social risk assessment, and monitoring approved transactions;
- developing and communicating environmental and social performance standards that clients will be expected to meet within an acceptable time frame; and
- defining environmental and social roles and responsibilities for both FirstRand and its clients.

FirstRand became an Equator Principles (EP) finance institution in July 2009. Within FirstRand, the application of EP forms part of ESRA and is a specific credit risk management framework for determining, assessing and managing environmental and social risk in selected transactions. During 2012/2013, the EP Association and its member financial institutions conducted a strategic review and increased the scope of transactions to which EP applies. Approved and effective from June 2013, this new revised standard (EP III) will be implemented by December 2013 for all products within the new scope of EP.

The key changes to EP are an increase in the scope of transaction types included from merely project finance-related transactions to transactions specified in the following table:

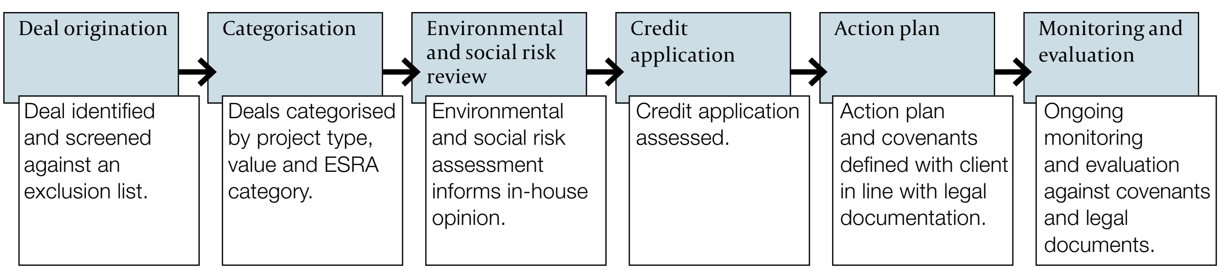
ESRA transaction type

Transaction type	Threshold amount after which an ESRA review is triggered
Project finance transactions	Total project capital costs at or above USD10 million: EP review.
Project finance advisory	Total project capital costs at or above USD10 million: EP review.
Project finance transactions	All category A (high risk) and B (medium risk) transactions with a total project capital cost of less than USD10 million: in-house ESRA review.
Corporate loans	No threshold applied, all corporate loans: in-house ESRA review.
Corporate loans – project related	Total aggregate loan amount is at least USD100 million of which the member banks individual commitment (before syndication or sell down) is at least USD50 million and loan tenor is at least two years: EP review.
Bridge loans (subject to EP)	Bridge loans with a tenor of less than two years that are intended to be refinanced by project finance (at or above USD10 million): EP review.
Equity investment deals	No threshold applied, all equity investment deals: in-house ESRA review.
Affected commercial loans (inclusive of property finance)	No threshold applied, all property finance or property securitised loans: in-house ESRA review. Commercial loans (non-property related) – total facility amount above R7.5 million: in-house ESRA review.

ESRA review process

Each of the Group's operating franchises have formalised credit and compliance processes for the implementation of ESRA, with oversight provided by franchise social and ethics committees, risk and compliance officers, and credit committees throughout the Group. At a Group level, oversight is provided by RRM and divisional social and ethics committees. Total ESRA performance statistics related to all relevant transaction types will be formally reported from July 2013 onwards. The ESRA review process is illustrated in the following chart.

ESRA review process



2013 Equator Principles performance

The Group measures EP performance in line with the International Finance Corporation (IFC) performance standards as either Category A (high risk), Category B (medium risk) or Category C (low to no risk), per the definitions set out below.

Definition of EP performance categories

IFC/equator category	Risks/impacts
Category A (high risk)	Projects with potential significant adverse social or environmental impacts that are diverse, irreversible or unprecedented. Issues relating to these risks may lead to work stoppages, legal authorisations being withdrawn and reputational damage. Examples could include projects involving the physical displacement of the natural environment or communities.
Category B (medium risk)	Projects with potential limited adverse social or environmental impacts that are few in number, generally site specific, largely reversible and readily addressed through mitigation measures. Issues relating to these risks may lead to fines, penalties or legal non-compliance and reputational damage. Examples could include increased use of energy or increased atmospheric emissions.
Category C (low risk)	Projects with minimal or no social or environmental impacts.

EP transactions

	2013		2012	
EP category	**Projects screened for the first time during the year**	**Projects that reached financial close during the year**	Projects screened for the first time during the year	Project that reached financial close during the year
A (high risk)	**9**	**3**	2	1
B (medium risk)	**5**	**4**	9	8
C (low risk)	**12**	**14**	6	7
Total*	**26**	**21**	17	16

* *Excludes project finance advisory transactions.*

The projects screened are the structured EP-defined project finance deals, which were reviewed by an in-house environmental and social risk specialist. All category A and B transactions were subjected to independent EP review to establish environmental and social risks of the project for the first time during the reporting period. Financial close is assumed when all conditions precedent to initial drawing of the debt have been satisfied or waived. EP reporting is externally assured for public disclosure by an independent third party as per requirements set out by the EP Association.

Analysis of EP transactions

The number of EP transactions screened per industry category and region during the year is provided in the following tables.

EP project finance transactions screened per industry category

	2013						
Transaction categories*	**Mining****	**Infrastructure**	**Power***	**Renewable energy***	**Retail**	**Other#**	**Total**
A (high risk)	**7**	**1**	**–**	**–**	**–**	**1**	**9**
B (medium risk)	**–**	**–**	**1**	**4**	**–**	**–**	**5**
C (low risk)	**–**	**–**	**–**	**–**	**9**	**3**	**12**
Total	**7**	**1**	**1**	**4**	**9**	**4**	**26**

* *The power and renewable energy category was split in two categories from 2013. No EP project finance transactions in the oil and gas industry category were screened during the year.*
** *Two mining transactions were based in the Americas region and the balance of the transactions in Africa.*
# *Transactions in the other category are deals related to large commercial property developments.*

	2012*						
Transaction categories	Mining	Infrastructure	Power and renewable energy	Oil and gas	Retail	Other**	Total
A (high risk)	1	1	–	–	–	–	2
B (medium risk)	–	1	7	1	–	–	9
C (low risk)	–	1	–	–	–	5	6
Total	1	3	7	1	–	5	17

* *All transactions were southern Africa-based projects.*
** *Transactions in the other category are deals related to large commercial property developments.*

The following additional EP project finance advisory transactions were screened during the year and included in disclosures from the current year.

EP project finance advisory transactions screened per industry category

	2013			
Transaction categories*	**Mining**	**Power**	**Renewables**	**Total****
A (high risk)	**2**	**–**	**–**	**2**
B (medium risk)	**–**	**1**	**4**	**5**
C (low risk)	**–**	**–**	**–**	**–**
Total	**2**	**1**	**4**	**7**

* *No EP project finance advisory transactions in the infrastructure, retail, oil and gas, and other industry categories were screened during the year.*
** *All transactions were based in Africa.*

The following table provides the number of EP transactions per EP category for the year.

Category of EP transactions

	2013	
Number of EP transactions screened	**Hosted in non-OECD* countries**	**Hosted in OECD* countries**
A (high risk)**	**7**	**2**
B (medium risk)**	**5**	**–**
C (low risk)	**12**	**–**
Total	**24**	**2**

* *Organisation for economic cooperation and development (OECD).*
** *All of the category A (high risk) and category B (medium risk) transactions were subject to independent EP review during the year.*

ESRA process going forward

FirstRand is currently in the fifth year of implementation of ESRA processes. Continued focus will be given to both awareness training and effective implementation of the ESRA process.

Areas of focus in the new financial year include the planned implementation of the new categorisation tool, which will assist in the accuracy of future reporting of all ESRA transactions, and the implementation of additional disclosure to comply with the EP III reporting requirements in the 2014 EP report.

Please visit www.firstrand.co.za/sustainability/pages/default.aspx for more detail on EP and ESRA processes, and the 2013 FirstRand EP report.

Scan with your smart device's QR code reader to access more information on EP and ESRA on the Group's website.

CAPITAL MANAGEMENT

INTRODUCTION AND OBJECTIVES (AUDITED)

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

Sustainability 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 operations and interests of stakeholders are therefore maintained. In this respect, the overall capital management objective is to maintain sound capital ratios and a strong credit rating to ensure confidence in the solvency and quality of capital in the Group during calm and turbulent periods in the economy and financial markets.

The optimal level and composition of capital is determined after taking into account business units' organic growth plans – provided financial targets are met. In addition, other factors taken into consideration are:

- targeted capital ratios;
- future business plans;
- issuance of additional capital instruments;
- appropriate buffers in excess of minimum requirements;
- rating agencies' considerations;
- investor expectations;
- proposed regulatory changes; and
- risk appetite of management and board.

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 key focus area. Sound capital management practices, therefore, form an important component of its overall business strategy.

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

CAPITAL ADEQUACY AND PLANNING

Year under review

The capital planning process ensures that the total capital adequacy and CET1 ratios remain within approved ranges or above target levels across economic and business cycles. The Group is appropriately capitalised under normal and severe scenarios as well as a range of stress events.

The board-approved capital plan is reviewed annually as part of the Group's ICAAP, with the stress-testing framework an extension of the process. ICAAP assists in the attribution of capital in proportion to the risks inherent in the respective businesses with reference to normal economic circumstances and times of potential stress, which may lead to the realisation of risks not previously considered. These processes are under continuous review and refinement, and continue to inform the targeted buffer over the minimum capital requirement.

Regular reviews of economic capital are carried out and the Group remains well capitalised in the current environment, with levels of Tier 1 capital exceeding the level of economic capital required. The Group aims to back all economic risk with Tier 1 capital, which offers the greatest capacity to absorb losses.

Throughout the year under review, the Group operated above its targeted capitalisation range, reporting a total capital adequacy ratio of 16.3% and a solid CET1 ratio of 13.8% at 30 June 2013. The Group continues to follow a conservative approach to capital levels and prefers to maintain capital ratios at the upper end of its targeted capitalisation range, particularly given the current macro conditions, ongoing regulatory developments and African expansion initiatives.

The targeted capital levels as well as the ratios at 30 June 2013 are summarised in the following table.

Capital adequacy position

%	CET1	Tier 1	Total
Regulatory minimum	4.5	6.0	9.5*
Target	9.5 – 11.0	11.0	12.0 – 13.5
Actual	**13.8**	**14.8**	**16.3**

* *The regulatory minimum excludes the bank-specific ICR.*

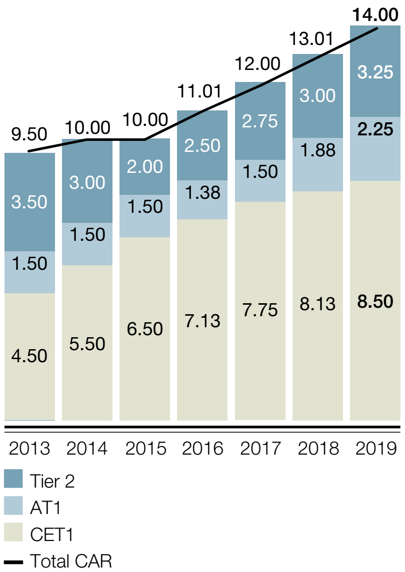
Basel III

Basel III was successfully implemented on 1 January 2013 and the impact on the Group's CET1 ratio is positive. However, the Tier 1 and Total capital ratios will decline from 1 January 2013 to 2019, as the current AT1 and Tier 2 instruments do not meet the Basel III qualifying criteria. These instruments will be grandfathered from 2013 over a ten-year period. The internal target levels will be reassessed during the transitional period of Basel III.

Given the transitional period to comply with the final capital framework, the Group remains focused on meeting the end state CET1 requirement, while looking at ways to optimise the overall capital mix. The following graph shows the minimum capital requirements (excluding the bank-specific ICR) during the transitional period until 2019.

Minimum capital requirements

(%)



The Group continues to participate in the SARB's biannual quantitative impact studies to assess the effect of Basel III on capital adequacy ratios, as well as to monitor the impact of leverage for the industry. The simple, transparent non-risk based leverage ratio is calibrated to act as a credible supplementary measure to the risk-based capital requirements. The Group's current leverage ratio of 8.2% continues to comfortably exceed the SARB's minimum requirement of 4%.

Supply of capital – Tier 1

Tier 1 capitalisation ratios benefited from stronger internal capital generation through earnings and the add-back of certain disclosable reserves (i.e. share-based payment, available-for-sale and foreign currency translation) under Basel III. All profits were appropriated at 30 June 2013.

Supply of capital – Tier 2

During the year under review, FirstRand replaced the FRB06 and FRB07 subordinated debt instruments with a Basel III instrument that references a resolution regime. The FRB11 bond meets the Basel III entry criteria and will be included for grandfathering from 1 January 2013 with full recognition envisaged once the resolution regime is implemented in South Africa. The Group continues to focus on the most optimal capital mix and awaits final guidance from the SARB on the loss absorbency requirements for capital instruments.

Demand for capital

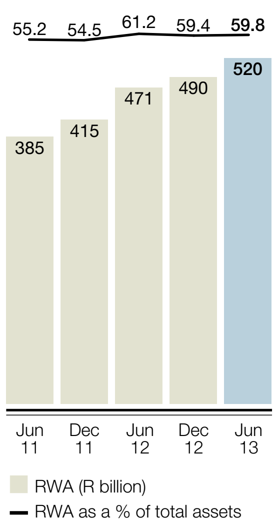
Basel III is the primary driver for the movement in RWA. The following changes impacted the overall movement in RWA:

- credit risk increased due to additional capital requirements for counterparty credit risk i.e. CVA and AVC. The SARB, however, has allowed for a delayed implementation of CVA for local and ZAR counterparties until 1 January 2014;
- previously impaired first loss securitisation exposures are risk weighted at 1250%;
- previously impaired deferred tax assets relating to temporary differences are risk weighted at 250%; and
- previously impaired investment in financial, banking and insurance entities are risk weighted at 250%. These exposures are included under other assets RWA.

Operational risk also increased in line with the six-monthly recalibration of risk scenarios, while credit risk RWA increased primarily due to organic growth.

The following graph shows the increase in the demand for capital, taking into account regulatory changes over time.

FirstRand RWA history



Capital adequacy

The following table shows the composition of regulatory capital for the Group.

Composition of qualifying capital

	FirstRand			
	2013		2012	
R million	**Basel III**	**%**	Basel 2.5	%
Ordinary share capital and share premium*	**5 452**		5 271	
Retained earnings*	**60 786**		53 267	
Accumulated other comprehensive income and reserves**	**5 947**		–	
Non-controlling interests‡	**1 347**		2 767	
Less: total regulatory deductions	**(1 663)**		(3 419)	
Excess of expected loss over eligible provisions#	**(135)**		(400)	
First loss credit enhancements in respect of securitisation structures†	**–**		(508)	
Goodwill and intangibles	**(1 169)**		(1 743)	
Other deductions	**(359)**		(768)	
Total CET1 capital	**71 869**	**13.8**	57 886	12.3
Total AT1 capital	**5 343**		4 119	
NCNR preference share capital	**4 067**		4 519	
Instruments recognised as AT1 capital issued by subsidiaries to third parties‡	**1 276**		–	
Less: total regulatory deductions	**–**		(400)	
Total Tier 1 capital	**77 212**	**14.8**	62 005	13.2
Instruments recognised as Tier 2 capital issued by subsidiaries to third parties‡	**7 237**		8 018	
Other reserves	**241**		215	
Less: total regulatory deductions	**–**		(908)	
Excess of expected loss over eligible provisions#	**–**		(400)	
First loss credit enhancements in respect of securitisation structures†	**–**		(508)	
Total Tier 2 capital	**7 478**	**1.5**	7 325	1.5
Total qualifying capital and reserves	**84 690**	**16.3**	69 330	14.7

* *Audited.*
** *Disclosable reserves not qualifying under Basel 2.5: available-for-sale, share-based payment, foreign currency translation and other.*
# *Previously impaired 50:50 under Tier 1 and Tier 2. 100% impairment in CET1 under Basel III.*
† *Previously impaired 50:50 under Tier 1 and Tier 2. Risk weighted at 1250% under Basel III.*
‡ *Subject to the Basel rules in regulation 38(16) of Regulations relating to Banks.*

The following table provides a detailed breakdown of the RWA numbers and capital requirement per current SARB regulations for each risk type of the Group.

RWA and capital requirements

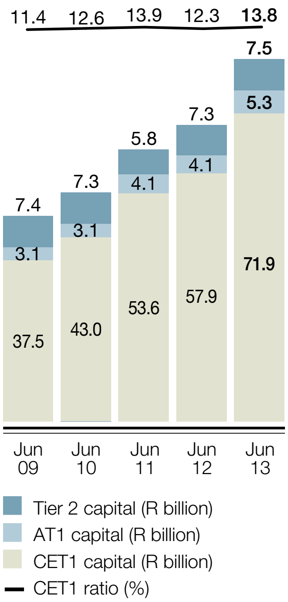
	FirstRand				
	June 2013				June 2012
	RWA				
R million	Advanced approach	Standardised approach	Total	Capital requirement#	RWA
Credit risk	**295 315**	**62 818**	**358 133**	**34 022**	317 849
– Corporate, banks and sovereigns	**126 357**	**12 574**	**138 931**	**13 198**	117 561
– Small and medium enterprises (SMEs)	**37 664**	**16 578**	**54 242**	**5 153**	45 493
– Residential mortgages	**48 579**	**4 647**	**53 226**	**5 056**	55 932
– Qualifying revolving retail	**18 382**	**199**	**18 581**	**1 765**	12 661
– Other retail	**59 691**	**10 076**	**69 767**	**6 628**	63 710
– Securitisation exposure	**4 642**	**–**	**4 642**	**441**	9 588
– Other	**–**	**18 744**	**18 744**	**1 781**	12 904
Counterparty credit risk†	**2 548**	**–**	**2 548**	**242**	–
Total credit risk	**297 863**	**62 818**	**360 681**	**34 264**	317 849
Operational risk*	**65 887**	**17 332**	**83 219**	**7 906**	72 963
Market risk	**7 855**	**1 930**	**9 785**	**930**	15 868
Equity investment risk	**38 190**	**–**	**38 190**	**3 628**	40 640
Other assets**	**–**	**28 085**	**28 085**	**2 668**	24 148
Total RWA	**409 795**	**110 165**	**519 960**	**49 396**	471 468

* *Exposures subject to BIA are included under the standardised approach.*
** *Other assets include the investment in financial, banking and insurance entities.*
# *Capital requirement calculated at 9.5% of RWA.*
† *Excluding default risk. Balance for 2012 included in credit risk.*

Historical overview of capital adequacy

The following graph provides a historical overview of the capital adequacy for FirstRand.

Capital adequacy – FirstRand



Capital adequacy position for FirstRand and its subsidiaries/foreign branches

The registered banking subsidiaries of FirstRand must comply with the SARB regulations and those of the respective in-country regulators, with primary focus placed on Tier 1 capital and Total capital adequacy ratios. Based on the outcome of detailed stress testing, each entity targets a capital level in excess of the regulatory minimum. Adequate controls and processes are in place to ensure that each entity is adequately capitalised to meet local regulatory requirements. Capital generated by subsidiaries/branches in excess of targeted levels is returned to FirstRand, usually in the form of dividends/return of profits. During the year under review, no restrictions were experienced on the repayment of such dividends or capital to the Group.

The capital adequacy position of FirstRand and its subsidiaries/foreign branches is set out below.

RWA and capital adequacy positions for FirstRand and its subsidiaries/foreign branches

	For the year ended 30 June			
	2013			2012
	RWA R million	**Tier 1 %**	**Total capital adequacy %**	Total capital adequacy %
Basel III*				
FirstRand	**519 960**	**14.8**	**16.3**	14.7
FirstRand Bank South Africa	**398 519**	**13.3**	**14.9**	14.6
FirstRand Bank London	**13 002**	**11.2**	**11.3**	18.0
FirstRand Bank India	**1 374**	**35.1**	**36.0**	30.4
RMB Australia	**10 341**	**11.5**	**11.5**	14.2
FNB Namibia**	**15 910**	**12.7**	**16.2**	17.6
Basel I**				
FNB Botswana	**12 216**	**14.9**	**17.4**	16.6
FNB Lesotho	**527**	**13.5**	**18.1**	17.4
FNB Mozambique	**1 569**	**12.1**	**12.7**	11.9
FNB Swaziland	**1 701**	**26.9**	**28.1**	29.4
FNB Zambia	**1 735**	**17.6**	**26.6**	18.0
FNB Tanzania	**157**	**26.7**	**26.7**	77.8
RMB Nigeria#	**147**	**>100**	**>100**	

* *Ratios for the current period based on Basel III rules, 2012 ratios based on Basel 2.5.*
** *Ratios based on local rules.*
\# *Opened offices on 7 February 2013.*

The following disclosure templates, as required by *SARB Directive 8 of 2013* as part of the Pillar 3 disclosure for the year ended 30 June 2013, is available on www.firstrand.co.za/investorcentre/pages/capitaldisclosures.aspx:

- composition of capital;
- reconciliation of audited financial statements and regulatory qualifying capital and reserves; and
- main features of qualifying capital instruments.

Scan with your smart device's QR code reader to access additional capital disclosures on the Group's website.

CREDIT RISK

INTRODUCTION AND OBJECTIVES (AUDITED)

Credit risk is defined as the risk of loss due to the non-performance of a counterparty in respect of any financial or performance obligation. For fair value portfolios, the definition of credit risk is expanded to include the risk of losses through fair value changes arising from changes in credit spreads. Credit risk also includes credit default risk, pre-settlement risk, country risk, concentration risk and securitisation risk.

The goal of credit risk management is to maximise the Group's risk-adjusted return, i.e. net income after cost of capital (NIACC), within acceptable levels of earnings volatility by maintaining credit risk exposure within acceptable parameters.

Credit risk is one of the core risks assumed as part of achieving 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 function in ERM and relevant board committees, fulfil this role.

Credit risk management across the Group is split into three distinct portfolios: retail, commercial and wholesale. These portfolios are aligned to customer profiles. As advances are split over the three Group franchises, default risk is allocated to the income-receiving portfolio.

Based on the Group's risk-reward appetite for credit risk, as measured on a ROE, NIACC and volatility of earnings basis, credit risk is managed on principles such as appropriate levels of capital and pricing for risk on an individual and portfolio basis. The scope of credit risk identification and management practices across the Group therefore spans the credit value chain including credit origination strategy, risk appetite, risk quantification and measurement, collection and recovery of delinquent accounts.

Credit risk is managed through comprehensive policies and processes that ensure adequate identification, measurement, monitoring and control and reporting of credit risk exposure. Objectives are to ensure a sound credit risk management environment with appropriate credit granting, administration, measurement and monitoring through the implementation of adequate risk management controls.

Retail credit

Secured products in retail credit in FNB include mortgage finance with property as security for the loan and pension-backed loans with a portion of a pension fund as security to purchase or improve a property. Secured retail credit at WesBank is mainly instalment sale agreements for motor vehicle financing.

Unsecured products in both FNB and WesBank include:

- personal loans ranging from small short-term loans to larger loans with repayment terms of up to 60 months;
- revolving overdraft facilities linked to transactional demand deposit accounts; and
- credit cards with revolving credit limits and either straight or budget period repayment facilities.

Commercial credit

The commercial credit portfolio strategy is focused on tailoring credit products for commercial customers. FNB (primary relationship owner) and WesBank (vehicle and asset-based finance (VAF)) both provide products, which include:

- revolving overdraft facilities linked to transactional demand deposit accounts;
- traditional VAF and fleet petrol cards;
- dealer funding solutions to selected vehicle dealerships secured by trade stock;
- guarantees and letters of credit to assist in facilitation of transactions;
- forward exchange contracts and interest rate swaps;
- secured term loans;
- property finance includes owner-occupied and multi-tenanted properties as well as finance for residential developments secured by the properties;
- leveraged finance provides specialised business financing to fund, amongst others, business acquisitions, management buy-outs, management buy-ins, BEE transactions and balance sheet re-structuring; and
- working capital facilities secured against debtors books and selective invoice discounting.

Wholesale credit

Wholesale credit offered by RMB to large corporate multi-banked customers includes the following products:

- all inclusive financing packages for investment banking clients;
- funding of corporate businesses, government and parastatals through debt capital market instruments;
- structured asset finance for client funding requirements in local and cross-border strategic African jurisdictions;
- structuring, raising and underwriting of equity capital and structured equity solutions;

- infrastructure and project finance;
- leveraged finance;
- real estate investment banking; and
- resource finance.

ORGANISATIONAL STRUCTURE AND GOVERNANCE

The Group has a comprehensive credit governance committee structure with the responsibility to approve, monitor and oversee credit risk management and exposures of the Group. Additional management committees within the business assist in strengthening credit risk management.

The RCC committee and franchise excos regularly receive and review reports on the adequacy and robustness of credit risk identification, management and control processes, as well as on the current and projected credit risk profile across the Group. The credit risk management governance structures, related roles and responsibilities as well as lines of accountability are set out in the credit risk management framework (CRMF). Approved by the RCC committee and the FirstRand credit risk management committee (a subcommittee of the RCC committee), the CRMF is board-approved policy and a subframework of the BPRMF, discussed in the *Risk governance section.*

LEC (a board committee) and the FirstRand credit risk management committee support the RCC committee in its tasks. MRVC, also a subcommittee of the RCC committee, supports the RCC committee in its tasks relating specifically to risk capital models. For a description of the role and responsibilities of these committees refer to the *Risk governance* section.

The Group Credit Risk Management (GCRM) function

The GCRM function in ERM provides independent oversight of the credit risk management practices of the Group's operating franchises to ensure an effective and holistic credit risk management process. It is responsible for the CRMF and related policies and monitors the implementation of credit risk-related frameworks. In addition, its responsibilities include:

- the overall credit risk profile of the Group;
- setting standards for credit risk reporting;
- maintaining and overseeing the Group credit governance structures as well as the credit measurement process;
- performing independent validations of credit rating systems;
- ensuring accuracy and completeness of credit risk identification and management;
- disseminating credit risk methodologies and capabilities across the Group;
- facilitating and managing the credit risk appetite processes across the Group; and
- ensuring regulatory compliance.

The GCRM function is supported by credit risk functions within the franchises, which are managed by portfolio heads (Retail, Commercial and Wholesale).

Specific credit responsibilities lie with each credit portfolio head, including:

- accountability to the Group's governance forums and liaison with regulators;
- maintaining high competency levels/skills in each credit function;
- alignment of credit origination strategy and appetite;
- implementation and assessment of credit governance frameworks and policy compliance;
- streamlining and consolidation of functions, systems and mandates; and
- calculating of volatility profile for aggregate portfolios.

ASSESSMENT AND MANAGEMENT (AUDITED)

Calculation of internal ratings and rating process

The assessment of credit risk across the Group relies on internally-developed quantitative models for regulatory purposes under the *Banks Act Regulations* (Basel), as well as addressing business needs.

Credit risk models are widely employed in the assessment of capital requirements, pricing, impairment calculations and stress testing of the credit risk portfolio. All of these models are built on a number of client and facility rating models, in line with Basel AIRB approach requirements and the Group's model building frameworks. The credit risk approaches across the Group are shown in the following table.

Basel approach	FirstRand Bank	Remaining FirstRand subsidiaries
AIRB	✓	
Standardised approach		✓

Even though the remaining subsidiaries do not have regulatory approval to use the AIRB approach, the same or similar models are applied for the internal assessment of credit risk on the standardised approach. The models are used for the internal assessment of the following three primary credit risk components discussed in the following sections:

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

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

Probability of default

PD is defined as the probability of a counterparty defaulting on any of its obligations over the next 12 months and is a measure of the counterparty's ability and willingness to repay facilities granted. A default, in this context, is defined along two dimensions:

- time-driven: the counterparty is in arrears for more than 90 days or three instalments as appropriate; and
- event-driven: there is reason to believe that the exposure will not be recovered in full and has been classified as such.

This definition of default is consistently applied across all credit portfolios as well as in the recognition of 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 following table.

Mapping of FirstRand (FR) grades to rating agency scales (unaudited)

FR rating	Midpoint PD	International scale mapping*
FR 1 – 15	0.07%	AAA, AA, A
FR 16 – 25	0.32%	BBB
FR 26 – 32	0.77%	BB+, BB
FR 33 – 40	1.48%	BB-
FR 41 – 55	2.78%	B+
FR 56 – 86	7.95%	B
FR 87 – 91	15.47%	B-
FR 92 – 99	59.11%	Below B-
FR 100	100%	D (defaulted)

* *Indicative mapping to the international rating scales of Standard & Poor's. These mappings are reviewed and updated on a regular basis.*

FR 1 is the lowest PD and FR 100 is the highest. External ratings have also been mapped to the master rating scale for reporting purposes.

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

- Through-the-cycle (TTC) PD measures reflect long-term, average default expectations over the course of the economic cycle. TTC PDs are inputs in economic and regulatory capital calculations.
- Point-in-time (PIT) PD measures reflect default expectations in the current economic environment and thus tend to be more volatile than TTC PDs. PIT PDs are used in credit portfolio management, including risk appetite and portfolio monitoring.

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 12 months. It reflects commitments made and facilities granted that have not been paid out and that may be drawn over the 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 expressed as a percentage of exposure outstanding at the time of default. In most portfolios, LGD is dependent on:

- type, quality, and level of subordination;
- value of collateral held compared to the size of overall exposure; and
- effectiveness of the recovery process and 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.

Slotting approach

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. This will apply where the Group finances an entity created to finance and/or operate physical assets where the primary source of repayment of the obligation is the income generated by the assets (i.e. specialised lending specifically in project and commodity finance).

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

Portfolio and type of exposures	Description of rating system
Specialised lending portfolios (Wholesale: RMB, FNB Commercial and Wealth (RMB Private Bank and FNB Private Clients) 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 requirements. **Rating process:** • rating system is based on hybrid models using a combination of statistical cash flow simulation models and qualitative scorecards calibrated to a combination of internal data and external benchmarks; • the rating assessment is reviewed by the wholesale credit committee, commercial credit committee or delegated subcommittee and the rating (as well as the associated PD) is approved by these committees; and • no overrides of the ratings or the PDs are possible after approval by these committees.
Commercial portfolio (SME corporate and SME retail counterparties in FNB Commercial and WesBank) Exposures to SME clients. A wide range of products give rise to credit exposure, including loan facilities, contingent products and term lending products.	The default definitions applied in the rating systems are aligned to Basel requirements. **SME retail rating process:** • the SME retail portfolio is segmented into homogeneous pools and subpools through an automated scoring process using statistical models that incorporate product type, customer behaviour and delinquency status; • PDs are estimated for each subpool based on internal product level history associated with the respective homogeneous pools and subpools; and • LGD and EAD estimates are applied on a portfolio level, estimated from internal historical default and recovery experience. **SME corporate rating process:** • PD: Counterparties are scored using Moody's RiskCalc™ in addition to other internal risk drivers, the output of which is calibrated to internal historical default data; • LGD: Recovery rates are largely determined by collateral type and these have been set with reference to internal historical loss data, external data (Fitch) and Basel guidelines; and • EAD: Portfolio level credit conversion factors are estimated on the basis of the Group's internal historical experience and benchmarked against international studies.
Residential mortgages (Retail portfolios in FNB HomeLoans, Wealth (RMB Private Bank and FNB Private Clients) and mortgage exposures in the FNB Smart segment) Exposures to individuals for the financing of residential properties. **Qualifying revolving retail exposures (Retail portfolios in FNB Card, FNB Core Banking Solutions and Wealth)** Exposures to individuals providing a revolving limit through a credit card or overdraft facility. **Other retail exposures (Retail portfolios in FNB Loans, FNB Smart segment, WesBank VAF and WesBank Loans)**	The default definition applied in the rating systems is aligned to the requirements of Basel. **Rating process and approach:** • retail portfolios are segmented into homogeneous pools and subpools through an automated scoring process using statistical models that incorporate product type, loan characteristics, customer behaviour, application data and delinquency status; • PDs are estimated for each subpool based on internal product level history associated with the respective homogeneous pools and subpools; • no overrides of the PDs are possible. The only potential override is not that of the PD, but rather of the automated decision to lend or not. Such overrides may be done on the basis of the credit manager's judgement in a structured process supported by valid business reasons; and • LGD and EAD estimates are based on subsegmentation with reference to the collateral or product type as well as associated analyses and modelling of historical internal loss data. **Additional notes on qualifying revolving retail exposures:** • these exposures are unsecured and, therefore, only the efficiency of recovery processes impacts on the level of LGD; and • EAD measurement plays a significant role in the assessment of risk due to the typically high level of undrawn facilities that are characteristic of these product types. EAD estimates are based on actual historic EAD, segmented appropriately (e.g. straight versus budget in the case of credit cards).

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 prudent choice of model parameters and inclusion in the calibration of downturn periods such as 2001 and 2007 to 2009.

Independent validation of rating systems is carried out by the GCRM function in ERM. It is responsible for reviewing all rating systems and an annual comprehensive revalidation of all material rating systems. An audit team in GIA carries out sample revalidations of the rating systems. The results of these analyses are reported to MRVC and ultimately approved by the RCC committee. As part of this process, extensive documentation covering all steps of the model development lifecycle from inception through to validation is maintained. This includes:

- developmental evidence, detailing processes followed and data used to set parameters for the model. These documents are updated at least annually by the model development teams;
- independent validation reports, documenting the process followed during the annual validation exercise and 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 its business, the Group aims to optimise the amount of credit risk it takes to achieve its return objectives. Mitigation of credit risk is an important component of this process, beginning with the structuring and approval of facilities for only those clients and within those parameters that fall within risk appetite.

Although, in principle, the credit assessment focuses on the counterparty's ability to repay the debt, credit mitigation instruments are used where appropriate to reduce the Group's lending risk resulting in security against the majority of exposures. These include financial or other collateral, netting agreements, guarantees or credit derivatives. The collateral types are driven by portfolio, product or counterparty type:

- mortgage and instalment sale finance portfolios in FNB HomeLoans, FNB Wealth and WesBank are secured by the underlying assets financed;
- personal loans, overdrafts and credit card exposures are generally unsecured or secured by guarantees and sureties;
- FNB Commercial credit counterparties are secured by the assets of the SME counterparties and commercial property finance deals are secured by the underlying property and associated cash;
- working capital facilities in RMB Corporate Banking are unsecured and the structured facilities in RMB are secured as part of the structure through financial or other collateral including guarantees and credit derivative instruments and assets; and
- credit risk in RMB 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. Collateral is valued at the inception of the credit agreement and subsequently where necessary through physical inspection or index valuation methods. For wholesale and commercial counterparties, collateral is reassessed during the annual review of the counterparty's creditworthiness to ensure that proper title is retained over collateral. For mortgage portfolios, collateral is revalued on an ongoing basis using an index model. For all retail portfolios, including the mortgage portfolio, collateral is revalued through physical inspections in the event of default and at the beginning of the recovery process.

The concentrations within credit risk mitigation types, such as property, are monitored and managed within the three credit portfolios. FNB HomeLoans and FNB Wealth monitor exposure to a number of geographical areas, as well as within loan-to-value bands.

Collateral is taken into account for capital calculation purposes through the determination of the LGD. The existence of collateral results in a reduced LGD, and the levels of the LGDs are determined through statistical modelling techniques based on the historical experience of the recovery processes.

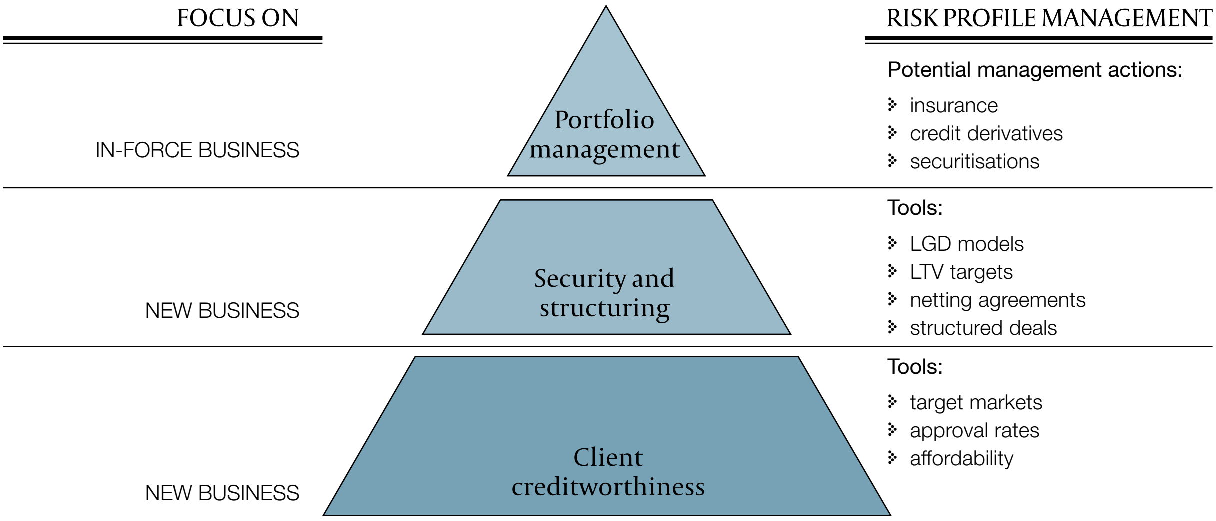
Monitoring of weak exposures

Credit exposures are actively monitored throughout the life of transactions. Portfolios are formally reviewed by the portfolio committees either monthly or quarterly to assess levels of individual counterparty risk, portfolio risks and to act on any early warning indicators. The performance and financial condition of borrowers is monitored based on information from internal performances, credit bureaux, borrowers and publicly-available information. The frequency of monitoring and contact with the borrower is determined from the borrower's risk profile. Reports on the overall quality of the portfolio are monitored at a business unit level, portfolio level and in aggregate for the Group.

Use of credit risk tools and measures (unaudited)

Credit risk measures are used in a large number of business processes, including pricing and setting impairments, determining capitalisation levels and business strategy, risk appetite, and the establishing of appropriate return targets. Credit risk tools and measures are used extensively in the determination of the Group's current credit risk profile and credit risk appetite.

Use of credit risk tools and measures (unaudited)



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

Use of credit measures in the credit lifecycle

	Wholesale	**Retail**
Determination of portfolio and client acquisition strategy	• assessment of overall portfolio credit risk determined by PD, EAD and LGD; and • acquisition and overall strategy set in terms of appropriate limits and Group risk appetite.	• see wholesale; and • credit models determine loss thresholds used in setting of credit risk appetite.
Determination of individual and portfolio limits	• industry and geographical concentrations; • ratings; • risk-related limits on the composition of portfolio; and • Group credit risk appetite.	• see wholesale; and • modelled versus actual experience is evaluated in setting of risk appetite.
Profitability analysis and pricing decisions	• PD, EAD and LGD used to determine pricing; and • economic profit used for profitability.	• see wholesale.
Credit approval	• consideration of applicant's ratings; • credit risk appetite limits; and • projected risk-adjusted return on economic capital (PD, EAD and LGD are key inputs in these measures).	• automated based on application scorecards (scorecards are reflective of PD, EAD and LGD); and • assessment of client's affordability.
Credit monitoring and risk management	• risk assessment based on PD, EAD and LGD; • counterparty FR grades updated based on risk assessment; and • portfolio model apportions and additional capital to large transactions that will increase concentration risk.	• see wholesale; and • monthly analysis of portfolio and risk movements used in portfolio management and credit strategy decisions.
Impairments	• PD and LGD used in assessment of impairments and provisioning; and • judgemental assessment to determine adequacy of provisions.	• loss identification period (LIP), PD, LGD and roll rates used for specific, portfolio and incurred but not reported (IBNR) provisions.
Regulatory and economic capital calculation	• primary credit risk measures – PD, EAD and LGD are the most important inputs.	• primary credit risk measures – PD, EAD and LGD are the most important inputs.
Reporting to senior management and board	• portfolio reports discussed at franchise and business unit risk committee meetings; and • quarterly portfolio reports submitted to credit risk management and RCC committees.	• portfolio reports discussed at franchise and business unit risk committee meetings; and • quarterly portfolio reports submitted to credit risk management and RCC committees.

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 in the selected risk analysis section).

Total advances grew 14% during the year under review. Growth in investment banking and commercial loans to the mining, agriculture as well as the manufacturing and commerce sectors underpinned the commercial and wholesale advances increase. Retail advances benefited from strong growth in the VAF portfolio. Unsecured lending growth remains robust, with credit extension review actions continuously applied. Growth in the Africa book is consistent.

The level of NPLs has maintained a downward trend since the peak in June 2009. Retail defaults and retail NPLs as a percentage of advances continued to decline. Increases in NPLs for the unsecured portfolios have materialised as expected. The commercial portfolios saw a decline in NPLs as a result of continued curing and workout.

Retail credit portfolios

VAF book growth was particularly robust for the year under review. Residential mortgage growth remains low, with the focus on improving the risk profile. Impairments in this portfolio declined noticeably as a result. The unsecured lending portfolio continues to grow. A reduction of retail NPLs was driven by the slower inflow into NPLs in FNB HomeLoans. NPLs increases, however, occurred in all of the unsecured portfolios, in line with expectations and risk appetite and have been appropriately priced for.

The Group's impairment charge reflects increased impairments in the unsecured lending book, in line with expectations. The higher impairment charge in the retail secured portfolios was due to increased impairments in VAF.

Corporate credit portfolios

The wholesale advances book grew due to investment banking-related lending, particularly in mining and renewable energy, while the FNB Commercial's advances portfolio achieved growth attributed mainly to the leveraged finance, property term loan and agriculture portfolios.

NPLs in the corporate portfolio declined year-on-year and a significant increase in impairment charges was largely due to portfolio impairments.

Credit assets (audited)

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

Credit assets by type and segment

R million	2013	2012
Cash and short-term funds	**43 693**	33 587
– Money at call and short notice	**27 060**	18 153
– Balances with central banks	**16 633**	15 434
Gross advances	**608 361**	533 347
FNB*	**271 395**	245 994
– FNB Retail	**195 841**	184 614
– FNB Commercial**	**42 834**	35 960
– FNB Africa	**32 720**	25 420
WesBank	**142 055**	119 389
RMB Investment Banking	**184 615**	160 217
RMB Corporate Banking*	**5 101**	2 669
Corporate Centre	**5 195**	5 078
Derivatives	**52 316**	52 913
Debt investment securities (excluding non-recourse investments)	**97 752**	82 020
Accounts receivable	**7 471**	6 007
Reinsurance assets	**394**	898
Credit risk not recognised on the balance sheet	**122 748**	104 158
– Guarantees	**30 137**	22 741
– Acceptances	**270**	293
– Letters of credit	**8 925**	7 886
– Irrevocable commitments	**78 783**	69 348
– Credit derivatives	**4 633**	3 890
Total	**932 735**	812 930

* *The comparative information for certain portfolios has been restated to reflect the current segmentation of the business.*
** *Includes public sector.*

Reconciliation of gross advances to net advances

R million	2013	2012
Gross advances after interest in suspense	**608 361**	533 347
Less: total impairment loss (refer note 11 of the consolidated annual financial statements)	**(9 386)**	(8 840)
Net advances (refer consolidated statement of financial position)	**598 975**	524 507

Credit quality (audited)

Advances are considered past due in the following circumstances:

- loans with a specific expiry date (e.g. term loans) and consumer loans repayable by regular instalments (e.g. mortgage loans and personal loans) are treated as overdue where one full instalment is in arrears for one day or more and remains unpaid as at the reporting date; or
- loans payable on demand (e.g. overdrafts) are treated as overdue where a demand for repayment was served on the borrower but repayment has not been made in accordance with the stipulated requirements.

In these instances, the full outstanding amount is considered overdue even if part is not yet due.

A past due analysis is performed for advances with specific expiry or instalment repayment dates. The analysis is not applicable to overdraft products or products where no specific due date is determined. The level of risk on these types of products is assessed and reported with reference to the counterparty ratings of the exposures. The following tables provide the age analysis of loans and advances for the Group.

Age analysis of advances

	2013					
			Past due but not impaired			
R million	**Neither past due nor impaired**	**Renegotiated but current**	**One full instalment past due**	**Two full instalments past due**	**Impaired**	**Total**
– FNB Retail	**182 868**	**507**	**2 457**	**1 394**	**8 615**	**195 841**
– FNB Commercial*	**41 260**	**101**	**29**	**15**	**1 429**	**42 834**
– FNB Africa	**30 922**	**82**	**688**	**351**	**677**	**32 720**
FNB	**255 050**	**690**	**3 174**	**1 760**	**10 721**	**271 395**
WesBank	**134 217**	**–**	**2 830**	**1 127**	**3 881**	**142 055**
RMB Investment Banking**	**182 303**	**–**	**112**	**800**	**1 400**	**184 615**
RMB Corporate Banking	**5 091**	**–**	**1**	**–**	**9**	**5 101**
Corporate Centre	**5 195**	**–**	**–**	**–**	**–**	**5 195**
Total	**581 856**	**690**	**6 117**	**3 687**	**16 011**	**608 361**

* *Includes public sector.*
** *Impaired advances for RMB Investment Banking are net of cumulative credit fair value adjustments on the non-performing book.*

	2012					
			Past due but not impaired			
R million	Neither past due nor impaired	Renegotiated but current	One full instalment past due	Two full instalments past due	Impaired	Total
– FNB Retail	170 475	288	2 604	1 307	9 940	184 614
– FNB Commercial*	34 240	–	38	17	1 665	35 960
– FNB Africa	24 467	45	259	174	475	25 420
FNB**	229 182	333	2 901	1 498	12 080	245 994
WesBank	111 680	–	2 612	956	4 141	119 389
RMB Investment Banking#	158 400	–	147	17	1 653	160 217
RMB Corporate Banking**	2 660	–	–	–	9	2 669
Corporate Centre	5 078	–	–	–	–	5 078
Total	507 000	333	5 660	2 471	17 883	533 347

* *Includes public sector.*
** *Certain portfolios have been restated to reflect the current segmentation of the business.*
# *Impaired advances for RMB Investment Banking are net of cumulative credit fair value adjustments on the non-performing book.*

Renegotiated advances (audited)

Financial assets that would otherwise be past due or impaired that have been renegotiated, are separately classified as neither past due nor impaired assets.

Renegotiated advances are advances where, due to deterioration in the counterparty's financial condition, the Group granted a concession where the original terms and conditions of the facility were amended and the counterparty is within the new terms of the advance.

Advances are only classified as renegotiated if the terms of the renegotiated contract have not yet expired and remain classified as such until the terms of the renegotiated contract expire. Where the advances are reclassified as neither past due nor impaired the adherence to the new terms and conditions is closely monitored. Renegotiated advances exclude advances which are extended or renewed as part of the ordinary course of business on similar terms and conditions as the original advances.

Non-performing advances cannot be reclassified as renegotiated unless the arrears balance has been repaid. Renegotiated but current financial assets are considered as part of the collective evaluation of impairment where financial assets are grouped on the basis of similar credit risk characteristics.

As part of the risk management and recoveries approach, the Group enters into arrangements with clients where concessions are made on payment terms (e.g. a reduction in payments for a specified period, changes in the payment profile or debt counselling payment plans). There are formally defined eligibility criteria appropriate for individual products to determine when clients are eligible for such arrangements. These accounts are monitored in a separate portfolio in each product segment and the performance is tracked for management and impairment purposes. Retail accounts classified as NPLs cannot be reclassified to performing until all arrears have been paid up as per the Group's policy.

Past due but not impaired (audited)

The classification of advances as past due but not impaired follows the standards set out in applicable accounting policies. Advances past due but not impaired in the tables above include accounts in arrears by one or two full repayments. For the year ended 30 June 2013 exposures to technical and partial arrears of R4.2 billion (June 2012: R5.4 billion) were classified as neither past due nor impaired in accordance with FirstRand's impairment methodology, primarily driven by retail exposures.

The following table provides the credit quality of advance of the in-force portfolio, detailed information on the movements on an asset class level is provided in the *PD, EAD and LGD profiles* section.

Credit quality of performing advances (audited)

	2013							
		FNB						
R million	**Total neither past due nor impaired***	**Retail**	**Commercial****	**FNB Africa**	**WesBank**	**RMB Investment Banking**	**RMB Corporate Banking**	**Corporate Centre**
FR 1 – 25	**151 147**	**42 919**	**2 037**	**5 630**	**3 578**	**92 521**	**3 388**	**1 074**
FR 26 – 91	**420 427**	**132 552**	**38 620**	**25 028**	**129 985**	**88 439**	**1 703**	**4 100**
Above FR 92	**10 972**	**7 904**	**704**	**346**	**654**	**1 343**	**–**	**21**
Total	**582 546**	**183 375**	**41 361**	**31 004**	**134 217**	**182 303**	**5 091**	**5 195**

* *Total neither past due nor impaired includes renegotiated but current advances.*
** *Includes public sector.*

	2012							
		FNB						
R million	Total neither past due nor impaired*	Retail	Commercial**	FNB Africa	WesBank	RMB Investment Banking	RMB Corporate Banking#	Corporate Centre
FR 1 – 25	118 874	28 601	1 939	5 377	2 999	76 868	508	2 582
FR 26 – 91	372 031	134 404	29 870	19 068	106 233	77 838	2 152	2 466
Above FR 92	16 428	7 758	2 431	67	2 448	3 694	–	30
Total	507 333	170 763	34 240	24 512	111 680	158 400	2 660	5 078

* *Total neither past due nor impaired includes renegotiated but current advances.*
** *Includes public sector.*
# *Certain portfolios have been restated to reflect the current segmentation of the business.*

The following tables provide an overview of the credit quality of other financial assets that are neither past due nor impaired.

Credit quality of other financial assets (excluding advances) classified as neither past due nor impaired

	2013				
R million	**Debt investment securities***	**Derivatives**	**Cash and short-term funds**	**Reinsurance assets**	**Total**
AAA to BBB	**90 716**	**34 193**	**41 998**	**394**	**167 301**
BB+ to B-	**6 442**	**18 078**	**1 417**	**–**	**25 937**
CCC	**517**	**36**	**207**	**–**	**760**
Unrated	**77**	**9**	**71**	**–**	**157**
Total	**97 752**	**52 316**	**43 693**	**394**	**194 155**

* *Excludes non-recourse investments.*

	2012				
R million	Debt investment securities*	Derivatives	Cash and short-term funds	Reinsurance assets	Total
AAA to BBB	77 584	36 369	31 329	898	146 180
BB+ to B-	4 385	16 440	2 214	–	23 039
CCC	–	93	–	–	93
Unrated	51	11	44	–	106
Total	82 020	52 913	33 587	898	169 418

* *Excludes non-recourse investments.*

Impairment of financial assets and NPLs (audited)

Refer to the policy for impairment of financial assets in the *Accounting policy* section and advances note in the consolidated annual financial statements for the analysis of the movement in the 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, impairments for these differ.

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

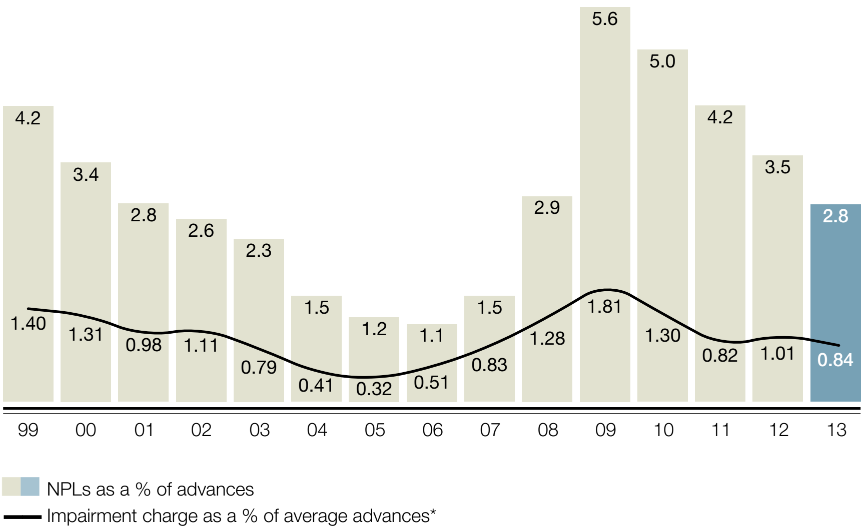
Specific impairments are created for non-performing advances where there is objective evidence that an incurred loss event will have an adverse impact on the estimated future cash flows from the asset. Potential recoveries from guarantees and collateral are incorporated into the calculation of the impairment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

All assets not individually impaired, as described, are included in portfolios with similar credit characteristics (homogeneous pools) and 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.

The following graph shows the history of the credit losses reflected by the impairment charge and NPLs percentages.

NPLs and impairments history (unaudited)

(%)



* *Impairment charges are shown before insurance proceeds where applicable. The impairment charge is calculated on an IFRS basis.*

Fair value sensitivity of wholesale advances due to credit risk

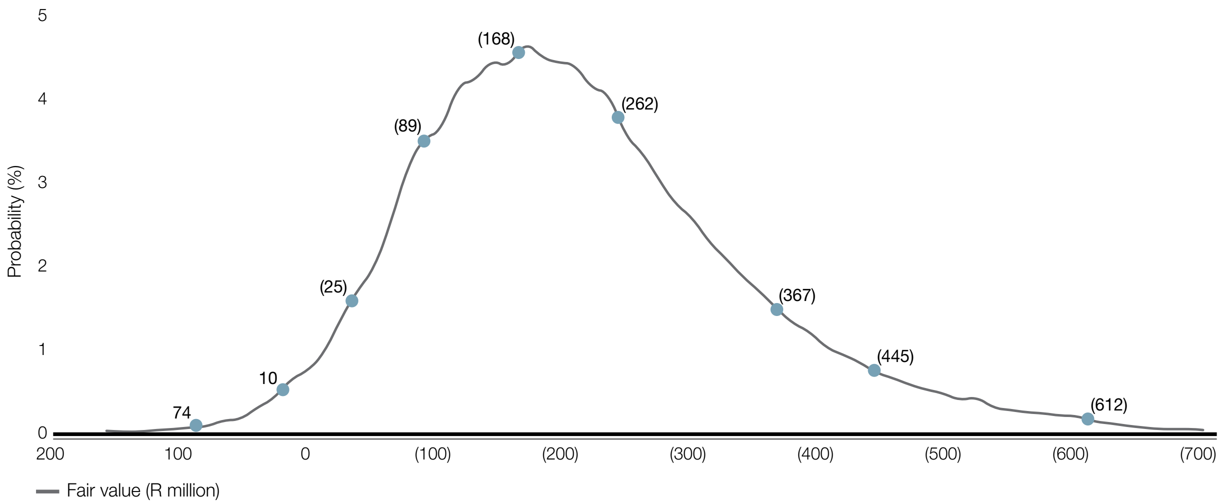
The Investment Banking division in RMB recognises a significant portion of the wholesale advances at fair value through profit or loss. The fair value adjustments directly impact the income statement and the value of advances. For risk management purposes a migration matrix is used to estimate the fair value impact of changes in credit risk. The matrix contains probabilities of downgrading or upgrading to another rating bucket.

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

- more realistic downgrades as better rating grades are less likely to be downgraded compared to riskier rating grades;
- migration matrices which take into account higher volatility of riskier rating grades;
- rating migration can be positive or negative;
- rating migration is not restricted by one notch only and, in extreme cases, includes default risk; and
- migration matrices can be based on different economic conditions (for example long term, or downturn).

The following graph sets out the fair value impact based on actual observed rating migrations from Standard & Poor's over the long term. Based on this scenario the average fair value impact is a loss of approximately R168 million. The fair value at the 75th percentile (i.e. there is a probability of 25% of exceeding this value) of the distribution is a loss of approximately R262 million.

Distribution: Fair value impact – long-term scenario



Management of concentration risk (audited)

Credit concentration risk is the risk of loss to the Group arising from an excessive concentration of exposure to a single counterparty, industry, market, product, financial instrument or type of security, country or region, or maturity. This concentration typically exists when a number of counterparties are engaged in similar activities and have similar characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

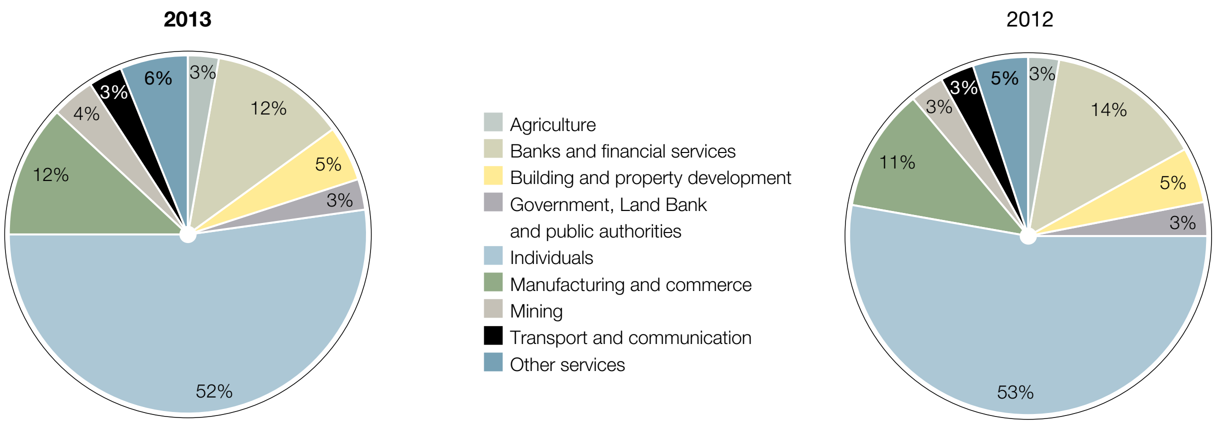
Concentration risk is managed in the credit portfolios, based on the nature of the credit concentration within each portfolio. The Group's credit portfolio is well diversified. Diversification is achieved through setting maximum exposure guidelines to individual counterparties. The Group constantly reviews its concentration levels and sets maximum exposure guidelines to these. Excesses are reported to the RCC committee.

Geographic and industry concentration risk (audited)

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

Geographical split by exposure

Industry split by exposure



The Group seeks to establish a balanced portfolio profile and closely monitors credit concentrations. The following tables provide a breakdown of credit exposure across geographical areas.

Concentration of significant credit exposure (audited)

	2013								
R million	**South Africa**	**Rest of Africa**	**United Kingdom**	**Other Europe**	**North America**	**South America**	**Australasia**	**Asia**	**Total**
Advances	**539 052**	**45 644**	**15 949**	**3 374**	**1 172**	**372**	**1 357**	**1 441**	**608 361**
Derivatives	**29 865**	**298**	**18 673**	**2 194**	**872**	**7**	**–**	**407**	**52 316**
Debt investment securities*	**75 237**	**6 491**	**624**	**–**	**10 001**	**–**	**–**	**5 399**	**97 752**
Guarantees, acceptances and letters of credit**	**27 981**	**7 666**	**82**	**150**	**7**	**–**	**14**	**3 432**	**39 332**
Irrevocable commitments**	**68 411**	**7 312**	**1 485**	**517**	**530**	**124**	**–**	**404**	**78 783**

* *Excludes non-recourse investments.*
** *Significant off-balance sheet exposures. Refer to the note on contingencies and commitments in the notes to the financial statements.*

	2012								
R million	South Africa	Rest of Africa	United Kingdom	Other Europe	North America	South America	Australasia	Asia	Total
Advances	478 204	31 271	15 747	2 266	284	102	1 637	3 836	533 347
Derivatives	33 808	88	11 925	5 568	1 424	–	11	89	52 913
Debt investment securities*	71 152	5 456	1 525	–	1 636	–	–	2 251	82 020
Guarantees, acceptances and letters of credit**	23 912	5 674	–	529	7	2	–	796	30 920
Irrevocable commitments**	63 073	4 941	814	148	66	–	43	263	69 348

* *Excludes non-recourse investments.*
** *Significant off-balance sheet exposures. Refer to the note on contingencies and commitments in the notes to the financial statements.*

Average advances per major risk type (unaudited)

R million	**2013**	2012
Retail credit*	**321 617**	259 574
FNB Africa credit	**29 276**	24 722
Wholesale credit	**174 927**	146 197
Commercial credit	**39 718**	33 299

* *The average advances of retail credit for June 2012 were restated.*

The average amount of gross credit exposure during the reporting period is calculated on a monthly average basis.

Segmental analysis of advances (audited)

The following table provides a breakdown of credit exposures by the Group segments.

	2013				
R million/%	**Advances**	**NPLs**	**NPLs as a % of advances**	**Total impairment charge**	**Impairments as % of average advances**
FNB*	271 395	10 721	3.95	2 838	1.10
– FNB Retail	195 841	8 615	4.40	2 330	1.22
– Residential mortgages	163 046	6 911	4.24	507	0.32
– Card	13 001	302	2.32	23	0.19
– Personal loans	12 885	943	7.32	1 402	11.39
– Other retail	6 909	459	6.64	398	7.47
– FNB Commercial**	42 834	1 429	3.34	318	0.81
– FNB Africa	32 720	677	2.07	190	0.65
WesBank	142 055	3 881	2.73	1 632	1.25
– WesBank asset–backed finance	134 808	3 437	2.55	1 202	0.97
– WesBank Retail	87 342	2 463	2.82	945	1.18
– WesBank Corporate	34 210	924	2.70	160	0.49
– WesBank International	13 256	50	0.38	97	0.86
– WesBank loans	7 247	444	6.13	430	6.54
RMB Investment Banking	184 615	2 390	1.29	83	0.05
RMB Corporate Banking*	5 101	9	0.18	29	0.75
Corporate Centre	5 195	–	–	–	–
Subtotal	608 361	17 001	2.79	4 582	0.80
Special impairments#	–	–	–	230	0.04
Total	608 361	17 001	2.79	4 812	0.84

* *Comparative information of certain portfolios has been restated to reflect the current segmentation of the business.*
** *Includes public sector.*
\# *Special impairments related to FNB Commercial R215 million (2012: R405 million) and RMB Corporate Banking R15 million (2012: R300 million).*

2012				
Advances	NPLs	NPLs as a % of advances	Total impairment charge	Impairments as % of average advances
245 994	12 080	4.91	2 449	1.03
184 614	9 940	5.38	2 161	1.20
157 851	8 697	5.51	878	0.56
11 291	271	2.40	27	0.24
11 730	710	6.05	955	10.13
3 742	262	7.00	301	10.40
35 960	1 665	4.63	167	0.50
25 420	475	1.87	121	0.50
119 389	4 141	3.47	1 100	0.99
113 488	3 828	3.37	836	0.79
72 601	2 621	3.61	362	0.55
31 621	1 134	3.59	377	1.20
9 266	73	0.79	97	1.26
5 901	313	5.31	264	4.85
160 217	2 436	1.52	89	0.06
2 669	9	0.34	(27)	(1.03)
5 078	–	–	749	11.06
533 347	18 666	3.50	4 360	0.87
–	–	–	705	0.14
533 347	18 666	3.50	5 065	1.01

BASEL DISCLOSURE

Credit rating systems and processes used for Basel

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

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

Credit exposure by type, segment and Basel approach

		AIRB	Standardised approach subsidiaries	
R million	2013	FirstRand Bank (SA)	Regulated bank entities within FNB Africa	Other subsidiaries
Cash and short-term funds	**43 693**	37 068	3 821	2 804
– Money at call and short notice	**27 060**	22 745	1 544	2 771
– Balances with central banks	**16 633**	14 323	2 277	33
Gross advances	**608 361**	543 631	32 720	32 010
FNB	**271 395**	238 451	32 720	224
– FNB Retail	**195 841**	195 841	–	–
– FNB Commercial*	**42 834**	42 610	–	224
– FNB Africa	**32 720**	–	32 720	–
WesBank	**142 055**	125 910	–	16 145
RMB Investment Banking	**184 615**	170 174	–	14 441
RMB Corporate Banking	**5 101**	5 101	–	–
Corporate Centre	**5 195**	3 995	–	1 200
Derivatives	**52 316**	51 755	74	487
Debt investment securities (excluding non-recourse investments)	**97 752**	85 413	6 842	5 497
Accounts receivable	**7 471**	4 564	563	2 344
Loans due by holding company and fellow subsidiaries	**–**	20 882	7 160	(28 042)
Reinsurance assets	**394**	–	–	394
Credit risk not recognised on the balance sheet	**122 748**	111 372	6 982	4 394
– Guarantees	**30 137**	27 268	2 279	590
– Acceptances	**270**	270	–	–
– Letters of credit	**8 925**	8 631	292	2
– Irrevocable commitments	**78 783**	70 570	4 411	3 802
– Credit derivatives	**4 633**	4 633	–	–
Total	**932 735**	**854 685**	**58 162**	**19 888**

* *Includes public sector.*

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

The following table provides the breakdown of exposures rated through the standardised approach in FNB Africa by risk bucket after taking risk mitigation into account.

FNB Africa exposures by risk bucket

Risk bucket	Exposure (R million)
0%	–
10%	–
20%	**4 411**
35%	**11 592**
50%	**2 661**
75%	**2 769**
100%	**36 464**
Specific impairments	**265**
Total	**58 162**

PD, EAD and LGD profiles

A summary of credit risk parameters as reported for regulatory capital purposes is shown in the following tables for each significant AIRB asset class. The parameters reflect TTC PDs and downturn LGDs. The Group uses EAD-weighted PDs based on the FR master rating scale which are then mapped to Basel rating buckets (1–25) for regulatory reporting purposes.

The tables provide a summary of the EAD distribution by prescribed counterparty risk bands (Basel risk buckets). The EAD-weighted downturn LGD, EAD-weighted PD and average risk weight for the performing and total book are also shown as well as comparatives for the prior year.

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 period.

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

The following tables include the EAD% distribution per Basel risk bucket for different asset classes.

Risk profile per asset class: EAD% distribution per Basel risk bucket

%	EAD									
	FRB*		Corporate		Sovereign		Specialised lending		Banks and securities firms**	
Basel PD risk buckets	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
1 – 5	**9.3**	9.1	**0.4**	0.6	**83.1**	78.5	**0.1**	0.2	**3.9**	7.8
6 – 10	**16.0**	15.2	**33.8**	36.4	**13.5**	16.9	**14.8**	19.7	**67.7**	73.3
11 – 15	**36.9**	39.5	**53.3**	51.2	**2.3**	3.0	**54.7**	40.2	**22.6**	15.5
16 – 20	**31.2**	28.3	**10.3**	9.3	**0.6**	1.2	**23.0**	31.8	**4.9**	0.6
21 – 25	**4.5**	5.2	**2.0**	2.0	**0.2**	0.3	**2.2**	1.0	**0.9**	0.1
NPLs	**2.1**	2.6	**0.1**	0.5	**0.4**	–	**5.2**	7.1	**–**	–

%	EAD									
	SME corporate		SME retail		Retail mortgages		Retail revolving		Other retail#	
Basel PD risk buckets	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
1 – 5	**2.0**	–	**–**	–	**–**	–	**–**	–	**–**	–
6 – 10	**0.8**	–	**13.7**	12.4	**2.2**	–	**20.8**	22.8	**–**	1.7
11 – 15	**56.0**	54.0	**24.8**	27.9	**53.6**	55.9	**32.5**	32.0	**7.3**	21.9
16 – 20	**37.7**	41.2	**54.3**	51.4	**36.5**	34.6	**34.9**	34.2	**76.6**	55.5
21 – 25	**3.5**	3.4	**4.3**	4.6	**4.5**	5.3	**9.8**	8.9	**12.4**	16.8
NPLs	**2.0**	1.4	**2.8**	3.7	**3.2**	4.1	**2.1**	2.1	**3.7**	4.1

* *The movements in FRB from June 2012 to June 2013 are explained in each seperate asset class. Distributions are stable with NPLs reducing in line with the macro environment over the year under review.*

** *Banks and securities firms: the main contributor to the movement from June 2012 to June 2013 is the movement in the pre-settlement facilities which is a characteristic of these exposures. In addition, through the re-rating process, a number of counterparty ratings have changed.*

\# *Other retail: the main contributor to the movement from June 2012 to June 2013 is the recalibration of the respective PD models.*

Risk profile per asset class: Nominal EAD per Basel risk bucket

R million	Nominal EAD									
	FRB*		Corporate		Sovereign		Specialised lending		Banks and securities firms**	
Basel PD risk buckets	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
1 – 5	**67 222**	58 752	**621**	779	**64 718**	50 082	**41**	59	**1 833**	7 820
6 – 10	**111 135**	96 452	**51 741**	48 952	**10 489**	10 777	**5 709**	7 188	**31 518**	18 038
11 – 15	**267 689**	251 149	**81 772**	68 856	**1 782**	1 927	**21 087**	14 638	**10 500**	9 291
16 – 20	**226 451**	179 736	**15 818**	12 509	**448**	757	**8 848**	11 575	**2 280**	3 393
21 – 25	**32 860**	33 128	**3 124**	2 651	**157**	197	**848**	363	**406**	325
NPLs	**15 073**	16 684	**199**	682	**317**	24	**1 994**	2 582	**–**	–
Total	**720 430**	635 901	**153 275**	134 429	**77 911**	63 764	**38 527**	36 405	**46 537**	38 867

R million	Nominal EAD									
	SME corporate		SME retail		Retail mortgages		Retail revolving		Other retail#	
Basel PD risk buckets	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
1 – 5	**9**	–	**–**	–	**–**	–	**–**	–	**–**	12
6 – 10	**314**	–	**–**	3 902	**4 226**	–	**7 108**	6 071	**30**	1 524
11 – 15	**23 392**	18 308	**8 797**	8 779	**101 273**	101 307	**11 121**	8 537	**7 965**	19 506
16 – 20	**15 753**	13 948	**19 297**	16 185	**68 918**	62 792	**11 952**	9 122	**83 137**	49 455
21 – 25	**1 469**	1 163	**1 544**	1 433	**8 543**	9 632	**3 341**	2 368	**13 428**	14 996
NPLs	**821**	471	**1 011**	1 177	**6 036**	7 512	**721**	547	**3 974**	3 689
Total	**41 758**	33 890	**30 649**	31 476	**188 996**	181 243	**34 243**	26 645	**108 534**	89 182

* *The movement in FRB from June 2012 to June 2013 are explained in each seperate asset class. Distributions are stable with NPLs reducing in line with the macro environment over the year under review.*

** *Banks and securities firms: the main contributor to the movement from June 2012 to June 2013 is the movements in the pre-settlement facilities which is a characteristic of these exposures. In addition, through the re-rating process, a number of counterparty ratings have changed.*

\# *Other retail: the main contributor to the movement from June 2012 to June 2013 is the recalibration of the respective PD models.*

The following tables include the PD%, LGD%, EL/EAD and RWA/EAD ratio per asset class.

PD%, LGD%, EL/EAD and RWA/EAD per asset class

	2013									
%	**FRB***	**Corporate**	**Sovereign****	**Specialised lending#**	**Banks and securities firms**	**SME corporate**	**SME retail**	**Retail mortgages**	**Retail revolving**	**Other retail**
Average performing PD	**2.5**	**1.2**	**0.1**	**1.8**	**0.5**	**2.5**	**2.9**	**2.9**	**4.1**	**6.0**
Average performing LGD	**28.3**	**34.5**	**28.4**	**23.2**	**30.2**	**26.5**	**30.7**	**13.9**	**65.2**	**32.8**
Performing EL/EAD	**0.8**	**0.5**	**0.1**	**0.7**	**0.2**	**0.6**	**0.8**	**0.4**	**2.7**	**2.5**
Performing RWA/EAD	**39.9**	**57.5**	**8.0**	**55.1**	**26.9**	**53.9**	**37.7**	**26.2**	**53.2**	**53.1**
Average total book PD	**4.5**	**1.3**	**0.5**	**6.9**	**0.5**	**4.4**	**5.7**	**6.0**	**6.2**	**9.4**
Average total book LGD	**28.7**	**34.5**	**28.4**	**25.0**	**30.2**	**27.4**	**31.0**	**14.2**	**65.3**	**33.6**
Total book EL/EAD	**1.6**	**0.6**	**0.1**	**3.1**	**0.2**	**1.7**	**2.0**	**1.2**	**4.1**	**4.2**
Total book RWA/EAD	**41.2**	**57.4**	**8.0**	**52.4**	**26.9**	**56.3**	**40.4**	**26.0**	**54.6**	**54.4**

	2012†									
%	FRB*	Corporate	Sovereign**	Specialised lending#	Banks and securities irms	SME corporate	SME retail	Retail mortgages	Retail revolving	Other retail
Average performing PD	2.7	1.1	0.2	2.1	0.6	2.4	3.0	3.2	3.9	6.4
Average performing LGD	28.4	35.1	29.1	22.6	32.5	28.2	29.6	14.7	66.3	34.2
Performing EL/EAD	0.9	0.5	0.1	0.5	0.2	0.7	0.8	0.5	2.6	3.1
Performing RWA/EAD	40.0	51.0	8.8	64.6	28.4	60.2	38.8	29.4	46.1	54.1
Average total book PD	5.2	1.6	0.2	9.0	0.6	3.8	6.6	7.2	5.9	10.2
Average total book LGD	28.7	35.2	29.1	24.1	32.5	28.6	30.2	14.9	66.5	35.4
Total book EL/EAD	1.8	0.7	0.1	3.2	0.2	1.5	2.2	1.4	4.0	4.8
Total book RWA/EAD	41.4	52.0	8.9	60.7	28.4	60.0	43.8	28.8	47.2	62.0

* *The movements in FRB from June 2012 to June 2013 are explained in each separate asset class. Distributions are stable with NPLs reducing in line with the macro environment over the year under review.*
** *Includes public sector entities, local government and municipalities and sovereign exposures (including central government and central bank).*
# *Includes high volatility commercial real estate, income-producing real estate, commodities finance and project finance exposures.*
† *A number of June 2012 figures have been restated. Additional information required in regulatory returns enabled more accurate information.*

The following tables include the nominal value of the credit extended, drawn exposure and EAD per asset class.

Nominal credit extended, drawn exposure and EAD per asset class

	2013									
R million	**FRB***	**Corporate**	**Sovereign****	**Specialised lending#**	**Banks and securities firms**	**SME corporate**	**SME retail**	**Retail mortgages**	**Retail revolving**	**Other retail**
Total book credit extended	**919 707**	**205 107**	**83 334**	**39 252**	**155 387**	**49 445**	**36 735**	**195 405**	**46 262**	**108 780**
Total book drawn exposure	**601 736**	**118 854**	**72 680**	**37 524**	**29 123**	**35 338**	**28 174**	**153 618**	**19 278**	**107 147**
Total book nominal EAD	**720 430**	**153 275**	**77 911**	**38 527**	**46 537**	**41 758**	**30 649**	**188 996**	**34 243**	**108 534**

	2012†									
R million	FRB*	Corporate	Sovereign**	Specialised lending#	Banks and securities firms	SME corporate	SME retail	Retail mortgages	Retail revolving	Other retail
Total book credit extended	733 962	165 192	63 011	36 569	84 512	40 751	32 087	185 843	36 815	89 182
Total book drawn exposure	517 696	102 389	58 539	32 898	19 006	27 999	25 622	148 620	14 699	87 924
Total book nominal EAD	635 901	134 429	63 764	36 405	38 867	33 890	31 476	181 243	26 645	89 182

* *The movements in FRB from June 2012 to June 2013 are explained in each seperate asset class. Distributions are stable with NPLs reducing in line with the macro environment over the year under review.*
** *Includes public sector entities, local government and municipalities and sovereign exposures (including central government and central bank).*
# *Includes high volatility commercial real estate, income-producing real estate, commodities finance and project finance exposures.*
† *A number of June 2012 figures have been restated. Additional information required in regulatory returns enabled more accurate information.*

Maturity breakdown

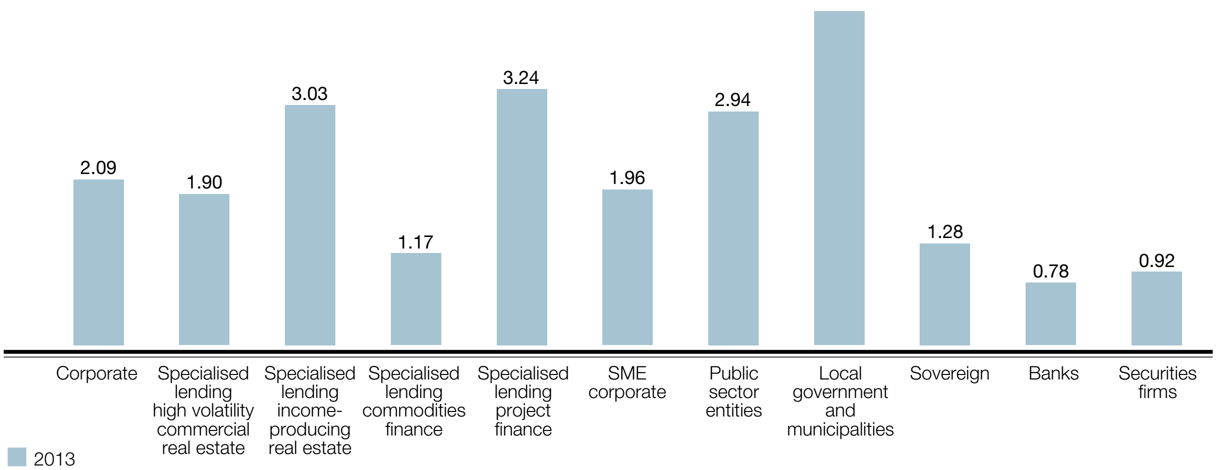
Maturity is defined as the average time at which a bank will receive its contractual payments (cash flows), calculated for each account or exposure weighted by the size of each of the cash flows.

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 will be.

Maturity breakdown of AIRB asset classes within the wholesale credit portfolio is disclosed in the following chart.

Maturity breakdown per wholesale AIRB asset class

(Maturity in years)



Actual versus expected loss analysis

To provide a meaningful assessment of the effectiveness of internal ratings-based models, expected loss is compared against actual losses during the calendar 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 (i.e. 1 July 2012). 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 during the year consist of the level of specific impairments at the start of the period (1 July 2012) and the net specific impairment charge recorded through the income statement for the period as determined by IFRS. It excludes the effect of post-write off recoveries which would reduce the actual loss number. The calculation is based on the assumption that the specific provisions raised are a fair estimate of what final losses on defaulted exposures would be, although the length of the workout period creates uncertainty in this assumption.

The measure of actual losses includes specific impairments raised for exposures which defaulted during the year, but which did not exist at 1 July 2012. These exposures are not reflected in the expected loss value described.

The following table provides the comparison of actual loss to regulatory expected loss for each significant AIRB asset class of the Group. PDs used for regulatory capital purposes are based on long run experience and are expected to underestimate actual defaults at the top of the credit cycle and overestimate actual defaults at the bottom of the credit cycle, under normal circumstances.

It should also be noted that the regulatory expected loss shown is based on the expected loss derived from the regulatory capital models that were applied as at 30 June 2012. This comparison is supplemented with more detailed analyses in the following tables, 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 2012. For PDs, this is applied to the total performing book as at 30 June 2012. For LGDs and EADs, it is applied to all facilities that defaulted over the subsequent 12 months.

Actual values are based on actual outcomes over the 12-month period July 2012 to June 2013. Due to the length of the workout period, there is uncertainty in the measure provided for actual LGDs as facilities that default during the year would only have had between one and twelve 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 12-month period July 2012 to June 2013) to the actual nominal exposure at default for the same accounts.

Actual versus expected loss per portfolio segment

	2013		2012		2011	
R million*	**Expected loss**	**Actual loss**	Expected loss*	Actual loss	Expected loss	Actual loss
Corporate (corporate, banks and sovereign)**	**1 621**	**70**	1 499	313	847	16
SMEs (SME corporate and SME retail)#	**1 146**	**989**	1 507	1 094	1 354	1 189
Residential mortgages	**2 674**	**2 470**	2 793	2 961	3 102	3 773
Qualifying revolving retail#	**1 126**	**973**	1 179	808	1 168	1 122
Other retail†	**1 718**	**2 413**	904	1 990	790	1 013
WesBank†	**2 780**	**3 236**	3 160	3 371	3 142	3 663
Total	**11 065**	**10 151**	11 042	10 537	10 403	10 776

* *The composition used above differs slightly from that used in the remainder of this section, due to impairment charges on a business unit level as opposed to AIRB asset class level. The expected losses for the year ended June 2012 were restated to reflect the correct expected losses as at 1 July 2011.*

** *The expected losses for the corporate portfolio are much higher than the actual losses due to it being a low default portfolio. As a result, the models use conservative data inputs.*

SMEs, residential mortgages and qualifying revolving retail actual losses are below expected losses which is expected given the current point in the economic cycle and that expected loss parameters are based on long run and downturn conditions.

† *Other retail and WesBank have experienced high levels of growth during the year, although it is not reflected in the expected losses which are based on accounts that are in-force at the start of the year. However, these new accounts will contribute to the actual losses as a result of additional provisions that will be raised. As a result, actual losses are expected to be greater.*

Risk parameters used to determine regulatory expected loss

	2013				
	PD		**LGD**		**Estimated EAD to actual EAD ratio**
Asset class	**Estimated %**	**Actual %**	**Estimated %**	**Actual %**	**%**
Corporate, banks and sovereign*	**0.94**	**0.28**	**15.78**	**34.61**	**107.88**
Specialised lending – property finance	**2.12**	**1.16**	**31.01**	**3.32**	**102.73**
SME corporate	**2.26**	**1.33**	**29.28**	**28.38**	**109.93**
SME retail	**2.94**	**2.81**	**32.13**	**26.32**	**111.63**
Residential mortgages	**3.45**	**2.63**	**15.65**	**12.57**	**104.73**
Qualifying revolving retail	**3.63**	**2.63**	**67.65**	**63.33**	**91.85**
Other retail	**6.31**	**5.56**	**33.43**	**33.26**	**104.12**
Total	**2.75**	**2.02**	**22.15**	**28.53**	**106.04**

* *Corporate, banks and sovereign are shown as one asset class to align with the respective asset class in the actual versus expected loss table.*

Risk parameters used to determine regulatory expected loss continued

	2012				
	PD		LGD		Estimated EAD to actual EAD ratio
Asset class	Estimated %	Actual %	Estimated %	Actual %	%
Corporate, banks and sovereign*	0.73	0.11	37.33	10.86	194.54
Specialised lending – property finance	2.70	2.31	21.82	28.84	116.04
SME corporate	4.85	2.33	26.97	28.98	144.33
SME retail	3.21	2.96	28.83	20.87	113.27
Residential mortgages	3.57	2.92	15.30	11.53	104.43
Qualifying revolving retail	3.02	2.46	72.37	68.53	98.94
Other retail	5.99	5.07	45.99	43.66	102.91
Total	2.72	1.96	30.55	27.52	107.98

* *Corporate, banks and sovereign are shown as one asset class to align with the respective asset class in the actual versus expected loss table.*

	2011				
	PD		LGD		Estimated EAD to actual EAD ratio
Asset class	Estimated %	Actual %	Estimated %	Actual %	%
Corporate, banks and sovereign*	0.88	0.19	24.94	28.28	122.96
SME corporate	4.54	2.15	35.81	14.04	108.56
SME retail	3.40	3.27	36.93	26.98	114.81
Residential mortgages	3.06	3.13	15.46	14.44	104.82
Qualifying revolving retail	2.58	2.64	64.78	66.63	127.53
Other retail	5.89	5.92	33.61	31.73	106.00
Total	2.57	2.18	26.32	24.27	108.08

* *Corporate, banks and sovereign are shown as one asset class to align with the respective asset class in the actual versus expected loss table.*

The corporate, banks and sovereign regulatory capital models remain conservative as these are low default portfolios with actual default rates remaining lower than expected.

Differences between the actual and expected LGDs for corporates, banks and sovereigns as well as specialised lending – property finance are due to the low default volumes where individual default loss experience can dominate the result. The difference in the outputs as compared to prior years is primarily as a result of actual and expected LGD being based only on counterparties which have defaulted during the respective years. Differences in the loss characteristics of accounts which default over time can be significant, particularly in the wholesale and commercial portfolios where defaults are sparse.

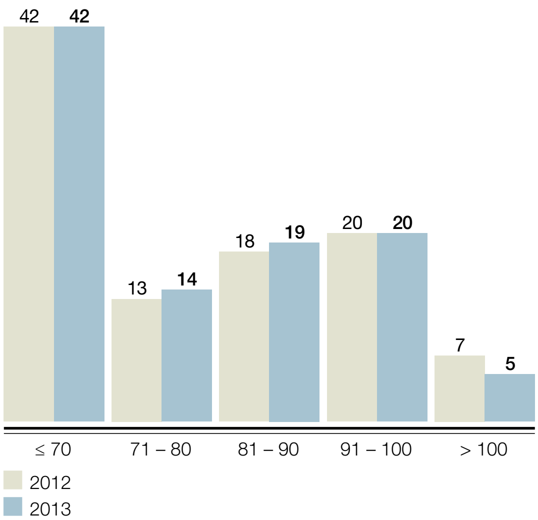
Deviations in the actual versus expected EADs can be seen where the estimated EAD to actual EAD ratio deviates from 100%. A ratio above 100% indicates an overprediction and a ratio below 100% indicates an underprediction of EAD. The qualifying revolving retail asset class EAD models applied for regulatory capital as at June 2012 underestimated EADs and reflect the model in use at the time. An updated model is in the pipeline and will predict EADs at a more appropriate level.

SELECTED RISK ANALYSES

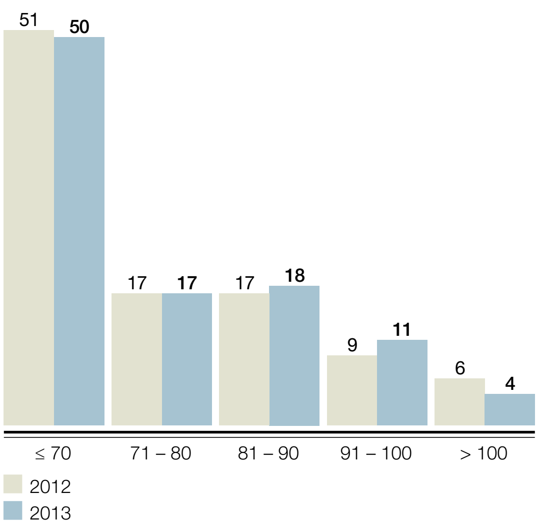
This section provides further information on selected risk analyses of the credit portfolios.

The following graphs provide the balance-to-value distributions and the ageing of the residential mortgages portfolios. The recent focus on the loan-to-value ratios for new business has resulted in an improvement in the balance-to-original value although the broader strategy is to place more emphasis on the counterparty creditworthiness as opposed to only on the underlying security. Pressures on property market values have negatively impacted the balance-to-market value distribution.

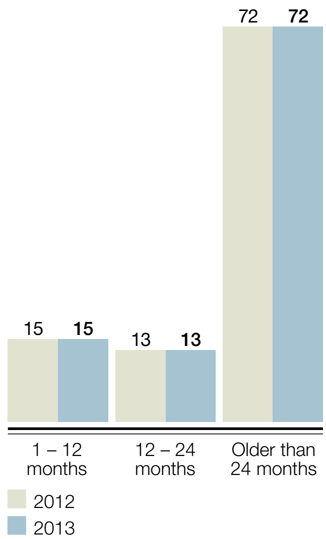
Residential mortgages balance-to-original value
(%)



Residential mortgages balance-to-market value
(%)

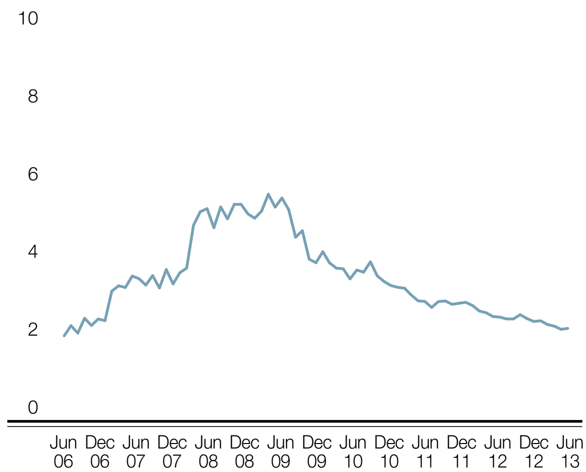


Residential mortgages age distribution
(%)



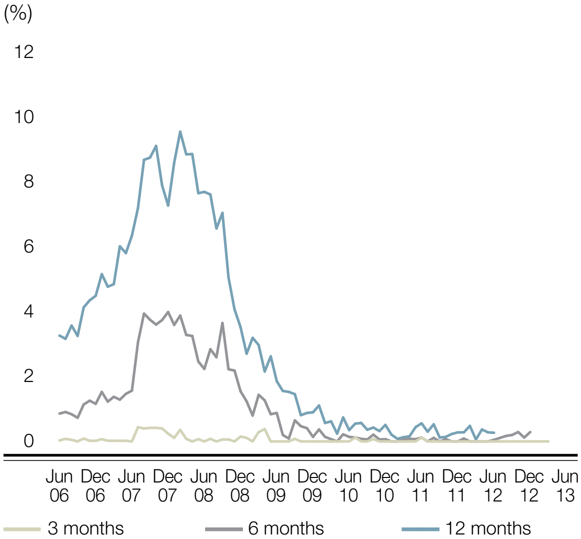
The following graph provides the arrears in the FNB HomeLoans portfolio. It includes arrears where more than one full payment is in arrears, expressed as a percentage of total advances balance.

FNB HomeLoans arrears
(%)



The following graphs provide the vintage analysis for FNB HomeLoans and WesBank retail. Vintage graphs provide the default experience three, six and twelve months after each origination date. It indicates the impact of origination strategies and the macroeconomic environment.

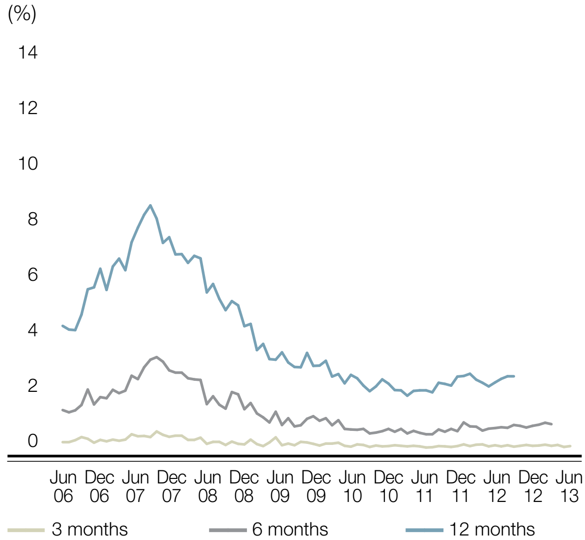
FNB HomeLoans vintage analysis



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.

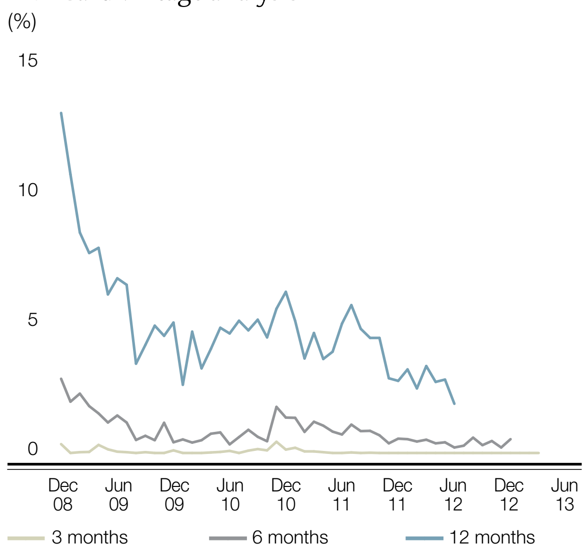
The more recent decreases in the default experience reflect a combination of the credit origination strategies and the improvement in macro conditions, resulting in an improved risk profile.

WesBank retail vintage analysis



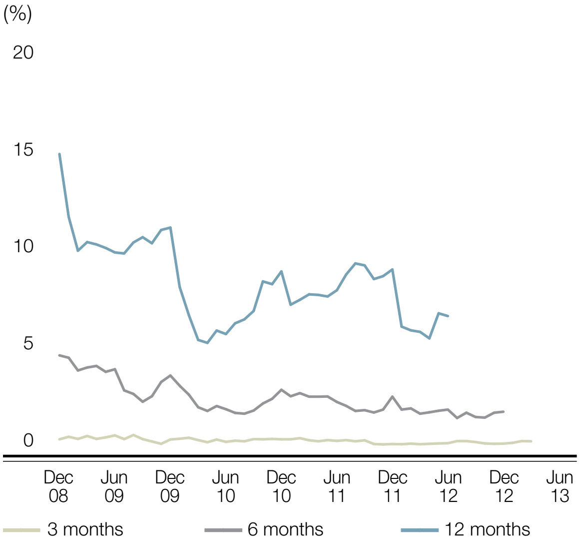
The WesBank retail six and twelve month cumulative vintage analysis continues to show a noticeable improvement in the quality of business written since mid-2007. This is due to improved customer profiles and enhanced collection strategies.

FNB Card vintage analysis



The level of inflows into NPLs continued to decrease.

Unsecured (excluding FNB Card) vintage analysis



The default experience of the FNB and WesBank unsecured portfolios is within risk appetite. Continued action is undertaken to ensure these portfolios remain within risk appetite.

The Group's South African repossessed retail properties are shown in the following table.

Retail properties in possession

	2013	2012	% change
Number of properties	**300**	609	(51)
Value (R million)	**16**	103	(84)

SECURITISATIONS AND CONDUITS

INTRODUCTION AND OBJECTIVES

Securitisation is the structured process whereby interests in loans and other receivables are packaged, underwritten and sold in the form of asset-backed securities to capital market investors.

Asset securitisations enable the Group to access funding markets at debt ratings higher than its overall corporate rating, which generally provides access to broader funding sources at more favourable rates. By removing the assets and supporting funding from the balance sheet, the Group is able to reduce some of the costs of on-balance sheet financing and manage potential asset-liability mismatches and credit concentrations.

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

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

Securitisation transactions

R million	Asset type	Year initiated	Expected close	Rating agency	
Traditional securitisations**					
Nitro 4	Retail: Auto loans	2011	2016	Moody's	
Turbo Finance 1	Retail: Auto loans	2011	2013	Moody's and Fitch	
Turbo Finance 2	Retail: Auto loans	2012	2015	Moody's and Fitch	
Turbo Finance 3	Retail: Auto loans	2012	2015	Moody's and Fitch	
Synthetic securitisations**					
Fresco 2	Corporate receivables	2007	2013	Fitch	
Total					

* *Does not include cash reserves.*
** *This table includes transactions that have been structured by the Group and therefore excludes third-party transactions.*

Rating distribution of retained and purchased securitisation exposures*

R million	AAA(zaf)	AA(zaf)	AA–(zaf)	A+(zaf)	A(zaf)	BBB+(zaf)	BBB(zaf)	BB(zaf)	B+(zaf)	Not rated	Total
Traditional											
At 30 June 2013	**98**	**–**	**–**	**81**	**–**	**–**	**–**	**–**	**–**	**1 300**	**1 479**
At 30 June 2012	2 000	–	–	81	–	59	442	–	–	825	3 407
Synthetic											
At 30 June 2013	**–**	**–**	**–**	**–**	**–**	**3 020**	**–**	**52**	**–**	**123**	**3 195**
At 30 June 2012	–	–	17 839	–	–	–	–	180	53	190	18 262
Third party											
At 30 June 2013	**503**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**503**
At 30 June 2012	625	–	–	–	51	–	–	–	–	–	676

* *While national scale ratings have been used in this table, global-scale equivalent ratings are used for internal risk management purposes. This table includes the rating distribution of transactions retained by the Group and those purchased from third parties.*

TRADITIONAL AND SYNTHETIC SECURITISATIONS

The following tables show the traditional and synthetic securitisations currently in place, the rating distribution of any exposures retained and a breakdown of the various roles performed by the Group. Whilst national scale ratings have been used in this table, global scale equivalent ratings are used for internal risk management purposes and regulatory capital reporting.

		Assets outstanding*		Notes outstanding		Retained exposure	
	Assets securitised	**2013**	2012	**2013**	2012	**2013**	2012
	16 209	**7 019**	7 491	**7 823**	8 130	**1 479**	3 407
	3 982	**1 453**	2 573	**1 747**	3 007	**589**	1 366
	3 620	**–**	1 487	**–**	1 486	**–**	1 208
	4 037	**2 200**	3 431	**2 402**	3 637	**409**	833
	4 570	**3 366**	–	**3 674**	–	**481**	–
	20 000	**5 000**	20 000	**5 000**	20 000	**3 195**	18 262
	20 000	**5 000**	20 000	**5 000**	20 000	**3 195**	18 262
	36 209	**12 019**	27 491	**12 823**	28 130	**4 674**	21 669

The Group's role in securitisation transactions

Transaction	Originator	Sponsor	Servicer	Investor	Liquidity provider	Credit enhancement provider	Swap counterparty
Fresco 2	✓	✓	✓	✓		✓	
Nitro 4	✓	✓	✓	✓			✓
Turbo Finance 2	✓	✓	✓	✓			
Turbo Finance 3	✓	✓	✓	✓			

Third party securitisations

Transaction	Originator	Sponsor	Servicer	Investor	Liquidity provider	Credit enhancement provider	Swap provider
Homes obligor mortgage enhanced securities					✓		
Private residential mortgages 2					✓		
Superdrive investments				✓			
Torque securitisation					✓		

RESECURITISATIONS

A resecuritisation exposure is a securitisation exposure in which the risk associated with an underlying pool of exposures is tranched and at least one of the underlying exposures is a securitisation exposure. Securitisation paper is, on occasion, acquired by the conduit structures and managed as part of the underlying portfolio. This makes up a minimal portion of the total portfolio and is accounted for as a resecuritisation exposure for regulatory capital purposes.

Resecuritisation exposure

Programme*	Resecuritisation exposure (R million)	% of total programme
iVuzi	47.5	1.1

* *Excludes distributions relating to iNguza underlying exposure as this is driven by note holders and does not impact third parties.*

OVERSIGHT AND CREDIT RISK MITIGATION

The Group monitors retained securitisation exposures in a number of ways:

- proposed securitisations follow a rigorous internal approval approach and are reviewed for approval by ALCCO, the RCC committee and the board;
- off-balance sheet transactions are discussed and monitored at a bimonthly meeting of Group Treasury's off-balance sheet forum;
- changes to retained exposures (ratings, redemptions, losses) reflect in the monthly BA 500 regulatory reporting; and
- transaction investor reports, alignment with special purpose vehicle (SPV) financial reporting and the impact of underlying asset performance are reviewed on the quarterly BA501 regulatory reporting.

The Group does not employ credit risk mitigation techniques to hedge credit risk on retained securitisation tranches. The Group determines the applicable capital requirements for retained exposures according to the Basel securitisation framework.

SECURITISATION ACCOUNTING POLICIES

From an accounting perspective, traditional securitisations are treated as sales transactions. At inception, the assets are sold to a SPV at carrying value and no gains or losses are recognised. For synthetic securitisations, the credit derivatives used in the transaction are recognised at fair value, with any fair value adjustments reported in profit or loss.

Securitisation entities are consolidated into FRIHL for financial reporting purposes. Any retained notes are accounted for as available-for-sale investment securities within the banking book.

The Group does not currently employ any form of warehousing prior to structuring a new securitisation transaction.

SUMMARY OF SECURITISATION ACTIVITY

Maturity of Turbo Finance plc

Launched on 2 February 2011, Turbo Finance plc (Turbo Finance 1), represented the Group's first securitisation of offshore assets originated by its UK vehicle finance business, MotoNovo Finance. Strong asset performance together with good prepayment levels resulted in the full redemption of the investor-held Class A tranche in September 2012. With the Group holding the remaining notes, the decision was taken to repurchase all the outstanding assets and thereby terminate the securitisation. The legal process to repurchase the outstanding assets was completed in early October 2012, with all notes fully redeemed on 22 October 2012.

Issuance of Turbo Finance 3

In November 2012, the Group closed its third UK traditional auto loan securitisation, Turbo Finance 3 plc (Turbo Finance 3). Turbo Finance 3 is a cash securitisation of fixed rate auto loans extended to obligors by MotoNovo Finance. The note issuance of GBP332.7 million is rated by both Fitch and Moody's. The performance of past and existing Turbo Finance transactions has helped to improve the rating assumptions used by the rating agencies, allowing for a reduction in the level of subordination required for the Aaa/AAA Class A note (18% compared to 28% for Turbo Finance 1). The following table provides further detail regarding the notes issued.

Turbo Finance 3 notes issued

Tranche	Rating (Moody's/Fitch)	Amount (GBP million)	Credit enhancement* (%)	Coupon
A	Aaa(sf)/AAA(sf)	273.4	17.82	1m LIBOR + 60
B	A1(sf)/A(sf)	27.8	9.47	1m LIBOR + 140
C	NR/NR	26.2	1.59	7.00%
D	NR/NR	5.3	–	20.00%
Total		**332.7**		

* *Calculated including the class D notes/cash component.*

There was sufficient demand for high quality credit assets allowed the marketing of the Class B tranche as well. FirstRand, acting through its London branch, continues to act as servicer for the transaction. The transaction is compliant with Article 122a of the EU Capital Requirement Directive where FRB chose to use the on-balance sheet retention method to meet the 5% retained interest requirements of Article 122a.

Scheduled amortisation of Fresco 2

Scheduled amortisation of Fresco 2 commenced in November 2012, with the portfolio balance at R5 billion at 30 June 2013. As a consequence of the deleveraging of the reference portfolio, Fitch issued a ratings upgrade of Fresco 2 notes on 15 February 2013. The Class A, B and C notes were upgraded by one notch. The transaction's performance since closing has remained in line with expectations.

Fresco 2 ratings revision

	Fitch domestic rating	
Tranche	Previous	Revised
A	BBB (zaf)	A (zaf)
B	BB (zaf)	BBB (zaf)
C	B+ (zaf)	BB (zaf)
D	B (zaf)	B (zaf)
E	B (zaf)	B (zaf)
F	B (zaf)	B (zaf)
G	B- (zaf)	B- (zaf)

Rating downgrade of Nitro Securitisation 4 Issuer Trust (Nitro 4)

In September 2012, Moody's Investor Services downgraded the South African government debt rating from A3 to Baa1, effectively lowering the local currency country ceiling to A1. Consequently, the rating of the Nitro 4 Class A tranche was downgraded from Aa2(sf) to A1(sf) on a local currency international scale basis.

Based on a realignment of the national scale to international scale mapping, the Class A notes remain rated Aaa(sf).za. The transaction was structured to obtain matched term funding for the Group and is currently performing in line with expectations. Targeted maturity for the Nitro 4 structure is August 2016.

Nitro 4 rating downgrade

	Moody's rating		Moody's national scale rating
Tranche	Previous	Revised	
A	Aa2 (sf)	A1 (sf)	Aaa.za(sf)
B	Baa2 (sf)	Baa2 (sf)*	A1.za (sf)
C	Ba2 (sf)	Ba2 (sf)*	Ba2.za (sf)

* *No change, placed on rating watch negative.*

CONDUIT PROGRAMMES

The Group has conduit programmes incorporated under both securitisation scheme and commercial paper regulations. The iNdwa and iVusi conduit programmes are incorporated under securitisation scheme regulations. These are debt capital market vehicles, which provide investment-grade corporate South African counterparties with an alternative source of funding to directly access 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, iNkotha is a call-loan bond fund, which offers overnight borrowers and lenders an alternative to traditional overnight bank borrowings or overnight deposits.

The commercial paper programme, iNguza, issues bespoke notes to investors. These notes reference the credit risk of separate and distinct transactions of a different underlying borrower or obligors. Note holders will have recourse only to the assets in relation to the underlying transaction and will not have recourse to any other assets. Risk relating to the underlying transactions is transferred directly to note holders and managed by them according to their risk appetite levels. Notes are listed on the Interest Rate Market of the JSE and may be traded through members of the JSE.

Both the fixed income fund and the commercial paper programme have been incorporated under commercial paper regulations.

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

The conduit programmes have proved resilient during difficult financial market conditions and have experienced a tightening of credit spreads in line with the corporate debt market. Supply of assets and demand for notes issued by the conduits remain healthy, albeit within the constraints of newly introduced collective investment scheme (CIS) regulations.

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

Conduit programmes*

R million	Underlying assets	Year initiated	Rating agency	Programme size	Non-recourse investments 2013	Non-recourse investments 2012	Credit enhancement provided 2013	Credit enhancement provided 2012
Securitisations**								
iNdwa	Corporate and structured finance term loans	2003	Fitch	15 000	**5 160**	6 687	**–**	–
iVuzi	Corporate and structured finance term loans	2007	Fitch	15 000	**4 123**	4 487	**1 070**	670
Total				30 000	**9 283**	11 174	**1 070**	670
Fixed income fund#								
iNkotha	Overnight corporate loans	2006	GCR†	10 000	**2 957**	2 654	**–**	–
Total				10 000	**2 957**	2 654	**–**	–
Commercial paper programme#								
iNguza	Corporate and structured finance term loans	2008	GCR†	15 000	**10 964**	8 616	**–**	–
Total				15 000	**10 964**	8 616	**–**	–

* *Conduit programmes are consolidated into FRIHL for financial reporting purposes.*
** *Conduits incorporated under regulations relating to securitisation scheme.*
# *Conduits incorporated under regulations relating to commercial paper.*
† *Global credit rating.*

Rating distribution of conduits

R million	F1+(zaf)	AAA(zaf)	AA+(zaf)	AA(zaf)	AA-(zaf)	A+(zaf)	A(zaf)	A-(zaf)	Total
Securitisations									
At 30 June 2013	**–**	**–**	**820**	**2 841**	**1 777**	**1 945**	**1 284**	**616**	**9 283**
At 30 June 2012	–	121	730	2 628	3 778	1 071	1 765	1 081	11 174
Fixed income funds									
At 30 June 2013	**–**	**–**	**–**	**648**	**827**	**601**	**321**	**560**	**2 957**
At 30 June 2012	–	–	–	1 097	479	519	–	559	2 654

This table excludes distributions relating to iNguza underlying exposure as this is driven by note holders and does not impact third parties.

The Group's role in conduits

Transaction	Sponsor	Originator	Investor	Servicer	Liquidity provider	Credit enhancement provider	Swap counterparty
iNdwa	✓			✓	✓		✓
iNkotha				✓			
iVuzi	✓			✓	✓	✓	✓
iNguza				✓			

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

LIQUIDITY FACILITIES

The following table provides a summary of the liquidity facilities provided by the Group.

Liquidity facilities

R million	Transaction type	2013	2012
Own transactions		**5 751**	8 157
iNdwa	Conduit	**3 866**	4 713
iVuzi	Conduit	**1 885**	3 444
Third party transactions	Securitisations	**1 522**	558
Total		**7 273**	8 715

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 Group. The conduit programmes are consolidated into FRIHL for financial reporting purposes

ADDITIONAL INFORMATION

The following table provides the securitisation exposures retained or purchased as well as associated capital requirements per risk band. The Group applies a number of methodologies in determining the capital requirements for securitisation and conduit exposures.

For domestic transactions, the Group applies the internal ratings based approach, supervisory formula and standardised approach, the choice of which is determined by the most efficient use of capital.

Retained or purchased securitisation exposure and the associated regulatory capital charges

	Exposure		Capital*		Capital deduction**	
R million	**2013**	2012	**2013**	2012	**2013**	2012
Risk weighted bands						
≤10%	**3 989**	7 443	**33**	55	**–**	–
>10% ≤20%	**750**	810	**9**	11	**–**	–
>20% ≤50%	**–**	1 235	**–**	42	**–**	–
>50% ≤100%	**1 331**	81	**82**	6	**–**	–
>100% ≤650%	**–**	59	**–**	26	**–**	–
1250%/deduction	**1 423**	1 457	**1 422**	46	**–**	1 015
Look through	**6 027**	22 745	**281**	797	**–**	–
Total	**13 520**	33 830	**1 847**	983	**–**	1 015

* *Capital is calculated at the Basel III 9.5% requirement (excluding the bank-specific ICR) and includes a 6% capital scalar.*
** *Exposure previously held as deductions have moved from supply to demand side of credit in line with regulatory changes.*

The Group did not securitise any exposures that were impaired or past due at the time of securitisation.

COUNTERPARTY CREDIT RISK

INTRODUCTION AND OBJECTIVES (AUDITED)

Counterparty credit risk is a counterparty's ability to satisfy its obligations under a contract that has positive economic value to a 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. The objective of counterparty credit risk management is to ensure that risk is appropriately measured, analysed and reported on, and is only taken within specified limits in line with the Group's risk appetite framework as mandated by the board.

During the year under review the Group implemented the Basel standardised approach for the calculation of counterparty credit default risk capital. This measure is more risk-sensitive than CEM used previously. The improved risk sensitivity of the measure implies that capital now more accurately reflects the risk profile of the book. In the current financial year the Group has implemented Basel III CVA capital charge, AVC multiplier, as well as Basel III capital charge for centrally cleared exposures.

FirstRand is, and will continue to be, an active participant in processes to implement legislative and structural reforms in the local derivatives market. Changes to international regulations relating to derivative market reforms are regularly monitored.

The risk to bilateral over-the-counter (OTC) counterparties is reduced by restricting transactions to higher-rated counterparties and collateralising all mark-to-market movements in the majority of cases. The risk to clients in securities financing is reduced by improved margining and restricting exposure to higher quality underlying assets.

ORGANISATIONAL STRUCTURE AND GOVERNANCE

RMB's credit department is responsible for the overall management of counterparty credit risk. It is supported by RMB's derivative counterparty risk department which is responsible for ensuring that market and credit risk methodologies are consistently applied in the quantification of risk.

Counterparty credit risk is managed on the basis of the principles, approaches, policies and processes set out in the credit risk management framework for wholesale credit exposures.

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

The derivative counterparty risk committee supports the credit risk management committee and its subcommittees with analysis and quantification of counterparty credit risk for traded product exposures.

ASSESSMENT AND MANAGEMENT (AUDITED)

Quantification of risk exposure

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

To this end, appropriate quantification methodologies of potential future exposure over the life of a product, even under distressed market conditions, are developed and approved at the relevant technical committees.

Individual counterparty risk limit applications are prepared using the approved risk quantification methodologies, and assessed and approved at the dedicated counterparty credit committee, which has appropriate executive and non-executive representation.

All counterparty credit risk limits are subject to annual review, while counterparty exposures are monitored by the respective risk functions on a daily basis. Overall counterparty risk limits are allocated across a number of products. Desk level reports are used to ensure sufficient limit availability prior to executing additional trades with a 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, head of risk for the affected business unit and derivative counterparty risk management function. Any remedial actions are agreed amongst these parties and failure to remedy such a breach is reported to the RMB proprietary board, ERM and RCC committee.

As part of the ongoing process of understanding the drivers of counterparty credit risk, regular analysis is carried out on OTC derivative and securities financing portfolios on a look-through basis. This portfolio review process seeks to identify concentrations, 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 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 or referenced by these banks.

Counterparty credit risk mitigation

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

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

For regulatory purposes, 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

In rare instances, FirstRand has signed ISDA agreements where both parties would be required to post additional collateral in the event of a rating downgrade. The additional collateral to be provided by the Group in the event of a downgrade is not material and would not adversely impact its financial position.

When assessing the portfolio in aggregate, the collateral that would need to be provided in this hypothetical event is subject to many factors, not least of which are market moves in the underlying traded instruments and netting of existing positions.

While these variables are not quantifiable, the following table, in addition to showing the effect of counterparty credit risk mitigation, provides a guide to the order of magnitude of the netted portfolio size and collateral placed with the Group. In aggregate, all of the positive mark-to-market values shown would need to reverse before the Group would be a net provider of collateral.

COUNTERPARTY CREDIT RISK PROFILE

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

Composition of counterparty credit risk exposure

R million	2013	2012*
Gross positive fair value	**107 161**	97 704
Netting benefits	**(12 105)**	(8 444)
Netted current credit exposure before mitigation	**95 056**	89 260
Collateral value	**(82 268)**	(73 415)
Netted potential future exposure	**3 661**	3 194
Exposure at default**	**21 097**	21 174

* *The comparative numbers were restated to reflect the correct numbers as at 30 June 2012.*

** *EAD includes exposures calculated under both the standardised and current exposure method. FRB implemented the standardised approach in June 2012. The standardised approach implementation covers all material portfolios with full coverage to be attained in the new financial year. EAD under the standardised approach is quantified by scaling either the current credit exposure less collateral or the net potential future exposure by a factor of 1.4. The latter explains why the summation of the netted current exposure, collateral value and netted potential future exposure in the table above differs from computed EAD.*

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

Credit derivatives exposure

R million	**2013** Credit default swaps	**2013** Total return swaps	**2013** Other	**2013** Total
Own credit portfolio				
– protection bought	**–**	**–**	**–**	**–**
– protection sold	**2 145**	**–**	**–**	**2 145**
Intermediation activities				
– protection bought	**3 511**	**–**	**–**	**3 511**
– protection sold	**4 633**	**–**	**–**	**4 633**

R million	2012 Credit default swaps	2012 Total return swaps	2012 Other	2012 Total
Own credit portfolio				
– protection bought	–	–	–	–
– protection sold	1 900	–	–	1 900
Intermediation activities				
– protection bought	3 149	–	–	3 149
– protection sold	3 865	–	–	3 865

MARKET RISK IN THE TRADING BOOK

INTRODUCTION AND OBJECTIVES (AUDITED)

The Group's market risk emanates mainly from the provision of hedging solutions for clients, market making activities and term lending products. Market risk in the trading book of the Group is taken and managed by RMB. The relevant businesses within RMB function as the centres of expertise with respect to all market risk-related activities and ensuring that market risk is managed and contained within the Group's appetite.

Compared to previous years and, following the strategic review of RMB's business and cessation of outright proprietary trading, overall levels of market risk have reduced, particularly with respect to equity risk on the domestic balance sheet.

The performance of market risk-taking activities is measured as the higher of the Group's internal expected tail loss (ETL) measure (as a proxy for economic capital) and regulatory capital based on VaR plus stressed VaR.

Interest rate risk in the banking book is managed by Group Treasury and is disclosed in 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 MIRC.

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

ASSESSMENT AND MANAGEMENT (AUDITED)

Quantification of risk exposures

Market risk exposures are primarily measured and managed using an ETL measure and ETL limits. The ETL measure used by RMB is a historical simulation measure assessing the average loss beyond a selected percentile. RMB's ETL is based on a confidence interval of 99% and applicable holding periods. Since ETL is adjusted for the trading liquidity of the portfolio, it is referred to as liquidity-adjusted ETL. Holding periods, ranging between 10 to 90 days, are used in the calculation and are based on an assessment of distressed liquidity of portfolios. Historical data sets are chosen to incorporate periods of market stress such as data from the 2008/2009 global financial crisis included during the year under review.

VaR calculations over holding periods of 1 day and 10 days are used as an additional tool in the assessment of market risk. VaR triggers and loss escalation procedures are used to highlight positions to be reviewed by management.

The Group's VaR number should be interpreted in light of the limitations of the methodology used, as follows:

- due to its nature, historical simulation VaR may not provide an accurate estimate of future market moves;
- use of a 99% confidence level does not reflect the extent of potential losses beyond that percentile. ETL is a better measure to quantify losses beyond that percentile (but still subject to similar limitations as stated for VaR);
- use of a 1-day time horizon is not a fair reflection of profit or loss for positions with low trading liquidity, which cannot be closed out or hedged within one day;
- as exposures and risk factors can change during daily trading, exposures and risk factors are not necessarily captured in the VaR calibration which uses end-of-day trading data; and
- where historical data is not available, time series data is approximated or backfilled using appropriate quantitative methodologies. Use of proxies is, however, limited.

These limitations mean that the Group cannot guarantee that losses will not exceed VaR.

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 and event risk have been 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. ETL assessment provides a view of risk exposures under stress conditions.

Additional stress testing, to supplement ETL assessment, is conducted using historical market downturn scenarios and includes the use of what-if hypothetical and forward-looking simulations. The stress test calibrations are reviewed regularly to ensure that results are indicative of the possible impact of severely distressed and event-driven market conditions. Stress and scenario analyses are regularly reported to and considered by the relevant governance bodies.

Earnings volatility

A key element of the Group's risk appetite framework is an assessment of potential earnings volatility that may arise from underlying activities. Earnings volatility for market risk is quantified by subjecting key market risk exposures to predetermined stress conditions, ranging from business-as-usual stress through severe stress and event risks.

In addition to assessing the maximum acceptable level of earnings volatility, stress testing is used to understand sources of earnings volatility and highlight unused capacity within the Group's risk appetite. Market risk earnings volatility is calculated and assessed on a monthly basis.

Back testing

Back testing is performed in order to verify the predictive ability of the VaR model and ensure ongoing appropriateness. 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 is recalibrated. More granular back testing is performed at the individual desk level, in line with the proposals published in the Basel Committee on Banking Supervision (BCBS) consultative document, *Fundamental review of the trading book,* during May 2012.

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 methodologies stipulated in the Basel III framework. For all international legal entities, the standardised approach is used for regulatory market risk capital purposes.

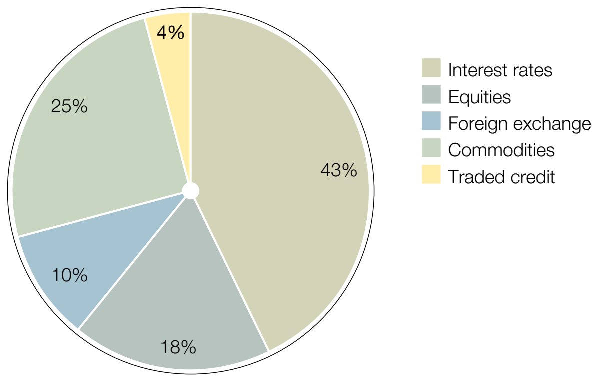
Economic capital for market risk is calculated using liquidity-adjusted ETL plus an assessment of specific risk.

MARKET RISK IN THE TRADING BOOK PROFILE

The following chart shows the distribution of exposures per asset class across the Group's trading activities at 30 June 2013 based on the VaR methodology. VaR equity exposure shown relates mainly to listed equity exposures in RMB Australia Holdings. These exposures are predominantly in the junior resources sector and are reflected on the RMB Australia Holdings balance sheet. The interest rate asset class represented the most significant exposure at year end.

VaR exposures per asset class (audited)

(%)



VaR analysis by risk type (audited)

The following table reflects VaR over a 1-day holding period at a 99% confidence level. Results indicate overall lower levels of market risk during the 2013 financial year compared to the previous year. The equity asset class results reflect the continued derisking that has taken place in residual exposures.

1-day 99% VaR analysis by instrument

R million	2013				2012
	Min*	**Max***	**Average**	**Period end**	Period end
Risk type**					
Equities	**13.7**	**45.1**	**21.8**	**13.9**	30.6
Interest rates	**13.7**	**57.8**	**25.3**	**33.7**	45.8
Foreign exchange	**7.5**	**35.2**	**17.1**	**7.9**	15.8
Commodities	**6.4**	**35.2**	**18.7**	**19.6**	24.6
Traded credit#	**1.8**	**10.8**	**4.4**	**2.9**	10.3
Diversification effect				**(22.8)**	(54.5)
Diversified total	**26.4**	**72.3**	**49.2**	**55.2**	72.6

* *The maximum and minimum VaR figures for each asset class did not necessarily occur on the same day. Consequently, a diversification effect was omitted from the above table.*

** *Banking book exposures are managed by Group Treasury and are reported under the banking book interest rate risk section.*

Traded credit in disclosure from June 2013, although it does not form part of the Group's internal VaR model calculation, it is included in the disclosure to indicate the total risk. The prior year figure for traded credit is unaudited.

Other risk measures

Other risk factors are considered in the assessment and management of market risk. These include interest rate and equity specific risk. Specific risk accurately measures idiosyncratic risk not captured by ETL and VaR measures for interest rate and equity risk, such as default, credit migration and event risks, and identifies concentrations in a portfolio. The following table details specific risk for the year.

Specific risk measures

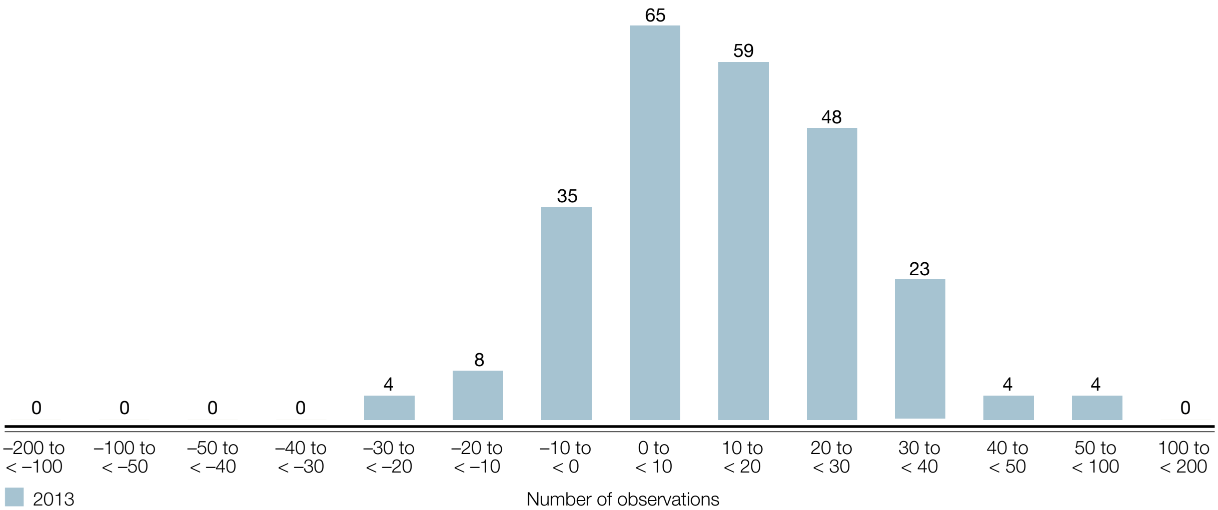
R million	**2013**	2012
Interest rate specific risk	**71**	76
Equity specific risk	**24**	68

Distribution of daily trading earnings from trading units

The following histogram shows the daily revenue for the local trading units in Group for the year under review.

Distribution of daily earnings

Frequency (days in period)

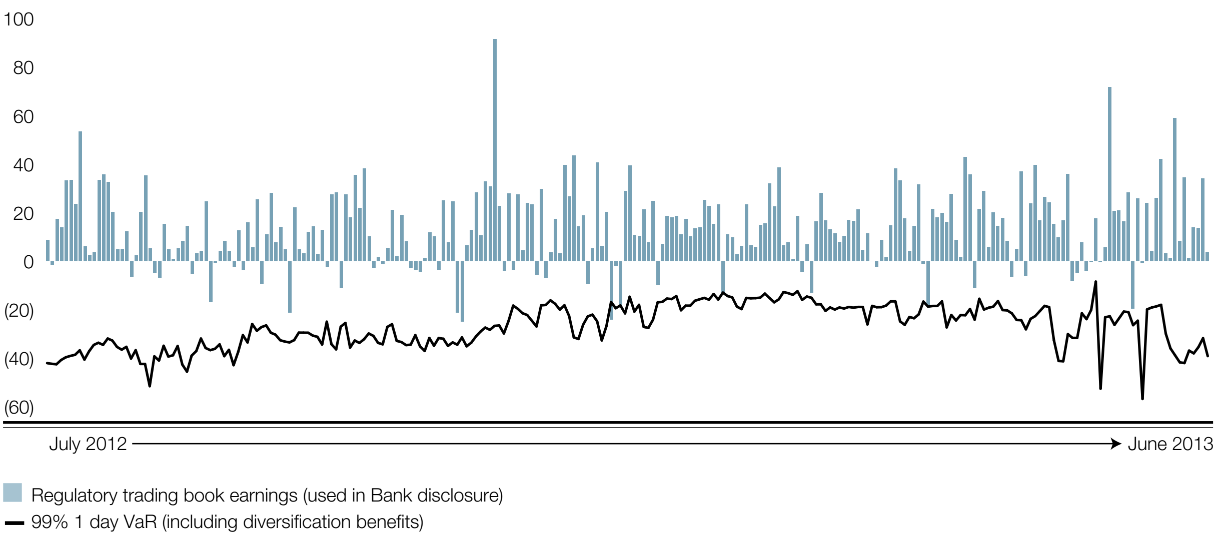


Back testing: daily regulatory trading book earnings and VaR

The Group tracks its daily local earnings profile as illustrated in the following chart. The earnings and 1-day VaR relate to the Group's internal VaR model. Exposures were contained within risk limits during the trading period and the earnings profile is skewed towards profitability.

Back testing: daily regulatory trading book earnings versus 1-day 99% VaR

(R million)



Trading book earnings exceeded 1-day VaR on one occasion during the year under review, due to the widening of a commodities basis risk position. This indicates a reasonably accurate quantification of market risk provided by the Group's internal model.

International

RMB Australia Holdings and the Bank's India branch hold the highest exposure to market risk amongst the international operations. The same approach is employed for the measurement and management of market risk as in the domestic portfolio. During the year under review, market risk was contained within approved limits.

FRIHL – VaR analysis by risk type

The following table reflects VaR over a 1-day holding period at a 99% confidence level for FRIHL. Market risk in FRIHL relates to the trading activities taking place in RMB Australia Holdings Ltd and RMB Securities Trading (Pty) Ltd (RST), and represents a subset of the VaR analysis by asset class reflected above for the group.

The following table reflects decreased equity risk, due to continued derisking and a rebalancing of the Australian portfolio in favour of debt.

1-day 99% VaR analysis for FRIHL (audited)

	2013				2012
R million	**Min***	**Max***	**Average**	**Period end**	Period end
Diversified total	**10.8**	**42.9**	**18.1**	**10.8**	27.2

* *The maximum and minimum VaR figures for each asset class did not necessarily occur on the same day. Consequently, a diversification effect was omitted from the above table.*

Regulatory market risk for FRIHL is measured using the standardised approach. Commensurate with the decrease in VaR observed above, market risk calibrated using the regulatory standardised approach has decreased substantially since the previous year.

Market risk standardised approach for FRIHL*

R million	**2013**	2012
Specific risk	**44.2**	107.0
General risk	**46.9**	83.0

* *The above FRIHL regulatory market risk numbers are made up of RST and RMB Resources.*

FNB Africa subsidiaries – standardised approach

Market risk for the African subsidiaries is measured using the standardised approach. In addition, the same ETL and VaR methodologies as described above are used as supplementary measures. In line with the Group's Africa expansion strategy, market risk has increased since the previous period with increased flow trading activity taking place in the subsidiaries supporting our client activities. During the year under review market risk was contained within approved limits and effectively managed.

Market risk standardised approach for the African subsidiaries

	2013				2012
R million	**Min***	**Max***	**Average**	**Period end**	Period end
Risk type					
Interest rates	**2.2**	**32.9**	**11.4**	**13.7**	10.5
Foreign exchange	**4.2**	**35.6**	**16.3**	**15.4**	9.9
Total	**8.5**	**55.1**	**28.0**	**29.1**	20.4

* *The maximum and minimum VaR figures for each asset class did not necessarily occur on the same day. Consequently, a diversification effect was omitted from the above table.*

INTEREST RATE RISK IN THE BANKING BOOK

INTRODUCTION AND OBJECTIVES (AUDITED)

Interest rate risk is the sensitivity of the balance sheet and income statement to unexpected, adverse movements in interest rates. Interest rate risk arises primarily from the endowment effect and interest rate mismatch. The endowment effect, which results from a large proportion of endowment liabilities (including stagnant deposits and equity) that fund variable-rate assets (e.g. prime-linked mortgages), remains the primary driver of interest rate risk in the banking book (IRRBB) and results in Group earnings being vulnerable to interest rate cuts. For its interest rate mismatch, the Group also hedges its residual fixed-rate position, which has been adjusted for optionality.

Interest rate risk arises in trading and non-trading/banking book activities. In the trading book, interest rate risk is primarily quantified and managed using ETL measures and limits, VaR calculations are performed over a 1- and 10-day holding period as an additional risk measure. This is covered in *Market risk in the trading book* section of this report.

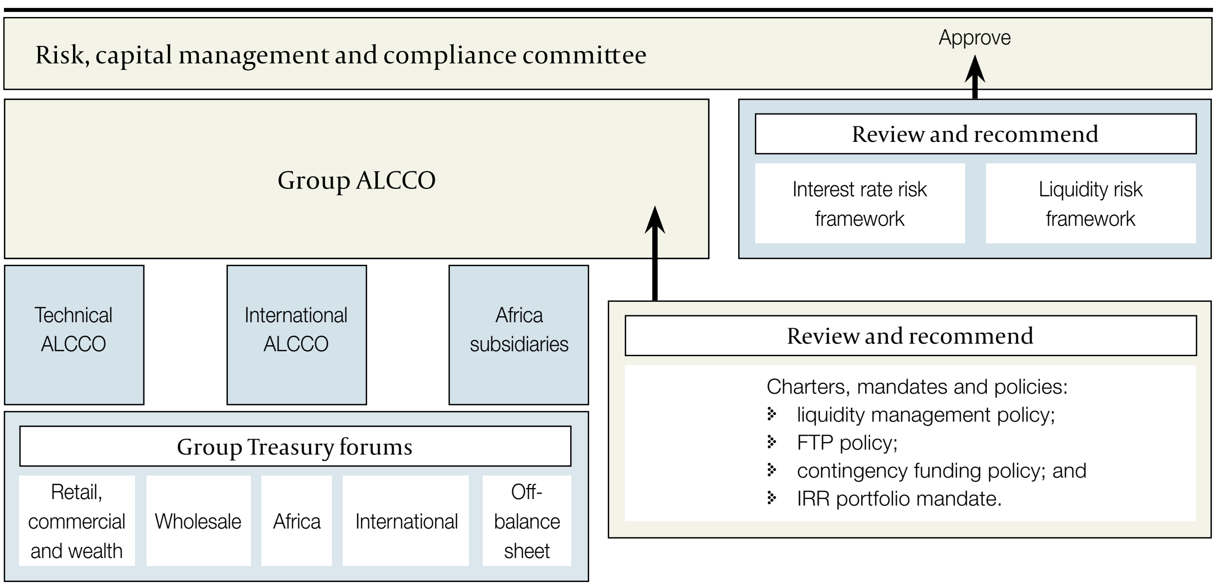
IRRBB originates from the differing repricing characteristics of balance sheet instruments, yield curve risk, basis risk and client optionality embedded in banking book products. It is an inevitable risk associated with banking and can be an important source of profitability and shareholder value. IRRBB continues to be managed from an earnings approach, with the aim to protect and enhance the Bank's earnings and economic value within approved risk limit and appetite levels.

ORGANISATIONAL STRUCTURE AND GOVERNANCE

The control and management of IRRBB is governed by the framework for the management of IRRBB, which is a subframework of the BPRMF. Ultimate responsibility for determining risk limits and appetite for the Group vests with the board. Independent oversight for monitoring is done through the RCC committee, who, in turn, has delegated the responsibility for IRRBB to FirstRand ALCCO. ALCCO also maintains responsibility on behalf of the board for the allocation of sublimits and remedial action to be taken in the event of any limit breaches.

Individual ALCCOs exist in each of the African subsidiaries and international branches which monitor and manage in-country IRRBB. Material issues from individual ALCCOs are reported through to FirstRand ALCCO. The IRRBB management and governance structure is illustrated.

Interest rate risk management and governance structure



ASSESSMENT AND MANAGEMENT (AUDITED)

FirstRand Bank

Management and monitoring of the FirstRand domestic banking book is split between the RMB book and the remaining domestic banking book. RMB manages the banking book under its market risk framework; risk is measured and monitored in conjunction with the trading book with management oversight provided by MIRC. The RMB banking book interest rate risk exposure was R31.5 million on a 10-day ETL basis at 30 June 2013 (June 2012: R79.7 million). (Refer to *Market risk in the trading book* section). Any further references relating to the banking book in this section exclude the RMB banking book.

The remaining banking book consists predominantly of retail balances from FNB and WesBank, and Corporate Centre balance sheet. This is managed centrally by Group Treasury with oversight from Corporate Centre risk management. The Group Treasury Investment committee meets regularly to discuss and propose strategies and to ensure that management action is within the Group's risk limit and appetite levels.

The internal funds transfer pricing (FTP) process is used to transfer interest rate risk from the franchises to Group Treasury, where risk can be managed holistically in line with the Group's macroeconomic outlook. This is achieved by balance sheet optimisation or alternatively through the use of derivative transactions. Derivative instruments used are mainly interest rate swaps, for which there is a liquid market. Where possible, hedge accounting is used to minimise accounting mismatches, thus ensuring that amounts deferred in equity are released to the income statement at the same time as movements attributable to the underlying hedged asset/liability.

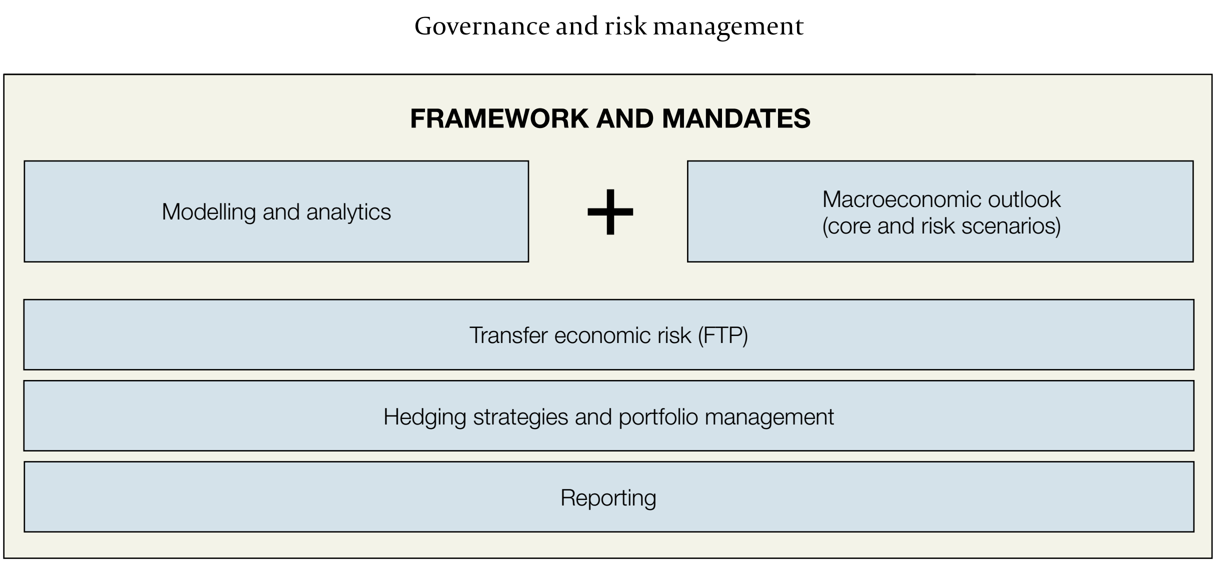
A number of measurement techniques are used to measure IRRBB. These focus on the NII sensitivity/earnings risk and the overall impact on economic value of equity (EVE) and daily PV01 (present value of 1 bps increase in rates) measures.

The interest rate risk from the fixed book is managed to low levels with remaining risk stemming from timing and basis risk. The primary driver of NII sensitivity relates to the non- and low-rate products in the balance sheet and the endowment book. This has an adverse impact on the Group's NII margin in a cutting cycle as the decrease in NII from assets repricing to lower rates is not offset by a corresponding interest saving from liabilities. In the current rate cycle, the average repo rate for the period dropped by 48 bps, resulting in a negative impact on the Group's margin.

International subsidiaries and branches (audited)

Management of the African subsidiaries and international branches is performed by in-country management teams with oversight provided by Group Treasury and Corporate Centre risk management. For subsidiaries, NII measures are used to measure, monitor and manage interest rate risk in line with the Group's appetite.

Interest rate risk management and assessment



CURRENT REPRICING PROFILE (AUDITED)

In calculating the repricing gap, all banking book assets, liabilities and derivative instruments are placed in gap intervals based on their repricing characteristics. Where applicable the disclosed repricing gap has been behaviourally adjusted to align with NII assumptions. No prepayment assumptions are applied. The overall balance sheet continues to be sensitive to rate cuts.

Repricing schedules for the Group's banking book

	2013				
	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	**5 423**	**6 083**	**49 011**	**20 653**	**(81 170)**
Cumulative repricing gap	**5 423**	**11 506**	**60 517**	**81 170**	**–**
FNB Africa					
Net repricing gap	**3 433**	**(2 387)**	**429**	**603**	**(2 078)**
Cumulative repricing gap	**3 433**	**1 046**	**1 475**	**2 078**	**–**
Total cumulative repricing gap	**8 856**	**12 552**	**61 992**	**83 248**	**–**

	2012				
	Term to repricing				
R million	< 3 months	> 3 but ≤ 6 months	> 6 but ≤ 12 months	> 12 months	Non-rate sensitive
FirstRand Bank					
Net repricing gap	71 077	(4 164)	(5)	15 650	(82 558)
Cumulative repricing gap	71 077	66 913	66 908	82 558	–
FNB Africa					
Net repricing gap	2 555	(1 398)	(484)	1 558	(2 231)
Cumulative repricing gap	2 555	1 157	673	2 231	–
Total cumulative repricing gap	73 632	68 070	67 581	84 789	–

* *This repricing gap analysis excludes the banking books of RMB and the international balance sheet, both of which are managed separately. In the current financial year the disclosed repricing gap has been behaviourally adjusted to align with NII assumptions. For comparability, prior year numbers have been restated to reflect this behavioural adjustment.*

SENSITIVITY ANALYSIS

NII sensitivity

NII models are run on a monthly basis to provide a measure of the NII sensitivity of the existing balance sheet to shocks in interest rates. Different scenarios are modelled including parallel and key rate shocks as well as yield curve twists and inversions as appropriate. Underlying transactions are modelled on a contractual basis, assuming a constant balance sheet size and mix. No adjustments are made for prepayments in the underlying book, however, prepayment assumptions are factored into the calculation of hedges for fixed rate lending. Roll-over assumptions are not applied to off-balance sheet positions.

The following tables show the 12-month NII sensitivity for a 200 bps downward parallel shock to interest rates. The decreased sensitivity in June 2013 from June 2012 is attributable to an increase in the use of derivative positions to manage interest rate risk in line with the macroeconomic outlook. The book was positioned for rate cuts in the current financial year as a result of global growth concerns and domestic challenges.

Assuming no change in the balance sheet and no management action in response to interest rate movements, an instantaneous and sustained parallel decrease in interest rates of 200 bps would result in a reduction in projected 12-month NII of R1 049 million, a similar increase in interest rates would result in an increase in projected 12-month NII of R934 million.

Sensitivity of the Group's projected NII

	2013		
	Change in projected 12 month NII		
R million	**FirstRand Bank**	**FNB Africa**	**FirstRand**
Downward 200 bps	**(789)**	**(260)**	**(1 049)**
Upward 200 bps	**676**	**258**	**934**

	2012		
	Change in projected 12 month NII		
R million	FirstRand Bank	FNB Africa	FirstRand
Downward 200 bps	(1 514)	(241)	(1 755)
Upward 200 bps	1 562	238	1 800

The NII sensitivity analysis excludes the banking books of RMB and the international balance sheet, both of which are managed separately. The Group's average endowment book was R88 billion and the negative endowment impact was approximately R422 million for the year.

Economic value of equity

EVE sensitivity measures are calculated on a monthly basis. The impact on equity is as a result of the net open position after hedging used to manage IRRBB. The impact on equity occurs either as a result of fair value movements on these positions being recognised in the income statement, or movements deferred to the available for sale/cash flow hedging reserves.

The following table shows the EVE measures for a -200 bps and +200 bps instantaneous, parallel shock to rates on open positions run in Group Treasury. This is shown as a percentage of total Tier 1 and Tier 2 capital for the Group (which is unaudited). The change in the current year is attributable to growth in the retail fixed book.

Sensitivity of the Group's reported reserves to interest rate movements

R million	**2013**	2012
Downward 200 bps		
Available-for-sale	**1 085**	1 008
Cash flow	**(1 486)**	(1 006)
Total sensitivity	**(401)**	2
As % of Tier 1 and Tier 2 capital (%)	**(0.473)**	0.004
Upward 200 bps		
Available-for-sale	**(934)**	(871)
Cash flow	**1 350**	916
Total sensitivity	**416**	45
As % of Tier 1 and Tier 2 capital (%)	**0.490**	0.065

The sensitivity analysis excludes the banking books of RMB and international balance sheet, both of which are managed separately. The majority of the sensitivity originates from the endowment book, which averaged R88 billion for the 2013 financial year.

EQUITY INVESTMENT RISK IN THE BANKING BOOK

INTRODUCTION AND OBJECTIVES (AUDITED)

Historically equity investment risk has arisen from portfolio investments in equity instruments undertaken in RMB. These positions are originated mainly through its Private Equity, Resources and Investment Banking divisions.

Given the mandate to grow the investment management strategy of the Group, Ashburton Investments was launched to provide a wider asset management service. This might require the seeding of new traditional and alternative funds both locally and offshore, which may expose the Group to equity investment risk.

In addition, equity investments risk arises from strategic investments held by WesBank, FNB and the Corporate Centre.

The Group actively monitors regulatory developments, including amendments to current Basel capital requirements and the impact of Basel III. This has resulted in changes to the risk weighting of certain classes of investments.

The overall quality of the investment portfolio remains acceptable and is within risk appetite. During the year under review, there were few equity realisations with several new equity investments undertaken as part of a portfolio rebuilding strategy.

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:

- PIC, 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 rest with the respective credit committees and LEC, as appropriate;
- the biannual Investment risk oversight committee assesses the quality, size and performance of the investment portfolio across RMB and reviews movements in light of risk appetite;
- 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. FNB and WesBank executive management monitor and manage investments through the financial reporting process; and
- RCC and MIRC committees are responsible for the oversight of investment risk measurement and management across the Group;

In Ashburton Investments, new fund investments are approved by the investment forum before review and approval by its investment product development, investment distribution and executive committees. Also prior to seeding, capital and investment limits are provided by the capital management committee and MIRC respectively. Ashburton is in the process of establishing its own capital management committee to monitor and report on these positions to the appropriate Group governance committees. Ashburton Investments currently reports into the Corporate Centre audit and risk committees.

ASSESSMENT AND MANAGEMENT

Management of exposures (audited)

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

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

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

Recording of exposures – accounting policies (audited)

IAS 39 requires equity investments to be classified as financial assets at fair value through profit and loss, or available-for-sale financial assets.

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

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

Measurement of risk exposures (audited)

Risk exposures are measured as potential losses under stress conditions. A series of standardised stress tests are used to assess potential losses under current market conditions, adverse market conditions, as well as severe stress/event risk. These stress tests are conducted at individual investment and portfolio levels.

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

Stress testing (audited)

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

Regulatory and economic capital

The Basel simple risk weighted method (300% or 400%) under the market based approach is applied for the quantification of regulatory capital. Under Basel III and *Regulations relating to Banks*, the risk weightings to investments in financial institutions are subject to the aggregate value of the Group's shareholding in these investments and also in relation to the Group's capital. The shareholdings in the investments are bucketed depending on the size of investment.

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

Where price discovery is reliable, the risk of listed equity investments is measured based on a 90-day ETL calculated using RMB's internal market risk model. The ETL risk measure is supplemented by a measure of the specific (idiosyncratic) risk of the individual securities per the specific risk measurement methodology.

EQUITY INVESTMENT RISK PROFILE

Market prices in selected industries continue to present the Group with opportunities to build its private equity portfolio. Unrealised profits for the investment portfolio continue to remain resilient. The private equity portfolio has been subject to a portfolio rebuilding initiative during the financial year.

Investment risk exposure and sensitivity of investment risk exposure

R million	**2013**	2012
Listed investment risk exposure included in the equity investment risk ETL process*	**431**	687
ETL on above equity investment risk exposures*	**194**	377
Estimated sensitivity of remaining investment balances**		
– Sensitivity to 10% movement in market value on investment fair value#	**462**	502
Cumulative gains realised from sale of positions in the banking book during the period	**550**	1 642

* *The decline in both exposure and ETL for listed investments from June 2012 to June 2013 was largely due to further run down of the legacy portfolios, derisking of the listed equity exposures and mark-to-market losses in the resources portfolio.*

** *These are the investment balances not subject to the equity investment risk ETL process.*

Audited.

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

Investment valuations and associated regulatory capital requirements

	2013		
R million	**Publicly quoted investments**	**Privately held**	**Total**
Carrying value of investments*	**2 521**	**9 262**	**11 783**
Latent revaluation gains not recognised in the balance sheet**	**–**	**3 610**	**3 610**
Fair value#	**2 521**	**12 872**	**15 393**
Total unrealised losses recognised directly in balance sheet through equity instead of the income statement**	**517**	**–**	**517**
Capital requirement†	**718**	**3 279**	**3 997**

* *The carrying value includes investments in financial entities, which from 1 January 2013 are subject to the Basel III 250% risk weighting.*
** *These unrealised gains or losses are not included in Tier 1 or Tier 2 capital.*
# *The fair values of listed private equity investments were not considered to be materially different from the quoted market prices.*
† *Capital requirement calculated at 9.5% of RWA (excluding the bank-specific ICR), and includes capital on investments in financial entities. These investments are included as other assets in the RWA table in the Capital section.*

	2012		
R million	Publicly quoted investments	Privately held	Total
Carrying value of investments	2 509	10 064	12 573
Latent revaluation gains not recognised in the balance sheet*	–	3 054	3 054
Fair value**	2 509	13 118	15 627
Total unrealised gains recognised directly in balance sheet through equity instead of the income statement*	55	44	99
Capital requirement#	715	3 824	4 539

* *These unrealised gains or losses are not included in Tier 1 or Tier 2 capital.*
** *The fair values of listed private equity investments were not considered to be materially different from the quoted market prices.*
# *Capital requirement calculated at 9.5% of RWA (excluding the bank-specific ICR).*

FOREIGN EXCHANGE AND TRANSLATION RISK IN THE BANKING BOOK

INTRODUCTION AND OBJECTIVES (AUDITED)

Foreign exchange risk arises from on- and off-balance sheet positions whose valuation in rand is subject to currency movements. Key activities giving rise to these positions are foreign currency placements, lending and investing activities, 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 from 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 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 Global Markets. Foreign currency funding, foreign assets as well as foreign currency exposure, liquidity and term mismatch are consolidated under and managed by Group Treasury.

Market risk, foreign exposure and mismatch limits are approved by the board and the primary governance body is the RCC committee. Trading risk and the net open forward position in foreign exchange (NOFP) are overseen by MIRC, a subcommittee of the RCC committee and mismatch risk is governed through FirstRand ALCCO and international ALCCO processes. In addition to the committee structures, business units charged with frontline management of these risks have deployed risk managers within their units who assess and report on an ongoing basis.

ASSESSMENT AND MANAGEMENT (AUDITED)

In addition to the regulatory prudential limit on foreign asset exposure (25% of local liabilities), 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 reviewed when necessary.

The Group's NOFP is within the regulatory limit of USD650 million, with the actual exposure ranging at ±USD200 million. Senior management implemented various levels of internal prudential limits, taking into account fluctuating exchange rates and the Group's capital position, again below the regulatory limit but large enough to cater for hedging, settlement and execution positions of business units. Group Treasury is the clearer of all currency positions in FirstRand and is, therefore, tasked with the responsibility for managing the Group's position within all internal and prudential limits. Any breaches are reported through the risk management structures and corrective action is monitored by both the deployed risk managers 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 well contained 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. Allowances were also made for newly established foreign entities of the Group, allowing slightly higher internal management triggers so as not to constrain growth in the start-up phase. The standard management triggers are applied to the mature foreign entities. The macro foreign asset exposure of the Group remained below both regulatory and board limits and there is significant headroom for expansion into foreign assets.

FUNDING AND LIQUIDITY RISK

INTRODUCTION AND OBJECTIVES (AUDITED)

The Group distinguishes three types of liquidity risk:

- **funding liquidity risk** is the risk that a bank will not be able to effectively meet current and future cash flow and collateral requirements without negatively affecting the normal course of business, financial position or reputation;
- **market liquidity risk** is the risk that market disruptions or lack of market liquidity will cause the bank to be unable (or able, but with difficulty) to trade in specific markets without affecting market prices significantly; and
- **mitigation of market and funding liquidity risks** is achieved via contingent liquidity risk management. Buffer stocks of highly liquid assets are held either to be sold into the market or provide collateral for loans to cover any unforeseen cash shortfall that may arise.

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

Funding structure

The banking sector in South Africa is characterised by certain structural features, such as a low discretionary savings rate and a higher degree of contractual savings that are captured by institutions such as pension funds, provident funds and providers of asset management services. A portion of these contractual savings translate into institutional funding for banks which has higher liquidity risk than retail deposits. The structural liquidity risk is therefore higher in South Africa than in most other markets. This risk is, however, to some extent mitigated by the following factors:

- the closed rand system where all rand transactions are cleared and settled in South Africa through registered banks and clearing institutions domiciled in South Africa;
- the prudential exchange control framework in place in South Africa; and
- the low dependency of South African banks on foreign currency funding.

In the light of the structural funding issues focus is currently placed on a risk-adjusted diversified funding profile in line with Basel III requirements. The release of the updated Basel III LCR reduces the reliance on the SARB committed liquidity facility. The increase in LCR is driven by lower outflow factors for non-operational cash flows, increased availability of qualifying high-quality liquid assets and reduced contingent outflows. In addition, the time frame for compliance has been adjusted to a phased-in approach with a 60% requirement in 2015 and 10% incremental step-ups each year.

Surplus liquidity buffers for cash flow management are amended in line with available liquidity in government debentures, treasury bills and bonds. The current level is considered sufficient relative to current market conditions.

ORGANISATIONAL STRUCTURE AND GOVERNANCE

Liquidity risk management is governed by the liquidity risk management framework (LRMF), which provides relevant standards in accordance with regulatory requirements and international best practices. As a subframework to the BPRMF, the LRMF is approved by the board and sets out consistent and comprehensive standards, principles, policies and procedures to be implemented throughout the Group to effectively identify, measure, report and manage liquidity risk.

The board retains ultimate responsibility for the effective management of liquidity risk. The board has delegated its responsibility for the assessment and management of this risk to the RCC committee, which in turn delegated this task to FirstRand ALCCO. FirstRand ALCCOs primary responsibility is the assessment, control and management of both liquidity and interest rate risk for the Bank, FNB Africa, and international subsidiaries and branches, either directly or indirectly, through providing guidance, management and oversight to the asset and liability management functions and ALCCOs in these subsidiaries and branches.

South Africa

Liquidity risk for FRB solo, i.e. FRB excluding foreign branches, is centrally managed by a dedicated liquidity and funding team in Group Treasury. Governance is provided by an independent risk team responsible for ensuring that the liquidity risk management framework is implemented appropriately.

The Group's liquidity position, exposures and auxiliary information are reported weekly to the funding and liquidity portfolio management committee and monthly at the funding executive committee. In addition, management aspects of the liquidity position are reported to Group Treasury. The liquidity risk management team also provides regular reports to FirstRand ALCCO.

Rest of Africa

Individual ALCCOs have been established in each of the FREMA businesses which manage liquidity risk on a decentralised basis, in line with the principles under delegated mandates from the respective boards. Reports from these committees are regularly presented to FirstRand ALCCO and management and control of liquidity risk in the subsidiaries follows the guidance and principles that have been set out and approved by FirstRand ALCCO.

International subsidiaries

Similarly, liquidity risk for international subsidiaries is managed on a decentralised basis in line with the Group's LRMF. Each international subsidiary and branch reports into the international ALCCO, which is a subcommittee of FirstRand ALCCO and meets quarterly to review and discuss region-specific liquidity and interest rate risk issues. Individual ALCCOs are held locally monthly which include representation from Group Treasury.

FirstRand has been granted renewable dispensation by the Prudential Regulatory Authority (PRA) for a waiver on a *Whole-firm Liquidity Modification application* basis where the PRA considers local risk reporting and compliance of the parent bank sufficient to waive PRA requirements for FirstRand Bank (London branch). PRA reporting commenced from January 2011.

LIQUIDITY RISK MANAGEMENT

The Group acknowledges liquidity risk as a consequential risk that may be caused by other risks as demonstrated by the reduction in liquidity in many international markets as a consequence of the recent credit crisis. The Group is, therefore, focused on continuously monitoring and analysing the potential impact of other risks and events on the funding and liquidity position of the organisation to ensure business activities preserve and improve funding stability. This ensures the Group is able to operate through a period of stress when access to funding is constrained.

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

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 a reasonable cost.	Ensuring that intraday and day-to-day anticipated and unforeseen payment obligations can be met by maintaining a sustainable balance between liquidity inflows and outflows.	Maintaining a number of contingency funding sources to draw upon in times of economic stress.
- liquidity risk tolerance; - liquidity strategy; - ensuring substantial diversification across different funding sources; - assessing the impact of future funding and liquidity needs taking into account expected liquidity shortfalls or excesses; - setting the approach to managing liquidity in different currencies and from one country to another; - ensuring adequate liquidity ratios; - ensuring adequate structural liquidity gap; and - maintaining a funds transfer pricing methodology and processes.	- managing intraday liquidity positions; - managing daily payment queue; - monitoring net funding requirements; - forecasting cash flows; - perform short-term cash flow analysis for all currencies individually and in aggregate; - management of intragroup liquidity; - managing central bank clearing; - managing net daily cash positions; - managing and maintaining market access; and - managing and maintaining collateral.	- managing early warning and key risk indicators; - performing stress testing including sensitivity analysis and scenario testing; - maintaining product behaviour and optionality assumptions; - ensuring that an adequate and diversified portfolio of liquid assets and buffers are in place; and - maintaining the contingency funding plan.

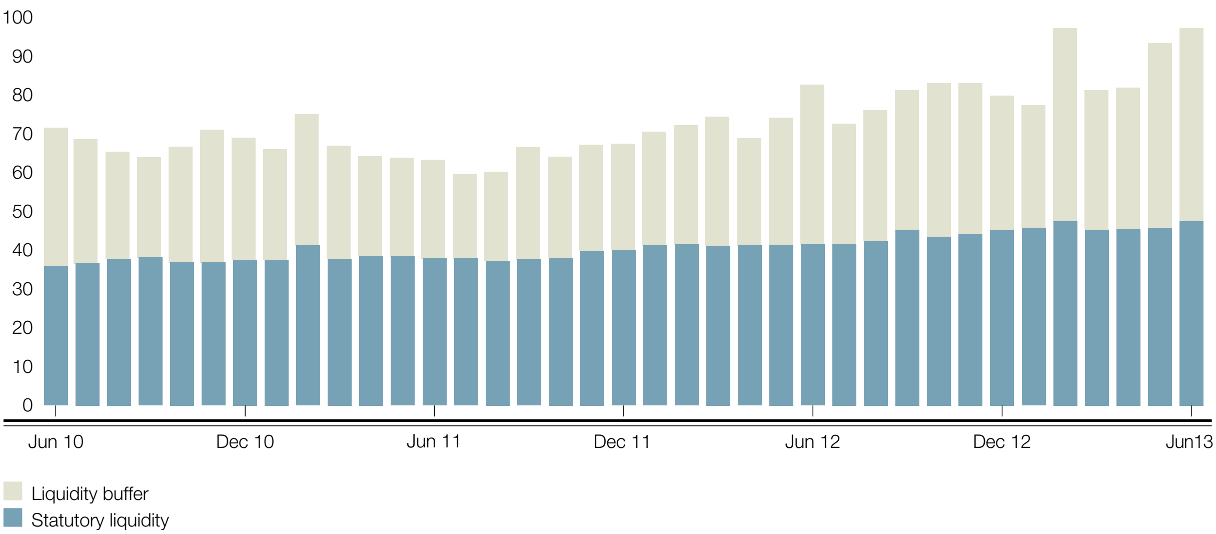
Available liquidity

Liquidity buffers are actively managed via high quality, highly liquid assets that are available as protection against unexpected events or market disruptions. The buffer methodology has been defined and linked to regular stress testing and scenario analysis. The methodology is adaptive and will be responsive to Basel III changes on the LCR.

The following chart shows the liquidity buffer and statutory liquidity requirements.

FRB's liquidity buffer and statutory liquidity requirements*

(R billion)



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

In addition to the measurement and management of liquidity profiles, various key risk indicators are defined that highlight potential risks within defined thresholds. Two levels of severity are defined for each indicator. Monitored on a daily and monthly basis, the key risk indicators may trigger immediate action where required. Current status and relevant trends are reported to the FirstRand ALCCO and the RCC committee quarterly.

Stress testing and scenario analysis

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

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

Liquidity contingency planning

Frequent volatility in funding markets and the fact that financial institutions can and have experienced liquidity problems even during good economic times have highlighted the relevance of quality liquidity risk and contingency management processes.

The Group's ability to meet all of its daily funding obligations and emergency liquidity needs is of paramount importance and, in order to ensure that this is always adequately managed, the Group maintains a liquidity contingency plan (LCP).

The objective of LCP is to achieve and maintain funding levels in a manner that allows the Group to emerge from a potential funding crisis with the best possible reputation and financial condition for continuing operations. The plan is expected to:

- support effective management of liquidity and funding risk under stressed conditions;

- establish clear roles and responsibilities in the event of a liquidity crisis; and
- establish clear invocation and escalation procedures.

The LCP provides a pre-planned response mechanism to facilitate swift and effective responses to contingency funding events. These events may be triggered by financial distress in the market (systemic) or a bank-specific event (idiosyncratic) which may result in the loss of funding sources.

It is reviewed annually and tested biannually via a Group-wide liquidity stress simulation exercise to ensure the document remains up to date, relevant and familiar to all key personnel within the Group that have a role to play should the Group ever experience an extreme liquidity stress event.

Recovery plan

The Group is currently in the latter stage of the development of its recovery plan per the SARB guidance to ensure that regulatory requirements are met.

FUNDING STRATEGY

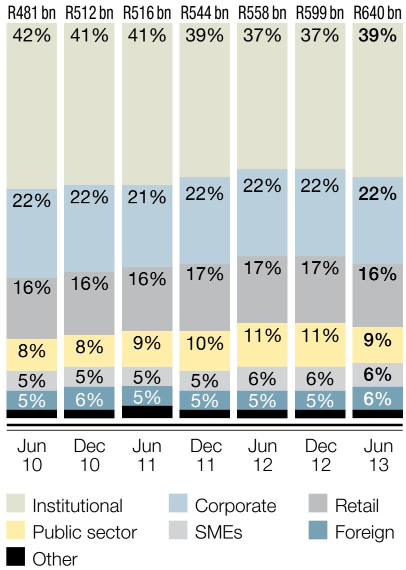
The Group's objective is to fund its activities in a sustainable, diversified, efficient and flexible manner, underpinned by strong counterparty relationships within prudential limits and requirements. The objective is to maintain natural market share of transactional accounts and balances, but also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

Compliance with the Basel III LCR influences the funding strategy, in particular as it seeks to restore the correct risk-adjusted pricing of deposits. FirstRand is actively building its deposit franchise through innovative and competitive products and pricing, while improving the risk profile of its wholesale funding.

The following table illustrates the Bank's sources of funding by counterparty and the total deposit funding base.

FRB funding analysis by source*

(R billion)

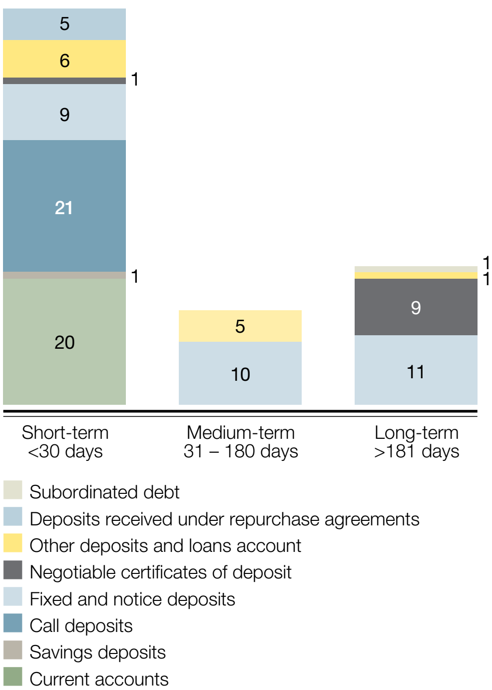


** Reflects solo supervision, FRB excluding foreign branches.*

The following charts illustrate the Group's funding instruments by instrument type and term structure of funding.

FRB funding liabilities by instrument type at 30 June 2013*

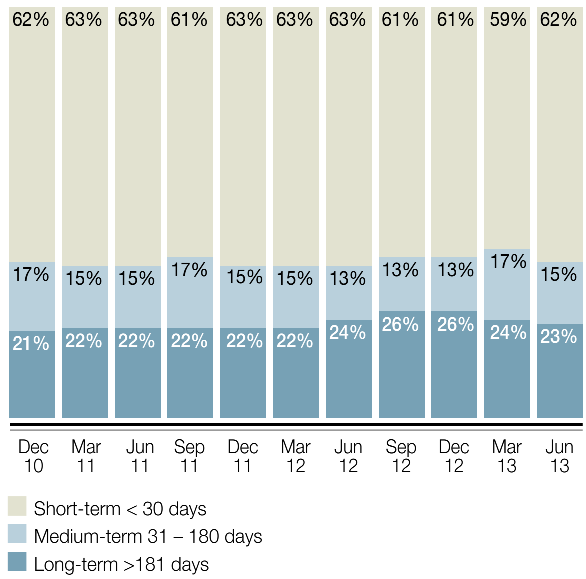
(%)



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

Term structure of FRB funding liabilities*

(%)



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

The business is incentivised to preserve and enhance funding stability via the funds transfer pricing framework, which ensures the pricing of assets is in line with liquidity risk, liabilities in accordance with funding maturity and contingencies in respect of the potential funding draws on the Group.

LIQUIDITY RISK PROFILE (AUDITED)

Undiscounted cash flow

The following table 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 reconcile to the balance sheet for the following reasons:

- balances are contractual, undiscounted amounts whereas the balance sheet is prepared using discounted amounts;
- 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 as 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) – maturity analysis of liabilities based on the undiscounted amount of the contractual payment

	2013			
		Term to maturity		
R million	Carrying amount	Call – 3 months	4 – 12 months	> 12 months
Liabilities				
Deposits and current accounts	**738 900**	**503 872**	**100 472**	**134 556**
Short trading positions	**2 991**	**2 991**	**–**	**–**
Derivative financial instruments	**53 171**	**51 280**	**508**	**1 383**
Creditors and accruals	**11 361**	**10 046**	**761**	**554**
Tier 2 liabilities	**11 494**	**151**	**556**	**10 787**
Other liabilities	**7 453**	**2 682**	**1 023**	**3 748**
Policyholder liabilities under insurance contracts	**1 112**	**172**	**266**	**674**
Policyholder liabilities under investment contracts	**–**	**–**	**–**	**–**
Financial and other guarantees	**39 931**	**35 018**	**2 328**	**2 585**
Operating lease commitments	**2 514**	**225**	**580**	**1 709**
Facilities not drawn	**78 783**	**59 165**	**4 348**	**15 270**

	2012			
		Term to maturity		
R million	Carrying amount	Call – 3 months	4 – 12 months	> 12 months
Liabilities				
Deposits and current accounts	641 809	432 128	76 444	133 237
Short trading positions	5 343	5 343	–	–
Derivative financial instruments	53 958	52 016	443	1 499
Creditors and accruals	9 080	8 294	521	265
Tier 2 liabilities	10 437	13	1 346	9 078
Other liabilities	7 445	72	825	6 548
Policyholder liabilities under insurance contracts	1 523	339	56	1 128
Policyholder liabilities under investment contracts	71	–	8	63
Financial and other guarantees	30 920	25 327	2 733	2 860
Operating lease commitments	3 217	142	897	2 178
Facilities not drawn	69 348	57 438	3 100	8 810

Contractual discounted cash flow analysis

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

Due to South Africa's structural liquidity position, banks tend to have a particularly pronounced negative (contractual) gap in the shorter term short-term institutional funds which represent a significant proportion of banks' liabilities. These are used to fund long-term assets, e.g. mortgages.

Therefore, in addition to the analysis in the previous table, 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 (audited) – maturity analysis of assets and liabilities based on the present value of the expected payment

	2013			
		Term to maturity		
R million	**Carrying amount**	**Call – 3 months**	**4 – 12 months**	**> 12 months**
Total assets	**869 669**	**309 920**	**99 331**	**460 418**
Total equity and liabilities	**869 669**	**572 026**	**98 597**	**199 046**
Net liquidity gap	**–**	**(262 106)**	**734**	**261 372**
Cumulative liquidity gap	**–**	**(262 106)**	**(261 372)**	**–**

	2012			
		Term to maturity		
R million	Carrying amount	Call – 3 months	4 – 12 months	> 12 months
Total assets	769 765	295 061	66 046	408 658
Total equity and liabilities	769 765	498 741	78 177	192 847
Net liquidity gap	–	(203 680)	(12 131)	215 811
Cumulative liquidity gap	–	(203 680)	(215 811)	–

As illustrated in the table above, the negative contractual liquidity short-term gap deteriorated slightly in the short end on a cumulative basis. Management continues to align stress funding buffers both locally and offshore, taking into account prevailing economic and market conditions.

OPERATIONAL RISK

INTRODUCTION AND OBJECTIVES

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events. The Group believes that effective management of operational risk is key to the achievement of its business strategy. Accordingly, there is ongoing evaluation of existing frameworks, policies, methodologies, processes, systems and infrastructure for relevance and to ensure that operational risk management practices are in line with regulatory developments and emerging best practices.

Operational risk strategic objectives for the year ahead continue to focus on building an effective and forward-looking operational risk management programme, encompassing, amongst other things, the management and oversight of IT and infrastructure risk, internal and external fraud, litigation, business disruption and process risk. The key operational risk strategic objectives are:

- embedding operational risk management systems and processes implemented in the previous financial year;
- optimising benefits of automated and integrated risk tools;
- embedding and monitoring adherence to operational risk appetite limits;
- ongoing refinement of the maturity of the AMA components and methodologies;
- continuing improvements to the control environment; and
- maintaining the AMA status.

The year under review

The year under review was characterised by a number of initiatives aimed at improving operational risk maturity and driving efficiency in operational risk management processes.

The principal operational risks currently facing the Group are:

- commercial and violent crime;
- information security risk (risk of loss or theft of information), this risk is rapidly changing with increasingly sophisticated global attacks by cybercrime groups; and
- execution, delivery and process management risk (risk of process weaknesses and control deficiencies) as the business continues to grow and evolve.

Risk maturity assessments were conducted across the Group to identify key processes requiring improvements. Projects to address these are tracked and reported at Group level through the risk governance process.

The integration and automation of the Group's operational risk management and measurement tools onto a single platform to enhance operational risk management processes is near completion.

Business areas within the Group continued to rollout using a phased-in approach, the process-based risk and control identification and assessment methodology aimed at comprehensive identification and assessment of risks and controls within end-to-end business processes per product/service.

Operational risk appetite at Group and divisional levels has been set. This enables the Group and its divisions to measure and monitor operational risk profiles against respective approved operational risk appetite levels, and to set the boundaries for operational risk within which business decisions can be made.

Due to improved controls (e.g. continued deployment of Euro, MasterCard, Visa (EMV) cards, improvement in user authentication processes and fraud detection capabilities at a transaction level) losses from commercial and violent crime decreased compared to the prior year. In the year ahead, focus will be placed on cybercrime which is perceived to be the dominant future threat in the financial services sector globally.

The Group implemented its own work area recovery facility and upgraded power supply, management equipment and infrastructure for key facilities. A third redundant data centre is being implemented to improve the Group's business resilience capability.

The Group's IT risk and governance functions have been integrated within ERM, with relevant governance forums in place to ensure continued monitoring and mitigation of IT risk across the Group. The Group's IT and related frameworks are being reviewed to ensure alignment with changing business models and technology landscapes.

Information, whether the Group's or that entrusted to it by customers, staff or business partners, is a valuable asset and the management of information remains integral to the way the Group operates. To this end, an information governance framework was developed to ensure that information is managed in accordance with its value, sensitivity and the risks to which it is exposed.

Key focus has been on the refinement of information governance structures, processes and the improvement of data quality and records management practices. Information governance committees have been established in all divisions and information governance now forms an integral part of the overall risk management framework of the Group.

Looking ahead, the Group will continue to improve its information management capabilities by embedding governance structures, continuous improvement of the information control environment and rolling out awareness programmes on relevant topics including records management, data quality management and data privacy management.

ORGANISATIONAL STRUCTURE AND GOVERNANCE

The board has delegated its approval and review authority for operational risk to the operational risk committee (ORC), a subcommittee of the RCC committee. ORC is responsible for monitoring the implementation of the ORMF and oversight over the management of operational risk across the Group. 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.

Within operational risk, a number of key risks exist for which specialised teams, frameworks, policies and processes have been established. Fraud and physical security, business resilience, legal, information technology and insurance have dedicated specialist teams who provide oversight which is integrated into the broader operational risk management and governance processes.

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

MEASUREMENT

Basel – advanced measurement approach

FirstRand applies AMA under Basel for the Group's domestic operations. Offshore subsidiaries and operations continue to use TSA for operational risk and all previously unregulated entities that are now part of FRIHL use BIA. FirstRand continuously assesses the feasibility of migrating TSA and BIA entities to AMA (subject to internal and regulatory constraints).

Under AMA, FirstRand uses a sophisticated statistical model for the calculation of capital requirements, which enables more accurate risk-based measures of capital for all business units on AMA.

Operational risk scenarios (covering key risks that, although low in probability, may result in severe losses) and internal loss data are inputs into this model.

Scenarios are derived through an extensive analysis of the Group's operational risks in consultation with business and risk experts from the respective business areas. Scenarios are cross referenced to external loss data, internal losses, key risk indicators, risk and control self assessments and other pertinent information about relevant risk exposures. To ensure ongoing accuracy of risk and capital assessments, all scenarios are reviewed, supplemented or updated semi-annually, as appropriate.

The loss data used for risk measurement, management and capital calculation is collected for all seven Basel event types across various internal business lines. Data collection is the responsibility of the respective business units and is overseen by the operational risk management team in ERM.

The modelled operational risk scenarios are combined with modelled loss data in a simulation model to derive the annual, aggregate distribution of operational risk losses. Basel Pillar 1 minimum capital requirements are then calculated (for the Group and each franchise) as the operational VaR at the 99.9th percentile of the aggregate loss distribution, excluding the effects of insurance, expected losses and correlation/diversification.

Capital requirements are calculated for each franchise using the AMA capital model and then allocated to the legal entities within the Group based on gross income contribution ratios. This split of capital between legal entities is required for internal capital allocation, regulatory reporting and performance measurement purposes.

TSA and BIA capital calculations are based on a multiplication factor applied to gross income, as specified by Basel and SARB regulations. No risk-based information is used in these capital calculations and allocations.

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

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

ASSESSMENT AND MANAGEMENT

Operational risk assessment and management tools

The Group obtains assurance that the principles and standards in the ORMF are being adhered to by the three lines of control model integrated in operational risk management. In this model, business units own the operational risk profile as the first line of control. In the second line of control, ERM is responsible for consolidated operational risk reporting, policy ownership and facilitation and coordination of operational risk management and governance processes. GIA, as the third line of control, provides independent assurance of the adequacy and effectiveness of operational risk management processes and practices.

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

Operational risk assessment and management tools

Risk control self assessments and process-based risk and control identification and assessments	Key risk indicators
• integrated in the day-to-day business and risk management processes; • used by business and risk managers to identify and monitor key risk areas and assess the effectiveness of existing controls; and • process-based risk and control identification and assessment (currently being rolled out) per product/service based on key business processes.	• used across the Group in all businesses as an early warning measure; • highlight areas of changing trends in exposures to specific key operational risks; and • inform operational risk profiles which are reported periodically to the appropriate management and risk committees and are monitored on a continuous basis.
Internal/external loss data	**Risk scenarios**
• the capturing of internal loss data is well entrenched within the Group; • internal loss data reporting and analyses occur at all levels with specific focus on root cause and process analysis and corrective action; and • external loss databases are used to learn from loss experiences of other organisations and as inputs to the risk scenario processes.	• risk scenarios are widely used to identify and quantify low frequency extreme loss events; • senior executives of the business actively participate in the biannual reviews; and • results are tabled at the appropriate risk committees and are used as input to the capital modelling process.

The process-based risk and control identification and assessments are being rolled out across the Group will and replace the risk control self assessments to ensure a comprehensive understanding of end-to-end business processes.

FirstRand uses an integrated and reputable operational risk system which is well positioned as the core operational risk system and provides a solid platform for automation of all operational risk tools. The automation and integration of all the operational risk tools on the operational risk system is near completion.

Operational risk events

As operational risk cannot be avoided or mitigated entirely, frequent operational risk events resulting in small losses are expected as part of business operations (e.g. external fraud) and are budgeted for appropriately. Business areas minimise these losses through continuously monitoring and improving relevant business and control practices and processes. Operational risk events resulting in substantial losses occur much less frequently and the Group strives to minimise these and contain frequency and severity within its risk appetite levels.

Operational risk management processes

Within operational risk, a number of key risks exist in respect of which specialised teams, frameworks, policies and processes have been established and integrated into the broader operational risk management and governance processes as described for the major operational risks, which includes business resilience management, legal risk, IT risks and information governance, fraud and security risks and risk insurance.

Business resilience management

Business resilience management focuses on ensuring that the Group's operations are resilient to the risk of severe disruptions caused by internal failures or external events. The business resilience steering committee, a subcommittee of the ORC, has oversight of business resilience management.

The business resilience practices of the Group are documented in the Group's business resilience policy and supporting standards, which are approved at the ORC. The policy, a subframework of the ORMF, requires the development and maintenance of business continuity strategies and plans. It also requires regular business continuity assessments and testing to be carried out in all business units and the results reported to the business resilience steering committee.

The Group carries out regular reviews of business resilience management practices and any disruptions or incidents are assessed and regularly reported to the relevant risk committees.

Legal risk

The legal risk management framework, a subframework of the ORMF, addresses and seeks to guide the operations of the Group in areas such as the creation and ongoing management of contractual relationships, management of disputes, which do or might lead to litigation, protection and enforcement of property rights (including intellectual property) and failure to account for the impact of the law or changes in the law brought about by legislation or decisions of the courts. Whilst compliance with law is a major element of legal risk, RRM, through the regulatory risk management governance framework and attendant programme, manages this aspect of legal risk. Added to these substantive and direct risks is the management of risk around the procurement of external legal resources.

A legal risk management programme is in place to work towards the goal of ensuring that comprehensive, sound operational risk governance practices and solutions are adopted in respect of legal risk management which represent best practice and align to the Group's overall risk management programme. The legal risk committee, a subcommittee of the ORC, has oversight of legal risk management.

IT risks and information governance

Information risk is concerned with the quality and protection of information and information systems against unauthorised access, destruction, modification, use and disclosure. The goal is to ensure confidentiality, availability and integrity of all information and systems that maintain, process and disseminate this information. To this end a distinction is made between:

- IT risk management and governance (protection of systems); and
- information governance (accountability for and quality of information).

The Group's IT risk management framework, acceptable use of information resources policy and information security policy provide the basis for the management of IT risk and information security within the Group.

The IT risk management framework defines the objectives of IT risk management and processes that are to be embedded, managed and monitored across the Group for effective management of IT risk.

The information governance framework, based on the best practices and principles contained in national and international standards, has been tailored to reflect the business and regulatory environment within which FirstRand operates.

Fraud and security risks

Fraud risk is defined as the risk of loss resulting from unlawfully making, with intent to defraud, misrepresentation which causes actual prejudice or which is potentially prejudicial to another. Fraud incorporates both internal (staff) criminal activities as well as those that emanate from an external source.

Fraud risk is governed by the fraud risk management framework, which is a subframework of the ORMF. The Group utilises a deployed fraud risk management model that requires businesses to institute processes and controls specific and appropriate to operations within the constraints of a consistent governance framework. This is overseen by the fraud risk management function reporting to the Group CRO.

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

Risk insurance

The Group has a structured insurance risk financing programme in place, which has been developed over many years to protect the Group against unexpected material losses arising from non-trading risks. The insurance risk programme is continuously refined through ongoing assessment of changing risk profiles, organisational strategy and growth, and monitoring of international insurance markets. The levels and extent of the various insurance covers are reviewed and benchmarked annually.

The Group's insurance-buying philosophy is to carry as much risk on its own account as is economically viable and to only protect itself against catastrophic risks through the use of third party insurance providers. Accordingly, the majority of cover is placed into the Group's wholly-owned first party dedicated insurance company, FirstRand Insurance Services Company Limited (FRISCOL). All cover on the main programme is placed with reinsurers with a minimum credit rating of A-. The insurance programme includes, *inter alia*, cover for operational risk exposures such as professional indemnity, directors and officers liability, crime bond, public and general liability, etc. The Group, however, does not consider insurance as a mitigant in the calculation of capital for operational risk purposes.

REGULATORY RISK

INTRODUCTION AND OBJECTIVES

The Group's RRM function plays an integral part in managing risks inherent in banking. The Group fosters a compliance culture in its operations that contributes to the overall objective of prudent regulatory compliance and risk management, by observing both the spirit and the letter of the law as an integral part of its business activities. The compliance culture also embraces broader standards of integrity and ethical conduct which concerns all employees.

The objective of the RRM function is to ensure that business practices, policies, frameworks and approaches across the organisation are consistent with applicable laws and that regulatory risks are identified and managed proactively throughout the Group. This culminates in the maintenance of an effective and efficient regulatory risk management framework with sufficient operational capacity throughout the Group to promote and oversee compliance with legislative and best practice requirements. In order to achieve the Group's regulatory risk management objectives, staff members are trained and made aware of compliance requirements in order to ensure a high level of understanding and awareness of the applicable regulatory framework.

The Group seeks to achieve full compliance with statutes and regulations and every effort is made to ensure that governance policies and practices and the implementation thereof appropriately aligns to regulatory and industry best practice requirements. 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.

It is of paramount importance that the Group ensures compliance with laws and regulations applicable to its operations. These include, among other, the provisions of the Banks Act, 1990, the *Regulations relating to Banks*, the Financial Intelligence Centre Act, 2001, the Financial Advisory and Intermediary Services Act, 2002 and the Consumer Protection Act, 2008. All compliance issues identified in this context should be effectively and expeditiously resolved by senior management with the assistance of RRM. This requires close cooperation with and interaction between RRM, other Group functions and various regulatory authorities.

The year under review

Banking legislation

The new *Regulations relating to Banks* became effective on 1 January 2013. It incorporates, among other, the requirements contained in the Basel III framework which is being phased in. Ongoing amendments to the Regulations are expected to ensure that the South African regulatory framework for banks remains aligned to internationally-agreed regulatory and supervisory standards.

Twin peaks

The most notable development and focus area of regulatory reforms is the anticipated implementation of a twin peaks model of financial regulation in South Africa. In terms of the broad policy objectives, it is expected that these reforms will be implemented in two phases, along with the development of legislation necessary to enable the relevant regulators to deliver on their revised mandates. As a key stakeholder, the Group will continue to foster close interaction and cooperation with the regulators in this regard.

The Group's ethics framework

The Group's Ethics Office is part of RRM and strategically directs an ethics framework which has attained increased maturity and impact during the year under review. Several culture- and people-risk assessments were conducted, some of which resulted in strategic and operational changes in certain areas and the proactive identification and management of several risk types. The focus on promotion of responsible business conduct was maintained and included intensified training on whistle blowing, conflict of interests avoidance, anti-bribery and corruption. Another focus area is the promotion of responsible market conduct and ensuring that the Group remains compliant with market conduct regulations and related industry best practice. Further enhancements to the robustness of the Group's responsible competitive practice programme are expected to mitigate related risks.

Protection of Personal Information (PoPI) Bill

The PoPI Bill is applicable to all personal information held by the Group in respect of employees, customers and suppliers. The Group is, in preparation of the anticipated legislation, devoting attention and resources to aspects such as security safeguards, processing and purpose specification of personal information, quality of personal information held, customer notification and consent, third party processors of personal information and complaints handling, to ensure compliance with the legislation, once enacted.

Greenhouse gas protocol guidance (GHG)

The Group has actively participated in the climate change technical advisory group on the development of GHG for financed GHG emissions through the United Nations Environment Program – finance initiative.

Carbon disclosure project (CDP)

As an investor signatory to the CDP, the Group submits, on an annual basis, a carbon disclosure report. The Group received a platinum rating for its carbon performance management and a gold award for its carbon disclosure with an overall rating of 96 per cent during 2012, which placed the Group amongst the top JSE-listed companies. The report contains information on carbon and climate change strategy and provides insight on how regulatory, physical and other related risks are managed. It also provides commentary on issues such as opportunities relating to carbon management and climate change, the Group's annual global carbon footprint and disclosure of performance against carbon emission reduction targets.

ORGANISATIONAL STRUCTURE AND GOVERNANCE

Responsibility for compliance with all relevant laws, related internal policies, regulations and supervisory requirements are delegated by the board to senior management and RRM. In order to assist board members to make informed judgements on whether the Group is managing its regulatory and compliance risks effectively, the head of RRM has overall responsibility for coordinating the management of the Group's regulatory risk, including monitoring, assessing and reporting on the level of compliance to senior management and the board. RRM complies with the prescribed requirements in terms of regulation 49 of the Regulations and its mandate is formalised in the Group's compliance risk management framework.

Governance oversight of the RRM function is conducted by a number of committees such as the RRM, RCC and Audit committees, all of which receive regular detailed reports from RRM on the level of compliance and instances of material non-compliance.

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 the respective franchises.

FirstRand has a formal social and ethics committee to exercise oversight over the governance and functioning of the Group-wide ethics programme. The FirstRand Group code of ethics is the cornerstone of FirstRand's ethics management framework.

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

ASSESSMENT AND MANAGEMENT

RRM's board mandate is to ensure full compliance with statutes and regulations. To achieve this, RRM has implemented appropriate structures, policies, processes and procedures to identify regulatory and supervisory risks. RRM monitors the management of these risks and reports on the level of compliance risk management to both the board and the Registrar of Banks. These include:

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

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

PUBLIC POLICY AND REGULATORY AFFAIRS OFFICE

The Group's Public Policy and Regulatory Affairs Office (PPRAO) provides the Group with a central point of engagement, representation and coordination in respect of relevant regulatory and public policy-related matters, at a strategic level. The PPRAOs function is differentiated from the existing and continuing engagement with regulators at an operational level (i.e. regulatory reporting, compliance and audit) with its main objective to ensure that Group executives and the franchises are aware of key developments relating to public policy, legislation and regulation, which are considered pertinent to the Group's business activities and to support executives in developing the Group's position on issues pertaining to government policy, proposed and existing legislation and regulation.

The PPRAO reports directly to the Group CEO and indirectly, through designated subcommittees, to the board. The PPRAO maintains close working relationships with RRM, ERM and the business unites where specific technical expertise reside.

REMUNERATION AND COMPENSATION

FirstRand's compensation policies and practices observe international best practice and comply with the requirements of the Banks Act, 1990 (Act No. 94 of 1990) and *FSB Principles for Sound Compensation Practices*. In accordance with the requirements of regulation 43 of the revised *Regulations relating to Banks* and the Basel requirements, full disclosure of the Group's compensation policies, practices and performance are included in the *Remuneration committee* report on pages 81 to 90 of this annual integrated report, and is published on FirstRand's website, www.firstrand.co.za.

ACCOUNTING POLICIES

1 INTRODUCTION

FirstRand Limited (the Group) is an integrated financial services company consisting of banking, insurance and asset management operations.

The Group adopts the following accounting policies in preparing its consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated.

2 BASIS OF PRESENTATION

The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The principal accounting policies are consistent in all material aspects with those adopted in the previous year, except for the adoption of:

- *IAS 1 Presentation of Financial Statements* was amended in June 2011 to require that items presented in other comprehensive income be classified based on whether the items will subsequently be reclassified to profit or loss or not. The amendment also requires that if an entity presents items of other comprehensive income before the related tax effects with the aggregated tax shown separately, the associated tax should also be presented separately for each type of other comprehensive item. This amendment is effective for annual periods beginning 1 July 2012. The Group has adopted the amendments made. This amendment addresses presentation in the annual financial statements and does not affect recognition and measurement. Therefore this amendment does not have a significant impact on the Group. The statement of other comprehensive income for the current year, including the comparative period, has been presented in accordance with the amended requirements.
- *IAS 12 Deferred Tax:* Recovery of Underlying Assets. This amendment to IAS 12 requires that deferred tax on investment property be measured at fair value and non-depreciable assets measured at revalued amounts be calculated based on the tax consequences that would arise on the sale of the property. As a result of the amendment, SIC 21 Income Taxes – Recovery of Revalued Non-Depreciable Assets has been withdrawn. It is not the Group's policy to measure non-depreciable assets at revalued amounts and it has always been the Group's policy to calculate deferred income tax on investment property at the capital gains tax rate. Therefore this amendment has had no impact on the Group nor has it resulted in the restatement of prior year numbers.
- The Group adjusts comparative figures to conform to changes in presentation in the current year. There were no restatements or reclassification to the primary financial statements in the current year.

The Group prepares its consolidated financial statements in accordance with the going concern principle using the historical cost basis, except for certain assets and liabilities.

These assets and liabilities include:

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are outlined in note 41.

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

3 CONSOLIDATION

3.1 Subsidiaries

The consolidated financial statements include the assets, liabilities and results of the operations of the parent company and its subsidiaries. Subsidiaries are all companies that the Group has direct or indirect control over, for its own benefit. The Group considers the existence and effect of potential voting rights that are presently exercisable or convertible in determining whether or not control exists. Subsidiaries are consolidated from the date on which the Group acquires effective control. Consolidation is discontinued from the date that control over the subsidiary is lost.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRS). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

The Group will consolidate a Special Purpose Entity (SPE) when the substance of the relationship between the Group and the SPE indicates that the Group controls the SPE.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

3.2 Business combinations

The Group uses the acquisition method of accounting to account for business combinations.

The consideration transferred for the acquisition is measured at the fair value of the assets transferred, equity instruments issued and the liabilities incurred or assumed at the acquisition date. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement and the acquisition date fair value of any existing equity interest held in the subsidiary. The contingent consideration is initially measured at fair value on the acquisition date. An obligation to pay contingent consideration is classified as either a financial liability or equity based on the respective definitions set out in IAS 32. The Group classifies any rights to the return of consideration previously transferred as a financial asset. Any asset or liability arising from a contingent consideration arrangement is subsequently measured at fair value.

Any changes resulting from additional and new information about events and circumstances that existed at the acquisition date and, if known, would have affected the measurement of the amounts recognised at that date, are considered to be measurement period adjustments. The Group retrospectively adjusts the amounts recognised for measurement period adjustments. The measurement period ends when the acquirer receives all the information it was seeking about facts and circumstances that existed at the acquisition date or learns that information is not obtainable. The measurement period shall, however, not exceed one year from the acquisition date. To the extent that changes in the fair value relate to post-acquisition events, these changes are recognised in accordance with the IFRS applicable to the specific asset or liability. Contingent consideration that is classified as equity is not remeasured after the acquisition date.

Transaction costs are expensed as incurred.

Identifiable assets acquired, and liabilities and contingent liabilities assumed in a business combination are measured at their fair value at the acquisition date.

Any difference between the sum of consideration transferred, the amount of any non-controlling interest in the subsidiary (also refer to accounting policy 3.3) and the acquisition date fair value of any previous equity interest in the subsidiary and the fair value of the Group's share of the identifiable net assets acquired, is recorded as goodwill. If this amount is negative as in the case of a bargain purchase, the difference is recognised immediately in profit or loss.

When control is achieved in stages, each transaction is accounted for separately and the identifiable assets, liabilities and contingent liabilities are measured at fair value at acquisition date.

3.3 Non-controlling interests

Non-controlling interests in the net assets of subsidiaries are separately identified and presented from the Group's equity therein. Non-controlling interests can initially be measured either at fair value or at the non-controlling interests' proportionate share of the subsidiary's identifiable net assets at the acquisition date. This is not an accounting policy election and the Group will apply the choice of measurement basis on an acquisition by acquisition basis.

Subsequently the non-controlling interests consist of the amount attributed to such interest at initial recognition and the non-controlling interests' share of changes in equity since the acquisition date.

Non-controlling interests are treated as equity participants of the subsidiary company. The Group treats all acquisitions and disposals of its non-controlling interests in subsidiary companies, which do not result in a loss of control, as equity transactions. The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Group.

4 ASSOCIATES AND JOINT VENTURES

Associates are entities in which the Group has significant influence but does not control or jointly control. The Group is presumed to have significant influence where it holds an equity interest of between 20% and 50%. Joint ventures are entities in which the Group has joint control over the economic activity of the joint venture through a contractual agreement.

Investments in associates and joint ventures 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 costs to sell in terms of the requirements of IFRS 5.

The Group includes the results of associates and joint ventures in its consolidated financial statements using the equity accounting method from the date of acquisition. The investment is initially recognised at cost. The Group's investment in associates and joint ventures includes goodwill identified on acquisition, net of any accumulated impairment loss, and the carrying amount of loans to associates and joint ventures that are substantially part of the investment as settlement is neither planned nor likely to occur in the foreseeable future.

Earnings attributable to ordinary shareholders include the Group's share of earnings of associates and joint ventures. Other comprehensive income includes the Group's share of other comprehensive income of associates and joint ventures. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment in the associate or joint venture.

The Group assesses at each reporting period whether there is objective evidence, in terms of IAS 39, that an investment in an associate or joint venture is impaired. If such evidence of impairment exists, the entire carrying amount, including the goodwill, is tested for impairment in terms of IAS 36.

Equity accounting is discontinued from the date that the Group ceases to have significant influence over the associate or joint control over the joint venture. The Group measures at fair value any investment it has retained in the entity when significant influence or joint control is lost and recognises the resulting gain or loss in profit or loss. The gain or loss is measured as the difference between the fair value of this retained investment and the carrying amount of the original investment at the date significant influence or joint control is lost.

After discontinuing equity accounting, the Group accounts for any retained investment in the entity in accordance with the relevant IFRS as appropriate.

If an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in associate, the entity continues to apply the equity method and does not remeasure the retained investment.

The Group does not account for any further losses of the associate or joint venture when the carrying amount of the investment in an associate or joint venture reaches zero, unless it has incurred obligations or guaranteed obligations in favour of the entity.

The Group resumes equity accounting only after its share of the profits equals the share of losses not recognised. The Group increases the carrying amount of investments with its share of the associate or joint venture's income when equity accounting is resumed.

Unrealised gains on transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's interest in the entity. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the associates and joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

5 INTEREST INCOME AND EXPENSE

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

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

Interest income or expense 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 Group's insurance operations;
- the Group's funding operations; and
- where hedge accounting is applied.

From an operational perspective, the Group suspends the accrual of contractual interest on non-recoverable advances, subject to certain curing assumptions. However, in terms of IAS 39, interest income on impaired advances is recognised based on the original effective interest rate.

Instruments with characteristics of debt, such as redeemable preference shares, are included in loans and advances or long-term liabilities as appropriate. Where these instruments are measured at amortised cost, dividends received or paid on these instruments are included in the cash flows used to determine the effective interest rate of the instrument.

6 FAIR VALUE GAINS AND LOSSES

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

7 NET FEE AND COMMISSION INCOME

7.1 Fee and commission income

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

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

Fees and transaction costs that do not form an integral part of the effective interest rate are recognised as income when the outcome of the transaction involving the rendering of services can be reliably estimated as follows:

- fees related to services rendered are recognised as fee and commission income on an accrual basis when the service is rendered, for example, banking fee and commission income, and asset management and related fees;
- fees that are earned on the execution of a significant act, for example knowledge-based fee and commission income and non-banking fee and commission income, when the significant act has been completed; and
- commission income on acceptances, bills and promissory notes endorsed is credited to profit or loss over the lives of the relevant instruments on a time apportionment basis.

7.2 Fee and commission expenses

Fee and commission expenses are expenses that are incremental or directly attributable to the generation of fee and commission income and are recognised in non-interest income.

Fee and commission expenses include transaction and service fees, which are expensed as the services are received. Fee and commission expenses that form an integral part of the effective interest rate of a financial instrument are recognised as part of net interest income.

8 DIVIDEND INCOME

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

9 FOREIGN CURRENCY TRANSLATION

9.1 Functional and presentation currency

Items included in the consolidated financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in rand (R), which is the functional and presentation currency of the Group.

9.2 Transactions and balances

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

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

Translation differences on both monetary and non-monetary items that are recognised at fair value through profit or loss, are reported as part of the fair value gain or loss in profit or loss for the year.

Translation differences on non-monetary items, such as equities, classified as available-for-sale, are reported as part of the fair value adjustment and are included in other comprehensive income. Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost and other changes in the fair value of the security. Translation differences relating to changes in the amortised cost are recognised in profit or loss and other changes in the fair value are recognised in other comprehensive income.

Foreign exchange gains or losses on monetary items measured at amortised cost are included in a separate line item, foreign exchange differences, within non-interest income in profit or loss for the year.

9.3 Group companies

The results and financial position of all the Group companies (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency of the Group are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the actual rates at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are recognised in other comprehensive income.

When a foreign operation is sold or partially disposed of and control is lost, including partial disposals where the entity retains an interest in the operation, the Group's portion of the cumulative amount of the exchange differences relating to the foreign operation which were recognised in other comprehensive income, are reclassified from other comprehensive income to profit or loss when the gain or loss on disposal is recognised.

For partial disposals where control is retained, the Group re-attributes the proportionate share of the cumulative exchange differences recognised in other comprehensive income to the non-controlling interests of the foreign operation.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

10 BORROWING COSTS

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

11 TAXATION

11.1 Indirect tax

Indirect taxes are disclosed separately from income taxes in the income statement. Indirect taxes include other taxes paid to central and local governments and include value added and securities transfer tax.

11.2 Income tax

Income tax includes South African and foreign corporate tax payable and where applicable, this includes capital gains tax.

The current income tax expense is calculated by adjusting the net profit for the year for items that 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 Group operates.

12 RECOGNITION OF ASSETS

12.1 Assets

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

12.2 Contingent assets

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

12.3 Managed funds and trust activities

Certain companies within the Group engage in trust or other fiduciary activities that result in the managing of assets on behalf of clients. The Group excludes these assets and liabilities from the statement of financial position as these are not assets and liabilities of the Group but of the client.

However fee income earned and fee expenses incurred by the group relating to these activities are recognised in fee and commission income in the period that the service relates to.

13 LIABILITIES, PROVISIONS AND CONTINGENT LIABILITIES

13.1 Liabilities and provisions

The Group recognises liabilities, including provisions, when:

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

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

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount 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.

An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract. Present obligations arising under onerous contracts are recognised and measured as provisions.

13.2 Contingent liabilities

The Group discloses a contingent liability when:

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

14 CASH AND CASH EQUIVALENTS

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

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

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

15 FINANCIAL INSTRUMENTS

15.1 General

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

The Group classifies its financial assets in the following categories:

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

Financial liabilities are classified in the following categories:

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

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

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

Available-for-sale financial assets and financial instruments at fair value through profit or loss are subsequently measured at fair value. Loans and receivables and held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment.

The Group recognises purchases and sales of financial instruments that require delivery within the time frame established by regulation or market convention (regular way purchases and sales) at settlement date, which is the date the asset is delivered or received.

15.1.1 Financial instruments at fair value through profit or loss

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

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

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

i. results in the reduction of a 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;

ii. the group of financial assets and/or financial liabilities is managed and evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and this is the basis on which information about the assets and/or liabilities is provided internally to the entity's key management personnel; or

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

The main financial assets and liabilities designated at fair value through profit and loss under criteria (i) are various advances to customers, structured notes and other investments held by the investment banking division. These financial instruments have been designated at fair value to eliminate the accounting mismatch between these assets and the derivatives used to manage the risk arising from these assets and the funding instruments that fund these assets. If the assets were not designated at fair value through profit or loss, a mismatch would arise as a result of the assets being recognised at amortised cost and the related derivatives and funding instruments being recognised at fair value.

Financial instruments designated under criteria (ii), include:

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

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 current and cumulative change in the fair value of designated investment securities and designated financial liabilities that is attributable to changes in credit risk, is determined as the change in fair value that is not attributable to changes in market conditions that give rise to market risk, i.e. currency, interest rate and other price risk. The current and cumulative change in the fair value of designated advances that is attributable to changes in credit risk is the difference between the fair value of the advances based on the original credit spreads and the fair value of the advances based on the most recent market observable credit spreads.

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 as fair value income in the period in which they arise.

15.1.2 Loans and receivables

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

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

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

15.1.3 Held-to-maturity investments

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

The Group measures held-to-maturity investments at amortised cost using the effective interest method, less any impairment.

15.1.4 Available-for-sale financial assets

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

The Group recognises gains and losses arising from changes in the fair value of available-for-sale financial assets in other comprehensive income. It recognises interest income on these assets as part of interest income, based on the instrument's original effective interest rate using the effective interest method. 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 gains less losses from investing activities.

When the available-for-sale financial assets are disposed of or impaired, the related accumulated fair value adjustments are reclassified from other comprehensive income and 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

The Group classifies a financial instrument that it issues as a financial liability or an equity instrument in accordance with the substance of the contractual agreement. If a financial instrument includes a contractual obligation to deliver cash or another financial asset or to exchange financial assets or financial liabilities on potentially unfavourable terms, such as redeemable preference shares, the financial instrument is classified as a financial liability. An instrument is classified as equity if it evidences a residual interest in the assets of the Group after the deduction of liabilities.

Financial liabilities are measured at amortised cost, except for certain liabilities that are designated as at fair value through profit or loss. Interest expense is recognised in profit or loss over the period of the borrowing using the effective interest method.

15.1.6 Compound financial instruments

The Group separately measures and recognises the debt component of a compound financial instrument, such as an issued convertible bond, as a financial liability with the residual value separately allocated to equity. The initial fair value of the debt component is recognised at the fair value of a similar non-convertible instrument. The equity component is recognised initially as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their carrying values.

15.2 Offsetting of financial instruments

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

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

15.3 Embedded derivatives

The Group treats derivatives embedded in other financial or non-financial instruments, such as the conversion option in a convertible bond, as separate derivatives when:

- risks and characteristics are not closely related to those of the host contract;
- definition of a derivative is met; and
- host contract is not carried at fair value through profit or loss.

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

15.4 Derecognition

The Group derecognises a financial asset when:

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

Where the Group retains substantially all the risks and rewards of ownership of the financial asset, the Group continues to recognise the financial asset in its entirety and recognises a financial liability for the consideration received. These financial assets and the related financial liabilities may not be offset.

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

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

The Group derecognises a financial liability when it is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expired. A substantial modification to 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. A substantial modification to the terms occurs where the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability.

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

15.5 Sale and repurchase agreements and securities lending

The consolidated financial statements reflect securities sold subject to a linked repurchase agreement (repos) as trading or investment securities. The counterparty liability is included in deposits held under repurchase agreements. These financial liabilities are either measured at fair value or amortised cost in line with the requirements of IAS 39.

Securities purchased under agreements to resell (reverse repos) are not recorded but the related advances relating to the repurchase transactions are recognised as advances under agreements to resell. These financial assets are either measured at fair value or amortised cost in line with the requirements of IAS 39. The difference between purchase and resale price is in substance interest and recognised in accordance with the Group's policy for interest income.

Securities lent to counterparties under securities lending arrangements are retained as trading and investment securities. Any deposits arising from collateral provided by the counterparties are recognised as deposits under securities lending arrangements and are measured at either fair value or amortised cost in accordance with the requirements of IAS 39.

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

15.6 Impairment of financial assets

15.6.1 General

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

15.6.2 Assets carried at amortised cost

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

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

- significant financial difficulty of the issuer or debtor;
- a breach of contract, such as a default or delinquency in payments of principal or interest;
- it becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties or adverse changes in the market, economic or legal environment in which the entity operates; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be allocated to the individual financial assets in the group, including:
  - adverse changes in the payment status of issuers or debtors in the group; or
  - national or local economic conditions that correlate with defaults on the assets in the group.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and performs a collective assessment for impairment. Financial 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 financial 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 the Group elects to foreclose or not.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such financial assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the financial 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 financial assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are regularly reviewed by the Group to reduce any differences between loss estimates and actual loss experience.

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

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

Past due advances

Advances are considered past due in the following circumstances:

- loans with a specific expiry date (e.g. term loans etc.) and consumer loans repayable by regular instalments (e.g. mortgage loans and personal loans) are treated as overdue where one full instalment is in arrears for one day or more and remains unpaid at the reporting date; or
- loans payable on demand (e.g. overdrafts) are treated as overdue where a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instruction.

In these instances, the full outstanding amount is considered overdue even if part of it is not yet due.

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

Renegotiated advances

Financial assets that would otherwise be past due that have been renegotiated, are separately classified as neither past due nor impaired assets. Renegotiated advances are advances where, due to deterioration in the counterparty's financial condition, the Group granted a concession where the original terms and conditions of the facility were amended and the counterparty is within the new terms of the advance. Advances are only classified as renegotiated if the terms of the renegotiated contract have not yet expired and remain classified as such until the terms of the renegotiated contract expire. Where the advances are reclassified as neither past due nor impaired the adherence to the new terms and conditions is closely monitored.

Renegotiated advances exclude advances extended or renewed as part of the ordinary course of business for similar terms and conditions as the original. Non-performing advances cannot be reclassified as renegotiated unless the arrears balance has been repaid. Renegotiated but current financial assets are considered as part of the collective evaluation of impairment where financial assets are grouped on the basis of similar credit risk characteristics.

Repossessed assets

In certain circumstances, assets are repossessed following the foreclosure on loans that are in default. Repossessed assets are measured at the lower of cost or net realisable value. The Group recognises repossessed assets as part of accounts receivable in the statement of financial position.

15.6.3 Available-for-sale financial assets

The Group assesses at each reporting date whether there is objective evidence that an available-for-sale financial asset or a group of available-for-sale financial assets is impaired.

In the case of equity investments classified as available-for-sale, objective evidence of impairment includes information about significant changes with an adverse effect on the environment in which the issuer operates and indicates that the cost of the investment in the equity instrument may not be recovered and a significant or prolonged decline in the fair value of the security below its cost. If any such objective evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value less any previously recognised impairment loss on that financial asset, is reclassified from other comprehensive income and recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments are not subsequently reversed.

In the case of a debt instrument classified as available-for-sale, the same objective evidence of impairment as for financial assets measured at amortised cost is considered in determining if impairment exists. The difference between the acquisition cost and the current fair value less any previous impairment losses recognised in profit or loss is removed from other comprehensive income and recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

15.7 Derivative financial instruments and hedging

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

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

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

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

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

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

15.7.1 Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as hedging instruments in fair value hedges are recorded in profit or loss, together with any changes in the fair value of the hedged item that are attributable to the hedged risk. The gain or loss relating to the effective portion of interest rate swaps are reflected in interest income or interest expense. Effective changes in fair value of currency futures are reflected in non-interest income. The gains or losses relating to the ineffective portion are recorded as fair value income in non-interest income.

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

15.7.2 Cash flow hedges

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

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss recognised in the cash flow hedge reserve at that time remains in other comprehensive income and is recognised when the forecast transaction is recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately reclassified to profit or loss.

Amounts accumulated in other comprehensive income are reclassified to profit or loss in the periods in which the hedged item affects profit or loss. Where the forecast transaction or a foreign currency firm commitment results in the recognition of a non-financial asset or liability, the gains or losses previously deferred in other comprehensive income are reclassified 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, if the risk being hedged is interest rate risk the amounts are included in interest income or interest expense when reclassified to profit or loss. The amount recognised in profit or loss for other risks relating to financial assets and liabilities is recognised in non-interest income as fair value income.

16 COMMODITIES AND BASE METALS

Where the Group has a short-term trading intention, commodities are measured at fair value less costs to sell in accordance with the broker trader exemption in IAS 2. Changes in fair value are recognised in non-interest income as fair value income.

Where the Group has a longer term investment intention commodities are measured at the lower of cost or net realisable value. Cost is determined using the weighted average method. Cost excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. The cost of commodities includes the amount of gains or losses on qualifying cash flow hedges previously recognised in other comprehensive income.

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

17 PROPERTY AND EQUIPMENT

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

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

Leasehold improvements are all improvements made to property which the Group leases under an operating lease in order to prepare the property for its intended use and from which the Group is expected to benefit for more than one year. Leasehold improvements are capitalised as property and equipment.

Property and equipment is depreciated on a straight line basis at rates calculated to reduce the book value of these assets to estimated residual values over their expected useful lives. Freehold properties and properties held under finance leases are broken down into significant components and depreciation calculated based on the expected useful lives of these components.

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

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

18 INVESTMENT PROPERTIES

The Group classifies investment properties as properties held to earn rental income and/or capital appreciation that are not occupied by the companies in the Group.

Investment properties comprise freehold land and buildings and are measured at fair value. Investment properties that are being redeveloped for continuing use as investment property, or for which that market has become less active, continue to be measured at fair value.

Property located on land that is held under an operating lease is classified as investment property as long as it is held for long-term rental yields and is not occupied by the Group. The initial cost of the property is the lower of the fair value of the property and the present value of the minimum lease payments. Subsequent to initial recognition the property is carried at fair value.

When investment properties become owner occupied, the Group reclassifies them to property and equipment, using the fair value at the date of reclassification as the cost.

Fair value adjustments on investment properties are included in profit or loss as gains less losses from investment activities. These fair value gains or losses are adjusted for any double counting arising from the recognition of lease income on the straight line basis compared to the accrual basis normally assumed in the fair value determination.

The Group carries investment properties under development at cost, less adjustments to reduce the cost to open market value, if appropriate.

19 LEASES

19.1 A Group company is the lessee

19.1.1 Finance leases

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

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

19.1.2 Operating leases

The Group classifies leases as operating leases where the lessor effectively retains the risks and benefits of ownership. It recognises operating lease payments as an operating expense 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 disclosed as commitments.

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

19.2 A Group company is the lessor

19.2.1 Finance leases

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

19.2.2 Operating leases

The Group includes in a separate category as assets held under 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 as other non-interest income on a straight line basis over the lease term.

19.3 Instalment credit agreements

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

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

20 INTANGIBLE ASSETS

20.1 Goodwill

Goodwill represents the excess of the consideration transferred, the fair value of the previous equity interests held and the non-controlling interest of an acquisition over the attributable fair value of the Group's share of the fair value of the identifiable net assets of the acquired subsidiary, associate or joint venture at the date of acquisition. Goodwill on the acquisition of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates and joint ventures is included in the carrying amount of the investment.

20.2 Computer software development costs

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

The Group carries capitalised software assets at cost less accumulated 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.

20.3 Other intangible assets

The Group expenses the costs incurred on internally generated intangible assets such as trademarks, patents and similar rights and assets, in profit or loss in the period in which the costs are incurred. The costs incurred on the development of separately identifiable internally generated intangible assets, are capitalised by the Group if:

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

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

The Group carries capitalised trademarks, patents and similar assets at cost less accumulated amortisation and any impairment. It amortises these assets at a rate applicable to the expected useful life of the asset.

20.4 Reacquired rights

As part of a business combination an acquirer may reacquire a right to use one of its recognised or unrecognised assets for which it had previously granted the right of use to this asset to the entity which becomes its subsidiary. Reacquired rights that arise from these transactions are identifiable intangible assets that the Group recognises separately from goodwill. Reacquired rights are recognised at fair value at acquisition date based on the remaining contractual term of the related contract without taking into consideration the effect of any potential contractual renewals. Where the terms of the contract giving rise to the reacquired rights are favourable or unfavourable relative to current market transactions for the same or similar items, the Group recognises a settlement gain or loss respectively.

20.5 Impairment of intangible assets

Management reviews the carrying value of intangible assets wherever objective evidence of impairment exists. An impairment loss is recognised immediately in profit or loss as operating expenses when the carrying value is more than the recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use.

Goodwill is tested annually for impairment or more frequently if an impairment indicator exists at the reporting date and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are not subsequently reversed.

For impairment purposes goodwill is allocated to the smallest component of the business that is expected to benefit from synergies of the combination and at which management monitors goodwill (cash generating unit). Each cash generating unit represents a grouping of assets no higher than an operating segment. The recoverable amount of a cash generating unit is the higher of fair value less costs to sell and value in use.

20.6 Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognised in profit or loss when the asset is derecognised.

21 DEFERRED INCOME TAX

Deferred income tax is provided in full, using the liability method on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is not provided on temporary differences that arise on the 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 profit or loss nor taxable income. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. In respect of temporary differences arising from the fair value adjustments on investment properties, deferred income tax is provided at the rate that would apply on the sale of the property i.e. the capital gains tax rate.

The Group recognises deferred income tax assets if it is probable that future taxable income will be available against which the unused tax losses can be utilised.

Temporary differences arise primarily from depreciation of property and equipment, revaluation of certain financial assets and liabilities including derivative contracts, provisions for pensions and other post-employment benefits and tax losses carried forward. The Group reviews the carrying amount of deferred income tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

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

Deferred income tax related to fair value remeasurement of available-for-sale investments and derivatives designated as hedging instruments in effective cash flow hedges, which are recognised directly in other comprehensive income, is also recognised directly in other comprehensive income. Deferred tax recognised directly in other comprehensive income is subsequently reclassified to profit or loss at the same time as the related gain or loss.

Current and deferred income tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and these relate to income taxes levied by the same tax authority on the same taxable entity. If the balances relate to the same tax authority but different tax entities the Group will offset only if it is has a legally enforceable right and the entities intend to settle on a net basis or the tax assets and liabilities will be realised simultaneously.

22 EMPLOYEE BENEFITS

22.1 Post-employment benefits

The Group operates defined benefit and defined contribution schemes, the assets of which are held in separate trustee administered funds. The defined benefit plans are funded by contributions from employees and the relevant Group companies, taking into account the recommendations of independent qualified actuaries. For defined benefit plans the expenses are measured using the projected unit credit method.

The amount recognised in the statement of financial position in respect of defined benefit 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 if applicable.

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.

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

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

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

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

The Group does not recognise actuarial gains or losses in profit or loss in the period under review, but defers such gains or losses to future periods, unless the net cumulative unrecognised actuarial gains or losses at the end of the previous reporting period exceed the greater of:

- 10% of the present value of the defined benefit obligation at that date (before deducting plan assets); and
- 10% of the fair value of any plan assets at that date.

The portion of actuarial gains or losses recognised is the excess above the corridor as calculated above, divided by the expected average remaining working lives of the participating employees.

The Group recognises current service costs immediately in accordance with the projected unit credit method. Past service costs are recognised over the vesting period attributable to the past service costs. Experience adjustments, changes in actuarial assumptions and plan amendments are recognised as expenses over the expected remaining working lives of employees in accordance with the corridor approach allowed by IAS 19. For retired employees all costs are recognised as an expense immediately.

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

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

22.2 Termination benefits

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

22.3 Leave pay provision

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

22.4 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.

23 SHARE CAPITAL

23.1 Share issue costs

Instruments issued by the Group 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 NCNR preference shares are recognised against equity and a corresponding liability recognised when they have been appropriately approved by the company's shareholders and are no longer at the discretion of the entity. Dividends declared after the reporting date are not recognised but disclosed as a post-reporting date event.

23.3 Distribution of non-cash assets to owners

The Group measures the liability to distribute the non-cash assets as a dividend to owners at the fair value of the asset to be distributed. The carrying amount of the dividend payable is remeasured at the end of each reporting period and on settlement date, with changes recognised in equity as an adjustment to the distribution. The difference between the carrying amount of the assets distributed and the fair value of the assets on the date of settlement is recognised in profit or loss for the period.

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

23.4 Treasury shares

Where the company or other members of the consolidated Group purchase the company's equity share capital, the consideration paid, including any directly attributable incremental costs, is deducted from total shareholders' equity as treasury shares until they are reissued or sold. Fair value changes recognised in the subsidiary's financial statements on equity investments in FirstRand's shares, are reversed on consolidation and dividends received are eliminated against dividends paid. Where such shares are subsequently sold or reissued, any consideration received net of any directly attributable incremental costs, is included in shareholders' equity.

For purposes of the earnings per share calculation, the weighted average number of shares in issue is reduced by the number of shares held by the share trusts.

23.4.1 Share trusts

Certain of the Group's remuneration schemes are operated through various share trusts. These share trusts are considered to be SPEs controlled by the Group and are therefore consolidated.

The share trusts purchase FirstRand shares in the market to economically hedge the Group against price risk of the FirstRand shares and to limit the dilutive effect on current shareholders.

The shares purchased by the share trusts are considered to be treasury shares and are treated in accordance with the Group's policy for treasury shares.

24 SEGMENT REPORTING

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

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

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

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

25 SHARE-BASED PAYMENT TRANSACTIONS

The Group operates equity settled and cash settled share-based compensation plans for employees and historically disadvantaged individuals and organisations.

25.1 Equity settled share-based compensation plans

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

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

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

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

25.2 Cash settled share-based payment compensation plans

The Group measures the services received and liability incurred in respect of cash settled share-based payment plans at the current fair value of the liability. The Group remeasures the fair value of the liability at each reporting date until settled. The liability is recognised over the vesting period and any changes in the fair value of the liability are recognised in profit or loss.

26 NON-CURRENT ASSETS AND 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 used if the sale is highly probable and the non-current assets or disposal groups are available for immediate sale.

Immediately before classification as held for sale, the carrying amount of the non-current assets and liabilities included in the disposal group are measured in accordance with the appropriate IFRS. On initial recognition as held for sale, the non-current assets and liabilities that are in the measurement scope of IFRS 5 are recognised at the lower of carrying amount and fair value less costs to sell.

The following assets are excluded from the measurement scope of IFRS 5:

- deferred tax assets;
- assets arising from employee benefits;
- financial assets;
- investment properties measured at fair value;
- biological assets measured at fair value less costs to sell; and
- contractual rights under insurance contracts.

When these assets are classified as non-current assets held for sale or form part of a disposal group held for sale they continue to be measured in accordance with the appropriate IFRS. The IFRS 5 presentation and disclosure requirements are applied to these assets.

Any impairment losses on initial classification as held for sale are recognised in profit or loss. If a disposal group contains assets that are outside of the measurement scope of IFRS 5 any impairment loss is allocated to those non-current assets within the disposal group that are within the measurement scope of IFRS 5.

After initial recognition as held for sale the non-current assets are measured at fair value less costs to sell. Where the fair value less costs to sell is less than the carrying value, any additional impairment losses are recognised in profit or loss. Any increases in fair value less costs to sell are only recognised when they are realised.

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.

27 DISCONTINUED OPERATIONS

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

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

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

28 INSURANCE

28.1 Classification of contracts

An insurance contact is a contract that transfers significant insurance risk to the Group. Significant insurance risk exists when it is expected that the present value of the benefits payable in terms of the policy on the occurrence of an insured event will materially differ from the amount payable had the insured event not occurred. Financial penalties levied on early termination of policy contracts are not taken into account when classifying the contracts.

Contracts that transfer only financial risk and not insurance risk are classified as financial instruments. Financial risk refers to the risk of a possible change in the value of a financial instrument due to a change in interest rates, commodity prices and an index of prices, foreign exchange or other measureable variable.

The classification of contracts is performed at the initial recognition of each contract. The classification of the contract at initial recognition remains the classification of the contract for the remainder of its lifetime unless the terms of the contract change to such an extent that it necessitates a change in classification.

The Group consolidates cell captives when the substance of the arrangement is such that the Group controls the cell captive. Through its subsidiaries and controlled cell captives, businesses within the Group issue captive arrangements where certain risk products are marketed and distributed by these companies. The insurance contracts issued under these arrangements are underwritten by an external insurer and are classified into two main categories, long- and short-term insurance contracts, based on the duration of the risk.

The collection of premiums and the payment of claims is a function that is performed by the cell captive's administrator.

28.2 Long-term insurance contracts

28.2.1 Long-term insurance contracts

The following types of contracts issued by the Group are classified as long-term insurance contracts:

- insurance policies providing lump sum benefits on death or disability of the policyholder; and
- policies that provide for retrenchment or funeral cover.

Liabilities under insurance contracts are measured in accordance with Advisory Practice Notes (APN) and Standards of Practice (SAP) issued by the Actuarial Society of South Africa. Of particular relevance to the liabilities are the following:

- SAP 104 Calculation of Value of the Assets, Liabilities and Capital Adequacy Requirements of Long-Term Insurers;
- APN 105 (March 2007): Recommended AIDS extra mortality bases;
- APN 106 (July 2005): Actuaries and Long-Term Insurance in South Africa.

The guidance notes are available on the website of the Actuarial Society of South Africa (www.actuarialsociety.co.za).

Valuation

Policyholder liabilities under long-term insurance contracts are valued in terms of the FSV method as described in SAP 104, issued by the Actuarial Society of South Africa.

The FSV method measures the liability as the amount of the best estimate of the future cash flows relating to the insurance contracts plus certain compulsory and discretionary margins. This methodology is applied to each product type depending on the nature of the contract and the associated risks.

The best estimate of future cash flows takes into account current and expected future experience as well as revised expectations of future income, claims and expenditure. The assumptions are applied to the whole policy book. Differences between the assumptions used at the start and end of the period give rise to revised liability quantification.

The expected level of early terminations is incorporated into the liabilities irrespective of whether this leads to an increase or a decrease in the liabilities.

If future experience under a policy contract is exactly in line with the assumptions employed at the initial recognition of the contract, the valuation margins will emerge as profits over the duration of a policy contract. This is known as the unwinding of margins.

In addition to the profit recognised at the origination of a policy contract and the unwinding of margins as the Group is released from risk, any differences between the best estimate valuation assumptions and actual experience over each accounting period also gives rise to profits and losses. These profits and losses emerge over the lifetime of the policy contract. The change in liabilities resulting from changes in the long-term valuation assumptions is another source of profit or loss.

Discretionary margins

Discretionary margins are held in addition to the compulsory margins. These discretionary margins are used to ensure that profit and risk margins in premiums are not capitalised prematurely so that profits are recognised in line with the product design and in line with the risks borne by the Group.

The main discretionary margins utilised in the valuation are as follows:

- investment stabilisation accounts are held to reduce the risk of future losses, caused by the impact of market fluctuations on capitalised fees and on assets backing guaranteed liabilities;
- additional prospective margins are held in respect of decrement assumptions and asset-related fees on certain product lines to avoid the premature recognition of profits that may give rise to future losses if claims experience turns out to be worse than expected; and
- an additional data reserve is held to protect against possible future losses due to data discrepancies.

Premium recognition

Premiums receivable from insurance contracts are recognised in profit or loss gross of commission and reinsurance premiums but net of taxes and levies.

Premiums received in advance are included in creditors and accruals.

Recognition of claims and benefits

Insurance benefits and claims incurred under insurance contracts include death, disability, maturity and surrender payments and are recognised in profit or loss gross of any related reinsurance recoveries. Death, disability and surrender claims are recognised when notified. Maturity and annuity claims are recognised when they are due for payment in terms of the contract. The estimate of the expected settlement value of claims that are notified but not paid before the reporting date is included in creditors and accruals.

Liability adequacy test for business with prospective liabilities

Where the liability is calculated based on the present value of the future cash flows the valuation method projects future income and discounts it back to the valuation date to arrive at the liability. The methodology ensures that the liability will by definition be adequate and no additional liability adequacy test is required.

Liability adequacy test for business with retrospective liabilities

For liabilities measured retrospectively a liability adequacy test is performed in order to verify that the liability is sufficient to cover future claims and servicing expenses after the expected future income over the remaining contractual lifetime.

Acquisition costs

Acquisition costs for insurance contracts include all commission and expenses directly related to acquiring new business. The FSV methodology implicitly creates a deferred acquisition cost asset by reducing the liabilities to the extent of margins included in the premium that are intended to recover acquisition costs. Therefore no explicit deferred acquisition cost asset is recognised in the statement of financial position for contracts valued on this basis.

28.3 Short-term insurance contracts

28.3.1 Insurance premium revenue

Gross premiums written comprise the premiums on contracts entered into during the year. Premiums are shown excluding any taxes and levies on the premium. Premiums are shown before the deduction of commission.

Premium revenue relates only to the earned portion of premiums and includes all premiums for the period of risk covered by the policy, regardless of whether or not these are due for payment in the accounting period.

28.3.2 Policyholder liabilities

Policyholder liabilities comprise a provision for claims reported but not paid; provision for claims incurred but not reported (IBNR) and a provision for unearned premiums.

Policyholder liabilities are measured at the best estimate of the ultimate cost of settling all claims incurred but unpaid at the reporting date, whether reported or not, and related internal and external claims handling expenses. The liability for outstanding claims is calculated by reviewing individual claims and making allowance for claims incurred but not yet reported, the IBNR provision, and the effect of both internal and external foreseeable events, such as changes in claims handling procedures, inflation, judicial trends, legislative changes and past experience and trends. The company does not discount its liability for unpaid claims.

Adjustments to the amounts of policyholder liabilities established in prior years are reflected in the financial statements for the period in which the adjustments are made and disclosed separately if material. The methods used are reviewed annually.

Claims incurred include claims handling expenses paid during the financial year together with the estimated liability for compensation owed to policyholders or third parties affected by the policyholders. Claims handling expenses include, amongst others, fees incurred for legal expenses, loss adjusters and administration fees.

The provision for unearned premiums comprises the proportion of gross premiums written which are estimated to be earned in the following or subsequent financial year. This is computed separately for each insurance contract using the method most reflective of any variation in the incidence of risk during the period covered by the contract.

28.3.3 Liability adequacy test

The net liability recognised for insurance contracts is tested for adequacy by calculating current estimates of all future contractual cash flows and comparing this amount to the carrying value of the liability. Where a shortfall is identified, an additional liability and the related expense are recognised.

28.3.4 Contingency reserve

A reserve is created in respect of the Group's short-term insurance contracts as required by the regulatory authorities. The contingency reserve is calculated as 10% of the net written premiums in terms of the Short Term Insurance Act, 1998.

28.4 Receivables and payables related to long- and short-term insurance contracts and investment contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and policyholders. Receivables are included in the accounts receivable balance on the statement of financial position while payables are included in the creditors and accruals balance.

If there is objective evidence that an amount receivable under an insurance contract is impaired then the Group reduces the carrying amount of the insurance receivable accordingly and recognises the impairment loss in profit or loss. The same indicators that are considered when assessing whether a financial asset measured at amortised cost is impaired are considered when assessing whether there is objective evidence of impairment of receivables related to insurance.

28.5 Reinsurance contracts held

The Group seeks reinsurance in the ordinary course of business for the purpose of limiting its net loss potential through the diversification of its risks on both long- and short-term insurance contracts. Reinsurance arrangements do not relieve the company from its direct obligations to its policyholders.

Only contracts that give rise to a significant transfer of insurance risk are accounted for as reinsurance. Rights under contracts that do not transfer significant insurance risk are accounted for as financial instruments.

Reinsurance premiums are recognised as an expense in profit or loss when they become due for payment at the undiscounted amounts due in terms of the contract.

Reinsurance recoveries are recognised in profit or loss in the same period as the related claim at the undiscounted amount receivable in terms of the contract.

Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the underlying insurance contracts and in accordance with the terms of each reinsurance contract.

The benefits to which the Group is entitled under its reinsurance contracts are recognised as assets. These assets consist of short-term balances due from reinsurers on settled claims (included in accounts receivable) as well as receivables that are dependent on the expected claims and benefits arising under the related insurance contracts (classified as reinsurance assets).

Reinsurance assets are assessed for impairment if there is objective evidence, as a result of an event that occurred after its initial recognition, that the company may not recover all amounts due and that the event has a reliably measurable impact on the amounts that the company will receive from the reinsurer. Any difference between the carrying amount of the reinsurance asset and the recoverable amount is recognised as an impairment loss in profit or loss. The same indicators that are considered when assessing whether a financial asset measured at amortised cost is impaired are considered when assessing whether there is objective evidence of impairment of reinsurance assets.

Reinsurance liabilities comprise premiums payable for reinsurance contracts and are recognised as an expense when they fall due in terms of the contract. Reinsurance liabilities are included in creditors and accruals.

29 CUSTOMER LOYALTY PROGRAMMES

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

Expenses relating to the provision of the reward credits are recognised as fee and commission expenses as they are incurred.

30 SERVICE CONCESSION ARRANGEMENTS

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

CONSOLIDATED INCOME STATEMENT

for the year ended 30 June

R million	Notes	**2013**	2012
Interest and similar income	1.1	**43 821**	41 335
Interest expense and similar charges	1.2	**(19 106)**	(19 453)
Net interest income before impairment of advances		**24 715**	21 882
Impairment of advances	12	**(4 812)**	(5 065)
Net interest income after impairment of advances		**19 903**	16 817
Non-interest income	2	**31 614**	29 494
Income from operations		**51 517**	46 311
Operating expenses	3	**(31 486)**	(28 422)
Net income from operations		**20 031**	17 889
Share of profit of associates and joint ventures after tax	14	**824**	1 120
Income before tax		**20 855**	19 009
Indirect tax	4.1	**(645)**	(551)
Profit before tax		**20 210**	18 458
Income tax expense	4.2	**(4 532)**	(4 089)
Profit for the year		**15 678**	14 369
Attributable to:			
Ordinary equityholders		**14 539**	13 196
NCNR preference equityholders		**297**	275
Equityholders of the Group		**14 836**	13 471
Non-controlling interests		**842**	898
Profit for the year		**15 678**	14 369
Earnings per share (cents)			
Basic	5	**266.2**	241.7
Diluted	5	**262.9**	236.8

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June

R million	2013	2012
Profit for the year	**15 678**	14 369
Items that may subsequently be reclassified to profit or loss	**1 883**	531
Cash flow hedges	**853**	(302)
Gains/(losses) arising during the year	**417**	(1 214)
Reclassification adjustments for amounts included in profit or loss	**768**	794
Deferred income tax	**(332)**	118
Available-for-sale financial assets	**(89)**	401
(Losses)/gains arising during the year	**(102)**	714
Reclassification adjustments for amounts included in profit or loss	**(33)**	(154)
Deferred income tax	**46**	(159)
Exchange differences on translating foreign operations	**990**	599
Gains arising during the year	**990**	599
Share of other comprehensive income of associates and joint ventures after tax and non-controlling interests	**129**	(167)
Other comprehensive income for the year	**1 883**	531
Total comprehensive income for the year	**17 561**	14 900
Total comprehensive income attributable to:		
Ordinary equityholders	**16 358**	13 706
NCNR preference equityholders	**297**	275
Equityholders of the Group	**16 655**	13 981
Non-controlling interests	**906**	919
Total comprehensive income for the year	**17 561**	14 900

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 June

R million	Notes	2013	2012
ASSETS			
Cash and cash equivalents	7	**49 620**	38 363
Derivative financial instruments	8	**52 316**	52 913
Commodities	9	**6 016**	5 108
Accounts receivable	10	**7 471**	6 007
Current tax asset		**275**	331
Advances	11	**598 975**	524 507
Investment securities and other investments	13	**131 293**	119 708
Investments in associates and joint ventures	14	**6 992**	6 869
Property and equipment	15	**14 058**	12 026
Intangible assets	16	**1 169**	1 743
Reinsurance assets	17	**394**	898
Post-employment benefit asset	18	**13**	7
Investment properties	19	**459**	215
Deferred income tax asset	20	**598**	471
Non-current assets and disposal groups held for sale	21	**20**	599
Total assets		**869 669**	769 765
EQUITY AND LIABILITIES			
Liabilities			
Short trading positions	22	**2 991**	5 343
Derivative financial instruments	8	**53 013**	53 760
Creditors and accruals	23	**11 155**	9 086
Current tax liability		**553**	386
Deposits	24	**697 005**	606 281
Provisions	25	**600**	592
Employee liabilities	18	**8 092**	6 933
Other liabilities	26	**6 669**	6 383
Policyholder liabilities under insurance contracts	17	**1 112**	1 517
Deferred income tax liability	20	**735**	1 679
Tier 2 liabilities and debt qualifying as capital	27	**8 116**	7 885
Liabilities directly associated with disposal groups held for sale	21	**–**	113
Total liabilities		**790 041**	699 958
Equity			
Ordinary shares	28	**55**	55
Share premium	28	**5 397**	5 216
Reserves		**66 733**	57 250
Capital and reserves attributable to ordinary equityholders		**72 185**	62 521
NCNR preference shares	28	**4 519**	4 519
Capital and reserves attributable to equityholders of the Group		**76 704**	67 040
Non-controlling interests		**2 924**	2 767
Total equity		**79 628**	69 807
Total equity and liabilities		**869 669**	769 765

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 30 June

		Ordinary share capital and ordinary equityholders' funds				
R million	Notes	Share capital	Share premium	**Share capital and share premium**	General risk reserve	Cash flow hedge reserve
Balance as at 1 July 2011		53	4 945	**4 998**	13	(451)
Issue of share capital	28	–	–	**–**	–	–
Movement in other reserves		–	–	**–**	–	–
Ordinary dividends		–	–	**–**	–	–
Preference dividends		–	–	**–**	–	–
Transfer from/(to) reserves		–	–	**–**	44	–
Disposal of subsidiaries		–	–	**–**	–	–
Consolidation of treasury shares		2	271	**273**	–	–
Total comprehensive income for the year		–	–	**–**	–	(302)
Vesting of share-based payment reserve		–	–	**–**	–	–
Balance as at 30 June 2012		55	5 216	**5 271**	57	(753)
Issue of share capital	28	–	–	**–**	–	–
Movement in other reserves		–	–	**–**	–	–
Ordinary dividends		–	–	**–**	–	–
Preference dividends		–	–	**–**	–	–
Transfer from/(to) reserves		–	–	**–**	21	–
Acquisition/(disposal) of subsidiaries		–	–	**–**	–	–
Consolidation of treasury shares		–	181	**181**	–	–
Total comprehensive income for the year		–	–	**–**	–	853
Vesting of share-based payment reserve		–	–	**–**	–	–
Balance as at 30 June 2013		55	5 397	**5 452**	78	100

	Ordinary share capital and ordinary equityholders' funds								
	Share-based payment reserve	Available-for-sale reserve	Foreign currency translation reserve	Other reserves	Retained earnings	**Reserves attributable to ordinary equity-holders**	**NCNR preference shares**	**Non-controlling interests**	**Total equity**
	2 739	225	474	13	48 620	**51 633**	**4 519**	**3 069**	**64 219**
	–	–	–	–	–	**–**	**–**	**–**	**–**
	709	–	–	36	173	**918**	**–**	**(438)**	**480**
	–	–	–	–	(8 742)	**(8 742)**	**–**	**(652)**	**(9 394)**
	–	–	–	–	–	**–**	**(275)**	**–**	**(275)**
	–	–	–	–	(44)	**–**	**–**	**–**	**–**
	–	–	–	–	(37)	**(37)**	**–**	**(131)**	**(168)**
	–	–	–	–	102	**102**	**–**	**–**	**375**
	–	401	578	(167)	13 196	**13 706**	**275**	**919**	**14 900**
	(201)	–	–	–	(129)	**(330)**	**–**	**–**	**(330)**
	3 247	626	1 052	(118)	53 139	**57 250**	**4 519**	**2 767**	**69 807**
	–	–	–	–	–	**–**	**–**	**(11)**	**(11)**
	(47)	–	–	70	(77)	**(54)**	**–**	**(54)**	**(108)**
	–	–	–	–	(6 175)	**(6 175)**	**–**	**(663)**	**(6 838)**
	–	–	–	–	–	**–**	**(297)**	**–**	**(297)**
	–	–	–	–	(21)	**–**	**–**	**–**	**–**
	(2)	–	–	–	4	**2**	**–**	**(21)**	**(19)**
	–	–	–	–	53	**53**	**–**	**–**	**234**
	–	(87)	943	110	14 539	**16 358**	**297**	**906**	**17 561**
	(25)	–	–	–	(676)	**(701)**	**–**	**–**	**(701)**
	3 173	539	1 995	62	60 786	**66 733**	**4 519**	**2 924**	**79 628**

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 30 June

R million	Notes	2013	2012
Cash flows from operating activities			
Cash receipts from customers	30.2	**67 923**	62 833
Cash paid to customers, suppliers and employees	30.3	**(40 932)**	(40 046)
Dividends received		**4 405**	3 517
Dividends paid	30.4	**(6 472)**	(9 017)
Dividends paid to non-controlling interests		**(663)**	(652)
Cash generated from operating activities	30.1	**24 261**	16 635
Increase in income-earning assets	30.5	**(84 541)**	(54 402)
Increase in deposits and other liabilities	30.6	**80 483**	47 338
Taxation paid	30.7	**(6 361)**	(5 331)
Net cash generated from operating activities		**13 842**	4 240
Cash flows from investing activities			
Acquisition of investments in associates and joint ventures*		**(976)**	(1 707)
Proceeds on disposal of investments in associates and joint ventures*		**986**	1 371
Settlements of loans granted to associates and joint ventures		**466**	–
Acquisition of investments in subsidiaries*		**(84)**	–
Proceeds on disposal of investments in subsidiaries*		**–**	375
Acquisition of property and equipment		**(4 310)**	(4 179)
Proceeds on disposal of property and equipment		**477**	639
Acquisition of intangible assets		**(245)**	(280)
Proceeds on disposal of intangible assets		**6**	18
Proceeds on disposal of non-current assets held for sale		**491**	–
Acquisition of additional interest in subsidiaries from non-controlling interests		**(11)**	–
Net cash outflow from investing activities		**(3 200)**	(3 763)
Cash flows from financing activities			
Proceeds from the issue of other liabilities		**92**	2 276
Proceeds from the issue of Tier 2 liabilities and debt qualifying as capital		**212**	1 188
Net cash inflow from financing activities		**304**	3 464
Net increase in cash and cash equivalents		**10 946**	3 941
Cash and cash equivalents at the beginning of the year		**38 363**	34 240
Cash and cash equivalents acquired**		**2**	1
Cash and cash equivalents disposed of**		**–**	(31)
Effect of exchange rate changes on cash and cash equivalents		**309**	212
Cash and cash equivalents at the end of the year		**49 620**	38 363

* *Refer to note 39 for information on cash flows arising from the acquisition and disposal of significant subsidiaries, associates and joint ventures.*

** *Cash and cash equivalents acquired and disposed of relate to cash balances held by subsidiaries acquired and disposed of during the year.*

CONSOLIDATED STATEMENT OF HEADLINE EARNINGS AND DIVIDENDS

for the year ended 30 June

	2013	2012
Headline earnings per share (cents)		
Basic	**276.7**	231.5
Diluted	**273.3**	226.9
Ordinary dividends per share (cents)		
Interim	**55.0**	44.0
Final	**81.0**	58.0
Total dividends per ordinary share (cents)	**136.0**	102.0
Headline earnings are calculated in terms of *Circular 2/2013, Headline Earnings per Share*		
Basic headline earnings		
Basic headline earnings per share is calculated by dividing the Group's attributable earnings to ordinary equityholders after excluding separately identifiable remeasurements, net of tax and non-controlling interests, by the weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares purchased by the Group and held as treasury shares.		
Headline earnings attributable to ordinary shares in issue (R million)	**15 114**	12 642
Weighted average number of ordinary shares in issue	**5 461 481 690**	5 460 366 282
Diluted headline earnings		
Diluted headline earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.		
Diluted headline earnings attributable to ordinary equityholders (R million)	**15 114**	12 642
Diluted weighted average number of shares in issue	**5 529 811 837**	5 572 471 134

	2013		2012	
R million	**Gross**	**Net**	Gross	Net
Headline earnings reconciliation				
Attributable earnings to ordinary equityholders		**14 539**		13 196
Adjusted for				
Loss on disposal of investment securities and other investments of a capital nature	**13**	**13**	20	24
Gain on disposal of available-for-sale assets	**(33)**	**(24)**	(154)	(85)
Losses/(gains) on the disposal of investments in associates or joint ventures	**1**	**1**	(473)	(473)
Gain on the disposal of investments in subsidiaries	**(63)**	**(43)**	(266)	(150)
Loss on the disposal of property and equipment	**77**	**65**	49	37
Impairment of property and equipment	**12**	**11**	2	3
Impairment of investments in associates or joint ventures	**6**	**5**	41	37
Impairment of goodwill	**438**	**437**	115	63
Fair value of investment properties	**(7)**	**(5)**	(12)	(12)
Impairment of assets in terms of IAS 36	**294**	**218**	5	2
Gain from a bargain purchase	**(14)**	**(11)**	–	–
Other	**(127)**	**(92)**	–	–
Headline earnings to ordinary equityholders		**15 114**		12 642

Cents	2013	2012
Basic headline earnings per share	**276.7**	231.5
Diluted headline earnings per share	**273.3**	226.9

Cents	2013	2012
Dividend information		
Dividends declared on NCNR preference shares		
B preference shares		
25 February 2013/27 February 2012	**320.3**	305.2
26 August 2013/27 August 2012	**320.3**	333.1
Total B preference shares	**640.6**	638.3
Ordinary dividends declared		
5 March 2013/7 March 2012	**55.0**	44.0
9 September 2013/10 September 2012	**81.0**	58.0
Total ordinary dividends declared	**136.0**	102.0

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June

1 ANALYSIS OF INTEREST INCOME AND INTEREST EXPENSE

1.1 Interest and similar income

	2013				
R million	Fair value	Amortised cost	Hedging instruments	Non-financial instruments	Total
Advances	–	39 250	–	–	39 250
Cash and cash equivalents	–	1 022	–	–	1 022
Investment securities and other investments	2 399	134	–	179	2 712
Unwinding of discounted present value on non-performing loans	–	168	–	–	168
Accrued on off-market advances	–	9	–	–	9
Other	–	58	586	16	660
Interest and similar income	**2 399**	**40 641**	**586**	**195**	**43 821**

	2012				
R million	Fair value	Amortised cost	Hedging instruments	Non-financial instruments	Total
Advances	–	35 618	–	–	35 618
Cash and cash equivalents	–	986	–	–	986
Investment securities and other investments	3 507	341	–	122	3 970
Unwinding of discounted present value on non-performing loans	–	131	–	–	131
Accrued on off-market advances	–	5	–	–	5
Other	–	77	533	15	625
Interest and similar income	3 507	37 158	533	137	41 335

1 ANALYSIS OF INTEREST INCOME AND INTEREST EXPENSE continued

1.2 Interest expense and similar charges

R million	2013 Fair value	2013 Amortised cost	2013 Hedging instruments	2013 Non-financial instruments	2013 Total
Current accounts	–	(7 328)	–	–	(7 328)
Savings deposits	–	(106)	–	–	(106)
Fixed and notice deposits	(381)	(8 268)	–	–	(8 649)
Negotiable certificates of deposit	(98)	(2 185)	–	–	(2 283)
Repurchase agreements	–	(244)	–	–	(244)
Securities lending	–	(239)	–	–	(239)
Cash collateral and credit-linked notes	–	(541)	–	–	(541)
Fixed and floating rate notes	(205)	(3 160)	–	–	(3 365)
Other liabilities	(142)	(177)	–	–	(319)
Tier 2 liabilities and debt qualifying as capital	(71)	(588)	–	–	(659)
Other	(12)	(343)	(1 354)	(44)	(1 753)
Gross interest expense and similar charges	**(909)**	**(23 179)**	**(1 354)**	**(44)**	**(25 486)**
Less: interest reallocated to fair value income*	–	6 380	–	–	6 380
Interest expense and similar charges	**(909)**	**(16 799)**	**(1 354)**	**(44)**	**(19 106)**

R million	2012 Fair value	2012 Amortised cost	2012 Hedging instruments	2012 Non-financial instruments	2012 Total
Current accounts	–	(7 684)	–	–	(7 684)
Savings deposits	–	(70)	–	–	(70)
Fixed and notice deposits	(532)	(6 823)	–	–	(7 355)
Negotiable certificates of deposit	(94)	(2 961)	–	–	(3 055)
Repurchase agreements	–	(351)	–	–	(351)
Securities lending	–	(249)	–	–	(249)
Cash collateral and credit-linked notes	–	(365)	–	–	(365)
Fixed and floating rate notes	(391)	(1 304)	–	–	(1 695)
Other liabilities	–	(130)	–	–	(130)
Tier 2 liabilities and debt qualifying as capital	(18)	(671)	–	–	(689)
Other	(273)	(398)	(1 327)	(5)	(2 003)
Gross interest expense and similar charges	(1 308)	(21 006)	(1 327)	(5)	(23 646)
Less: interest reallocated to fair value income*	532	3 661	–	–	4 193
Interest expense and similar charges	(776)	(17 345)	(1 327)	(5)	(19 453)

* *Interest expense reallocated to fair value income relates to interest paid on liabilities that fund the Group's fair value activities. In line with the Group's accounting policies this interest expense is reallocated to fair value income to appropriately reflect the nature of the income earned.*

2 NON-INTEREST INCOME

R million	2013	2012
Fee and commission income	**23 210**	20 706
– Instruments at amortised cost	**17 638**	15 506
– Instruments at fair value	**159**	78
– Non-financial instruments	**5 413**	5 122
Fee and commission expenses	**(2 965)**	(2 704)
Net fee and commission income	**20 245**	18 002
Fair value gains or losses		
Held for trading	**2 939**	2 638
Designated at fair value through profit or loss	**2 422**	3 099
Other	**(34)**	154
Fair value gains or losses*	**5 327**	5 891
Gains less losses from investing activities		
Designated at fair value through profit or loss	**334**	245
Available-for-sale	**266**	404
Other	**602**	897
Gains less losses from investing activities	**1 202**	1 546
Other non-interest income	**4 840**	4 055
Total non-interest income	**31 614**	29 494

* *Included in fair value gains or losses is dividend income of R3 317 million (2012: R2 717 million).*

2 NON-INTEREST INCOME continued

R million	2013	2012
Fee and commission income		
Banking fee and commission income	**18 901**	16 486
– Card commissions	**2 887**	2 410
– Cash deposit fees	**1 854**	1 846
– Commitment fees	**753**	429
– Commissions: bills, drafts and cheques	**561**	487
– Exchange commissions	**757**	709
– Brokerage income	**44**	5
– Bank charges	**12 045**	10 600
Knowledge-based fee and commission income	**1 130**	870
Non-banking fee and commission income*	**2 196**	2 392
Insurance commission and brokerage income	**983**	958
Fee and commission income	**23 210**	20 706
Fee and commission expenses		
Transaction processing fees	**(845)**	(775)
Commission paid	**(246)**	(235)
Customer loyalty programmes	**(626)**	(425)
Cash sorting, handling and transportation charges	**(520)**	(565)
Card and cheque book related	**(210)**	(135)
ATM commissions paid	**(22)**	(23)
Other	**(496)**	(546)
Fee and commission expenses	**(2 965)**	(2 704)
Net fee and commission income	**20 245**	18 002
Fair value gains or losses**	**5 327**	5 891

* *Non-banking fee and commission income earned relates to fees and commissions for rendering services to clients other than those related to banking operations. This includes income received from trust and fiduciary services.*

** *Included in fair value gains or losses is dividend income of R3 317 million (2012: R2 717 million).*

2 NON-INTEREST INCOME continued

R million	2013	2012
Gains less losses from investing activities		
Loss on disposal of investments securities and other investments	**(13)**	(20)
Impairment of investment securities and other investments	**(23)**	–
Reclassification from other comprehensive income on derecognition/sale of available-for-sale assets	**33**	154
Preference share dividends from unlisted investments	**49**	34
Other dividends received	**97**	86
Gain on disposal of investments in subsidiaries	**63**	266
Gain on disposal of investments in associates and joint ventures	**161**	579
Share of profit of associates and joint ventures after tax (note 14)	**824**	1 120
Gain on disposal of non-current assets held for sale	**284**	–
Gain on a bargain purchase	**14**	–
Fair value gains on assets held against employee liabilities	**291**	169
Fair value gains on investment properties held at fair value through profit or loss (note 19)	**7**	12
Rental income from investment properties (note 19)	**39**	20
Other investment income	**200**	246
Gross gains less losses from investing activities	**2 026**	2 666
Less: share of profit from associates and joint ventures after tax (disclosed separately on the face of the income statement)	**(824)**	(1 120)
Gains less losses from investing activities	**1 202**	1 546
Other non-interest income		
Loss on disposal of property and equipment	**(77)**	(49)
Non-interest income from insurance operations	**1 977**	1 589
– Premium income	**2 685**	2 502
– Reinsurance recoveries	**18**	430
– Claims and policyholder benefits	**(556)**	(637)
– Increase in value of net policyholder liabilities	**(170)**	(706)
Other income	**2 940**	2 515
Other non-interest income	**4 840**	4 055
Total non-interest income	**31 614**	29 494

3 OPERATING EXPENSES

R million	2013	2012
Auditors' remuneration		
Audit fees (note 25)	**(166)**	(145)
Fees for other services	**(44)**	(44)
Prior year under provision	**(12)**	(1)
Auditors' remuneration	**(222)**	(190)
Operating lease charges		
Property	**(950)**	(881)
Equipment	**(136)**	(142)
Motor vehicles	**(14)**	(10)
Operating lease charges	**(1 100)**	(1 033)
Staff costs		
Salaries, wages and allowances	**(11 027)**	(10 034)
Contributions to employee benefit funds	**(1 833)**	(1 605)
– Defined contribution schemes	**(1 521)**	(1 390)
– Defined benefit schemes (note 18)	**(312)**	(215)
Social security levies	**(158)**	(151)
Share-based payments (note 29)	**(1 114)**	(1 436)
Movement in staff-related provisions (note 18)	**(3 054)**	(2 509)
Other	**(344)**	(473)
Total staff costs	**(17 530)**	(16 208)

3 OPERATING EXPENSES continued

R million	2013	2012
Other operating costs		
Amortisation of intangible assets (note 16)	**(134)**	(218)
Depreciation of property and equipment (note 15)	**(2 046)**	(2 123)
Impairments incurred	**(801)**	(183)
– Property and equipment (note 15)	**(12)**	(4)
– Intangible assets (note 16)	**(709)**	(120)
– Other*	**(80)**	(59)
Impairments reversed	**–**	4
– Property and equipment (note 15)	**–**	2
– Other	**–**	2
Insurance	**(81)**	(64)
Advertising and marketing	**(1 361)**	(1 196)
Maintenance	**(857)**	(762)
Property	**(905)**	(796)
Computer	**(1 185)**	(905)
Stationery	**(187)**	(194)
Telecommunications	**(411)**	(364)
Other operating expenditure	**(3 449)**	(3 050)
Total directors' remuneration**	**(25)**	(20)
– Services as directors	**(25)**	(20)
Professional fees	**(1 192)**	(1 120)
Other operating costs	**(12 634)**	(10 991)
Total operating expenses	**(31 486)**	(28 422)

* *Included in other is impairment of accounts receivable.*

** *This has been disclosed as part of the corporate governance report. Refer to pages 91 to 96.*

4 INDIRECT TAX AND INCOME TAX EXPENSE

	R million	2013	2012
4.1	**Indirect tax**		
	Value added tax (net)	**(639)**	(539)
	Securities transfer tax	**(6)**	(12)
	Total indirect tax	**(645)**	(551)
4.2	**Income tax expense**		
	South African income tax		
	Current	**(5 276)**	(3 966)
	– Current year	**(4 708)**	(4 316)
	– Prior year adjustment	**(568)**	350
	Deferred income tax	**1 264**	967
	– Current year	**914**	1 156
	– Prior year adjustment	**350**	(189)
	Total South African income tax	**(4 012)**	(2 999)
	Foreign company and withholding tax		
	Current	**(600)**	(529)
	– Current year	**(606)**	(528)
	– Prior year adjustment	**6**	(1)
	Deferred income tax	**31**	1
	– Current year	**42**	–
	– Prior year adjustment	**(11)**	1
	Total foreign company and withholding tax	**(569)**	(528)
	Secondary tax on companies		
	Current year	**–**	(47)
	Deferred income tax	**–**	(478)
	– Current year	**–**	(410)
	– Prior year adjustment	**–**	(68)
	Total secondary tax on companies	**–**	(525)
	Capital gains tax		
	Current year	**(6)**	(114)
	Deferred income tax	**69**	6
	Tax rate adjustment	**(6)**	–
	Total capital gains tax	**57**	(108)
	Customer tax adjustment account	**(8)**	71
	Total income tax expense	**(4 532)**	(4 089)

4 INDIRECT TAX AND INCOME TAX EXPENSE continued

4.2 Income tax expense continued

%	2013	2012
Tax rate reconciliation		
Standard rate of income tax	**28.0**	28.0
Total tax has been affected by:		
Non-taxable income	**(6.9)**	(10.9)
Foreign tax rate differential	**2.8**	2.9
Prior year adjustments	**1.1**	(0.5)
Amounts charged/transferred directly to other comprehensive income	**1.4**	–
Effect of income at capital gains tax rate	**(0.3)**	0.6
Other non-deductible items	**(3.7)**	2.1
Effective rate of tax	**22.4**	22.2

5 EARNINGS PER SHARE

	2013	2012
Basic		
Basic earnings per share is calculated by dividing the net profit attributable to equityholders of the Group by the weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares purchased by the Group and held as treasury shares.		
Earnings attributable to ordinary equityholders (R million)	**14 539**	13 196
Weighted average number of ordinary shares in issue	**5 461 481 690**	5 460 366 282
Basic earnings per share (cents)	**266.2**	241.7
Diluted		
Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.		
Earnings attributable to ordinary equityholders (R million)	**14 539**	13 196
Actual number of shares		
Opening balance	**5 637 941 689**	5 637 941 689
Less: treasury shares	**(171 915 613)**	(175 283 030)
– Staff share schemes	**–**	(2 590 187)
– BEE staff trusts	**(171 401 072)**	(171 401 072)
– Shares held by policyholders*	**(514 541)**	(1 291 771)
Number of shares in issue (after treasury shares)	**5 466 026 076**	5 462 658 659

* *Policyholders only include FirstRand shares held in the FNB ELI cell.*

5 EARNINGS PER SHARE continued

	2013	2012
Weighted average number of shares		
Weighted average number of shares before treasury shares	**5 637 941 689**	5 637 941 689
Less: treasury shares	**(176 459 999)**	(177 575 407)
– Staff share schemes	**(446 141)**	(4 867 033)
– BEE staff trusts	**(171 401 072)**	(171 401 072)
– Policyholder and mutual funds deemed treasury shares	**(4 612 786)**	(1 307 302)
Weighted average number of shares in issue	**5 461 481 690**	5 460 366 282
Dilution impact:		
Staff share schemes	**25 846 994**	84 347 709
BEE staff trust	**42 483 153**	27 757 143
Diluted weighted average number of shares in issue	**5 529 811 837**	5 572 471 134
Number of shares		
Weighted average number of shares in issue	**5 461 481 690**	5 460 366 282
Dilution impact	**68 330 147**	112 104 852
Diluted weighted average number of shares in issue	**5 529 811 837**	5 572 471 134
Diluted earnings per share (cents)	**262.9**	236.8

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 pages 230 to 250 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 and according to when the assets are expected to be realised and liabilities settled:

		2013		
R million	Notes	Held for trading	Designated at fair value through profit or loss*	Held-to-maturity
ASSETS				
Cash and cash equivalents	7	–	–	–
Derivative financial instruments	8	**51 454**	–	–
Commodities	9	–	–	–
Accounts receivable	10	–	–	–
Current tax asset		–	–	–
Advances	11	–	**156 754**	**42**
Investment securities and other investments	13	**34 215**	**72 845**	**382**
Investments in associates and joint ventures	14	–	–	–
Property and equipment	15	–	–	–
Intangible assets	16	–	–	–
Reinsurance assets	17	–	–	–
Post-employment benefit asset	18	–	–	–
Investment properties	19	–	–	–
Deferred income tax asset	20	–	–	–
Non-current assets and disposal groups held for sale	21	–	–	–
Total assets		**85 669**	**229 599**	**424**
Fair value of assets held or placed on behalf of customers in a fiduciary capacity**				
LIABILITIES				
Short trading positions	22	**2 991**	–	–
Derivative financial instruments	8	**52 197**	–	–
Creditors and accruals	23	–	–	–
Current tax liability		–	–	–
Deposits	24	–	**104 853**	–
Provisions	25	–	–	–
Employee liabilities	18	–	–	–
Other liabilities	26	–	**2 023**	–
Policyholder liabilities under insurance contracts	17	–	–	–
Deferred income tax liability	20	–	–	–
Tier 2 liabilities and debt qualifying as capital	27	–	**1 049**	–
Liabilities directly associated with disposal groups held for sale	21	–	–	–
Total liabilities		**55 188**	**107 925**	**–**

* *Investment securities designated at fair value through profit and loss include non-recourse investments of R19 225 million. Refer to note 13.*
** *Excludes assets in trust where only trust advisory services are provided with no related asset management.*

The *Risk and capital management report* on pages 129 to 229 contains further information about the risk associated with various financial assets and financial liabilities recognised in the statement of financial position.

Refer to note 34 for information about changes in the Group's own credit risk and the impact on the financial liabilities of the Group.

Refer to note 36 for additional information relating to the fair value of financial assets and financial liabilities.

2013							
Loans and receivables	Available-for-sale financial assets	Financial liabilities at amortised cost	Derivatives designated as hedging instruments	Non-financial instruments	Total carrying value	Current	Non-current
49 620	–	–	–	–	49 620	49 620	–
–	–	–	862	–	52 316	50 625	1 691
–	–	–	–	6 016	6 016	6 016	–
7 471	–	–	–	–	7 471	7 219	252
–	–	–	–	275	275	–	275
442 107	72	–	–	–	598 975	202 732	396 243
415	23 436	–	–	–	131 293	93 019	38 274
–	–	–	–	6 992	6 992	–	6 992
–	–	–	–	14 058	14 058	–	14 058
–	–	–	–	1 169	1 169	–	1 169
–	–	–	–	394	394	–	394
–	–	–	–	13	13	–	13
–	–	–	–	459	459	–	459
–	–	–	–	598	598	–	598
–	–	–	–	20	20	20	–
499 613	**23 508**	**–**	**862**	**29 994**	**869 669**	**409 251**	**460 418**
					130 876		
–	–	–	–	–	2 991	2 991	–
–	–	–	816	–	53 013	51 378	1 635
–	–	11 155	–	–	11 155	10 601	554
–	–	–	–	553	553	–	553
–	–	592 152	–	–	697 005	597 134	99 871
–	–	–	–	600	600	243	357
–	–	–	–	8 092	8 092	4 235	3 857
–	–	4 636	–	10	6 669	3 577	3 092
–	–	–	–	1 112	1 112	438	674
–	–	–	–	735	735	24	711
–	–	7 067	–	–	8 116	2	8 114
–	–	–	–	–	–	–	–
–	**–**	**615 010**	**816**	**11 102**	**790 041**	**670 623**	**119 418**

6 ANALYSIS OF ASSETS AND LIABILITIES continued

		2012		
R million	Notes	Held for trading	Designated at fair value through profit or loss*	Held-to-maturity
ASSETS				
Cash and cash equivalents	7	–	–	–
Derivative financial instruments	8	52 277	–	–
Commodities	9	–	–	–
Accounts receivable	10	–	–	–
Current tax asset		–	–	–
Advances	11	–	139 697	60
Investment securities and other investments	13	38 261	58 096	244
Investments in associates and joint ventures	14	–	–	–
Property and equipment	15	–	–	–
Intangible assets	16	–	–	–
Reinsurance assets	17	–	–	–
Post-employment benefit asset	18	–	–	–
Investment properties	19	–	–	–
Deferred income tax asset	20	–	–	–
Non-current assets and disposal groups held for sale	21	–	–	–
Total assets		90 538	197 793	304
Fair value of assets held or placed on behalf of customers in a fiduciary capacity**				
LIABILITIES				
Short trading positions	22	5 343	–	–
Derivative financial instruments	8	52 213	–	–
Creditors and accruals	23	–	–	–
Current tax liability		–	–	–
Deposits	24	–	105 756	–
Provisions	25	–	–	–
Employee liabilities	18	–	–	–
Other liabilities	26	–	1 849	–
Policyholder liabilities under insurance contracts	17	–	–	–
Deferred income tax liability	20	–	–	–
Tier 2 liabilities and debt qualifying as capital	27	–	1 067	–
Liabilities directly associated with disposal groups held for sale	21	–	–	–
Total liabilities		57 556	108 672	–

* *Investment securities designated at fair value through profit and loss include non-recourse investments of R20 092 million. Refer to note 13.*

** *Excludes assets in trust where only trust advisory services are provided with no related asset management.*

	2012							
	Loans and receivables	Available-for-sale financial assets	Financial liabilities at amortised cost	Derivatives designated as hedging instruments	Non-financial instruments	Total carrying value	Current	Non-current
	38 363	–	–	–	–	38 363	38 363	–
	–	–	–	636	–	52 913	49 610	3 303
	–	–	–	–	5 108	5 108	5 108	–
	6 007	–	–	–	–	6 007	4 939	1 068
	–	–	–	–	331	331	26	305
	384 642	108	–	–	–	524 507	171 361	353 146
	103	23 004	–	–	–	119 708	91 090	28 618
	–	–	–	–	6 869	6 869	–	6 869
	–	–	–	–	12 026	12 026	–	12 026
	–	–	–	–	1 743	1 743	–	1 743
	–	–	–	–	898	898	1	897
	–	–	–	–	7	7	7	–
	–	–	–	–	215	215	–	215
	–	–	–	–	471	471	3	468
	–	–	–	–	599	599	599	–
	429 115	23 112	–	636	28 267	769 765	361 107	408 658
						108 695		
	–	–	–	–	–	5 343	5 343	–
	–	–	–	1 547	–	53 760	52 383	1 377
	–	–	9 086	–	–	9 086	8 822	264
	–	–	–	–	386	386	166	220
	–	–	500 525	–	–	606 281	504 378	101 903
	–	–	–	–	592	592	203	389
	–	–	–	–	6 933	6 933	3 038	3 895
	–	–	4 533	–	1	6 383	786	5 597
	–	–	–	–	1 517	1 517	394	1 123
	–	–	–	–	1 679	1 679	6	1 673
	–	–	6 818	–	–	7 885	1 287	6 598
	–	–	–	–	113	113	113	–
	–	–	520 962	1 547	11 221	699 958	576 919	123 039

7 CASH AND CASH EQUIVALENTS

R million	2013	2012
Coins and bank notes	**5 927**	4 776
Money at call and short notice	**27 060**	18 153
Balances with central banks	**16 633**	15 434
Cash and cash equivalents	**49 620**	38 363
Mandatory reserve balances included above	**16 160**	13 677

Banks are required to deposit a minimum average balance, calculated monthly, with the central bank, which is not available for use in the Group's day-to-day operations. These deposits bear little or no interest.

Money at short notice constitutes amounts withdrawable in 32 days or less.

8 DERIVATIVE FINANCIAL INSTRUMENTS

Use of derivatives

The Group transacts in derivatives for two purposes: to create risk management solutions for clients and to manage and hedge the Group's own risk. For accounting purposes, derivative instruments are classified as held either for trading or hedging. Derivatives that are held for hedging are formally designated as hedging instruments as defined in IAS 39.

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

The Group's derivative activities give rise to 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.

The Group's detailed risk management strategy, including the use of hedging instruments in risk management, is set out in the *Risk and capital management report* on pages 129 to 229.

Held for trading derivatives

Most of the Group's derivative transactions relate to sales activities. Sales activities include the structuring and marketing of derivative products to customers to enable them to take, transfer, modify or reduce current or expected risks.

Hedging instruments

Fair value hedges

The Group's fair value hedges consist of commodity derivatives used to hedge the price risk associated with physical commodity positions and interest rate swaps that hedge the interest rate risk inherent in a fixed rate preference share advance. The following amounts were recognised in profit or loss for the year in respect of fair value hedges:

R million	2013	2012
Losses/(gains) for the year arising from the change in fair value of fair value hedges		
– On hedging instrument	**9**	(400)
– On hedged items attributable to the hedged risk	**(14)**	406
Total	**(5)**	6

8 DERIVATIVE FINANCIAL INSTRUMENTS continued

Cash flow hedges

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

The Group hedges this risk using separate portfolios. These portfolios are managed under separate mandates, which take into account the underlying risk inherent in each portfolio.

The Group uses the following derivatives as hedging instruments:

- Forward rate agreements are negotiated interest rate futures that call for cash settlement at a future date for the difference between the contractual and market rates of interest, based on a notional principal amount.
- 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.

During the year, the hedging relationships were highly effective and the Group deferred the lesser of changes in fair value on the hedging instruments and changes in fair value on the hedged items. As the changes on the hedged items were less than the changes in fair value on the hedging instrument, a portion of ineffectiveness was recognised in profit or loss.

R million	**2013**	2012
Hedge ineffectiveness recognised in profit or loss (net of tax)	**(44)**	(18)

Cash flows (gross of tax) on the underlying hedged items are expected to impact profit or loss as follows:

	2013		2012	
R million	**Assets**	**Liabilities**	Assets	Liabilities
0 – 3 months	**87**	**(28)**	1 897	(1 518)
4 – 12 months	**432**	**(98)**	3 664	(2 639)
1 – 5 years	**139**	**(684)**	914	(1 497)
Over 5 years	**2**	**(37)**	2	(17)
Total	**660**	**(847)**	6 477	(5 671)

Cash flows (gross of tax) on the hedging instruments are expected to be released to profit or loss as follows:

	2013		2012	
R million	**Assets**	**Liabilities**	Assets	Liabilities
0 – 3 months	**(56)**	**83**	(174)	331
4 – 12 months	**(77)**	**468**	(323)	687
1 – 5 years	**(685)**	**164**	(121)	640
Over 5 years	**(38)**	**2**	(1)	8
Total	**(856)**	**717**	(619)	1 666

8 DERIVATIVE FINANCIAL INSTRUMENTS continued

	2013			
	Assets		Liabilities	
R million	Notional	Fair value	Notional	Fair value
Qualifying for hedge accounting				
Cash flow hedges				
Interest rate derivatives	60 853	753	95 654	791
– Forward rate agreements	3 280	2	3 525	8
– Swaps	57 573	751	92 129	783
Total cash flow hedges	60 853	753	95 654	791
Fair value hedges				
Interest rate derivatives	3 503	109	2 252	25
– Swaps	3 503	109	2 252	25
Commodity derivatives	2 146	–	–	–
– Futures	2 146	–	–	–
Total fair value hedges	5 649	109	2 252	25
Total qualifying for hedge accounting	66 502	862	97 906	816
Held for trading				
Currency derivatives	243 838	11 822	322 243	13 667
– Forward rate agreements	27	–	19	1
– Swaps	190 699	8 346	213 127	9 493
– Options	18 279	1 013	23 562	1 076
– Futures	34 833	2 463	85 535	3 097
Interest rate derivatives	6 356 066	35 392	6 245 057	35 694
– Forward rate agreements	4 226 596	4 344	4 137 097	4 200
– Swaps	1 768 737	30 248	1 728 845	30 510
– Options	352 052	695	367 204	959
– Futures	8 681	105	11 911	25
Equity derivatives	38 699	2 554	18 182	2 454
– Swaps	3 206	1 622	–	–
– Options	14 340	395	11 142	2 251
– Futures	21 153	537	7 040	203
Commodity derivatives	26 148	1 606	28 994	243
– Swaps	4 402	726	1 277	115
– Options	416	41	745	44
– Futures	21 330	839	26 972	84
Credit derivatives	2 265	80	5 879	139
Total held for trading	6 667 016	51 454	6 620 355	52 197
Total	6 733 518	52 316	6 718 261	53 013

8 DERIVATIVE FINANCIAL INSTRUMENTS continued

	2013					
	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	**–**	**–**	**60 853**	**753**	**60 853**	**753**
– Interest rate derivatives	**–**	**–**	**60 853**	**753**	**60 853**	**753**
Fair value hedges	**2 146**	**–**	**3 503**	**109**	**5 649**	**109**
– Interest rate derivatives	**–**	**–**	**3 503**	**109**	**3 503**	**109**
– Commodity derivatives	**2 146**	**–**	**–**	**–**	**2 146**	**–**
Held for trading	**31 224**	**130**	**6 635 792**	**51 324**	**6 667 016**	**51 454**
– Currency derivatives	**2 776**	**1**	**241 062**	**11 821**	**243 838**	**11 822**
– Interest rate derivatives	**6 760**	**–**	**6 349 306**	**35 392**	**6 356 066**	**35 392**
– Equity derivatives	**4 835**	**–**	**33 864**	**2 554**	**38 699**	**2 554**
– Commodity derivatives	**16 853**	**129**	**9 295**	**1 477**	**26 148**	**1 606**
– Credit derivatives	**–**	**–**	**2 265**	**80**	**2 265**	**80**
Total	**33 370**	**130**	**6 700 148**	**52 186**	**6 733 518**	**52 316**

	2013					
	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	**–**	**–**	**95 654**	**791**	**95 654**	**791**
– Interest rate derivatives	**–**	**–**	**95 654**	**791**	**95 654**	**791**
Fair value hedges	**–**	**–**	**2 252**	**25**	**2 252**	**25**
– Interest rate derivatives	**–**	**–**	**2 252**	**25**	**2 252**	**25**
Held for trading	**85 022**	**8**	**6 535 333**	**52 189**	**6 620 355**	**52 197**
– Currency derivatives	**48 200**	**–**	**274 043**	**13 667**	**322 243**	**13 667**
– Interest rate derivatives	**11 282**	**8**	**6 233 775**	**35 686**	**6 245 057**	**35 694**
– Equity derivatives	**–**	**–**	**18 182**	**2 454**	**18 182**	**2 454**
– Commodity derivatives	**25 540**	**–**	**3 454**	**243**	**28 994**	**243**
– Credit derivatives	**–**	**–**	**5 879**	**139**	**5 879**	**139**
Total	**85 022**	**8**	**6 633 239**	**53 005**	**6 718 261**	**53 013**

8 DERIVATIVE FINANCIAL INSTRUMENTS continued

	2012			
	Assets		Liabilities	
R million	Notional	Fair value	Notional	Fair value
Qualifying for hedge accounting				
Cash flow hedges				
Interest rate derivatives	32 390	514	52 646	1 448
– Forward rate agreements	11 400	135	12 005	134
– Swaps	20 990	379	40 641	1 314
Total cash flow hedges	32 390	514	52 646	1 448
Fair value hedges				
Interest rate derivatives	2 863	122	1 355	99
– Swaps	2 863	122	1 355	99
Commodity derivatives	2 207	–	–	–
– Futures	2 207	–	–	–
Total fair value hedges	5 070	122	1 355	99
Total qualifying for hedge accounting	37 460	636	54 001	1 547
Held for trading				
Currency derivatives	512 796	13 070	439 991	11 215
– Swaps	289 698	8 513	246 250	7 190
– Options	56 960	769	57 074	469
– Futures	166 138	3 788	136 667	3 556
Interest rate derivatives	6 758 717	36 884	6 765 413	39 694
– Forward rate agreements	4 863 768	7 121	4 822 810	7 507
– Swaps	1 357 934	29 145	1 352 732	31 186
– Options	528 033	562	571 338	871
– Futures	8 982	56	18 533	130
Equity derivatives	15 728	1 888	13 314	1 013
– Swaps	3 907	1 379	–	–
– Options	4 464	296	6 313	931
– Futures	7 357	213	7 001	82
Commodity derivatives	20 158	425	11 864	203
– Swaps	802	94	3 763	97
– Options	107	24	82	25
– Futures	19 249	307	8 019	81
Credit derivatives	1 139	10	5 920	88
Total held for trading	7 308 538	52 277	7 236 502	52 213
Total	7 345 998	52 913	7 290 503	53 760

8 DERIVATIVE FINANCIAL INSTRUMENTS continued

	2012					
	Assets: Derivative instruments					
	Exchange traded		Over the counter		Total	
R million	Notional	Fair value	Notional	Fair value	Notional	Fair value
Qualifying for hedge accounting						
Cash flow hedges	–	–	32 390	514	32 390	514
– Interest rate derivatives	–	–	32 390	514	32 390	514
Fair value hedges	2 207	-	2 863	122	5 070	122
– Interest rate derivatives	–	–	2 863	122	2 863	122
– Commodity derivatives	2 207	–	–	–	2 207	–
Held for trading	47 682	–	7 260 856	52 277	7 308 538	52 277
– Currency derivatives	25 082	–	487 714	13 070	512 796	13 070
– Interest rate derivatives	5 621	–	6 753 096	36 884	6 758 717	36 884
– Equity derivatives	387	–	15 341	1 888	15 728	1 888
– Commodity derivatives	16 592	–	3 566	425	20 158	425
– Credit derivatives	-	–	1 139	10	1 139	10
Total	49 889	–	7 296 109	52 913	7 345 998	52 913

	2012					
	Liabilities: Derivative instruments					
	Exchange traded		Over the counter		Total	
R million	Notional	Fair value	Notional	Fair value	Notional	Fair value
Qualifying for hedge accounting						
Cash flow hedges	–	–	52 646	1 448	52 646	1 448
– Interest rate derivatives	–	–	52 646	1 448	52 646	1 448
Fair value hedges	–	–	1 355	99	1 355	99
– Interest rate derivatives	–	–	1 355	99	1 355	99
Held for trading	20 971	–	7 215 531	52 213	7 236 502	52 213
– Currency derivatives	–	–	439 991	11 215	439 991	11 215
– Interest rate derivatives	11 314	–	6 754 099	39 694	6 765 413	39 694
– Equity derivatives	4 335	–	8 979	1 013	13 314	1 013
– Commodity derivatives	5 322	–	6 542	203	11 864	203
– Credit derivatives	–	–	5 920	88	5 920	88
Total	20 971	–	7 269 532	53 760	7 290 503	53 760

9 COMMODITIES

R million	2013	2012
Agricultural commodities	**1 729**	1 474
Gold	**4 287**	3 634
Total commodities	**6 016**	5 108

10 ACCOUNTS RECEIVABLE

R million	2013	2012
Items in transit	**2 106**	876
Interest and commission accrued	**57**	45
Prepayments	**689**	686
Properties held for resale (note 32)	**156**	103
Other accounts receivable	**4 463**	4 297
Total accounts receivable	**7 471**	6 007

The credit quality of the accounts receivable is provided in the table below:

	2013					
	Neither past due nor impaired	**Past due but not impaired**				
R million		**1 – 30 days**	**31 – 60 days**	**61 – 90 days**	**Impaired**	**Total**
Items in transit	**2 106**	**–**	**–**	**–**	**–**	**2 106**
Interest and commissions accrued	**57**	**–**	**–**	**–**	**–**	**57**
Prepayments	**689**	**–**	**–**	**–**	**–**	**689**
Properties held for resale	**156**	**–**	**–**	**–**	**–**	**156**
Other accounts receivable	**4 237**	**50**	**120**	**5**	**51**	**4 463**
Total accounts receivable	**7 245**	**50**	**120**	**5**	**51**	**7 471**

	2012					
	Neither past due nor impaired	Past due but not impaired				
R million		1 – 30 days	31 – 60 days	61 – 90 days	Impaired	Total
Items in transit	871	5	–	–	–	876
Interest and commissions accrued	42	3	–	–	–	45
Prepayments	686	–	–	–	–	686
Properties held for resale	55	–	–	–	48	103
Other accounts receivable	4 020	118	5	97	57	4 297
Total accounts receivable	5 674	126	5	97	105	6 007

11 ADVANCES

R million	2013 Designated at fair value through profit and loss	Held-to-maturity	Loans and receivables	Available-for-sale	Total
Notional value of advances	**156 754**	**47**	**453 354**	**72**	**610 227**
Contractual interest suspended	**–**	**(4)**	**(1 862)**	**–**	**(1 866)**
Gross value of advances	**156 754**	**43**	**451 492**	**72**	**608 361**
Sector analysis					
Agriculture	**574**	**–**	**19 941**	**72**	**20 587**
Banks	**4 411**	**–**	**2 767**	**–**	**7 178**
Financial institutions	**48 610**	**–**	**17 359**	**–**	**65 969**
Building and property development	**23 799**	**–**	**8 957**	**–**	**32 756**
Government, Land Bank and public authorities	**14 511**	**–**	**3 437**	**–**	**17 948**
Individuals	**130**	**43**	**318 122**	**–**	**318 295**
Manufacturing and commerce	**25 752**	**–**	**47 925**	**–**	**73 677**
Mining	**14 751**	**–**	**8 405**	**–**	**23 156**
Transport and communication	**9 596**	**–**	**5 985**	**–**	**15 581**
Other services	**14 620**	**–**	**18 594**	**–**	**33 214**
Gross value of advances	**156 754**	**43**	**451 492**	**72**	**608 361**
Impairment of advances (note 12)	**–**	**(1)**	**(9 385)**	**–**	**(9 386)**
Net advances	**156 754**	**42**	**442 107**	**72**	**598 975**

11 ADVANCES continued

R million	2013 Designated at fair value through profit and loss	Held-to-maturity	Loans and receivables	Available-for-sale	Total
Category analysis					
Overdrafts and cash management accounts	–	–	43 934	–	43 934
Term loans	2 225	–	26 663	72	28 960
Card loans	–	–	15 321	–	15 321
Instalment sales and hire purchase agreements	–	–	118 525	–	118 525
Lease payments receivable	–	–	10 609	–	10 609
Property finance	2 583	43	189 911	–	192 537
– Home loans	–	43	174 695	–	174 738
– Commercial property finance	2 583	–	15 216	–	17 799
Personal loans	–	–	23 975	–	23 975
Preference share agreements	22 713	–	2 787	–	25 500
Assets under agreement to resell	38 828	–	1 734	–	40 562
Investment bank term loans	89 725	–	508	–	90 233
Other	680	–	17 525	–	18 205
Gross value of advances	156 754	43	451 492	72	608 361
Impairment of advances (note 12)	–	(1)	(9 385)	–	(9 386)
Net advances	156 754	42	442 107	72	598 975
Geographic analysis (based on credit risk)					
South Africa	145 094	43	393 843	72	539 052
Other Africa	8 201	–	37 443	–	45 644
United Kingdom	1 216	–	14 733	–	15 949
Other	2 243	–	5 473	–	7 716
– Europe	582	–	2 792	–	3 374
– North America	346	–	826	–	1 172
– South America	89	–	283	–	372
– Australasia	600	-	757	–	1 357
– Asia	626	–	815	–	1 441
Gross value of advances	156 754	43	451 492	72	608 361
Impairment of advances (note 12)	–	(1)	(9 385)	–	(9 386)
Net advances	156 754	42	442 107	72	598 975

11 ADVANCES continued

	2012				
R million	Designated at fair value through profit and loss	Held-to-maturity	Loans and receivables	Available-for-sale	Total
Notional value of advances	139 697	67	395 499	108	535 371
Contractual interest suspended	–	(6)	(2 018)	–	(2 024)
Gross value of advances	139 697	61	393 481	108	533 347
Sector analysis					
Agriculture	787	–	15 679	108	16 574
Banks	9 401	–	4 606	–	14 007
Financial institutions	45 836	–	13 842	–	59 678
Building and property development	21 162	–	8 072	–	29 234
Government, Land Bank and public authorities	13 451	–	2 718	–	16 169
Individuals	447	61	284 615	–	285 123
Manufacturing and commerce	15 965	–	39 982	–	55 947
Mining	12 296	–	3 973	–	16 269
Transport and communication	10 293	–	4 623	–	14 916
Other services	10 059	–	15 371	–	25 430
Gross value of advances	139 697	61	393 481	108	533 347
Impairment of advances (note 12)	–	(1)	(8 839)	–	(8 840)
Net advances	139 697	60	384 642	108	524 507

11 ADVANCES continued

	2012				
R million	Designated at fair value through profit and loss	Held-to-maturity	Loans and receivables	Available-for-sale	Total
Category analysis					
Overdrafts and cash management accounts	–	–	32 967	–	32 967
Term loans	1 550	–	17 024	–	18 574
Card loans	–	–	13 634	–	13 634
Instalment sales and hire purchase agreements	–	–	95 507	–	95 507
Lease payments receivable	–	–	12 578	–	12 578
Property finance	3 088	61	179 912	–	183 061
– Home loans	16	61	167 354	–	167 431
– Commercial property finance	3 072	–	12 558	–	15 630
Personal loans	–	–	20 575	–	20 575
Preference share agreements	25 306	–	2 212	–	27 518
Assets under agreement to resell	37 690	–	813	–	38 503
Investment bank term loans	71 286	–	296	–	71 582
Other	777	–	17 963	108	18 848
Gross value of advances	139 697	61	393 481	108	533 347
Impairment of advances (note 12)	–	(1)	(8 839)	–	(8 840)
Net advances	139 697	60	384 642	108	524 507
Geographic analysis (based on credit risk)					
South Africa	128 809	61	349 226	108	478 204
Other Africa	3 432	–	27 839	–	31 271
United Kingdom	5 376	–	10 371	–	15 747
Other	2 080	–	6 045	–	8 125
– Europe	545	–	1 721	–	2 266
– North America	64	–	220	–	284
– South America	102	–	–	–	102
– Australasia	500	–	1 137	–	1 637
– Asia	869	–	2 967	–	3 836
Gross value of advances	139 697	61	393 481	108	533 347
Impairment of advances (note 12)	–	(1)	(8 839)	–	(8 840)
Net advances	139 697	60	384 642	108	524 507

11 ADVANCES continued

R million	2013 Within 1 year	2013 Between 1 and 5 years	2013 More than 5 years	2013 Total
Analysis of instalment sales and lease payments receivable				
Lease payments receivable	**2 845**	**7 738**	**606**	**11 189**
Suspensive sale instalments receivable	**39 788**	**98 139**	**6 914**	**144 841**
Subtotal	**42 633**	**105 877**	**7 520**	**156 030**
Less: unearned finance charges	**(7 481)**	**(17 881)**	**(1 400)**	**(26 762)**
Total gross instalment sales and lease payments receivable	**35 152**	**87 996**	**6 120**	**129 268**
Less: interest in suspense				**(134)**
Total net instalment sales and lease payments receivable				**129 134**

R million	2012 Within 1 year	2012 Between 1 and 5 years	2012 More than 5 years	2012 Total
Analysis of instalment sales and lease payments receivable				
Lease payments receivable	4 548	13 499	609	18 656
Suspensive sale instalments receivable	29 488	77 511	4 899	111 898
Subtotal	34 036	91 010	5 508	130 554
Less: unearned finance charges	(6 203)	(14 947)	(1 006)	(22 156)
Total gross instalment sales and lease payments receivable	27 833	76 063	4 502	108 398
Less: interest in suspense				(313)
Total net instalment sales and lease payments receivable				108 085

Under the terms of the lease agreements, no contingent rentals are payable. These agreements relate to motor vehicles and equipment. The accumulated allowance for uncollectible minimum lease payments receivable included in the allowance for impairments at reporting date is R162 million (2012: R200 million).

11 ADVANCES continued

Securitisation transactions

Securitisation transactions arranged by the Group result in either the full derecognition of the securitised financial assets (i.e. traditional securitisation transactions) or the transfer of credit risk related to specific financial assets, thereby resulting in neither the transfer nor derecognition of the asset (i.e. synthetic securitisations).

In a synthetic securitisation transaction, credit risk related to specific advances is transferred to a SPE through credit derivatives. The securitised advances are neither transferred nor derecognised and associated credit derivatives are recognised at fair value through profit or loss. The Group consolidates these securitisation vehicles as, in terms of IAS 27 and SIC 12, the Group exercises control over the SPEs. The following is a bankruptcy remote SPE created to facilitate synthetic securitisation transactions in the Group: Fresco II, facilitated a synthetic securitisation transaction where credit risk relating to R5 billion (2012: R20 billion) of the value of a portfolio of the Group's corporate advances, has been transferred to Fresco II.

In a traditional securitisation transaction, specific advances are transferred to a SPE, which then issues liabilities to third party investors, for example variable rate notes. The Group consolidates these securitisation vehicles under SIC 12 and has therefore not derecognised the securitised advances. The Group's obligations (associated liability) toward the third party noteholders is limited to the cash flows received on the underlying securitised advances, i.e. the noteholders only have a claim to the ring-fenced advances in the SPE, and not to other assets of the Group.

The following bankruptcy remote SPEs were created to facilitate traditional securitisation transactions related to WesBank retail instalment sale advances:

Name of securitisation R million	Established	Initial transaction value	Carrying value of assets		Carrying value of liabilities	
			2013	2012	**2013**	2012
Nitro 4	July 2011	R4 billion	**1 453**	2 573	**1 747**	3 007
Turbo Finance	September 2010	GBP 340 million	**–**	1 487	**–**	1 486
Turbo Finance 2	March 2012	GBP 320 million	**2 552**	3 426	**2 526**	3 637
Turbo Finance 3	November 2012	GBP 327 million	**4 048**	–	**4 000**	–

In the prior year, two securitisation transactions (iKhaya 1 and iKhaya 2) relating to FNB HomeLoans were wound up and the notes called and settled. In the current year Turbo Finance was wound up and the notes called and settled.

11 ADVANCES continued

Credit risk mitigation

Collateral is an important mitigant of credit risk. Refer to the *Risk and capital management report* on pages 161 to 201 for the Group's credit risk management strategy with detailed information on credit risk mitigation.

The table below sets out the financial effect of collateral per class of advance:

R million	**2013**	2012
FNB Retail	**6 959**	6 991
FNB Commercial	**455**	441
Total FNB	**7 414**	7 432
RMB Investment Banking	**1 432**	1 056
RMB Corporate Banking	**24**	23
Total RMB	**1 456**	1 079
WesBank	**1 727**	1 933
Corporate Centre and other	**19**	1
Total	**10 616**	10 445

The financial effect of collateral and other credit enhancements has been calculated with reference to the unsecured loss given default (LGD) per class for the performing book (IBNR and portfolio specific impairments) and the non-performing book separately. The amounts disclosed above represent the difference between the balance sheet impairment using the actual LGD and the proxy unsecured LGD for all secured portfolios.

Where there is no collateral or where collateral is disregarded for impairment purposes, no financial effect was calculated.

It is the Group's policy that all items of collateral are valued at the inception of a transaction and at various points throughout the life of a transaction, either through physical inspection or indexation methods, as appropriate. For wholesale and commercial portfolios, the value of collateral is reviewed as part of the annual facility review. For mortgage portfolios, collateral valuations are updated on an ongoing basis through statistical indexation models. However, in the event of default a more detailed review and valuation of collateral is performed, this therefore yields a more accurate financial effect.

12 IMPAIRMENT OF ADVANCES

Significant loans and advances are monitored by the credit committee and impaired according to the Group's impairment policy when an indication of impairment is observed.

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

- breaches of loan covenants and conditions;
- time period of overdue contractual payments;
- actuarial credit models;
- loss of employment or death of the borrower; and
- probability of liquidation of the customer.

Where objective evidence of impairment exists, impairment testing is performed based on the LGD, PD and EAD.

	2013			
	FNB		RMB	
R million	Retail	Commercial	Investment Banking	Corporate Banking
Analysis of movement in impairment of advances per class of advance				
Opening balance	**4 568**	**884**	**240**	**210**
Amounts written off	**(3 044)**	**(199)**	**(122)**	**(34)**
Acquisitions/(disposals) of subsidiaries	**–**	**–**	**–**	**–**
(Disposals)/acquisitions of advances	**–**	**–**	**–**	**–**
Transfers from/(to) other divisions	**2**	**(3)**	**45**	**–**
Reclassifications	**–**	**–**	**–**	**–**
Exchange rate difference	**26**	**2**	**2**	**–**
Unwinding of discounted present value on non-performing loans	**(135)**	**(13)**	**–**	**–**
Net new impairments created*	**3 435**	**336**	**85**	**56**
Closing balance	**4 852**	**1 007**	**250**	**232**
Increase in impairments*	**(3 435)**	**(336)**	**(85)**	**(56)**
Recoveries of bad debts previously written off	**700**	**18**	**2**	**12**
Impairment loss recognised in profit or loss	**(2 735)**	**(318)**	**(83)**	**(44)**

* *Refer to the risk management framework and governance structure report in the following categories for more details: credit risk – under the impairment of financial assets and NPLs section.*

	2013				
	WesBank	Other	Total impairment	Specific impairment	Portfolio impairment
	2 138	800	8 840	5 522	3 318
	(1 876)	(1)	(5 276)	(5 276)	–
	–	–	–	–	–
	(8)	8	–	–	–
	(44)	–	–	–	–
	–	–	–	158	(158)
	12	(1)	41	30	11
	(20)	–	(168)	(168)	–
	2 037	–	5 949	5 401	548
	2 239	806	9 386	5 667	3 719
	(2 037)	–	(5 949)	(5 401)	(548)
	405	–	1 137	1 137	–
	(1 632)	–	(4 812)	(4 264)	(548)

12 IMPAIRMENT OF ADVANCES continued

	2012			
	FNB		RMB	
R million	Retail	Commercial	Investment Banking	Corporate Banking
Analysis of movement in impairment of advances per class of advance				
Opening balance	4 168	1 011	156	238
Amounts written off	(2 996)	(306)	(2)	(301)
Acquisitions of subsidiaries	–	–	–	–
Acquisitions/(disposals) of advances	4	–	(4)	–
Transfers (to)/from other divisions	(10)	10	–	–
Reclassifications	–	–	–	–
Exchange rate difference	6	3	–	–
Unwinding of discounted present value on non-performing loans	(122)	(9)	–	–
Net new impairments created	3 518	175	90	273
Closing balance	4 568	884	240	210
Increase in impairments	(3 518)	(175)	(90)	(273)
Recoveries of bad debts previously written off	831	8	1	–
Impairment loss recognised in profit or loss	(2 687)	(167)	(89)	(273)

	2012				
	WesBank	Other	Total impairment	Specific impairment	Portfolio impairment
	2 451	(2)	8 022	5 812	2 210
	(1 863)	14	(5 454)	(5 454)	–
	–	41	41	37	4
	–	(3)	(3)	(2)	(1)
	–	–	–	–	–
	–	–	–	(31)	31
	10	2	21	12	9
	–	–	(131)	(131)	–
	1 540	748	6 344	5 279	1 065
	2 138	800	8 840	5 522	3 318
	(1 540)	(748)	(6 344)	(5 279)	(1 065)
	440	(1)	1 279	1 279	–
	(1 100)	(749)	(5 065)	(4 000)	(1 065)

12 IMPAIRMENT OF ADVANCES continued

	2013		
R million	Total value net of interest in suspense	Security held and expected recoveries	Specific impairments
Non-performing loans by sector			
Agriculture	**617**	**508**	**109**
Financial institutions	**247**	**152**	**95**
Building and property development	**2 540**	**2 151**	**389**
Government, Land Bank and public authorities	**145**	**78**	**67**
Individuals	**11 946**	**7 710**	**4 236**
Manufacturing and commerce	**741**	**382**	**359**
Mining	**125**	**66**	**59**
Transport and communication	**138**	**68**	**70**
Other	**502**	**219**	**283**
Total non-performing loans	**17 001**	**11 334**	**5 667**
Non-performing loans by category			
Overdrafts and cash management accounts	**1 068**	**345**	**723**
Term loans	**440**	**194**	**246**
Card loans	**348**	**87**	**261**
Instalment sales and hire purchase agreements	**3 041**	**1 830**	**1 211**
Lease payments receivable	**485**	**260**	**225**
Property finance	**7 817**	**5 947**	**1 870**
– Home loans	**7 210**	**5 615**	**1 595**
– Commercial property finance	**607**	**332**	**275**
Personal loans	**1 506**	**382**	**1 124**
Investment bank term loans	**2 289**	**2 289**	**–**
Other	**7**	**–**	**7**
Total non-performing loans	**17 001**	**11 334**	**5 667**

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.

12 IMPAIRMENT OF ADVANCES continued

R million	2013 Total value net of interest in suspense	2013 Security held and expected recoveries	2013 Specific impairments
Non-performing loans by class			
FNB Retail	9 292	6 166	3 126
FNB Commercial	1 429	647	782
Total FNB	10 721	6 813	3 908
RMB Investment Banking	2 390	2 290	100
RMB Corporate Banking	9	–	9
Total RMB	2 399	2 290	109
WesBank	3 881	2 231	1 650
Corporate Centre and other	–	–	–
Total non-performing loans	17 001	11 334	5 667
Non-performing loans by geographical area			
South Africa	15 791	10 557	5 234
Other Africa	678	412	266
United Kingdom	50	15	35
Other	482	350	132
– North America	54	34	20
– South America	315	315	–
– Australasia	75	1	74
– Asia	38	–	38
Total non-performing loans	17 001	11 334	5 667

12 IMPAIRMENT OF ADVANCES continued

	2012		
R million	Total value net of interest in suspense	Security held and expected recoveries	Specific impairments
Non-performing loans by sector			
Agriculture	571	464	107
Financial institutions	371	212	159
Building and property development	2 342	1 966	376
Government, Land Bank and public authorities	40	20	20
Individuals	13 089	9 088	4 001
Manufacturing and commerce	1 003	551	452
Mining	422	376	46
Transport and communication	246	175	71
Other	582	292	290
Total non-performing loans	18 666	13 144	5 522
Non-performing loans by category			
Overdrafts and cash management accounts	896	254	642
Term loans	600	452	148
Card loans	322	79	243
Instalment sales and hire purchase agreements	3 385	2 086	1 299
Lease payments receivable	434	232	202
Property finance	9 740	7 618	2 122
– Home loans	8 815	7 082	1 733
– Commercial property finance	925	536	389
Personal loans	1 242	392	850
Preference share agreements	14	2	12
Investment bank term loans	2 030	2 027	3
Other	3	2	1
Total non-performing loans	18 666	13 144	5 522

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.

12 IMPAIRMENT OF ADVANCES continued

	2012		
R million	Total value net of interest in suspense	Security held and expected recoveries	Specific impairments
Non-performing loans by class			
FNB Retail	10 415	7 456	2 959
FNB Commercial	1 665	879	786
Total FNB	12 080	8 335	3 745
RMB Investment Banking	2 436	2 354	82
RMB Corporate Banking	9	–	9
Total RMB	2 445	2 354	91
WesBank	4 141	2 455	1 686
Total non-performing loans	18 666	13 144	5 522
Non-performing loans by geographical area			
South Africa	17 386	12 226	5 160
Other Africa	509	282	227
United Kingdom	68	44	24
Other	703	592	111
– North America	219	212	7
– South America	290	290	–
– Australasia	194	90	104
– Asia	–	–	–
Total non-performing loans	18 666	13 144	5 522

13 INVESTMENT SECURITIES AND OTHER INVESTMENTS

R million	2013 Held for trading	2013 Designated at fair value through profit or loss	2013 Held-to-maturity
Negotiable certificates of deposit	**1 547**	**–**	**–**
Treasury bills	**1 707**	**29 928**	**123**
Other government and government guaranteed stock	**22 913**	**3 607**	**181**
Other dated securities	**3 362**	**11 279**	**–**
Other undated securities	**15**	**243**	**–**
Equities	**4 671**	**8 563**	**–**
Other	**–**	**–**	**78**
Total investment securities and other investments	**34 215**	**53 620**	**382**

R million	2012 Held for trading	2012 Designated at fair value through profit or loss	2012 Held-to-maturity
Negotiable certificates of deposit	1 252	–	–
Treasury bills	1 245	17 556	155
Other government and government guaranteed stock	21 413	5 458	10
Other dated securities	4 518	8 385	–
Other undated securities	–	158	–
Equities	9 833	6 447	–
Other	–	–	79
Total investment securities and other investments	38 261	38 004	244

R40 141 million (2012: R35 371 million) of the financial instruments form part of the Group's liquid asset portfolio in terms of the SARB and other foreign banking regulators' requirements.

	2013			
	Loans and receivables	**Available-for-sale**	**Non-recourse investments designated at fair value through profit or loss**	**Total**
	–	**762**	**–**	**2 309**
	–	**4 082**	**–**	**35 840**
	–	**17 501**	**–**	**44 202**
	415	**–**	**19 225**	**34 281**
	–	**5**	**–**	**263**
	–	**1 082**	**–**	**14 316**
	–	**4**	**–**	**82**
	415	**23 436**	**19 225**	**131 293**

	2012			
	Loans and receivables	Available-for-sale	Non-recourse investments designated at fair value through profit or loss	Total
	103	484	–	1 839
	–	5 038	–	23 994
	–	16 125	3 205	46 211
	–	–	16 887	29 790
	–	–	–	158
	–	1 316	–	17 596
	–	41	–	120
	103	23 004	20 092	119 708

13 INVESTMENT SECURITIES AND OTHER INVESTMENTS continued

Non-recourse investments designated at fair value through profit and loss

Certain investments held by the Group include investment grade commercial paper that is issued by asset-backed conduits held by the Group. The Group is deemed to control these conduits in terms of SIC 12.

Fair value income includes adjustments relating to these non-recourse vehicles. The fair value changes on both non-recourse investments and commercial paper issued are included in fair value income.

Where a Group entity owns the commercial paper issued by the conduit, the fair value adjustments related to this portion of the commercial paper are excluded from the net fair value adjustment recognised in fair value income.

The Group has entered into the following conduit transactions:

1. iNdwa Investment Limited, an asset-backed conduit, that provides South African institutional investors with short-dated investment grade commercial paper. The returns on the commercial paper are linked to the underlying portfolio of investments owned by the conduit.
2. iNkotha Investment Limited, a fixed income fund that provides South African institutional investors with short-dated investment grade commercial paper. The returns on the commercial paper are linked to the underlying portfolio of investments owned by the conduit.
3. iVuzi Investment Limited, an asset-backed conduit that provides South African institutional investors with short-dated investment grade commercial paper.
4. iNguza Investment Limited is a secured debenture programme that provides South African institutional investors with a debenture linked to a specific underlying credit exposure.

The performance on the commercial paper is directly linked to the performance and risk of the underlying portfolio of the conduit. The Group has no obligations toward other investors beyond the amount already contributed. The Group has no management control or influence over these investments, which are designated at fair value through profit or loss.

Total fair value adjustments on non-recourse investments, including the adjustments linked to the above conduits, are as follows:

R million	2013	2012
Investment grade commercial paper	**19 225**	20 092
Total non-recourse investments	**19 225**	20 092
Analysis of investment securities and other investments		
Listed	**70 338**	62 089
– Equities	**7 463**	12 403
– Debt	**62 875**	49 686
Unlisted	**60 955**	57 619
– Equities	**6 853**	5 193
– Debt	**54 102**	52 426
Total	**131 293**	119 708

Information regarding other investments is kept at the Group's registered offices. This information is open for inspection in terms of the provisions of Section 26 of the Companies Act 71 of 2008.

14 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

R million	2013	2012
Listed investments		
Investments at cost less amounts written off	**260**	365
Unlisted investments		
Investments at cost less amounts written off	**5 000**	4 821
Share of profit from associates and joint ventures after tax (note 2)	**824**	1 120
– Income before tax for the year	**1 385**	1 529
– Impairments of associates and joint ventures	**(217)**	(32)
– Tax for the year	**(344)**	(377)
Transfer to other reserves	**21**	–
Dividends received for the year	**(768)**	(509)
Retained earnings for the year	**77**	611
Exchange rate differences	**20**	57
Disposal of associates and joint ventures	**(155)**	(729)
Share of retained earnings at beginning of the year	**1 526**	1 587
Share of retained earnings at end of the year	**1 468**	1 526
Share of other reserves	**264**	157
Total retained earnings and reserves	**1 732**	1 683
Total investments in associates and joint ventures	**6 992**	6 869
Valuation of investments in associates and joint ventures		
Fair value of listed associates and joint ventures	**164**	294
Fair value of unlisted associates and joint ventures	**10 187**	9 584
Total fair value of investments in associates and joint ventures	**10 351**	9 878

In the current year the unrecognised losses of associates and joint ventures amounted to R41 million. The cumulative share of losses from associates and joint ventures not recognised was R45 million (2012: R161 million).

14 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES continued

	Nature of business	Issued ordinary shares	Number of ordinary shares held	Year end
Listed				
Private Equity Associates*	Private equity	Various	Various	Various
Crookes Brothers Limited	Agriculture	–	–	31 Mar
Other	Various	Various	Various	Various
Unlisted				
Toyota Financial Services Proprietary Limited	Vehicle finance	4 695	1 565	31 Mar
Tracker Investment Holdings Proprietary Limited**	Vehicle trading	–	–	30 Jun
Private Equity Associates	Private equity	Various	Various	Various
RMB Morgan Stanley	Equity sales, trading and research	2	1	30 Jun
Eris Property Group Proprietary Limited#	Property services	–	–	30 Jun
Weston Atlas Funds	Investment fund	–	–	31 Dec
Sanlam Direct Axis Proprietary Limited	Personal loans	10 000	3 000	31 Dec
New Seasons Investments	Investment holdings company	–	–	28 Feb
Bankserv	Clearing house	800	185	30 Jun
Home Choice Holdings Limited	Direct marketing and financial services	100 779 000	9 487 033	31 Dec
SBV	Provision of cash in transit services	3 000	750	30 Jun
Other	Various	Various	Various	Various

* *Included in the Private Equity Associates is Vox Telecom Limited. The value in use of this associate investment is R97 million (2012: R115 million) and has been used in determining the Group carrying value.*

** *The Group previously owned 36.1% of Tracker Investment Holdings Proprietary Limited. Effective 3 October 2011, the Group disposed of a portion of its shareholding to a consortium of investors. After the disposal, the Group continued to equity account the remaining interest of 22.7%. The remaining interest is held through a new company included in the total Private Equity Associates. A gain of R462 million was made on the disposal of a portion of the investment in Tracker Investment Holdings Proprietary Limited.*

\# *Eris Property Group Proprietary Limited was transferred to non-current assets held for sale in the prior financial year and disposed of in the current year.*

14 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES continued

	Effective holding %		Market value/Group valuation amount		Group carrying value	
R million	**2013**	2012	**2013**	2012	**2013**	2012
Listed						
Private Equity Associates*	**Various**	Various	**164**	115	**97**	115
Crookes Brothers Limited	**–**	30	**–**	179	**–**	193
Total listed	**–**	–	**164**	294	**97**	308
Unlisted						
Toyota Financial Services Proprietary Limited	**33**	33	**1 655**	1 427	**644**	566
Tracker Investment Holdings Proprietary Limited**	**–**	–	**–**	–	**–**	–
Private Equity Associates	**Various**	Various	**5 224**	5 412	**4 482**	4 516
RMB Morgan Stanley	**50**	50	**379**	309	**328**	296
Eris Property Group Proprietary Limited#	**–**	–	**–**	–	**–**	–
Weston Atlas Funds	**33**	33	**44**	69	**44**	69
Sanlam Direct Axis Proprietary Limited	**30**	30	**217**	180	**217**	180
New Seasons Investments	**–**	29	**–**	26	**–**	26
Bankserv	**23**	23	**503**	442	**116**	102
Home Choice Holdings Limited	**9**	9	**98**	101	**97**	73
SBV	**25**	25	**451**	308	**95**	78
Other	**Various**	Various	**1 616**	1 310	**872**	655
Total unlisted	**–**	–	**10 187**	9 584	**6 895**	6 561
Total investments in associates and joint ventures	**–**	–	**10 351**	9 878	**6 992**	6 869

* *Included in the Private Equity Associates is Vox Telecom Limited. The value in use of this associate investment is R97 million (2012: R115 million) and has been used in determining the Group carrying value.*

** *The Group previously owned 36.1% of Tracker Investment Holdings Proprietary Limited. Effective 3 October 2011, the Group disposed of a portion of its shareholding to a consortium of investors. After the disposal, the Group continued to equity account the remaining interest of 22.7%. The remaining interest is held through a new company included in the total Private Equity Associates. A gain of R462 million was made on the disposal of a portion of the investment in Tracker Investment Holdings Proprietary Limited.*

Eris Property Group Proprietary Limited was transferred to non-current assets held for sale in the prior financial year and disposed of in the current year.

14 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES continued

Summarised financial information of associates and joint ventures:

	Crookes Brothers Limited		Toyota Financial Services Proprietary Limited		Tracker Investment Holdings Proprietary Limited		Private Equity	
	Associate*		Associate		Associate		Associates	
R million	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
Statement of financial position								
Current assets	**–**	359	**31**	5 929	**–**	–	**12 597**	8 708
Non-current assets	**–**	372	**23 294**	13 555	**–**	–	**27 645**	19 486
Current liabilities	**–**	(80)	**(2 395)**	(7 171)	**–**	–	**(8 682)**	(5 996)
Non-current liabilities	**–**	(147)	**(18 960)**	(10 664)	**–**	–	**(19 201)**	(12 646)
Equity	**–**	504	**1 970**	1 649	**–**	–	**12 359**	9 552
Income statement								
After tax profit attributable to the Group	**16**	23	**118**	116	**–**	22	**366**	723

	RMB Morgan Stanley		New Seasons Investments		Eris Property Group Proprietary Limited		Weston Atlas Funds	
	Joint venture		Associate		Associate*		Associate	
R million	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
Statement of financial position								
Current assets	**10 839**	2 946	**–**	148	**–**	–	**–**	–
Non-current assets	**31**	–	**–**	92	**–**	–	**133**	210
Current liabilities	**(10 146)**	(2 296)	**–**	(51)	**–**	–	**–**	–
Non-current liabilities	**(54)**	(35)	**–**	(62)	**–**	–	**–**	–
Equity	**670**	615	**–**	127	**–**	–	**133**	210
Income statement								
After tax profit attributable to the Group	**82**	67	**–**	16	**–**	27	**(11)**	(3)

* *Profit attributable to the Group up to the date of sale.*

14 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES continued

Summarised financial information of associates and joint ventures:

	Sanlam Direct Axis Proprietary Limited		Bankserv		Home Choice Holdings Limited		SBV	
	Associate		Associate		Associate		Associate	
R million	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
Statement of financial position								
Current assets	**755**	727	**830**	–	**1 267**	1 000	**795**	–
Non-current assets	**2 543**	1 947	**500**	545	**303**	191	**1 485**	960
Current liabilities	**(1 440)**	(1 134)	**(324)**	(103)	**(204)**	(174)	**(794)**	(325)
Non-current liabilities	**(1 858)**	(1 156)	**–**	–	**(204)**	(124)	**(583)**	(328)
Equity	**–**	384	**1 006**	442	**1 162**	893	**903**	307
Income statement								
After tax profit attributable to the Group	**70**	53	**14**	18	**28**	45	**17**	14

14 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES continued

	Other		Total listed and unlisted	
	Associates and joint ventures		Associates and joint ventures	
R million	**2013**	2012	**2013**	2012
Statement of financial position				
Current assets	**1 929**	2 512	**29 043**	22 329
Non-current assets	**4 273**	3 448	**60 207**	40 806
Current liabilities	**(1 592)**	(1 955)	**(25 577)**	(19 285)
Non-current liabilities	**(3 356)**	(2 872)	**(44 216)**	(28 034)
Equity	**1 254**	1 133	**19 457**	15 816
Income statement				
After tax profit attributable to the Group	**124**	(1)	**824**	1 120

The most recent audited annual financial statements of associates and joint ventures are used by the Group in applying the equity method of accounting. These are not always drawn up to the same date as the financial statements of the Group. Where the reporting date of the associate and joint venture is different from that of the Group, the Group uses the most recent available financial statements of the associate and joint venture as well as reviews the management accounts for material transactions during the in-between period. In instances where significant events occurred between the last reporting date of an associate and joint venture and the reporting date of the Group, the effect of such events are adjusted for. The Group has applied this principle consistently since adopting the equity accounting method.

15 PROPERTY AND EQUIPMENT

The useful life of each asset is assessed individually. The table below provides information on the benchmarks used when assessing the useful life of the individual assets:

Leasehold premises	Shorter of estimated life or period of lease
Freehold property and property held under finance lease	
– Buildings and structures	50 years
– Mechanical and electrical	20 years
– Components	20 years
– Sundries	3 – 5 years
Computer equipment	3 – 5 years
Furniture and fittings	3 – 10 years
Motor vehicles	5 years
Office equipment	3 – 6 years

	2013			2012		
R million	**Cost**	**Accumulated depreciation and impairments**	**Carrying amount**	Cost	Accumulated depreciation and impairments#	Carrying amount
Property	**11 294**	**(3 239)**	**8 055**	9 742	(2 830)	6 912
Freehold property*	**7 368**	**(1 622)**	**5 746**	5 817	(1 334)	4 483
Leasehold premises*	**3 926**	**(1 617)**	**2 309**	3 925	(1 496)	2 429
Assets held under leasing agreements**	**1 722**	**(312)**	**1 410**	1 864	(333)	1 531
Equipment*	**10 489**	**(5 896)**	**4 593**	9 052	(5 469)	3 583
Computer equipment	**5 376**	**(3 652)**	**1 724**	5 048	(3 562)	1 486
Furniture and fittings	**1 917**	**(1 037)**	**880**	1 796	(909)	887
Motor vehicles	**2 019**	**(470)**	**1 549**	1 141	(323)	818
Office equipment	**1 161**	**(735)**	**426**	1 062	(673)	389
Capitalised leased assets	**16**	**(2)**	**14**	5	(2)	3
Total property and equipment	**23 505**	**(9 447)**	**14 058**	20 658	(8 632)	12 026

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

** *Assets which are owned by the Group and leased to third parties under operating leases as part of the Group's revenue-generating operations.*

\# *During the prior reporting period the Group reassessed the useful lives of small item fixed assets. Small item fixed assets are those items of property and equipment with a cost of less than R7 000. The Group determined that from the 2012 financial year all small item fixed assets will no longer be capitalised but rather written off through the income statement when acquired. This change in estimate has been applied prospectively in accordance with IAS 8. The change in estimate resulted in accelerated depreciation of R251 million being recognised in the prior period relating to small item fixed assets that had previously been capitalised.*

15 PROPERTY AND EQUIPMENT continued

R million	Freehold property	Leasehold premises	Assets held under leasing agreements
Carrying amount at 1 July 2011	3 871	2 497	715
Acquisitions	894	292	903
Disposals	(145)	(37)	(1)
Acquisitions/(disposals) of subsidiaries	64	–	–
Exchange rate difference	42	15	82
Depreciation charge for period	(225)	(338)	(129)
Impairments recognised*	(4)	–	–
Impairments reversed*	–	–	2
Transfer to non-current assets and disposal groups held for sale	(13)	–	(41)
Other	(1)	–	–
Carrying amount at 30 June 2012	**4 483**	**2 429**	**1 531**
Acquisitions	**1 445**	**251**	**16**
Disposals	**(82)**	**(87)**	**(27)**
Acquisitions of subsidiaries	**128**	**–**	**–**
Exchange rate difference	**67**	**18**	**81**
Depreciation charge for period	**(287)**	**(302)**	**(125)**
Impairments recognised*	**(8)**	**–**	**–**
Other	**–**	**–**	**(66)**
Carrying amount at 30 June 2013	**5 746**	**2 309**	**1 410**

* *An impairment of R6 million was raised during the current year for aircraft owned by Richtrau 241 Proprietary Limited, a subsidiary of the Group. The market value of this type of aircraft has fallen below its carrying value in the current year and an impairment was recognised in WesBank to reflect this. The remaining balance of the impairment recognised during the current year and prior year relates to various items of freehold property. These assets roll up into RMB. The impairment reversal of R2 million in the prior year is as a result of exchange rate gains causing a movement in the recoverable amount of the asset.*

Information regarding land and buildings is kept at the Group's registered offices. This information will be open for inspection in terms of section 26 of the Companies Act 71 of 2008.

Property occupied for banking operations serves as security for finance lease liabilities. Refer to note 26 for liabilities that are related to the finance lease assets.

	Computer equipment	Furniture and fittings	Motor vehicles	Office equipment	Capitalised leased assets	Total
	1 478	946	664	362	9	10 542
	926	276	688	199	1	4 179
	(78)	(53)	(349)	(18)	(7)	(688)
	(3)	–	–	–	–	61
	6	4	1	5	–	155
	(840)	(250)	(181)	(159)	(1)	(2 123)
	–	–	–	–	–	(4)
	–	–	–	–	–	2
	(2)	(36)	(5)	–	–	(97)
	(1)	–	–	–	1	(1)
	1 486	**887**	**818**	**389**	**3**	**12 026**
	903	**207**	**1 287**	**189**	**12**	**4 310**
	(51)	**(15)**	**(287)**	**(5)**	**–**	**(554)**
	–	**–**	**–**	**–**	**–**	**128**
	9	**7**	**2**	**8**	**–**	**192**
	(703)	**(202)**	**(271)**	**(155)**	**(1)**	**(2 046)**
	–	**(4)**	**–**	**–**	**–**	**(12)**
	80	**–**	**–**	**–**	**–**	**14**
	1 724	**880**	**1 549**	**426**	**14**	**14 058**

16 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 and development costs	3 years
Trademarks	10 to 20 years
Other	3 to 10 years other than a service concession arrangement, that has a contractual term of 37 years

R million	2013 Cost	2013 Accumulated amortisation and impairments	2013 Carrying amount	2012 Cost	2012 Accumulated amortisation and impairments	2012 Carrying amount
Goodwill						
Opening balance	**1 459**	**(275)**	**1 184**	1 436	(264)	1 172
Acquisitions	**–**	**–**	**–**	89	–	89
Disposals	**–**	**–**	**–**	(1)	–	(1)
Acquisitions/(disposals) of subsidiaries	**(2)**	**5**	**3**	10	–	10
Reclassification	**–**	**–**	**–**	(6)	6	–
Transfer to non-current assets and disposal groups held for sale	**–**	**–**	**–**	(97)	97	–
Exchange rate differences	**26**	**(1)**	**25**	28	1	29
Impairment recognised	**–**	**(438)**	**(438)**	–	(115)	(115)
Closing balance	**1 483**	**(709)**	**774**	1 459	(275)	1 184
Software and development costs						
Opening balance	**971**	**(596)**	**375**	735	(465)	270
Acquisitions	**244**	**–**	**244**	246	–	246
Disposals	**(52)**	**46**	**(6)**	(17)	–	(17)
Exchange rate differences	**7**	**(6)**	**1**	5	(3)	2
Amortisation for the year	**–**	**(114)**	**(114)**	–	(127)	(127)
Impairments recognised*	**–**	**(248)**	**(248)**	–	–	–
Other	**–**	**–**	**–**	2	(1)	1
Closing balance	**1 170**	**(918)**	**252**	971	(596)	375
Trademarks						
Opening balance	**206**	**(167)**	**39**	203	(135)	68
Acquisitions	**1**	**–**	**1**	25	–	25
Disposals	**(4)**	**4**	**–**	(1)	1	–
Transfer to non-current assets and disposal groups held for sale	**–**	**–**	**–**	(27)	27	–
Exchange rate differences	**10**	**(9)**	**1**	6	(6)	–
Amortisation for the year	**–**	**(8)**	**(8)**	–	(54)	(54)
Impairment recognised**	**–**	**(14)**	**(14)**	–	–	–
Closing balance	**213**	**(194)**	**19**	206	(167)	39

* *During the current year RMB Corporate Banking recognised an impairment of R248 million against previously capitalised internally generated software. Subsequent assessments indicated that the software was not capable of generating future economic benefits in their current state without major modifications or alterations. The software was written down to its recoverable amount.*

** *The trademark impaired during the current year was recognised on the initial acquisition of Rentworks Africa Proprietary Limited. The expected future economic benefits that will flow to the Group as a result of acquiring the trademark were reassessed and the trademark was impaired. The impairment is recognised in WesBank.*

16 INTANGIBLE ASSETS continued

	2013			2012		
R million	**Cost**	**Accumulated amortisation and impairments**	**Carrying amount**	Cost	Accumulated amortisation and impairments	Carrying amount
Other						
Opening balance	**235**	**(90)**	**145**	218	(37)	181
Acquisitions	**–**	**–**	**–**	9	–	9
Disposals	**(14)**	**14**	**–**	–	–	–
Reclassification	**–**	**–**	**–**	2	(6)	(4)
Exchange rate differences	**5**	**(5)**	**–**	6	(5)	1
Amortisation for the year	**–**	**(12)**	**(12)**	–	(37)	(37)
Impairments recognised*	**–**	**(9)**	**(9)**	–	(5)	(5)
Closing balance	**226**	**(102)**	**124**	235	(90)	145
Total intangible assets						
Goodwill	**1 483**	**(709)**	**774**	1 459	(275)	1 184
Software and development costs	**1 170**	**(918)**	**252**	971	(596)	375
Trademarks	**213**	**(194)**	**19**	206	(167)	39
Other	**226**	**(102)**	**124**	235	(90)	145
Total intangible assets	**3 092**	**(1 923)**	**1 169**	2 871	(1 128)	1 743

* *The amount of R9 million recognised in the current year relates to insurance books that were impaired because their revenue trends were lower than the revenue trends inherent at acquisition. There were no reversals of previously recognised impairments in the current year.*

Included in other intangible assets are assets that the Group, through RMB, has legal ownership of in terms of a service concession arrangement. In terms of the service concession arrangement the Group is entitled to charge the users of the asset for usage, the pricing of which has been established in the terms of the service concession arrangement. The Group has the obligation to maintain the asset in a workable condition and will deliver ownership of the asset to the government at the conclusion of the concession period.

The carrying amount of the intangible asset relating to the service concession arrangement has been estimated taking into account usage levels and the pricing under the arrangement.

16 INTANGIBLE ASSETS continued

Impairment of goodwill

For impairment testing purposes, goodwill is allocated to cash-generating units (CGU) at the lowest level of operating activity to which it relates, and is therefore not combined at a Group level.

The CGUs to which the goodwill balance as at 30 June relate to:

R million	**2013**	2012
FNB Botswana	**31**	29
FNB Mozambique	**147**	128
FNB Retail	**–**	433
RMB Corvest	**183**	192
RMB Other	**117**	117
WesBank	**164**	164
Other	**132**	121
Total	**774**	1 184

When testing for impairment, the recoverable amount of a CGU is determined as the higher of the fair value less costs to sell and value in use. The fair value less costs to sell is determined as the current market value of the CGU less any costs related to the realisation of the CGU. The value in use is calculated by discounting the estimated future cash flows to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the CGU. The future cash flows are based on financial budgets approved by management covering a one-year period. Cash flows beyond one year are extrapolated using the estimated growth rate for the CGU. The period over which management has projected the cash flows ranges between three and five years. The growth rate does not exceed the long-term average past growth rate for the business in which the CGU operates.

The table below shows the discount rate and the growth rate used in calculating the value in use for CGUs:

	Discount rates		Growth rates	
%	**2013**	2012	**2013**	2012
FNB Botswana	**14.00**	14.00	**3.00**	4.00
FNB Mozambique	**19.10**	19.00	**7.00**	5.00
FNB Retail	**–**	18.76	**–**	6.47
RMB Corvest	**18.75**	18.80	**5.50**	7.42
RMB Other	*****	*	*****	*
WesBank	**18.50**	19.00	**3.48**	3.74
Other	**7.80**	11.04	**7.52**	2.50

* *The discount rate used is the weighted average cost of capital for the specific segment, adjusted for specific risks relating to the segment. Some of the other assumptions include investment returns, expense inflation rates, tax rates and new business growth. RMB determines the recoverable amount as the fair value less costs to sell and not on the value in use due to the nature of the entity.*

A reasonably possible change in the discount rate or growth rate of the above mentioned CGUs would not result in their recoverable amounts exceeding the carrying values. The recoverable amounts of these CGUs are not sensitive to changes in these key assumptions and a reasonably possible change in the key assumptions would not result in additional impairment losses being recognised for goodwill.

16 INTANGIBLE ASSETS continued

The impairment of goodwill in the current year relates to the following investments in subsidiaries:

R million	2013	Reporting segment	Basis for recoverable amount	Discount rate %
FNB International Wealth Management Holdings Limited	**259**	FNB Retail	Value in use	9.2* (2012 – 11.2)
FNB Securities Proprietary Limited (previously BJM Private Client Services)	**166**	FNB Retail	Value in use	18.5 (2012 – 18.67)
Various private equity subsidiaries	**13**	RMB Corvest	Value in use	18.75 (2012 – 18.8)
Goodwill impairment incurred	**438**			

* *This is the post-tax rate applicable to Group entities with operations situated in the United Kingdom.*

FNB International Wealth Management Holdings Limited (FNBIWML) represents the offshore operations of the Group's wealth and asset management business. As part of a strategic review of the Group's asset management business, the business activities of FNBIWML are winding down and more focus will be placed on the local operations. This, coupled with changes in the global appetite for certain of the offshore funds and the weaker fund performances, resulted in a decrease in assets under management in the current year. This will also negatively impact the future performance of these offshore operations and as a result, the goodwill originally attributed to the acquisition of FNBIWML (Ashburton), was written off in the current year.

FNB Securities (previously BJM Private Client Services) provides stockbroking, wealth and asset management services to clients in South Africa. The expected synergies and assets to which the goodwill was attributable on the original acquisition of the subsidiary, will no longer be realised in FNB Securities. This is due to certain strategic and operational changes in the Group. The full amount of goodwill relating to FNB Securities was impaired during the current year.

The remaining goodwill impairment relates to various other subsidiaries held through the private equity portfolio. These subsidiaries are individually immaterial and the impairment can be attributed to changes in the current economic environment both locally and globally.

The goodwill impairment of R115 million in the prior year relates to certain investments in private equity subsidiaries held through Corvest Proprietary Limited that have been impaired. These specifically relate to the investments in South African companies, SA Die & Pattern Company Proprietary Limited (R98 million) and Diamonds Discount Liquor Proprietary Limited (R9 million). These subsidiaries have been sold during the current year, previously they were disclosed under non-current assets and disposal groups held for sale. The remaining goodwill impairment relates to various other private equity subsidiaries held by Corvest Proprietary Limited that are individually immaterial and are included in RMB. The recoverable amount was calculated based on the value in use of the investments in subsidiaries. Details about the discount rate and growth rates applied are set out in the table on page 310.

17 POLICYHOLDER LIABILITIES UNDER INSURANCE CONTRACTS AND REINSURANCE ASSETS

R million	2013 Gross	2013 Reinsurance asset	2013 Net
Short-term insurance contracts			
Claims outstanding and claims incurred but not reported	**654**	**(394)**	**260**
Unearned premiums	**163**	**–**	**163**
Long-term insurance contracts	**295**	**–**	**295**
Total policyholder liabilities under insurance contracts and reinsurance assets	**1 112**	**(394)**	**718**

R million	2012 Gross	2012 Reinsurance asset	2012 Net
Short-term insurance contracts			
Claims outstanding and claims incurred but not reported	1 096	(898)	198
Unearned premiums	157	–	157
Long-term insurance contracts	264	–	264
Total policyholder liabilities under insurance contracts and reinsurance assets	1 517	(898)	619

R million	2013	2012
Insurance contracts with discretionary participation features	**–**	45
Insurance contracts without discretionary participation features	**1 112**	1 472
Gross policyholder liabilities under insurance contracts	**1 112**	1 517

17.1 Reconciliation of claims outstanding and incurred but not reported

R million	2013 Gross	2013 Reinsurance asset	2013 Net
Opening balance	**1 096**	**(898)**	**198**
Increase/decrease in claims arising from current year claims outstanding	**176**	**2**	**178**
Decrease from prior years claims outstanding	**(540)**	**496**	**(44)**
Claims settled in the year	**(78)**	**6**	**(72)**
Closing balance	**654**	**(394)**	**260**

R million	2012 Gross	2012 Reinsurance asset	2012 Net
Opening balance	578	(484)	94
Increase in claims arising from current year claims outstanding	728	(337)	391
Decrease/increase in claims arising from prior years claims outstanding	(131)	(77)	(208)
Claims settled in the year	(79)	–	(79)
Closing balance	1 096	(898)	198

17 POLICYHOLDER LIABILITIES UNDER INSURANCE CONTRACTS AND REINSURANCE ASSETS continued

17.2 Reconciliation of unearned premiums

	2013		
R million	**Gross**	**Reinsurance asset**	**Net**
Opening balance	**157**	**–**	**157**
Increase during the year	**202**	**–**	**202**
Decrease during the year	**(196)**	**–**	**(196)**
Closing balance	**163**	**–**	**163**

	2012		
R million	Gross	Reinsurance asset	Net
Opening balance	159	–	159
Increase during the year	185	–	185
Decrease during the year	(187)	–	(187)
Closing balance	157	–	157

17 POLICYHOLDER LIABILITIES UNDER INSURANCE CONTRACTS AND REINSURANCE ASSETS continued

17.3 Reconciliation of gross long-term insurance contracts

R million	2013	2012
Opening balance	**264**	310
Transfer to policyholder liabilities under insurance contracts	**31**	111
– (Decrease)/increase in retrospective liabilities	**(15)**	115
– Change in non-economic assumptions	**–**	(44)
– Expected cash flows	**46**	40
Other	**–**	(157)
Closing balance	**295**	264

17.4 Risk management relating to insurance contracts

The Group underwrites short-term and long-term insurance policies through its subsidiaries, FirstRand Insurance Services Limited and Newinvest 231 Proprietary Limited, and through other cell captive agreements entered into with various insurers.

Terms and conditions of insurance contracts
The terms and conditions of insurance contracts have a material effect on the amount, timing and uncertainty of future cash flows. The key risks associated with general insurance contracts are claims experience. The provisions of these contracts are refined at least annually. As claims experience develops, certain claims are settled, further claims are revised and new claims are reported. The reasonableness of the estimation process is tested by management and reviewed on a regular basis. The Group believes that the liability for claims carried at the end of the year is adequate.

The Group underwrites short-term insurance in the following risk classes:

Liability – provides cover for risks relating to the incurring of a liability other than relating to a risk covered more specifically under another insurance contract.

Motor – provides indemnity cover relating to the possession, use or ownership of a motor vehicle. The cover includes comprehensive cover, third party, fire and theft, and liability to other parties.

Personal accident – provides compensation arising out of the death or disability directly caused by an accident occurring anywhere in the world, provided that death or disability occurs within 12 months of this injury.

Property – provides indemnity relating to movable and immovable property caused by perils such as fire, explosion, earthquakes, acts of nature, burst geysers and pipes, malicious damage, impact, alterations and additions.

The Group underwrites long-term insurance in the following risk classes:

Death cover – provides compensation arising out of the death of the policyholder. With respect to the credit life product, in the event of a valid death claim, the Group settles the policyholder's outstanding debt by way of a lump sum payment to the finance provider.

Disability cover – provides compensation arising out of the permanent disability of the policyholder. With respect to the credit life product, in the event of a valid disability claim the Group settles the policyholder's outstanding debt by way of a lump sum payment to the finance provider.

Risk management objectives and policies for mitigating insurance risk
The principal risk the Group faces under such contracts is that the actual claims and expenses exceed the carrying amount of insurance liabilities. Insurance risk occurs due to the uncertainty of the timing and amount of future cash flows arising under insurance contracts. This is influenced by the frequency and severity of claims, especially if actual benefits paid are greater than originally estimated and the subsequent development of long-term claims.

The Group manages its insurance risk through underwriting limits, approval procedures for transactions that involve new products or that exceed set limits, pricing guidelines and monitoring of emerging issues.

The Group cedes insurance risk to limit exposure to underwriting losses under various reinsurance agreements. These reinsurance agreements spread the risk of loss and minimise the effect of losses. The risk retention levels depend on evaluation of specific risk, subject to certain circumstances, to maximum limits based on the characteristics of coverage.

The Group is not exposed to any significant concentrations of insurance risk due to the nature of the policies underwritten by the Group. In addition, the Group has adequate reinsurance in place to reduce the risk that arises from insurance contracts to acceptable levels.

18 EMPLOYEE LIABILITIES AND RELATED ASSETS

R million	Notes	**2013**	2012
Staff-related provision	18.1	**4 410**	3 572
Cash settled share-based payment liability*		**996**	892
Defined benefit post-employment liability	18.2	**2 594**	2 398
Other long-term employee liabilities		**92**	71
Total employee liabilities		**8 092**	6 933
Defined benefit post-employment asset	18.2	**(13)**	(7)
Net amount due to employees		**8 079**	6 926

* *Included in the cash settled share-based payment liability is an amount of R236 million (2012: R122 million) that relates to options that have already vested but have not yet been exercised by staff.*

Refer to note 29 for more detail on the cash settled share-based payment schemes.

18.1 Staff-related provision

The staff-related provision consists mainly of the provision for leave pay, staff bonuses and the liability relating to the MMI shares that the participants in the BEE schemes will receive as a result of the unbundling of Momentum. Further details of this scheme and the vesting conditions related to the scheme are provided in note 29.

R million	**2013**	2012
Opening balance	**3 572**	3 104
Acquisitions of subsidiaries	**–**	1
Exchange rate difference	**38**	23
Charge to profit or loss	**3 054**	2 509
– Additional provisions created	**3 058**	2 568
– Unused provisions reversed	**(4)**	(59)
Utilised	**(2 254)**	(2 065)
Closing balance	**4 410**	3 572

18 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

18.2 Defined benefit post-employment liability

The Group operates two defined benefit plans: a plan that provides post-employment medical benefits and a pension plan. The pension plan provides retired employees with annuity income after their service and the medical scheme provides retired employees with medical benefits after their service. In terms of these plans, the Group is liable to the employees for specific payments on retirement and for any deficit in the provision of these benefits from the plan assets. The liabilities and assets of these pension plans are reflected as a net asset or liability in the statement of financial position.

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

	2013			2012		
R million	**Pension**	**Medical***	**Total**	Pension	Medical*	Total
Post-employment benefit fund liability						
Present value of funded obligation	**9 430**	**2 828**	**12 258**	9 074	2 686	11 760
Fair value of plan assets	**(9 164)**	**–**	**(9 164)**	(8 696)	–	(8 696)
Pension fund deficit	**266**	**2 828**	**3 094**	378	2 686	3 064
Unrecognised actuarial losses	**(81)**	**(428)**	**(509)**	(199)	(463)	(662)
Unrecognised past service cost	**(4)**	**–**	**(4)**	(12)	–	(12)
Other	**–**	**–**	**–**	1	–	1
Total post-employment liability	**181**	**2 400**	**2 581**	168	2 223	2 391
The amounts recognised in the income statement are as follows:						
Current service cost	**10**	**44**	**54**	9	43	52
Interest cost	**761**	**233**	**994**	694	192	886
Actuarial (loss)/gains recognised	**(1)**	**8**	**7**	(1)	–	(1)
Expected return on plan assets	**(743)**	**–**	**(743)**	(719)	–	(719)
Past service cost recognised	**–**	**–**	**–**	(3)	–	(3)
Total included in staff costs (note 3)	**27**	**285**	**312**	(20)	235	215
Movement in post-employment benefit fund liability						
Present value at the beginning of the year	**168**	**2 223**	**2 391**	200	2 092	2 292
Exchange differences	**–**	**(1)**	**(1)**	–	–	–
Amounts recognised in the income statement as above (note 3)	**27**	**285**	**312**	(20)	235	215
Benefits paid	**(10)**	**(107)**	**(117)**	(7)	(104)	(111)
Employer contribution	**(2)**	**–**	**(2)**	(3)	–	(3)
Employee contribution	**(1)**	**–**	**(1)**	(1)	–	(1)
Settlement of liability	**(1)**	**–**	**(1)**	(1)	–	(1)
Present value at the end of the year	**181**	**2 400**	**2 581**	168	2 223	2 391

* *The Group has set aside certain assets of R2 995 million (2012: R2 986 million) against the medical liabilities. The assets are managed and invested to achieve a return which reflects the growth in the underlying liability.*

18 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

18.2 Defined benefit post-employment liability continued

	2013			2012		
R million	Pension	Medical	Total	Pension	Medical	Total
Movement in the fair value of plan assets:						
Opening balance	8 696	–	8 696	8 277	–	8 277
Expected return on plan assets	743	–	743	718	–	718
Actuarial gains	250	–	250	195	–	195
Exchange differences	30	–	30	22	–	22
Employer contributions	12	–	12	11	–	11
Employee contributions	3	–	3	3	–	3
Benefits paid and settlements	(570)	–	(570)	(530)	–	(530)
Closing balance	9 164	–	9 164	8 696	–	8 696
The actual return on plan assets was:	11%	–		10%	–	
Plan assets are comprised of the following:						
Equity	1 689	–	1 689	1 661	–	1 661
Debt	6 979	–	6 979	6 912	–	6 912
Other	496	–	496	123	–	123
Total plan assets	9 164	–	9 164	8 696	–	8 696
Included in plan assets were the following:						
Buildings occupied by the Group with a fair value of	56	–	56	56	–	56
Total	56	–	56	56	–	56
Experience adjustments arising on plan assets	253	–	253	196	–	196
Experience adjustments arising on plan liabilities	(113)	24	(89)	(244)	(236)	(480)

18 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

18.2 Defined benefit post-employment liability continued

	2013		2012	
%	**Pension**	**Medical**	Pension	Medical
The principal actuarial assumptions used for accounting purposes were:				
Expected return on plan assets	**8.7**	**–**	8.9	–
Discount rate	**8.7**	**8.7**	8.9	8.9
Expected rates of salary increases	**8.0**	**–**	8.1	–
Long-term increase in health cost	**–**	**7.5**	–	7.6
The effects of a 1% movement in the assumed health cost rate were as follows:				
Increase of 1%				
Effect on the defined benefit obligation (R million)	**–**	**460.5**	–	439.0
Effect on the aggregate of the current service cost and interest cost (R million)	**–**	**51.1**	–	60.0
Decrease of 1%				
Effect on the defined benefit obligation (R million)	**–**	**371.2**	–	354.0
Effect on the aggregate of the current service cost and interest cost (R million)	**–**	**40.5**	–	40.0
Estimated contributions expected to be paid to the plan in the next annual period (R million)	**1 147**	**–**	1 047	–
Net increase in rate used to value pensions, allowing for pension increases				
– Banking Group Fund (%)	**6.5**	**–**	6.6	–

The expected rate of return over the year is a weighted average of the expected rate of return of the asset classes at the beginning of the year. The weights are based on the actual proportions of market value of assets in each asset class. The net increase in the rate used to value pensions is 8.7% (2012: 8.9%).

The expected return per class of assets is:

%	**2013**	2012
Equities	**10.2**	11.4
Bonds	**8.7**	8.9
Cash	**7.2**	7.4
Other	**10.2**	11.4

18 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

18.2 Defined benefit post-employment liability continued

Mortality rate		2013 Active members	2013 Pensioners	2012 Active members	2012 Pensioners
Pension fund					
Normal retirement age		**60**	**–**	60	–
Mortality rate table used		**PA(90)-2**	**PA(90)-2**	PA(90)-2	PA(90)-2
Post-employment medical benefits					
Normal retirement age		**60**	**–**	60	–
Mortality rate table used (rated down three years for females)	Active	**SA 85-90**	**–**	SA 85-90	–
	Retired	**PA(90)-3**	**PA(90)-3**	PA(90)-3	PA(90)-3

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.

SA 85-90 refers to standard actuarial mortality tables for active members on a defined benefit plan where the chance of dying before normal retirement is expressed at each age for each gender.

PA(90)-3 refers to standard actuarial mortality tables for current and prospective pensioners on a defined benefit plan where the chance of dying after early or normal retirement is expressed at each age for each gender.

Mortality rate	2013 Pension	2013 Medical	2012 Pension	2012 Medical
The average life expectancy in years of a pensioner retiring at age 65 on the reporting date is as follows:				
Male	**17**	**17**	17	17
Female	**21**	**21**	21	21
The average life expectancy in years of a pensioner retiring at age 65, 20 years after the reporting date is as follows:				
Male	**18**	**18**	18	18
Female	**22**	**22**	22	22

18 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

18.2 Defined benefit post-employment liability continued

Five-year analysis on total pension and medical post-employment plans

R million	2013	2012	2011	2010	2009
Present value of defined benefit obligation	**12 258**	11 760	10 936	10 077	10 463
Fair value of plan assets	**(9 164)**	(8 696)	(8 277)	(7 490)	(8 226)
Deficit	**3 094**	3 064	2 659	2 587	2 237

R million	2013	2012	2011	2010	2009
Experience adjustments arising on:					
Plan assets	**253**	196	706	169	285
Plan liabilities	**(89)**	(480)	(653)	(405)	(128)

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 (defined benefit and defined contribution schemes)

	2013	2012
Pension		
Active members	**29 495**	28 345
Pensioners	**6 761**	6 850
Total	**36 256**	35 195
Medical		
Active members	**5 824**	6 399
Pensioners	**5 017**	4 964
Total	**10 841**	11 363

The employer's post-employment health-care liability consists of a commitment to pay a portion of the members' post-employment medical scheme contributions. This liability is also generated in respect of dependants who are offered continued membership of the medical scheme on the death of the primary member. Members employed on or after 1 December 1998 do not qualify for a post-employment medical subsidy.

A full actuarial valuation of the pension fund submission to the Financial Services Board is completed every three years, with the last valuation in 2011. Annual interim actuarial valuations are performed for the trustees and for IAS 19 purposes. At the last valuation date, the fund was financially sound.

19 INVESTMENT PROPERTIES

R million	2013	2012
Completed properties		
Fair market value at beginning of the year	**215**	203
Net revaluations (included in gains less losses from investing activities – note 2)	**7**	12
Acquisition of subsidiaries	**237**	–
Fair market value at end of year	**459**	215
Comprising		
Office buildings	**277**	34
Industrial buildings	**175**	181
Vacant land	**7**	–
Total investment properties	**459**	215
The following amounts have been included in the consolidated income statement:		
Rental income (included in gains less losses from investing activities – note 2)	**39**	20
Direct operating expenses arising from investment properties that generate rental income	**–**	1

Investment properties are acquired for letting to external tenants with the intention to generate future rental income and for capital appreciation purposes.

The fair value was determined by reference to market evidence, in particular offers received to purchase properties.

An external, independent valuation of the investment properties was not performed.

Information regarding investment properties as required is kept at the Group's registered offices. The information will be open for inspection in terms of section 26 of the Companies Act 71 of 2008.

20 DEFERRED INCOME TAX

The movement on the deferred income tax account is as follows:

R million	2013	2012
Deferred income tax asset		
Opening balance	**471**	560
Exchange rate difference	**10**	1
Release to profit or loss	**117**	173
STC charged to the profit or loss	**–**	(262)
Deferred income tax on amounts charged directly to other comprehensive income	**1**	(2)
Tax rate adjustment	**–**	5
Other	**(1)**	(4)
Total deferred income tax asset	**598**	471
Deferred income tax liability		
Opening balance	**(1 679)**	(2 223)
Disposal of subsidiaries	**–**	(2)
Exchange rate difference	**(10)**	(3)
Release to profit or loss	**1 247**	801
STC charged to profit or loss	**–**	(216)
Deferred income tax on amounts charged directly to other comprehensive income	**(287)**	(39)
Tax rate adjustment	**(6)**	(5)
Other	**–**	8
Total deferred income tax liability	**(735)**	(1 679)
Net deferred income tax	**(137)**	(1 208)

20 DEFERRED INCOME TAX continued

Deferred income tax assets and liabilities and deferred income tax (charged)/released to profit or loss are attributable to the following items:

	2013			
R million	Opening balance	Tax (charge)/ release	Exchange rate difference	
Deferred income tax asset				
Tax losses	135	82	5	
Provision for loan impairment	3	18	–	
Provision for post-employment benefits	–	–	–	
Other provisions	62	19	2	
Financial instruments	9	(3)	–	
Instalment credit assets	–	–	–	
Accruals	21	(11)	2	
Available-for-sale securities*	–	–	–	
Capital gains	10	–	–	
STC	–	–	–	
Other	231	12	1	
Total deferred income tax asset	**471**	**117**	**10**	
Deferred income tax liability				
Provision for loan impairment	629	(20)	1	
Provision for post-employment benefits	(127)	51	–	
Other provisions	593	328	–	
Cash flow hedges*	293	–	–	
Financial instruments	(14)	23	–	
Instalment credit assets	(1 691)	292	(9)	
Accruals	(218)	(26)	–	
Available-for-sale securities*	(257)	–	–	
Capital gains tax	–	69	–	
STC	–	–	–	
Other	(887)	530	(2)	
Total deferred income tax liability	**(1 679)**	**1 247**	**(10)**	
Net deferred income tax	**(1 208)**	**1 364**	**–**	

* *Certain amounts reported under the other column have been charged directly to other comprehensive income.*

2013			
Tax rate adjustment	Acquisitions/ (disposals) of subsidiaries	Other	Closing balance
–	–	1	223
–	–	1	22
–	–	–	–
–	–	–	83
–	–	(1)	5
–	–	–	–
–	–	–	12
–	–	1	1
–	–	–	10
–	–	–	–
–	–	(2)	242
–	–	–	598
(1)	–	–	609
–	–	–	(76)
1	–	–	922
–	–	(332)	(39)
–	–	1	10
2	–	–	(1 406)
1	–	–	(243)
–	–	45	(212)
–	–	–	69
–	–	–	–
(9)	–	(1)	(369)
(6)	–	(287)	(735)
(6)	–	(287)	(137)

20 DEFERRED INCOME TAX continued

R million	2012 Opening balance	2012 Tax (charge)/ release	2012 Exchange rate difference
Deferred income tax asset			
Tax losses	34	101	–
Provision for loan impairment	22	(21)	–
Provision for post-employment benefits	(7)	7	–
Other provisions	112	(50)	–
Financial instruments	15	(3)	–
Instalment credit assets	37	(37)	–
Accruals	(27)	47	1
Available-for-sale securities*	(4)	6	–
Capital gains	3	6	–
Insurance contracts	–	–	–
STC	262	(262)	–
Other	113	117	–
Total deferred income tax asset	560	(89)	1
Deferred income tax liability			
Provision for loan impairment	547	82	–
Provision for post-employment benefits	(113)	(14)	–
Other provisions	139	454	–
Cash flow hedges*	175	–	–
Financial instruments	(10)	(7)	–
Instalment credit assets	(1 864)	175	(3)
Accruals	(319)	101	–
Available-for-sale securities*	(100)	–	–
Capital gains tax	–	–	–
STC	211	(216)	–
Other	(889)	10	–
Total deferred income tax liability	(2 223)	585	(3)
Net deferred income tax	(1 663)	496	(2)

* *Certain amounts reported under the other column have been charged directly to other comprehensive income.*

Effective 1 April 2012, STC on companies was replaced with a dividend withholding tax. If the total reserves of R6 673 million were declared as dividends, the Group would incur no additional tax.

Deferred income tax assets are recognised in respect of deductible temporary differences, unused tax losses and unused tax credits to the extent that the realisation of the related tax benefit is probable.

The Group has not recognised a deferred tax asset amounting to R285 million (2012: R14 million) relating to tax losses. These tax losses have expiry dates ranging from 2014 to 2017.

2012			
Tax rate adjustment	Acquisitions/ (disposals) of subsidiaries	Other	Closing balance
–	–	–	135
–	–	2	3
–	–	–	–
–	–	–	62
3	–	(6)	9
–	–	–	–
–	–	–	21
–	–	(2)	–
–	–	1	10
–	–	–	–
–	–	–	–
2	–	(1)	231
5	–	(6)	471
–	–	–	629
–	–	–	(127)
–	–	–	593
–	–	118	293
(5)	–	8	(14)
–	–	1	(1 691)
–	–	–	(218)
–	–	(157)	(257)
–	–	–	–
–	–	5	–
–	(2)	(6)	(887)
(5)	(2)	(31)	(1 679)
–	(2)	(37)	(1 208)

21 NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE

R million	2013	2012
Total non-current assets held for sale	**20**	599
Assets included in disposal groups held for sale	**–**	164
Non-current assets held for sale	**20**	435
Total liabilities included in disposal groups held for sale	**–**	(113)
Net non-current assets and disposal groups held for sale	**20**	486

	2013	
R million	**Total**	**Other**
Non-current assets held for sale in 2013		
Property and equipment	**15**	**15**
Investments in associates	**5**	**5**
Total non-current assets held for sale	**20**	**20**
Net non-current assets and disposal groups held for sale	**20**	**20**

Property

The property consists of vacant land owned by RMB. The land is in Olifantsfontein in Midrand. The property was classified as held for sale at 30 June 2012. Sale negotiations were delayed in the current year but a new potential buyer has been identified and it is expected that the sale will be concluded in September 2013.

Investment in associates

At 30 June 2013, Finance House, an investment in an associate of FNB Botswana, was classified as held for sale under IFRS 5. The other investor, who currently holds a 51.2% interest in the associate, has indicated a willingness to acquire FNB Botswana’s interest. Discussions between FNB Botswana and the other investor are at an advanced stage and the sale is expected to be completed within the next six months.

21 NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE continued

Disposal groups held for sale in 2012

R million	2012 Total	2012 Private Equity subsidiaries
Assets included in disposal groups held for sale		
Loans and receivables		
Accounts receivable	120	120
Current tax asset	1	1
Property and equipment	43	43
Total assets included in disposal groups held for sale	164	164
Liabilities included in disposal groups held for sale		
Financial liabilities at amortised cost		
Deposits	20	20
Creditors and accruals	93	93
Total liabilities included in disposal groups held for sale	113	113
Net assets of disposal groups held for sale	51	51

Corvest Proprietary Limited, a subsidiary of the Group, took a decision in the prior year to dispose of two subsidiaries; Diamonds Discount Liquor Proprietary Limited and SA Die & Pattern Company Proprietary Limited.

The legal agreements relating to the disposal of Diamonds Discount Liquor Proprietary Limited have been signed by the respective parties and the transaction has been approved by the shareholders. After approval was obtained from the Competition Commission the sale transaction was completed on 31 August 2012.

At 30 June 2012, the final details of the sales contract relating to the disposal of SA Die & Pattern Company Proprietary Limited had been finalised and shareholder approval of the transaction was obtained. This sale transaction was completed on 1 August 2012. Refer to note 39.

21 NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE continued

	2012					
R million	Total	Tiso Investments	Eris Property Group Proprietary Limited	Gruppo Investments	EMC Singapore	Other
Non-current assets held for sale in 2012						
Designated at fair value through profit or loss						
Investment securities and other investments	215	215	–	–	–	–
Non-financial						
Property and equipment	54	–	–	–	–	54
Investment in associates	166	–	62	66	34	4
Total non-current assets held for sale	435	215	62	66	34	58

Tiso Investments

During the previous year, the Group took a decision to sell their 3.21% investment in Kagiso Tiso Holdings Proprietary Limited held through RMB. The pending transaction resulted in the Group classifying the investment in Kagiso Tiso Holdings Proprietary Limited as investment securities and other investments.

The sale transaction was completed by RMB in August 2012.

Eris Property Group Proprietary Limited

The Group's 40% investment in an associate, Eris Property Group, was sold to MMI Holdings Limited. The sale transaction was completed by RMB on 8 November 2012.

Gruppo Investments Nigeria Limited

The Group's 20% investment in an associate, Gruppo Investments Nigeria Limited, was sold to the Westport Real Estate Development Fund. The sale transaction was completed by RMB on 11 September 2012.

EMC Singapore

M-Co International Limited, a subsidiary of the Group, disposed of its investment in an associate, EMC Singapore. This investment was sold to the Singapore Exchange Limited and the sale transaction was completed by RMB on 6 August 2012.

Other

The property consists of vacant land that is owned by RMB and was classified as held for sale under IFRS 5 at 30 June 2012. The sale transaction has not yet occurred in the current year as originally anticipated and the property continues to be held for sale at 30 June 2013.

An aircraft, a Learjet 45XR, was owned by RMB Investments and Advisory Proprietary Limited and was on charter loan to Anglo Operations Limited. A potential buyer was identified and a letter of intent signed by the potential buyers on 26 June 2012. This aircraft was previously reported in RMB. The sale transaction was completed by RMB on 28 November 2012.

22 SHORT TRADING POSITIONS

R million	2013	2012
Government and government guaranteed stock	**2 908**	4 019
Other dated securities	**15**	–
Undated securities	**68**	1 324
Total short trading positions	**2 991**	5 343
Analysed as follows:		
Listed	**2 991**	5 343
Total short trading positions	**2 991**	5 343

23 CREDITORS AND ACCRUALS

R million	2013	2012
Accrued interest	**69**	64
Accounts payable and accrued liabilities	**9 960**	8 156
Deferred income	**793**	699
Operating lease liability arising from straight lining of lease payments	**105**	99
Payments received in advance	**228**	68
Total creditors and accruals	**11 155**	9 086

24 DEPOSITS

R million	2013 Designated at fair value through profit or loss	2013 At amortised cost	2013 Total
Category analysis			
Current accounts	**1 285**	**274 046**	**275 331**
Savings accounts	**–**	**6 821**	**6 821**
Fixed and notice deposits	**40 665**	**168 868**	**209 533**
Negotiable certificates of deposit	**1 729**	**30 742**	**32 471**
Repurchase agreements	**28 265**	**3 094**	**31 359**
Securities lending	**–**	**6 414**	**6 414**
Credit-linked notes and cash collateral	**9 077**	**17 615**	**26 692**
Fixed and floating rate notes	**3 986**	**61 077**	**65 063**
Other	**621**	**23 475**	**24 096**
Non-recourse deposits*	**19 225**	**–**	**19 225**
Total deposits	**104 853**	**592 152**	**697 005**

R million	2012 Designated at fair value through profit or loss	2012 At amortised cost	2012 Total
Category analysis			
Current accounts	831	248 471	249 302
Savings accounts	–	5 328	5 328
Fixed and notice deposits	32 756	136 352	169 108
Negotiable certificates of deposit	2 001	46 544	48 545
Repurchase agreements	25 280	2 997	28 277
Securities lending	–	3 192	3 192
Credit-linked notes and cash collateral	11 223	12 001	23 224
Fixed and floating rate notes	5 977	20 037	26 014
Other	7 596	25 603	33 199
Non-recourse deposits*	20 092	–	20 092
Total deposits	105 756	500 525	606 281

* *Refer to note 13 for a description of non-recourse investment securities.*

25 PROVISIONS

R million	2013	2012
Audit fees		
Opening balance	**60**	43
Exchange rate difference	**1**	1
Charge to profit or loss	**166**	145
– Additional provisions created	**231**	148
– Unused provisions reversed	**(65)**	(3)
Utilised	**(138)**	(129)
Closing balance	**89**	60
Other*		
Opening balance	**532**	474
Exchange rate difference	**3**	2
Charge to profit or loss	**82**	127
– Additional provisions created	**101**	137
– Unused provisions reversed	**(19)**	(10)
Utilised	**(106)**	(71)
Closing balance	**511**	532
Total provisions	**600**	592

* *Other provisions include provisions for litigation and fraud.*

26 OTHER LIABILITIES

R million	Notes	2013	2012
Finance lease liabilities	26.1	**10**	1
Other funding liabilities*		**6 659**	6 382
Total other liabilities		**6 669**	6 383

* *Other funding liabilities include funding liabilities not directly related to banking activities, including preference shares not qualifying as Tier 2 capital.*

26.1 Finance lease liabilities

R million	2013	2012
Finance lease liabilities		
Not later than 1 year	**4**	–
Later than 1 year and not later than 5 years	**6**	1
Total finance lease liabilities	**10**	1

Refer to note 15 for assets that secure the finance lease liabilities.

27 TIER 2 LIABILITIES AND DEBT QUALIFYING AS CAPITAL

R million	2013	2012
Fixed rate bonds*	**4 493**	4 414
Floating rate bonds**	**3 623**	3 471
Total Tier 2 liabilities and debt qualifying as capital	**8 116**	7 885

* *The fixed rate bonds mature between 15 September 2014 and 21 December 2018 and bear interest at between 8.5% and 12%.*

** *The floating rate bonds mature between 10 June 2016 and 21 December 2018 and the interest varies between 70 bps and 300 bps above the three month JIBAR rate.*

28 SHARE CAPITAL AND SHARE PREMIUM

	2013			
	Number of ordinary shares	Number of A preference shares**	Number of B preference shares#	
Authorised				
Number of shares	**6 001 688 450**	**198 311 550**	**100 000 000**	
Issued – fully paid up				
Ordinary shares				
Opening balance	**5 637 941 689**	**–**	**–**	
Closing balance	**5 637 941 689**	**–**	**–**	
B preference shares				
Opening balance	**–**	**–**	**45 000 000**	
Closing balance	**–**	**–**	**45 000 000**	
Total issued share capital and share premium	**5 637 941 689**	**–**	**45 000 000**	
Analysis of total issued share capital closing balance				
Ordinary issued share capital closing balance as above of 1 cents each	**5 637 941 689**	**–**	**–**	
Treasury shares	**(171 915 613)**	**–**	**–**	
Total issued share capital attributable to ordinary equityholders	**5 466 026 076**	**–**	**–**	
B variable rate, NCNR preference shares of 1 cent each	**–**	**–**	**45 000 000**	
Total issued share capital attributable to equityholders of the Group	**5 466 026 076**	**–**	**45 000 000**	
Disclosed on the face of the statement of financial position				
Ordinary share capital				
Ordinary share premium				
NCNR preference shares				
Total				

* *Less than R500 000.*
** *The A variable rate cumulative convertible redeemable preference shares are not listed.*
# *The B preference shares are variable rate NCNR preference shares and are listed on the JSE.*
Dividends on the B preference shares are calculated at a rate of 75.5% of the FNB prime lending rate effective 23 May 2012.
† *The C preference shares are variable rate convertible non-cumulative redeemable preference shares.*

%	2013
The following represents the shareholding of subsidiaries in FirstRand Limited at 30 June	
These shares have been treated as treasury shares.	**0.01**
Share option schemes	
The investment in FirstRand Limited by the share incentive schemes has been treated as treasury shares as set out above.	**3.04**

2013			
Number of C preference shares†	Ordinary share capital R million	Share premium R million	Total
100 000 000	–	–	–
–	56	7 083	7 139
–	56	7 083	7 139
–	*	4 519	4 519
–	*	4 519	4 519
–	56	11 602	11 658
–	56	7 083	7 139
–	(1)	(1 686)	(1 687)
–	55	5 397	5 452
–	*	4 519	4 519
–	55	9 916	9 971
			55
			5 397
			4 519
			9 971

28 SHARE CAPITAL AND SHARE PREMIUM continued

	2012			
	Number of ordinary shares	Number of A preference shares**	Number of B preference shares#	
Authorised				
Number of shares	6 001 688 450	198 311 550	100 000 000	
Issued – fully paid up				
Ordinary shares				
Opening balance	5 637 941 689	–	–	
Closing balance	5 637 941 689	–	–	
B preference shares				
Opening balance	–	–	45 000 000	
Closing balance	–	–	45 000 000	
Total issued share capital and share premium	5 637 941 689	–	45 000 000	
Analysis of total issued share capital closing balance				
Ordinary issued share capital closing balance as above of 1 cents each	5 637 941 689	–	–	
Treasury shares	(175 283 030)	–	–	
Total issued share capital attributable to ordinary equityholders	5 462 658 659	–	–	
B variable rate, NCNR preference shares of 1 cent each	–	–	45 000 000	
Total issued share capital attributable to equityholders of the Group	5 462 658 659	–	45 000 000	
Disclosed on the face of the statement of financial position				
Ordinary share capital				
Ordinary share premium				
NCNR preference shares				
Total				

* *Less than R500 000*
** *The A variable rate cumulative convertible redeemable preference shares are not listed.*
\# *The B preference shares are variable rate NCNR preference shares and are listed on the JSE.*
Dividends on the B preference shares are calculated at a rate of 75.5% of the FNB prime lending rate effective 23 May 2012.
† *The C preference shares are variable rate convertible non-cumulative redeemable preference shares.*

%	2012
The following represents the shareholding of subsidiaries in FirstRand Limited at 30 June	
These shares have been treated as treasury shares.	0.02
Share option schemes	
The investment in FirstRand Limited by the share incentive schemes has been treated as treasury shares as set out above.	3.09

2012			
Number of C preference shares†	Ordinary share capital R million	Share premium R million	Total
100 000 000	–	–	–
–	56	7 083	7 139
–	56	7 083	7 139
–	*	4 519	4 519
–	*	4 519	4 519
–	56	11 602	11 658
– –	56 (1)	7 083 (1 867)	7 139 (1 868)
–	55	5 216	5 271
–	*	4 519	4 519
–	55	9 735	9 790
			55 5 216 4 519
			9 790

28 SHARE CAPITAL AND SHARE PREMIUM continued

Preference shares that qualify as Tier 2 capital have been included in Tier 2 liabilities and debt qualifying as capital (note 27). Other preference share liabilities have been included in deposits (note 24) or other liabilities (note 26) as appropriate.

R million	2013	2012
Redeemable preference shares		
Authorised		
5 billion redeemable preference shares with a par value of R0.0001 per share		
100 million cumulative redeemable preference shares with a par value of 1 cent per share		
Issued – fully paid up		
1 670 (2012: 1 905) redeemable preference shares with par value of R0.0001 per share	**167**	191
3.5 million (2012: 3.6 million) cumulative redeemable preference shares with a par value of 1 cent per share at various premiums per share*	**1 687**	2 262
Redeemable class R preference shares		
Authorised		
50 000 redeemable preference shares with a par value of R0.0001 per share		
Issued – fully paid up		
8 905 (2012: 7 270) redeemable preference shares with par value of R0.0001 per share issued by FirstRand Bank Limited	**891**	727

* *The amount excludes shares issued within the Group and eliminated upon consolidation of R3 530 million (2012: R4 030 million).*

	Number of redeemable preference shares	Number of cumulative redeemable preference shares	Number of redeemable Class R preference shares
Reconciliation of shares issued			
Shares at 1 July 2011	2 385	1 519 830	2 406
(Redeemed)/issued during the year	(480)	2 037 791	4 864
Shares at 30 June 2012	1 905	3 557 621	7 270
(Redeemed)/issued during the year	**(235)**	**(10 755)**	**1 635**
Shares at 30 June 2013	**1 670**	**3 546 866**	**8 905**

For detail on capital management of the Group please refer to the *capital management and regulatory capital section* from pages 155 to 160, which form part of the audited financial statements.

The unissued ordinary shares are under the control of the directors until the next annual general meeting.

1 635 (2012: 4 890) class R redeemable preference shares were issued during the year of which nil shares (2012: 26 shares) were redeemed during the current year. These preference shares bear interest at 66.67% of the FNB prime lending rate and are redeemable after three years and one day after the date of issue.

29 REMUNERATION SCHEMES

R million	2013	2012
The charge to profit or loss for share-based payments is as follows:		
FirstRand black employee trust	**19**	50
FirstRand black non-executive directors trust	**1**	19
FirstRand share appreciation rights scheme	**301**	724
Conditional share plan	**781**	611
Forfeitable share plan	**1**	23
Other subsidiary schemes	**11**	9
Amount included in profit or loss (note 3)	**1 114**	1 436

The purpose of the schemes is to appropriately attract, incentivise and retain managers within the Group.

29 REMUNERATION SCHEMES continued

Description of schemes and vesting conditions

Scheme	IFRS 2 treatment	Description	Vesting conditions
FirstRand black employee trust	Equity settled	This trust was set up specifically for the benefit of black employees. The issue of participation rights in the trust was made on the following dates – 20 July 2005, 1 November 2006, 3 December 2007 and 14 May 2010.	Distribution to beneficiaries will take place during December 2014.
FirstRand black non-executive directors trust	Equity settled	This trust was set up specifically for the benefit of black non-executive directors and those executive directors who were non-executive directors prior to becoming executives of the Group.	Distribution to beneficiaries will take place during December 2014.
FirstRand share appreciation rights scheme	Cash settled	This 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 year, two thirds after the fourth year and all of the shares by the fifth anniversary of the grant date, provided that the performance objectives set for the grant have been achieved. The final tranche of the rights granted will vest during the financial year ended 30 June 2014. 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. These corporate performance targets are set out on page 342.

29 REMUNERATION SCHEMES continued

Description of schemes and vesting conditions continued

Scheme	IFRS 2 treatment	Description	Vesting conditions
Conditional share plan	Equity settled (share awards granted up to 2011) Cash settled (share awards granted from 2012 onwards)	The conditional award comprises a number of full shares with no strike price.	These awards vest conditionally after three years. The number of shares that vest is determined by the extent to which the performance conditions are met. Conditional awards are made annually and vesting is subject to specified financial and non-financial performance conditions, set annually by the Group's remuneration committee. These corporate performance targets are set out on page 342.
Forfeitable share plan	Equity settled	The forfeitable share plan is a remuneration scheme that grants selected employees full shares with no strike price.	These awards vest after two years. The last portion of the shares vested in September 2012.
Co-investment scheme	Not applicable	A co-investment scheme was established whereby certain key executives and decision makers of the Group are allowed to co-invest with FirstRand in certain predefined portfolios. The rationale for the co-investment scheme is the alignment of management and shareholder objectives, retention of key employees and decision makers and attracting new talent in a highly competitive market. The participants who co-invest with FirstRand buy into existing portfolios at the disclosed fair values and are required to place capital at risk. No additional gearing is provided by FirstRand. Participants share in future profits to the extent of their capital as a percentage of the total capital at risk in the portfolios. The co-investment scheme encourages a long-term perspective and commitment from employees. The amounts invested by key management personnel are included in note 40.	The scheme also encourages executives to remain in the employ of the Group companies in excess of three years, as the value of the underlying investments are expected to realise over a longer time frame.

29 REMUNERATION SCHEMES continued

Valuation methodologies

Scheme	Valuation methodology		
FirstRand black employee trust	Black Scholes option pricing model	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.	
FirstRand black non-executive directors trust	Black Scholes option pricing model	Valued on the same methodology as used for the FirstRand black employee trust, except that a zero percentage weighted average forfeiture rate was used due to the fact that there are only 10 participants (2012: 10 participants).	
FirstRand share appreciation rights scheme	Cox Rubenstein binomial model	The scheme is cash settled and will thus be repriced at each reporting date.	
Conditional share plan	Black Scholes option pricing model	The conditional share plan is valued using the Black Scholes model with a zero strike price. Grants made before 2012 are equity settled and are therefore not repriced at each reporting date. The scheme relating to the grants made during 2012 is cash settled and is therefore repriced at each reporting date.	
Forfeitable share plan	Black Scholes option pricing model	The present value of all declared dividends was added to the value as determined using Black Scholes option pricing model. The scheme is equity settled and will thus not be repriced at each reporting date.	

	Valuation assumptions		
	Dividend data	**Market related**	**Employee related**
	A fixed dividend yield was assumed.	• volatility is the expected volatility over the period of the plan, and historical volatility was used as a proxy for expected volatility; and • the interest rate used was the RMB forward prime curve (extrapolated where necessary) as the funding of the option is linked to the prime lending rate.	The weighted average forfeiture rate used is based on historical forfeiture data for this scheme and takes cognisance of whether the shares are in or out the money and the vesting date.
	A fixed dividend yield was assumed.		
	Management's estimates of future dividends.	• volatility is the expected volatility over the period of the plan, and historical volatility was used as a proxy for expected volatility; and • the interest rate is the risk free rate of return as recorded on the last day of the financial year, on a swap curve of a term equal to the expected life of the plan.	The number of rights granted is reduced by the actual staff turnover at year end. This turnover is then assumed to be constant over the period of the grant and used to estimate the expected number of rights which will vest on the vesting date.
	Management's estimates of future discrete dividends.		The weighted average forfeiture rate used is based on historical forfeiture data over all schemes and takes cognisance of whether the shares are in or out the money and the vesting date.
			No forfeiture rate is used due to the short duration of the scheme.

29 REMUNERATION SCHEMES continued

Corporate performance targets

The FirstRand remuneration committee (remco) sets corporate performance targets (CPTs) based on the expected prevailing macroeconomic conditions anticipated during the vesting period for the Group's long-term incentive schemes, the share appreciation rights scheme and conditional share plan. These criteria, which must be met or exceeded to enable vesting, vary from year-to-year, depending on the macro conditions expected to prevail over the vesting period.

In terms of the scheme rules, participants are not entitled to any dividends on awards until their participations in the scheme have vested.

The criteria for the schemes are as follows:

2007 (CPTs not met) – Normalised earnings per share (EPS) must grow at a rate per annum which equals or exceeds CPIX plus 10%, measured on a cumulative basis from base year end 30 June 2007, for the five-year performance period to enable 100% vesting. Should CPIX plus 10% not be achieved, remco may sanction partial vesting of the appreciation right, which is calculated *pro rata* to the performance which exceeds CPIX.

2008 (CPTs met) – 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 (vested) – 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 2009, to enable 100% vesting. In addition FirstRand's NIACC must be positive over the three-year performance period.

2010 (CPTs met) – 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 base year end 30 June 2010, to enable 100% vesting. In addition NIACC must be positive over the three-year performance period.

2011 – Normalised EPS growth must equal or exceed South African nominal GDP (defined as South African GDP plus CPIX) plus 1.5%, measured on a cumulative basis from base year end 30 June 2011 to enable 100% vesting. In addition NIACC must be positive over the three-year performance period. Should nominal GDP plus 1.5% not be achieved, remco may sanction a partial vesting of conditional shares, which is calculated *pro rata* to the performance which exceeds nominal GDP.

2012 – FirstRand must achieve growth in normalised EPS which equals or exceeds South African nominal GDP plus 3% growth on a cumulative basis over the life of the conditional award, from base year end 30 June 2012 to the financial year end immediately preceding the vesting date. In addition NIACC must be positive over the three-year performance period. Should nominal GDP plus 3% not be achieved, remco may sanction a partial vesting of conditional shares, which is calculated *pro rata* to the performance which exceeds nominal GDP.

2013 – FirstRand must achieve growth in normalised EPS which equals or exceeds South African nominal GDP plus 1.5% growth on a cumulative basis over the life of the conditional award, from base year end 30 June 2013 to the financial year end immediately preceding the vesting date. In addition NIACC must be positive over the three-year performance period. Should nominal GDP plus 1.5% not be achieved, remco may sanction a partial vesting of conditional shares, which is calculated *pro rata* to the performance which exceeds nominal GDP.

29 REMUNERATION SCHEMES continued

The significant weighted average assumptions used to estimate the fair value of options and share awards granted are:

	FNB Botswana	FNB Namibia	FirstRand black employee trust	FirstRand black non-executive directors trust	FirstRand share appreciation rights scheme*	Conditional share plan	Forfeitable share plan
2013							
Range of exercise prices (rand)	**2.69 – 15.10**	**4.00 – 14.57**	**12.05 – 24.60**	**12.28 – 17.60**	**7.85 – 12.98**	**–**	**–**
Expected volatility (%)	**13 – 35**	**4.02 – 16**	**24 – 49**	**23 – 33**	**25**	**25**	**–**
Expected option life (years)	**5**	**5**	**5 – 10**	**10**	**5**	**3 – 4**	**–**
Expected risk free rate (%)	**7.29 – 9.45**	**5.81 – 7.69**	**6.91 – 9.90**	**6.91**	**4.82 – 5.21**	**4.82 – 7.07**	**–**
Expected dividend yield (%)	**–**	**4.52**	**3.50**	**3.50**	**–**	**–**	**–**
Expected dividend growth (%)	**15 – 20**	**–**	**–**	**–**	**–**	**–**	**–**
2012							
Range of exercise prices (rand)	2.69 – 15.10	7.21 – 12.26	12.05 – 24.60	12.28 – 17.60	7.85 – 17.00	–	–
Expected volatility (%)	13 – 35	4.02 – 16	24 – 49	23 – 33	25	25	25
Expected option life (years)	5	5	5 – 10	10	5	3	2 – 3
Expected risk free rate (%)	7.29 – 9.45	6.50 – 9.47	6.91 – 9.90	6.91	5.35 – 5.53	5.35 – 5.77	5.51
Expected dividend yield (%)	–	–	3.50	3.50	3.50	3.50	–
Expected dividend growth (%)	15 – 20	13 – 19	–	–	–	–	–

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

29 REMUNERATION SCHEMES continued

	2013				
	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)
Number of options and share awards in force at the beginning of the year (millions)	**111.1**	**109.1**	**9.5**	**136.9**	**1.2**
Granted at prices ranging between (cents)	**785 – 1 700**	**1 205 – 2 460**	**1 228 – 1 760**	**–**	**–**
Weighted average (cents)	**1 302**	**1 645**	**1 215**	**–**	**–**
Number of options and share awards granted during the year (millions)	**–**	**–**	**–**	**38.8**	**–**
Granted at prices ranging between (cents)	**–**	**–**	**–**	**–**	**–**
Weighted average (cents)	**–**	**–**	**–**	**–**	**–**
Grant date fair value	**–**	**–**	**–**	*****	**–**
Number of options and share awards exercised/ released during the year (millions)	**(24.9)**	**–**	**–**	**(47.8)**	**(1.2)**
Market value range at date of exercise/release (cents)	**785 – 3 285**	**–**	**–**	**2 550 – 3 219**	**2 753 – 2 753**
Weighted average (cents)	**2 858**	**–**	**–**	**2 570**	**2 753**
Number of options and share awards cancelled/ lapsed during the year (millions)	**(45.0)**	**(3.0)**	**–**	**(4.9)**	**–**
Granted at prices ranging between (cents)	**1 048 – 1 700**	**1 228 – 2 234**	**–**	**–**	**–**
Weighted average (cents)	**1 676**	**1 808**	**–**	**–**	**–**
Number of options and share awards in force at the end of the year (millions)	**41.2**	**106.1**	**9.5**	**123.0**	**–**
Granted at prices ranging between (cents)	**785 – 1 298**	**1 205 – 2 460**	**1 228 – 1 760**	**–**	**–**
Weighted average (cents)	**1 048**	**1 638**	**1 284**	**–**	**–**

* *The grant date fair value was not determined as these share awards are cash settled and are remeasured to fair value at each reporting date.*

29 REMUNERATION SCHEMES continued

	2012				
	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)
Number of options and share awards in force at the beginning of the year (millions)	183.0	114.7	9.5	89.0	14.9
Granted at prices ranging between (cents)	855 – 2 022	1 205 – 2 460	1 228 – 1 760	–	–
Weighted average (cents)	1 341	1 654	1 284	–	–
Number of options and share awards granted during the year (millions)	–	–	–	51.9	–
Granted at prices ranging between (cents)	–	–	–	–	–
Weighted average (cents)	–	–	–	–	–
Grant date fair value	–	–	–	*	–
Number of options and share awards exercised/ released during the year (millions)	(25.5)	–	–	1.3	(13.7)
Market value range at date of exercise/release (cents)	1 890 – 2 785	–	–	–	–
Weighted average (cents)	2 045	–	–	–	–
Number of options and share awards cancelled/ lapsed during the year (millions)	(46.4)	(5.6)	–	(5.3)	–
Granted at prices ranging between (cents)	1 048 – 1 952	1 228 – 2 335	–	–	–
Weighted average (cents)	1 364	1 790	–	–	–
Number of options and share awards in force at the end of the year (millions)	111.1	109.1	9.5	136.9	1.2
Granted at prices ranging between (cents)	785 – 1 700	1 205 – 2 460	1 228 – 1 760	–	–
Weighted average (cents)	1 302	1 645	1 215	–	–

* *The grant date fair value was not determined as these share awards are cash settled and are remeasured to fair value at each reporting date.*

29 REMUNERATION SCHEMES continued

Options and share awards outstanding	2013 FirstRand share appreciation rights scheme (FSR shares) Range of exercise prices (rand)	Weighted average remaining life (years)	Outstanding options (millions)
	7.85 – 10.48	0.427	41.1
	10.49 – 14.46	0.427	0.1
			41.2
Total options – in the money and share awards (millions)			41.2
Total options – out of the money (millions)			–
Total options and share awards (millions)			41.2
Value of company loans to share option trust at the beginning of the year (R million)			268
Value of company loans to share option trust at the end of the year (R million)			–
Number of participants			1 119

Options and share awards outstanding	2013 FirstRand black employee trust Range of exercise prices (rand)*	Weighted average remaining life (years)	Outstanding options (millions)
	12.05 – 14.00	1.50	50.8
	14.01 – 16.56	1.50	2.1
	16.57 – 19.89	1.50	36.7
	19.90 – 24.60	1.50	16.5
			106.1
Total options – in the money and share awards (millions)			106.1
Total options outstanding – out of the money (millions)			–
Total options and share awards (millions)			106.1
Value of company loans to share trust at the beginning of the year (R million)			1 793
Value of company loans to share trust at the end of the year (R million)			1 715
Number of participants			11 106

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

** *Employees are awarded the shares; there is therefore no strike price associated with the awards made under the conditional or forfeitable share plans.*

2013		
FirstRand black non-executive directors trust (FSR shares)		
Range of exercise prices (rand)	Weighted average remaining life (years)	Outstanding options (millions)
12.05 – 14.00 16.57 – 19.89	1.50 1.50	8.5 1.0
		9.5
		9.5 –
		9.5
		213 205 10

2013			
Conditional share plan**		Forfeitable share plan**	
Weighted average remaining life (years)	Outstanding options (millions)	Weighted average remaining life (years)	Outstanding options (millions)
0.291 1.285 2.272 2.904 4.003	45.6 44.6 32.0 0.4 0.3		
	122.9		
	122.9 –		
	122.9		
	– – 2 333		(8) –

29 REMUNERATION SCHEMES continued

	2012		
	FirstRand share appreciation rights scheme (FSR shares)		
Options and share awards outstanding	Range of exercise prices (rand)*	Weighted average remaining life (years)	Outstanding options (millions)
	7.85 – 10.48	1.4	67.6
	10.49 – 14.46	1.7	0.3
	14.47 – 17.00	0.3	43.2
			111.1
Total options – in the money and share awards (millions)			67.8
Total options – out of the money (millions)			43.3
Total options and share awards (millions)			111.1
Value of company loans to share option trust at the beginning of the year (R million)			4
Value of company loans to share option trust at the end of the year (R million)			268
Number of participants			2 115

* *This price has been adjusted for the impact of the Momentum unbundling and the special dividend of R0.70, both which occurred in the prior year.*

	2012		
	FirstRand black employee trust		
Options and share awards outstanding	Range of exercise prices (rand)**	Weighted average remaining life (years)	Outstanding options (millions)
	12.05 – 14.00	2.5	51.5
	14.01 – 16.56	2.5	2.4
	16.57 – 19.89	2.5	38.5
	19.90 – 24.6	2.5	16.8
			109.2
Total options – in the money and share awards (millions)			109.2
Total options outstanding – out of the money (millions)			–
Total options and share awards (millions)			109.2
Value of company loans to share trust at the beginning of the year (R million)			1 906
Value of company loans to share trust at the end of the year (R million)			1 793
Number of participants			11 347

* *Employees are awarded the shares; there is therefore no strike price associated with the awards made under the conditional or forfeitable share plans.*

** *This price has been adjusted for the impact of the Momentum unbundling and the special dividend of R0.70, both which occurred in the prior year.*

2012		
FirstRand black non-executive directors trust (FSR shares)		
Range of exercise prices (rand)*	Weighted average remaining life (years)	Outstanding options (millions)
12.05 – 14.00	2.5	8.5
16.57 – 19.89	2.5	1.0
		9.5
		9.5
		–
		9.5
		224
		213
		10

2012			
Conditional share plan*		Forfeitable share plan*	
Weighted average remaining life (years)	Outstanding options (millions)	Weighted average remaining life (years)	Outstanding options (millions)
0.3	47.2	0.2	1.2
1.3	48.1		
2.3	41.1		
2.7	0.5		
	136.9		1.2
	136.9		1.2
	–		–
	136.9		1.2
	–		22
	–		(8)
	5 071		2

30 CASH FLOW INFORMATION

R million	2013	2012
30.1 Reconciliation of operating profit before income tax to cash generated from operating activities		
Operating profit before tax	**20 855**	19 009
Adjusted for:		
– Depreciation, amortisation and impairment charges	**2 981**	2 520
– Impairment of advances	**4 812**	5 065
– Share of profit of associates and joint ventures after tax net of dividends	**(56)**	(611)
– Interest earned on loans to associates and joint ventures	**(142)**	(106)
– Fair value gains on assets held against employee liabilities	**(291)**	(169)
– Movement in provisions and employee liabilities	**3 302**	2 781
– Loss on disposal of property and equipment	**77**	49
– Loss on disposal of investments securities and other investments	**13**	20
– Gain on disposal of subsidiaries	**(63)**	(266)
– Gain on disposal of associates or joint ventures	**(161)**	(579)
– Gain on disposal of non-current assets held for sale	**(284)**	–
– Fair value gains on investment properties held at fair value through profit or loss	**(7)**	(12)
– Deferred expenses and income	**(381)**	1
– Share-based payment expense	**1 114**	1 436
– Net fair value gains on financial assets through profit or loss	**(2 046)**	(2 976)
– Accruals	**1 057**	(164)
– Present value adjustments	**(177)**	(136)
– Dividends paid	**(6 472)**	(9 017)
– Dividends paid to non-controlling interests	**(663)**	(652)
– (Gains)/losses relating to foreign currency translations	**35**	(198)
– Impairment of investment securities and other investments	**23**	–
– Reclassification from other comprehensive income in respect of available-for-sale assets and cash flow hedges	**735**	640
Cash generated from operating activities	**24 261**	16 635
30.2 Cash receipts from customers		
Interest income	**42 523**	40 611
Fee and commission income	**20 245**	18 002
Trading and other income	**5 325**	4 926
Premium income less claims	**(170)**	(706)
Cash receipts from customers	**67 923**	62 833
30.3 Cash paid to customers, suppliers and employees		
Interest expense	**(17 704)**	(18 135)
Other operating expenses	**(23 228)**	(21 911)
Cash paid to customers, suppliers and employees	**(40 932)**	(40 046)
30.4 Dividends paid		
Charged to retained earnings	**(6 472)**	(9 017)
Dividends paid	**(6 472)**	(9 017)

30 CASH FLOW INFORMATION continued

R million	2013	2012
30.5 (Increase)/decrease in income-earning assets		
Liquid assets and trading securities	**(7 999)**	8 345
Advances	**(76 542)**	(62 747)
Increase in income-earning assets	**(84 541)**	(54 402)
30.6 Increase/(decrease) in deposits and other liabilities		
Deposits	**86 938**	51 636
Creditors (net of debtors)	**(250)**	627
Employee liabilities	**(3 099)**	(1 961)
Other	**(3 106)**	(2 964)
Increase in deposits and other liabilities	**80 483**	47 338
30.7 Taxation paid		
Tax payable at beginning of the year	**(55)**	(149)
Other*	**50**	(101)
Charge to income statement	**(4 532)**	(4 089)
Tax payable at end of the year	**278**	55
Deferred tax	**(1 358)**	(496)
Indirect tax	**(744)**	(551)
Taxation paid	**(6 361)**	(5 331)

* *Other includes acquisition/disposal of subsidiaries, customer tax adjustments and foreign withholding tax.*

30 CASH FLOW INFORMATION continued

	R million	Notes	2013	2012
30.8	**Acquisition of significant associates and subsidiaries**		**1 058**	(1 707)
	Cash outflow on the acquisition of subsidiaries	39	**82**	–
	Cash outflow/(inflow) on the acquisition of associates	39	**976**	(1 707)
30.9	**Proceeds on disposal of significant associates and subsidiaries**		**719**	1 720
	Cash inflow on disposal of subsidiaries	39	**–**	349
	Cash inflow on disposal of associates	39	**719**	202
	Cash inflow on the partial disposal of associates		**–**	1 169
30.10	**Cash and cash equivalents**			
	Cash and cash equivalents consist of cash on hand and balances with banks and other investments. Cash and cash equivalents included in the statement of cash flows comprise the following statement of financial position amounts:			
	Cash and cash equivalents		**49 620**	38 363
	Total cash and cash equivalents	7	**49 620**	38 363

31 CONTINGENCIES AND COMMITMENTS

R million	2013	2012
Contingencies and commitments		
Guarantees*	**30 137**	22 741
Acceptances	**270**	293
Letters of credit	**8 925**	7 886
Total contingencies	**39 332**	30 920
Irrevocable commitments	**78 783**	69 348
Committed capital expenditure	**3 487**	3 711
Operating lease commitments	**2 514**	3 217
Other	**599**	449
Total contingencies and commitments	**124 715**	107 645

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

Other contingencies

The Group is exposed to various actual or potential claims.

Legal proceedings

	2013	2012
There are a number of legal or potential claims against the Group, the outcome of which cannot at present be foreseen. These claims are not regarded as material either on an individual or a group basis. Provision is made for all liabilities that are expected to materialise.	**60**	91

Commitments

Commitments in respect of capital expenditure and long-term investments approved by directors.

Capital commitments contracted for at the reporting date but not yet incurred are as follows:

	2013	2012
Property and equipment and intangible assets	**1 585**	1 474

Capital commitments not yet contracted for at reporting date but have been approved by the directors.

	2013	2012
Property and equipment and intangible assets	**1 902**	2 237

Funds to meet these commitments will be provided from the Group's resources.

31 CONTINGENCIES AND COMMITMENTS continued

Commitments under operating leases where the Group is the lessee

The Group's significant operating leases related 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.

Certain of these assets are subject to contractual restrictions. In terms of these contractual restrictions, these assets may only be used for business purposes.

	2013		
R million	**Within 1 year**	**Between 1 and 5 years**	**More than 5 years**
Office premises	**709**	**1 372**	**43**
Equipment and motor vehicles	**96**	**192**	**102**
Total operating lease commitments	**805**	**1 564**	**145**

	2012		
R million	Within 1 year	Between 1 and 5 years	More than 5 years
Office premises	940	1 928	17
Equipment and motor vehicles	99	233	–
Total operating lease commitments	1 039	2 161	17

Future minimum lease payments under operating leases where the Group is the lessor

The Group owns various assets that are leased to third parties under non-cancellable operating leases as part of the Group's revenue generating operations. The operating leases have various lease terms ranging from three to fifteen years.

The minimum future lease payments receivable under non-cancellable operating leases on investment properties and other assets where the Group is the lessor:

	2013		
R million	**Within 1 year**	**Between 1 and 5 years**	**More than 5 years**
Properties	**55**	**200**	**134**
Motor vehicles	**755**	**1 869**	**429**
Total operating lease commitments	**810**	**2 069**	**563**

	2012		
R million	Within 1 year	Between 1 and 5 years	More than 5 years
Properties	76	167	138
Motor vehicles	523	1 305	951
Total operating lease commitments	599	1 472	1 089

32 COLLATERAL PLEDGED AND HELD

32.1 Collateral pledged

The following liabilities have been secured by the Group pledging either its own or borrowed financial assets, except for the short trading positions which are covered by borrowed securities only:

R million	2013	2012
Short trading positions	**2 991**	5 343
Creditors and accruals	**128**	–
Total deposits	**38 894**	34 630
– Deposits held under repurchase agreements	**31 359**	28 277
– Deposits in securities lending transactions*	**6 414**	3 192
– Other secured deposits	**1 121**	3 161
Other	**3 016**	2 363
Total	**45 029**	42 336

* *Securities lending transactions include only those where cash is placed against the securities borrowed. Transactions where securities are lent and borrowed and other securities placed against the borrowing and lending are excluded.*

The Group pledges assets under the following terms and conditions:

- Mandatory reserve deposits are held with the central bank in accordance with statutory requirements. These deposits are not available to finance the Group's day-to-day operations.
- Assets are pledged as collateral under repurchase agreements with other banks and non-banks for security deposits and current accounts relating to local futures and options.
- Collateral in the form of cash and other investment securities is pledged when the Group borrows equity securities from third parties. These transactions are conducted under the terms and conditions that are usual and customary to standard securities lending arrangements.

All other pledges are conducted under terms which are usual and customary to lending arrangements.

Assets pledged to secure the above liabilities are included under the following:

R million	2013	2012
Cash and cash equivalents	**949**	4 577
Advances	**260**	–
Investment securities and other investments held under repurchase agreements	**16 228**	13 463
Investment securities and other investments – other	**1 205**	1 293
Other	**2 083**	2 458
Total	**20 725**	21 791

32 COLLATERAL PLEDGED AND HELD continued

32.2 Collateral held

Collateral the Group holds that it has the ability to sell or repledge in the absence of default by the owner of the collateral:

R million	**2013** Fair value	**2013** Fair value of collateral sold or repledged	2012 Fair value	2012 Fair value of collateral sold or repledged
Cash and cash equivalents	**10 846**	**–**	–	–
Investments securities and other investments – other*	**47 466**	**24 833**	41 285	21 694
Total	**58 312**	**24 833**	41 285	21 694

* *The prior year and current year amount excludes securities lending transactions where securities are obtained as collateral for securities lent; this is in line with developing industry practice.*

When the Group takes possession of collateral that is not cash or not readily convertible into cash, the Group determines a minimum sale amount (pre-set sale amount) and auctions the asset for the pre-set sale amount.

Where the Group is unable to obtain the pre-set sale amount in an auction the Group will continue to hold the asset while actively marketing it to ensure an appropriate value is obtained.

The table below sets out the reconciliation of collateral taken possession of and recognised on the statement of financial position:

	2013		
R million	**Property**	**Equipment**	**Total**
Opening balance	**103**	**29**	**132**
Additions	**207**	**–**	**207**
Disposals	**(154)**	**(29)**	**(183)**
Closing balance	**156**	**–**	**156**

	2012		
R million	Property	Equipment	Total
Opening balance	258	65	323
Additions	33	–	33
Disposals	(188)	(36)	(224)
Closing balance	103	29	132

33 LOANS AND RECEIVABLES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

Certain instruments designated at fair value through profit or loss would meet the definition for classification as loans and receivables in terms of IAS 39 were it not for the fair value designation i.e. unquoted debt instruments. The table below contains details on the change in credit risk attributable to these instruments.

	2013					
			Change in fair value			
			Of mitigating instruments		**Due to credit risk**	
R million	**Carrying value**	**Mitigated credit risk***	**Current period**	**Cumulative**	**Current period**	**Cumulative**
Included in advances	**156 754**	**1 885**	**(235)**	**(613)**	**(980)**	**(2 761)**
Included in investment securities and other investments	**53 620**	**–**	**–**	**–**	**(50)**	**(50)**
Included in non-recourse investments	**19 225**	**–**	**–**	**–**	**–**	**–**
Total	**229 599**	**1 885**	**(235)**	**(613)**	**(1 030)**	**(2 811)**

	2012					
			Change in fair value			
			Of mitigating instruments		Due to credit risk	
R million	Carrying value	Mitigated credit risk*	Current period	Cumulative	Current period	Cumulative
Included in advances	139 697	3 417	(397)	(416)	(498)	(1 826)
Included in investment securities and other investments	25 011	–	–	–	–	–
Included in non-recourse investments	18 028	–	–	–	–	–
Total	182 736	3 417	(397)	(416)	(498)	(1 826)

* *The notional amount by which any credit derivatives or similar instruments mitigate the maximum exposure to credit risk.*
Losses are indicated with brackets.

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

The methods used are:

- **Advances**

The change in the credit risk is the difference between the fair value of the advances based on the original credit spreads (as determined using the Group's credit spread pricing matrix) and the fair value of the advances based on the most recent credit spreads. The Group uses its own annual credit review process to determine if there has been a change in the credit rating or LGD of the counterparty.

- **Investment securities and other investments and non-recourse investments**

The change in fair value for investments designated at fair value through profit or loss is calculated by stripping out the movements that result from a change in market factors that give rise to market risk.

The change in fair value due to credit risk is then calculated as the balancing figure, after deducting the movement due to market risk from the total movement in fair value.

34 FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2013			
			Change in fair value due to credit risk	
R million	**Fair value**	**Contractually payable at maturity**	**Current period**	**Cumulative**
Deposits	**85 628**	**92 299**	**–**	**–**
Non-recourse deposits	**19 225**	**21 880**	**–**	**–**
Other liabilities	**2 023**	**2 227**	**–**	**–**
Tier 2 liabilities and debt as qualifying capital	**1 049**	**1 045**	**6**	**18**
Total	**107 925**	**117 451**	**6**	**18**

	2012			
			Change in fair value due to credit risk	
R million	Fair value	Contractually payable at maturity	Current period	Cumulative
Deposits	85 664	94 510	–	–
Non-recourse deposits	20 092	21 758	–	–
Other liabilities	1 849	1 805	–	–
Tier 2 liabilities and debt as qualifying capital	1 067	1 045	6	12
Total	108 672	119 118	6	12

The current and cumulative change in fair value that is attributable to the movement in credit risk of financial liabilities designated at fair value through profit or loss is determined with reference to changes in the mark-to-market yields of own issued bonds.

35 TRANSFERS AND DERECOGNITION OF FINANCIAL ASSETS

In the normal course of business the Group enters into transactions in terms of which it transfers financial assets directly to third parties or to SPEs. Financial assets are transferred when the Group has either transferred its contractual right to receive cash flows from the financial asset, or it has assumed an obligation to pay over all the cash flows from the financial asset to another entity in such a way that the transaction meets the definition of a pass through arrangement in terms of IAS 39. Where the transfer of the financial asset qualifies for derecognition, these transfers may give rise to the partial or full derecognition of the financial asset concerned.

- No derecognition occurs when the Group transfers financial assets in such a way that it retains substantially all the risks and rewards of ownership of the transferred asset. The entire transferred financial asset will continue to be recognised on the statement of financial position of the Group. The majority of transferred financial assets of the Group that do not qualify for derecognition are debt securities transferred under repurchase agreements or lent under securities lending agreements. Disclosures relating to these transferred financial assets that are not derecognised in their entirety are included under point 35.1 below.
- Partial derecognition occurs when the Group transfers financial assets in such a way that it neither transfers nor retains substantially all the risks and rewards of ownership but still controls the transferred financial assets. These financial assets are recognised on the statement of financial position to the extent of the Group's continuing involvement. This excludes the full derecognition of part of a larger financial asset as is detailed below. Disclosures relating to these transferred financial assets that are partially derecognised are included under point 35.1 below.
- Full derecognition occurs when the Group has transferred a financial asset and it either transfers substantially all the risks and rewards of ownership, or it neither retains nor transfers substantially all the risks and rewards of ownership but loses control of the financial asset. Where the financial asset qualifies for full derecognition, the Group derecognises the entire transferred financial asset. The transfer may however result in the Group obtaining a new asset or assuming a new liability that continues to expose the Group to the derecognised financial asset (for example a servicing asset or liability). Full derecognition includes the derecognition of a specific and identifiable portion of a financial asset where all the risks and rewards of ownership of that part are transferred, e.g., 90% of all the cash flows or interest payments of a financial asset. This is not partial derecognition as is detailed above. The majority of transferred financial assets of the Group that qualify for full derecognition are outright sales, loan syndications and securitisation transactions. Disclosures relating to the continuing involvement in derecognised financial assets to which the Group is still exposed are included under point 35.2 below.

35.1 Transferred financial assets that are not derecognised in their entirety

Repurchase agreements

The Group enters into repurchase agreements in terms of which the Group sells investment securities to an external counterparty in exchange for cash and agrees to repurchase the investment securities at a specified price at a specified future date. The Group retains substantially all the risks and rewards of ownership of the transferred investment securities in these transactions. The transferred investment securities continue to be recognised in full by the Group (investment securities and other investments) and a financial liability (deposits) is recognised for the cash received. The counterparty's only recourse is to the transferred investment securities that are subject to the repurchase agreement. The Group remains exposed to all the underlying risks on the repurchase agreements. The risks include counterparty, interest rate, currency, prepayment and other price risks.

Investment securities and other investments of the Group with a carrying amount of R16 228 million (2012: R13 463 million) have been transferred in terms of repurchase transactions. Associated liabilities with a carrying amount of R16 146 million (2012: R13 383 million) have been recognised for cash received from counterparties and have been included in deposits. Both the transferred investments and related deposits are designated at fair value through profit or loss.

Securities lending transactions

The Group enters into securities lending transactions in terms of which the Group lends investment securities that it owns to external counterparties in exchange for cash collateral. The cash collateral is provided by the counterparty as security for the return of the securities. The investment securities that are lent, continue to be recognised in full as the Group retains substantially all the risks and rewards of ownership of these investment securities and the derecognition criteria are not met. A financial liability is recognised for the cash collateral received from the counterparty. The Group's only recourse in respect to the return of the securities it has lent is to the cash collateral held and as such, the Group generally requires cash collateral in excess of the fair value of the securities lent. The Group remains exposed to all the underlying risks of the transferred investment securities. The risks include counterparty, investment, equities price, currency and other price risks.

During the current year, the Group did not enter into any securities lending transactions in terms of which it lent securities recognised on its statement of financial position.

35.2 Transferred financial assets that are derecognised in their entirety

During the current year, the Group did not enter into any transactions in terms of which transferred financial assets were derecognised in their entirety.

36 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.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Group recognises profits or losses on day one. Where fair value is determined using valuation techniques whose variables include non-observable market data, the difference between the fair value and the transaction price (the day one profit or loss) is not recognised in the statement of financial position. These differences are, however, monitored for disclosure purposes. If observable market factors that market participants would consider in setting a price subsequently become available, the balance of the deferred day one profit or loss is recognised in to profit or loss.

Subsequently fair values of financial assets quoted in active markets are based on current bid prices. Fair values of financial liabilities quoted in active markets are based on current ask/offer prices. When the Group has assets and liabilities with offsetting market risks, it uses mid-market prices as a basis for establishing fair values for the offsetting risk positions and applies the bid/offer price to the net open position as appropriate.

An active market is a market where willing buyers and willing sellers regularly exchange financial instruments and where the market price is representative of fair value.

If a particular instrument is not traded in an active market the Group uses a valuation technique to determine the fair value of the financial instrument. The valuation techniques employed by the Group include, *inter alia*, quoted prices for similar assets or liabilities in an active market, quoted prices for the same asset or liability in an inactive market, adjusted prices from recent arm's length transactions, option-pricing models and discounted cash flow techniques.

The objective of using a valuation technique is to determine what the transaction price would have been at the measurement date. Therefore maximum use is made of inputs that are observable in the market and entity specific inputs are only used when there is no market information available. All valuation techniques take into account the relevant factors that other market participants would have considered in setting a price for the financial instrument and are consistent with accepted methodologies for pricing financial instruments.

The Group classifies instruments measured at fair value using a fair value hierarchy that reflects the significance of the inputs used. The Group's fair value hierarchy has the following levels:

Level 1 – Fair value is determined using unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Fair value is determined using inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 – Fair value is determined using a valuation technique and inputs that are not based on observable market data (i.e. unobservable inputs).

36 FAIR VALUE OF FINANCIAL INSTRUMENTS continued

The table below sets out the valuation techniques used for instruments for which there are no quoted prices in active markets or recent arm's length transactions:

Instrument	Valuation technique	Description
Investment securities and other investments		
Unlisted equities	Price earnings model or a discounted cash flow	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. The P/E multiple is derived from current market observations taking into account an appropriate discount for unlisted companies. Valuation of these instruments may be corroborated by discounted cash flow valuation or by observation of other market transactions that have taken place.
Negotiable certificates of deposit	Discounted cash flows	Future cash flows are discounted using a market-related interest rate. Inputs to these models include information that is consistent with similar market quoted instruments, where available.
Treasury bills	BESA bond pricing model	BESA bond pricing model uses the BESA mark-to-market bond yield.
Other dated securities	Discounted cash flows	Future cash flows are discounted using a market-related interest rate. The discount curve is derived from similar market quoted instruments.
Derivatives		
Credit derivatives	Discounted cash flows	Future cash flows are discounted using a market-related interest rate. Where prices are obtainable from the market, individual credit spreads are used.
Option contracts	Option pricing model	Black Scholes model is used.
Futures contracts	Discounted cash flows	Projected cash flows are discounted using a market-related interest rate. Projected cash flows are obtained by subtracting the strike price of the forward contract from the market projected forward value.
Forward rate agreements	Discounted cash flows	Discount rate is determined using a yield curve for similar market traded instruments. The reset date is determined in terms of the legal agreement.
Swaps	Discounted cash flows	Discount and forward rates are determined from similar market traded instruments. The reset date of each swaplet is determined in terms of legal documents pertaining to the swap.
Commodity-linked instruments	Based on quoted prices for similar assets	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.

36 FAIR VALUE OF FINANCIAL INSTRUMENTS continued

Instrument	Valuation technique	Description
Deposits		
Current accounts	Undiscounted amount	The undiscounted amount is considered to approximate fair value because of the short-term nature of the instruments.
Other	Discounted cash flows	The swap curve adjusted for liquidity premiums and business unit margins. The valuation methodology does not take early withdrawals and other behavioural aspects into account.
Short trading positions – unlisted	Directors valuation	These short-trading positions are valued with reference to underlying instruments.
Loans and advances to customers		
Investment banking book	Discounted cash flows	The Group has elected to designate the investment banking book of advances as at fair value through profit or loss. Future cash flows are discounted using a market-related interest rate. The interest rate component of the valuation uses observable inputs from market interest rate curves. To calculate the fair value of credit the Group uses a valuation methodology based on the credit spread matrix, which considers loss given default, tenor and the internal credit committee rating criteria.
Other loans and advances to customers	Discounted cash flows	The Group determines the fair value of the amortised cost book for disclosure purposes. Future cash flows are discounted using a market-related interest rate.
Other liabilities and Tier 2 liabilities and debt qualifying as capital		
Other liabilities and Tier 2 liabilities and debt qualifying as capital	Discounted cash flows	Future cash flows are discounted using a market-related interest rate.

36 FAIR VALUE OF FINANCIAL INSTRUMENTS continued

The following table presents the financial instruments recognised at fair value in the consolidated statement of financial position of the Group.

	2013			
R million	**Level 1**	**Level 2**	**Level 3**	**Total carrying amount**
Assets				
Derivative financial instruments	**181**	**52 025**	**110**	**52 316**
Advances*	**–**	**40 376**	**116 450**	**156 826**
Investment securities and other investments	**61 164**	**44 714**	**5 393**	**111 271**
Non-recourse investments	**–**	**19 225**	**–**	**19 225**
Total financial assets at fair value	**61 345**	**156 340**	**121 953**	**339 638**
Liabilities				
Short trading positions	**2 991**	**–**	**–**	**2 991**
Derivative financial instruments	**75**	**52 933**	**5**	**53 013**
Deposits	**–**	**84 111**	**1 517**	**85 628**
Non-recourse deposits	**–**	**19 225**	**–**	**19 225**
Other liabilities	**–**	**2 023**	**–**	**2 023**
Tier 2 liabilities and debt qualifying as capital	**–**	**1 049**	**–**	**1 049**
Total financial liabilities at fair value	**3 066**	**159 341**	**1 522**	**163 929**

There were no transfers of financial instruments between level 1 and level 2 during the year ended 30 June 2013.

	2012			
R million	Level 1	Level 2	Level 3	Total carrying amount
Assets				
Derivative financial instruments	–	52 715	198	52 913
Advances*	–	39 014	100 791	139 805
Investment securities and other investments	57 966	35 899	5 404	99 269
Non-recourse investments	–	20 092	–	20 092
Total financial assets at fair value	57 966	147 720	106 393	312 079
Liabilities				
Short trading positions	5 343	–	–	5 343
Derivative financial instruments	–	53 613	147	53 760
Deposits	–	82 397	3 267	85 664
Non-recourse deposits	–	20 092	–	20 092
Other liabilities	–	1 849	–	1 849
Tier 2 liabilities and debt qualifying as capital	–	1 067	–	1 067
Total financial liabilities at fair value	5 343	159 018	3 414	167 775

* *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 the majority of South African counterparties do not have actively traded or observable credit spreads, the Group has classified loans and advances to customers in level 3 of the fair value hierarchy. In the event that credit spreads are observable for a counterparty, these loans and advances to customers are classified in level 2 of the fair value hierarchy.*

During the prior year an amount of R34 million was transferred from level 2 into level 1 and an amount of R770 million was transferred out of level 1 into level 2. The transfer into level 1 was as a result of certain entities in which the Group holds an investment becoming listed for the first time during the prior year. The transfer out of level 1 was as a result of the market in which certain instruments are listed, becoming inactive during the prior year.

36 FAIR VALUE OF FINANCIAL INSTRUMENTS continued

Changes in level 3 fair value instruments

The Group classifies financial instruments in level 3 of the fair value hierarchy when the significant inputs into the valuation model are not observable. In addition the valuation model for level 3 financial instruments typically also relies on a number of inputs that are readily observable either directly or indirectly. Thus, the gains and losses presented below include changes in the fair value related to both observable and unobservable inputs.

The following table shows a reconciliation of the opening and closing balances for financial instruments classified as level 3 in terms of the fair value hierarchy.

	2013		
R million	Fair value on 30 June 2012	Gains/losses recognised in profit or loss	Gains recognised in other comprehensive income
Assets			
Derivative financial instruments	**198**	**34**	**–**
Advances	**100 791**	**2 115**	**–**
Investment securities and other investments	**5 404**	**(789)**	**24**
Total financial assets at fair value	**106 393**	**1 360**	**24**
Liabilities			
Derivative financial instruments	**147**	**76**	**–**
Deposits	**3 267**	**(243)**	**–**
Total financial liabilities at fair value	**3 414**	**(167)**	**–**

During the current year the following transfers into and out of level 3 occurred:

Advances to the value of R349 million were transferred out of level 2 to level 3. This transfer was as a result of certain unobservable inputs becoming significant to the calculation of fair value in the current year. The inclusion of these advances in level 3 of the fair value hierarchy is therefore more appropriate.

Investment securities to the value of R14 million were transferred out of level 3 and into level 1 as these were previously unlisted shares which listed during the current year.

Derivative financial liabilities to the value of R200 million were transferred out of level 3 and into level 2 as a result of a change in input into the valuation techniques used to value these derivatives. The inputs around volatility are based on observable market inputs.

	2013					
	Purchases, sales issues and settlements	Acquisitions/ disposals of subsidiaries	Transfers into level 3	Transfer out of level 3	Exchange rate differences	Fair value on 30 June 2013
	(122)	–	–	–	–	110
	12 517	–	349	–	678	116 450
	721	(3)	–	(14)	50	5 393
	13 116	(3)	349	(14)	728	121 953
	(18)	–	–	(200)	–	5
	(1 614)	–	–	–	107	1 517
	(1 632)	–	–	(200)	107	1 522

36 FAIR VALUE OF FINANCIAL INSTRUMENTS continued

Changes in level 3 fair value instruments continued

R million	2012		
	Fair value on 30 June 2011	Gains/losses recognised in profit or loss	Gains recognised in other comprehensive income
Assets			
Derivative financial instruments	192	27	–
Advances	86 844	6 622	–
Investment securities and other investments	4 284	341	13
Total financial assets at fair value	91 320	6 990	13
Liabilities			
Derivative financial instruments	131	6	–
Deposits	3 399	(315)	–
Total financial liabilities at fair value	3 530	(309)	–

Decreases in the value of level 3 assets and liabilities are indicated with brackets. Decreases in the value of assets may be as a result of losses recognised in profit or loss or other comprehensive income, sales, settlements and disposals of subsidiaries. Decreases in the value of liabilities may be as a result of gains recognised in profit or loss, settlements and disposals of subsidiaries.

There were no transfers of financial instruments out of or into level 3 during the prior year.

	2012					
	Purchases sales issues and settlements	Acquisitions/ disposals of subsidiaries	Transfers into level 3	Transfer out of level 3	Exchange rate differences	Fair value on 30 June 2012
	(28)	–	–	–	7	198
	7 080	92	–	–	153	100 791
	770	(42)	–	–	38	5 404
	7 822	50	–	–	198	106 393
	10	–	–	–	–	147
	159	–	–	–	24	3 267
	169	–	–	–	24	3 414

36 FAIR VALUE OF FINANCIAL INSTRUMENTS continued

The table below presents the total gains/(losses) relating to financial instruments classified in level 3 that are still held on 30 June. With the exception of interest on funding instruments, all of these gains or losses are recognised in non-interest income.

	2013		
R million	Gains/losses recognised in the income statement	Gains/losses recognised in other comprehensive income	Total gains/losses
Assets			
Derivative financial instruments	**32**	**–**	**32**
Advances	**2 414**	**–**	**2 414**
Investment securities and other investments	**155**	**24**	**179**
Total	**2 601**	**24**	**2 625**
Liabilities			
Derivative financial instruments	**4**	**–**	**4**
Deposits	**(146)**	**–**	**(146)**
Total	**(142)**	**–**	**(142)**

Decreases recognised for level 3 assets and liabilities are indicated with brackets. Decreases in the value of assets include losses recognised in profit or loss and other comprehensive income. Decreases in the value of liabilities include gains recognised in profit or loss.

36 FAIR VALUE OF FINANCIAL INSTRUMENTS continued

	2012		
R million	Gains/losses recognised in the income statement	Gains/losses recognised in other comprehensive income	Total gains/losses
Assets			
Derivative financial instruments	33	–	33
Advances	6 089	–	6 089
Investment securities and other investments	283	2	285
Total	6 405	2	6 407
Liabilities			
Derivative financial instruments	1	–	1
Deposits	(401)	–	(401)
Total	(400)	–	(400)

Decreases recognised for level 3 assets and liabilities are indicated with brackets. Decreases in the value of assets include losses recognised in profit or loss and other comprehensive income. Decreases in the value of liabilities include gains recognised in profit or loss.

36 FAIR VALUE OF FINANCIAL INSTRUMENTS continued

Effect of changes in significant unobservable assumptions to reasonably possible alternatives

As described above, the fair value of instruments that are classified in level 3 of the fair value hierarchy is determined using valuation techniques that make use of significant inputs that are not based on observable market data. 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:

	2013		
R million	**Significant unobservable inputs**	**Reasonably possible changes to significant unobservable inputs**	
Assets			
Derivative financial instruments	Volatilities	Volatilities are increased and decreased by 10%.	
Advances	Credit	Credit migration matrix*	
Investment securities and other investments	Growth rates and P/E ratios of unlisted investments	Unobservable inputs are increased and decreased by 10%.	
Total financial assets at fair value			
Liabilities			
Derivative financial instruments	Volatilities	Volatilities are increased and decreased by 10%.	
Deposits	Credit risk of cash collateral leg of credit linked notes	Credit migration matrix**	
Total financial liabilities at fair value			

* *The credit migration matrix is used as part of the Group's credit risk management process for 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.*

	2013			2012		
		Reasonably possible alternative fair value			Reasonably possible alternative fair value	
	Fair value	**Using more positive assumptions**	**Using more negative assumptions**	Fair value	Using more positive assumptions	Using more negative assumptions
	110	**136**	**93**	198	268	179
	116 450	**118 166**	**115 625**	100 791	101 700	100 350
	5 393	**5 985**	**4 591**	5 404	5 794	4 761
	121 953	**124 287**	**120 309**	106 393	107 762	105 290
	5	**4**	**5**	147	142	150
	1 517	**1 365**	**1 668**	3 267	2 940	3 594
	1 522	**1 369**	**1 673**	3 414	3 082	3 744

36 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:

	2013		2012	
R million	**Carrying amount**	**Fair value**	Carrying amount	Fair value
Assets				
Advances at amortised cost	**442 148**	**436 084**	384 702	379 324
Investment securities and other investments	**797**	**794**	347	347
Total financial assets at amortised cost	**442 945**	**436 878**	385 049	379 671
Liabilities				
Deposits at amortised cost	**592 152**	**593 584**	500 525	501 056
Other liabilities	**4 636**	**4 478**	4 533	4 537
Tier 2 liabilities and debt qualifying as capital	**7 068**	**7 189**	6 818	7 010
Total financial liabilities at amortised cost	**603 856**	**605 251**	511 876	512 603

For all other financial instruments the carrying amount is equal to or a reasonable approximation of the fair value.

Day 1 profit or loss

Day 1 profit or loss arises on initial recognition of a financial instrument when the fair value of an instrument is determined using a valuation technique that makes use of inputs that are not observable in an active market. In terms of IAS 39, if the fair value determined in accordance with such a valuation technique differs from the transaction price, the initial recognition should take place at the transaction price as the transaction price is considered the best evidence of fair value at initial recognition. Day 1 profits or losses arising as a result of the difference between the two values should only be recognised over the life of the instrument as a result of changes that would also be considered by market participants.

The following table represents the aggregate difference between transaction price and fair value based on a valuation technique yet to be recognised in profit or loss:

R million	**2013**	2012
Opening balance	**37**	–
Day 1 profits or losses not recognised on financial instruments initially recognised in the current reporting period	**–**	41
Amount recognised in profit or loss as a result of changes which would be observable by market participants	**(9)**	(4)
Closing balance	**28**	37

37 SEGMENT INFORMATION

37.1 Reportable segments

Set out below is information about the reportable segments of the FirstRand Group, the details of the various products and services provided by each of the reportable segments, its major customers and the basis of preparation of segment information.

FNB

FNB represents FirstRand's retail and commercial activities in South Africa and the broader African continent. FNB offers a diverse set of financial products and services to market segments including consumer, small business, agricultural, medium corporate, parastatals and government entities. FNB's products include mortgage loans, credit and debit cards, personal loans and investment products. Services include transactional and deposit taking, card acquiring, credit facilities and distribution channels (namely the branch network, ATMs, call centres, cellphone and internet). This full range of products and services is also provided by FNB's subsidiaries in Namibia, Botswana, Lesotho, Swaziland, Zambia, Mozambique and Tanzania. FNB's primary segments are Retail, Commercial and Africa.

RMB

RMB is the corporate and investment banking arm of FirstRand and offers advisory, funding, trading, corporate banking and principal investing solutions. RMB has a deal footprint across 35 African countries and offices in Namibia, Botswana, Nigeria, Angola and Kenya, and also operates in the UK, India, China and the Middle East. RMB's business units include Global Markets, Investment Banking, Private Equity and Corporate Banking.

WesBank

WesBank represents the Group's activities in vehicle and asset finance in the retail, commercial and corporate segments operating primarily through alliances and JVs with leading motor manufacturers. WesBank also manages an unsecured lending business, driven through the Direct Axis marketing origination channel in South Africa and a vehicle finance business in the UK, MotoNovo.

Corporate Centre

The Corporate Centre includes various centralised risk and finance functions, including Group Treasury (capital and liquidity), Financial Resource Management, Group Finance, IT, Enterprise Risk Management, Regulatory Risk Management and Group Internal Audit.

Major customers

In terms of IFRS 8, a customer is regarded as a major customer if the revenue from transactions with this customer exceeds 10% or more of the entity's revenue. The FirstRand Group has no major customer as defined and is, therefore, not reliant on the revenue from one or more major customers.

Basis of preparation of segment information

The segmental analysis is based on the information reported to management for the respective segments. The information is prepared in terms of IFRS with the exception of certain adjustments that are made to the segment results in order to eliminate the effect of non-taxable income and other segment specific items that impact certain key ratios reviewed by the chief operating decision maker when assessing the operating segments' performance.

In order to ensure that the total segment results, assets and liabilities agree to the amounts reported in terms of IFRS, the aforementioned amounts are adjusted in the IFRS adjustments column.

37 SEGMENT INFORMATION continued

37.2 Description of normalised adjustments

Share-based payments, employee benefits and treasury shares: consolidation of staff share trusts

IFRS 2 requires that all share-based payment transactions for goods or services received must be expensed with effect from financial periods commencing on or after 1 January 2005.

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

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

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

Economic hedge against share-based payment obligations

The Group entered into a Total Return Swap (TRS) with external parties in order to economically hedge itself against the cost associated with the Group's share option schemes. In terms of IAS 39, the TRS is accounted for as a derivative instrument at fair value, with the full fair value change recognised in profit and loss. In accordance with IFRS 2, the expense resulting from these option schemes is recognised over the vesting period of the schemes. This leads to a mismatch in the recognition of the profit or loss of the hedge and the share-based payment expense.

For purposes of calculating normalised earnings, the Group defers recognition of the fair value gain or loss on the hedging instrument for the specific reporting period to the period in which the IFRS 2 impact will manifest in the Group's results. This reflects the economic substance of the hedge and associated IFRS 2 impact for the Group.

FirstRand shares held for client trading activities

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

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

In addition, in terms of IAS 28, upstream and downstream profits are eliminated when equity accounting is applied, and, in terms of IAS 32, profits or losses cannot be recognised on an entity's own equity instruments. For the income statement, the Group's portion of the fair value change on FirstRand shares are, therefore, deducted from equity-accounted earnings and the investment recognised using the equity accounted method.

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

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

Where the client trading position is itself an equity instrument, then neither gains nor losses on client trading positions or FirstRand shares held to hedge these are reflected in profit or loss or on the statement of financial position.

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

37 SEGMENT INFORMATION continued

37.2 Description of normalised adjustments continued

Realisations on the sale of private equity subsidiaries

In terms of *Circular 2/2013 Headline Earnings per Share* (circular), gains or losses from the sale of subsidiaries are excluded from headline earnings.

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

37.3 Geographical segments

Refer to the reportable segment information for a description of the divisions.

Segment	Countries included	Franchises included
South Africa	South Africa	FNB RMB WesBank Corporate Centre
Other Africa	Namibia Botswana Swaziland Lesotho Zambia Mozambique Tanzania Nigeria	FNB RMB WesBank
United Kingdom	England	FNB RMB WesBank
Australasia	Australia	RMB
Other	Asia (India, China) Middle East (U.A.E) Mauritius Brazil Ireland	FNB RMB

The following significant exchange rates were used to convert the statement of financial position. Foreign-denominated assets and liabilities are converted at the closing rate of exchange.

	2013	2012
GBP	**15.22**	12.83
EUR	**13.04**	10.37
USD	**10.01**	8.19
AUD	**9.17**	8.38
BRL	**4.50**	4.06
INR	**0.17**	0.15

37 SEGMENT INFORMATION continued

37.4 Reportable segments

	2013	
R million	FNB	FNB Africa
Net interest income before impairment of advances	13 175	2 375
Impairment of advances	(2 863)	(190)
Net interest income after impairment of advances	10 312	2 185
Non-interest income	16 166	1 793
Net income from operations	26 478	3 978
Operating expenses	(16 225)	(2 353)
Share of profit from associates and joint ventures after tax	38	2
Income before tax	10 291	1 627
Indirect tax	(388)	(55)
Profit for the year before tax	9 903	1 572
Income tax expense	(2 624)	(462)
Profit for the year	7 279	1 110
The income statement includes:		
Depreciation	(1 151)	(123)
Amortisation	(64)	(13)
Impairment charges	(188)	–
The statement of financial position includes:		
Investments in associates and joint ventures	234	4
Total assets	249 743	47 662
Total liabilities	240 493	42 090

* *Other includes FirstRand company, consolidation of treasury shares and related consolidation entries.*

Geographical segments

	2013					
R million	South Africa	Other Africa	United Kingdom	Australasia	Other	Total
Net interest income	17 023	2 384	375	14	107	19 903
Non-interest income*	29 243	2 353	955	(62)	(51)	32 438
Total assets	787 372	53 483	21 566	4 521	2 727	869 669
Non-current assets**	18 901	1 544	95	1 439	(37)	21 942
Total liabilities	716 926	46 327	21 955	3 334	1 499	790 041

* *Includes share of profit from associates and joint ventures after tax.*
** *Excludes financial instruments, deferred tax assets, post-employment benefit assets and rights arising under insurance contracts.*

	2013						
	RMB						
	Investment Banking	Corporate Banking	WesBank	Corporate Centre	Consolidation and IFRS adjustments	Other*	Total
	412	607	6 852	1 364	61	(131)	24 715
	(83)	(44)	(1 632)	–	–	–	(4 812)
	329	563	5 220	1 364	61	(131)	19 903
	9 721	1 148	3 200	1 912	(2 597)	271	31 614
	10 050	1 711	8 420	3 276	(2 536)	140	51 517
	(5 326)	(1 389)	(4 446)	(3 536)	1 559	230	(31 486)
	861	–	261	–	(345)	7	824
	5 585	322	4 235	(260)	(1 322)	377	20 855
	(60)	(33)	(219)	111	–	(1)	(645)
	5 525	289	4 016	(149)	(1 322)	376	20 210
	(1 464)	(77)	(1 064)	39	1 220	(100)	(4 532)
	4 061	212	2 952	(110)	(102)	276	15 678
	(287)	(35)	(354)	(92)	(4)	–	(2 046)
	(23)	–	(31)	(5)	2	–	(134)
	(83)	(248)	(21)	(261)	–	–	(801)
	5 865	–	919	1	(31)	–	6 992
	350 244	5 331	145 585	124 545	(110 746)	57 305	869 669
	342 027	4 912	141 103	72 438	(53 513)	491	790 041

Reconciliation of profit for the year to normalised earnings

R million	2013
Profit for the year (per above)	**15 678**
NCNR preference equityholders	**(297)**
Non-controlling interests	**(842)**
Attributable earnings to ordinary equityholders	**14 539**
Headline earnings adjustments (per page 258)	**575**
Headline earnings to ordinary equityholders	**15 114**
Normalised adjustments	**209**
– IFRS 2 Share-based payment expenses	**43**
– Treasury shares	**39**
– TRS adjustment	**85**
– Private equity subsidiary realisations	**42**
Normalised earnings	**15 323**

For more information about the normalised adjustments refer to pages 49 to 51.

37 SEGMENT INFORMATION continued

37.4 Reportable segments continued

R million	2012 FNB	2012 FNB Africa
Net interest income before impairment of advances	11 073	2 132
Impairment of advances	(2 733)	(121)
Net interest income after impairment of advances	8 340	2 011
Non-interest income	14 715	1 708
Net income from operations	23 055	3 719
Operating expenses	(14 414)	(2 061)
Share of profit from associates and joint ventures after tax	24	6
Income before tax	8 665	1 664
Indirect tax	(382)	(47)
Profit for the year before tax	8 283	1 617
Income tax expense	(2 194)	(469)
Profit for the year	6 089	1 148
The income statement includes:		
Depreciation	(1 323)	(108)
Amortisation	(78)	(29)
Impairment charges	–	(5)
The statement of financial position includes:		
Investments in associates and joint ventures	196	4
Total assets	229 266	39 267
Total liabilities	220 878	34 399

* *Other includes FirstRand company, consolidation of treasury shares and related consolidation entries.*

Geographical segments

	2012					
R million	South Africa	Other Africa	United Kingdom	Australasia	Other	Total
Net interest income	14 202	1 981	479	24	131	16 817
Non-interest income*	28 482	2 021	(2)	(6)	119	30 614
Total assets	709 203	40 850	14 022	3 634	2 056	769 765
Non-current assets**	18 848	1 028	70	1 225	14	21 185
Total liabilities	646 433	35 784	14 493	2 289	959	699 958

* *Includes share of profit from associates and joint ventures after tax.*
** *Excludes financial instruments, deferred tax assets, post-employment benefit assets and rights arising under insurance contracts.*

	2012						
	RMB						
	Investment Banking	Corporate Banking	WesBank	Corporate Centre	Consolidation and IFRS adjustments	Other*	Total
	438	516	5 849	1 859	114	(99)	21 882
	(89)	(273)	(1 100)	10	(759)	–	(5 065)
	349	243	4 749	1 869	(645)	(99)	16 817
	8 087	1 205	3 347	2 862	(2 424)	(6)	29 494
	8 436	1 448	8 096	4 731	(3 069)	(105)	46 311
	(4 868)	(1 199)	(3 938)	(3 585)	909	734	(28 422)
	1 202	–	239	–	(351)	–	1 120
	4 770	249	4 397	1 146	(2 511)	629	19 009
	(67)	(15)	(206)	167	1	(2)	(551)
	4 703	234	4 191	1 313	(2 510)	627	18 458
	(1 246)	(62)	(1 110)	(348)	1 506	(166)	(4 089)
	3 457	172	3 081	965	(1 004)	461	14 369
	(275)	(44)	(269)	(101)	(3)	–	(2 123)
	(61)	–	(48)	(3)	1	–	(218)
	(134)	–	(3)	(1)	(36)	–	(179)
	5 959	–	732	2	(24)	–	6 869
	328 890	3 087	121 610	100 814	(109 859)	56 690	769 765
	321 493	2 737	117 110	55 288	(52 262)	315	699 958

Reconciliation of profit for the year to normalised earnings

R million	2012
Profit for the year (per above)	14 369
NCNR preference equityholders	(275)
Non-controlling interests	(898)
Attributable earnings to ordinary equityholders	13 196
Headline earnings adjustments (per page 258)	(554)
Headline earnings to ordinary equityholders	12 642
Normalised adjustments	88
– IFRS 2 Share-based payment expenses	77
– Treasury shares	251
– TRS adjustment	(240)
Normalised earnings	12 730

For information about normalised adjustments refer to pages 49 to 51.

38 SUBSIDIARIES

	Nature of business	Country	Issued ordinary		Effective holding	
			Listed/ unlisted	Capital R million	**2013 %**	2012 %
Significant subsidiaries						
FirstRand Bank Limited	Commercial and merchant banking	South Africa	Unlisted	15 308	**100**	100
FirstRand EMA Holdings Limited						
Emerging markets						
First National Bank of Lesotho Limited	Commercial banking	Lesotho	Unlisted	48	**100**	100
First National Bank of Namibia Holdings Limited	Investment holding	Namibia	Listed	175	**60**	60
First National Bank of Swaziland Limited	Commercial banking	Swaziland	Unlisted	30	**100**	100
First National Bank Holdings Botswana Limited	Commercial banking	Botswana	Unlisted	56	**100**	100
FirstRand Mozambique Holdings Limitada	Commercial banking	Mozambique	Unlisted	262	**96**	96
First National Bank of Zambia Limited	Commercial banking	Zambia	Unlisted	515	**100**	100
First National Bank of Tanzania Limited	Commercial banking	Tanzania	Unlisted	218	**99**	99
FirstRand International Mauritius Limited	Financial services	Mauritius	Unlisted	90	**100**	100
RMB Nigeria Limited	Financial services	Nigeria	Unlisted	736	**100**	–
FirstRand Investment Holdings Proprietary Limited (FRIHL)						
Non-banking						
Rentworks Africa Proprietary Limited	Financial services	South Africa	Unlisted	*	**100**	60
First Auto Proprietary Limited	Fleet management	South Africa	Unlisted	98	**100**	100
Direct Axis SA Proprietary Limited	Personal loans	South Africa	Unlisted	*	**66**	66
Contract Lease Management Limited	Fleet management	South Africa	Unlisted	*	**100**	100
FirstRand Insurance Services Company Proprietary Limited	Insurance services	South Africa	Unlisted	40	**100**	100
FNB Securities Proprietary Limited	Financial services	South Africa	Unlisted	13	**100**	100
FirstRand International Limited	Financial services	UK	Unlisted	1 845	**100**	100
RMB Investment and Advisory Proprietary Limited	Investment and financial services	South Africa	Unlisted	2 414	**100**	100
Other**	Various	Various	Unlisted	1 936	**Various**	Various
Ashburton Investment Holdings Limited	Investment management	South Africa	Unlisted	216	**100**	–

* *Denotes amounts less than R500 000.*

** *Other includes internal structures set up to facilitate business e.g. RMB Private Equity Holdings and RMB Stockbroking Operations.*

38 SUBSIDIARIES continued

R million	Group carrying amount (excluding goodwill)** 2013	2012
FirstRand Bank Limited	**54 879**	48 997
FirstRand EMA Holdings Limited		
Emerging markets		
First National Bank of Lesotho Limited	**81**	61
First National Bank of Namibia Holdings Limited	**2 290**	2 382
First National Bank of Swaziland Limited	**474**	465
First National Bank Holdings Botswana Limited	**2 278**	1 697
FirstRand Mozambique Holdings Limitada	**354**	314
First National Bank of Zambia Limited	**336**	97
First National Bank of Tanzania Limited	**50**	63
FirstRand International Mauritius Limited	**114**	105
RMB Nigeria Limited	**984**	–
FirstRand Investment Holdings Proprietary Limited (FRIHL)		
Non-banking		
Rentworks Africa Proprietary Limited	**238**	254
First Auto Proprietary Limited	**172**	171
Direct Axis SA Proprietary Limited	**549**	444
Contract Lease Management Limited	**27**	27
FirstRand Insurance Services Company Proprietary Limited	**368**	300
FNB Securities Proprietary Limited	**52**	73
FirstRand International Limited	**3 493**	3 777
RMB Investment and Advisory Proprietary Limited	**5 119**	4 703
Other*	**1 325**	802
Ashburton Investment Holdings Limited	**294**	–

* *Other includes internal structures set up to facilitate business e.g. RMB Private Equity Holdings and RMB Stockbroking Operations.*

** *Group carrying amount is equal to net asset value of the Group.*

39 ACQUISITION AND DISPOSAL OF SIGNIFICANT SUBSIDIARIES AND ASSOCIATES

Significant acquisitions of subsidiaries

39.1 Significant acquisitions of subsidiaries during the 2013 financial year

Identifiable assets acquired and liabilities assumed at the acquisition date fair value

	2013		
R million	Total	RMB Private Equity	Other
ASSETS			
Cash and cash equivalents	2	–	2
Accounts receivable	132	73	59
Investments in associates and joint ventures	97	97	–
Property and equipment	128	–	128
Investment properties	237	–	237
Total assets acquired	596	170	426
LIABILITIES			
Creditors and accruals	11	2	9
Other liabilities	151	151	–
Amounts due to holding company and fellow subsidiary companies	370	–	370
Total liabilities acquired	532	153	379
Net identifiable asset value as at date of acquisition	64	17	47
Total goodwill is calculated as follows:			
Total cash consideration transferred	84	26	58
Total non-cash consideration transferred	31	–	31
Add: non-controlling interests at acquisition	(72)	(11)	(61)
Less: net identifiable asset value as at date of acquisition	64	17	47
Goodwill	(21)	(2)	(19)

		2013		
R million	Notes	Total	RMB Private Equity	Other
Cash flow information				
Discharged by cash consideration		84	26	58
Less: cash and cash equivalents in subsidiary		2	–	2
Cash outflow on acquisition of subsidiaries	30.8	82	26	56

RMB Private Equity

During the current financial year, the Group purchased various RMB Private Equity subsidiaries by exercising control over the financial and operating policies of those companies. The primary reason for the purchase was to expand the private equity portfolio of the FirstRand Limited Group by obtaining control of the operations and management of those companies.

Other

The Group entered into other individually insignificant acquisition transactions, including the acquisition of 85% of the issued shares of a company that owns a property that is occupied by Direct Axis, thereby, obtaining ownership of the property.

39 ACQUISITION AND DISPOSAL OF SIGNIFICANT SUBSIDIARIES AND ASSOCIATES continued

Significant disposals of subsidiaries

39.2 Significant disposals of subsidiaries during the 2013 financial year

	2013	
R million	Total	RMB Private Equity
ASSETS		
Non-current assets and disposal groups held for sale	137	137
Intergroup banking accounts	4	4
Total assets disposed of	141	141
LIABILITIES		
Liabilities directly associated with disposal groups held for sale	145	145
Amounts due to holding company and fellow subsidiary companies	49	49
Total liabilities disposed of	194	194
Net identifiable asset value as at date of disposal	(53)	(53)
The gain on disposal is calculated as follows:		
Total non-cash consideration received	59	59
Add: non-controlling share of net asset value at disposal date	(51)	(51)
Less: Group's portion of the net identifiable asset value on disposal	(53)	(53)
Gain on disposal of controlling interest in a subsidiary	61	61

		2013	
R million	Notes	Total	RMB Private Equity
Cash flow information			
Discharged by cash consideration		–	–
Cash inflow on disposal of subsidiaries	30.9	–	–

RMB Private Equity

During August 2012, the Group disposed of the two entities that were classified as disposal groups held for sale at 30 June 2012. The Group lost control of both entities as a result of the transactions but retained joint control of the one entity through a loan agreement and obtained significant influence over the new owner of the other entity. These transactions are included in the acquisitions of investments in associates and joint ventures, refer to note 14.

39 ACQUISITION AND DISPOSAL OF SIGNIFICANT SUBSIDIARIES AND ASSOCIATES continued

Significant acquisitions during the 2012 financial year

Significant acquisitions of subsidiaries

39.3 Sani Pass Hotel Proprietary Limited

On 1 July 2011, the Group purchased 20% of the issued share capital of Sani Pass Hotel Proprietary Limited from the existing equityholders. On this date, control over Sani Pass Hotel Proprietary Limited was obtained as a result of the Group exercising control over the financial and operating policies of the company. On 1 September 2011, the remaining 80% of the issued share capital was acquired, resulting in the entity becoming a wholly-owned subsidiary. Sani Pass Hotel Proprietary Limited is incorporated in South Africa. The primary reason for the business combination was as a result of the Group swapping its existing impaired advance for a controlling interest in the company. Sani Pass Hotel Proprietary Limited contributed R16 million income to the Group from the date when control was acquired (i.e. 1 July 2011) to reporting date.

Identifiable assets and liabilities acquired

R million	2012 Fair value at acquisition
ASSETS	
Cash and cash equivalents	1
Accounts receivable**	*
Property and equipment	65
Total assets acquired	66
LIABILITIES	
Creditors and accruals	5
Total deferred income tax liabilities	2
Loans from holding company and fellow subsidiary companies	98
Shareholder loans	1
Total liabilities acquired	106
Net identifiable asset value as at date of acquisition	(40)
The goodwill is calculated as follows:	
Add: non-controlling interests at acquisition	(32)
Less: net identifiable asset value as at date of acquisition	(40)
Goodwill	8

* *Amounts less than R500 000.*

** *At acquisition date, the gross contractual amounts of accounts receivable was equal to the fair value of the receivables. It is expected that all contractual cash flows for these receivables will be collected.*

Goodwill arose as a result of acquiring a subsidiary with a negative net asset value for no consideration. None of the goodwill is expected to be deductible for tax purposes.

R million	Notes	2012 Total	2012 Sani Pass Hotel Proprietary Limited
Cash flow information			
Discharged by cash consideration		–	–
Less: cash and cash equivalents in subsidiary		1	1
Cash inflow on acquisition of subsidiaries	30.8	1	1

39 ACQUISITION AND DISPOSAL OF SIGNIFICANT SUBSIDIARIES AND ASSOCIATES continued

Significant disposals of subsidiaries

39.4 Significant disposals of subsidiaries during the 2012 financial year

	2012				
R million	Total	Ronald Sewells & Associates SA Proprietary Limited	Momentum Life Assurance Namibia Limited	RMB Global Solutions	First Trade Solutions Limited Guernsey
ASSETS					
Cash and cash equivalents	31	–	28	2	1
Accounts receivable	644	–	41	294	309
Amounts due from holding company and fellow subsidiary companies	883	–	–	579	304
Investments in subsidiaries	2	3	–	–	(1)
Policy loans	23	–	23	–	–
Advances	7	–	–	7	–
Investment securities and other investments	1 432	–	1 429	3	–
Property and equipment	4	–	4	–	–
Intangible assets	7	–	7	–	–
Reinsurance assets	34	–	34	–	–
Total assets disposed of	3 067	3	1 566	885	613
LIABILITIES					
Creditors and accruals	39	–	39	–	*
Gross outstanding claims	3	–	3	–	–
Current tax liability	25	–	1	24	–
Provisions	–	–	–	–	*
Employee liabilities	–	–	*	–	–
Amounts due to holding company and fellow subsidiary companies	1 206	1	–	595	610
Policyholder liabilities under insurance contracts	1 088	–	1 088	–	–
Policyholder liabilities under investment contracts	173	–	173	–	–
Total liabilities disposed of	2 534	1	1 304	619	610
Net identifiable asset value as at date of disposal	533	2	262	266	3
The gain/(loss) on disposal is calculated as follows:					
Total cash consideration received	382	10	365	7	–
Add: non-controlling share of net asset value at disposal date	282	*	–	282	*
Less: Group's portion of the net identifiable asset value on disposal	405	2	134	266	3
Gain/(loss) on disposal of controlling interest in a subsidiary	259	8	231	23	(3)

* *Amount less than R500 000.*

39 ACQUISITION AND DISPOSAL OF SIGNIFICANT SUBSIDIARIES AND ASSOCIATES continued

Significant disposals of subsidiaries continued

39.4 Significant disposals of subsidiaries during the 2012 financial year continued

		2012				
R million	Notes	Total	Ronald Sewells & Associates SA Proprietary Limited	Momentum Life Assurance Namibia Limited	RMB Global Solutions	First Trade Solutions Limited Guernsey
Cash flow information						
Discharged by cash consideration		375	10	365	–	–
Less: cash and cash equivalents in subsidiary		(27)	–	(28)	–	1
Cash inflow on disposal of subsidiaries	30.9	348	10	337	–	1

Ronald Sewells & Associates SA Proprietary Limited

On 1 July 2011, the Group disposed of its 90% shareholding in Ronald Sewells and Associates Proprietary Limited. This disposal resulted in the Group losing control of Ronald Sewells and Associates Proprietary Limited. Therefore, Ronald Sewells and Associates Proprietary Limited is no longer consolidated in the financial statements of the Group.

Momentum Life Assurance Namibia Limited

On 1 July 2011, the Group disposed of its 51% shareholding in Momentum Life Assurance Namibia Limited. However, for the purposes of IFRS the effective date of disposal is the date on which control over a subsidiary is lost. The Group effectively lost control of Momentum Life Assurance Namibia Limited on 30 June 2012. Therefore, Momentum Life Assurance Namibia Limited is no longer consolidated in the financial statements of the Group as of 30 June 2012.

RMB Global Solutions

On 31 May 2012, the Group disposed of its 100% shareholding in RMB Global Solutions. This disposal resulted in the Group losing control of RMB Global Solutions. Therefore, RMB Global Solutions is no longer consolidated in the financial statements of the Group.

First Trade Solutions Limited Guernsey

On 31 May 2012, the Group disposed of its 100% shareholding in First Trade Solutions Limited Guernsey. This disposal resulted in the Group losing control of First Trade Solutions Limited Guernsey. Therefore, First Trade Solutions Limited Guernsey is no longer consolidated in the financial statements of the Group.

39 ACQUISITION AND DISPOSAL OF SIGNIFICANT SUBSIDIARIES AND ASSOCIATES continued

Significant acquisitions of associates

39.5 Significant acquisitions of associates during the 2013 financial year

		2013		
R million	Notes	Total	RMB Private Equity Associates	Other
Total cash consideration transferred		642	627	15
– Discharged by cash consideration	30.8	642	627	15
– Other consideration		–	–	–

RMB Private Equity associates

During the year the Group acquired various RMB Private Equity associates for a consideration of R627 million. Other significant acquisitions of associates are Diamonds Discount Liquor (Proprietary) Limited which went from a subsidiary to a joint venture on 31 August 2012.

Mvelaphanda Group Limited

During the year, the Group acquired a 28.3% shareholding in Mvelaphanda Group Limited for a consideration of R334 million. Subsequently, Mvelaphanda Group Limited was sold, resulting in a loss of R7 million. The consideration on disposal includes cash and non-cash consideration.

Other insignificant acquisitions

In addition to the above acquisitions, the Group acquired a number of individually insignificant associates during the year.

39.6 Significant acquisitions of associates during the 2012 financial year

There were no significant acquisitions of associates during the 2012 financial year.

39 ACQUISITION AND DISPOSAL OF SIGNIFICANT SUBSIDIARIES AND ASSOCIATES continued

Significant disposals of associates

39.7 Significant disposals during the 2013 financial year

R million	Notes	2013 Total	2013 RMB Private Equity associates	2013 Crookes Brothers Limited	2013 Other
Carrying amount at the date of disposal		**551**	**243**	**204**	**104**
Fair value of the consideration received	30.9	**719**	**420**	**194**	**105**
– Discharged by cash		**674**	**381**	**194**	**99**
– Non-cash consideration		**45**	**39**	**–**	**6**
Gain/(loss) on disposal of associates		**168**	**177**	**(10)**	**1**

Loans that form part of the net investment in associates amounting to R466 million were settled during the current year.

RMB Private Equity Associates

During the year, the Group disposed of various RMB Private Equity associates for an amount of R381 million cash consideration and R39 million non-cash consideration.

Crookes Brothers Limited

The effective holding of 30% was sold on 26 September 2012 for a consideration of R194 million.

Mvelaphanda Group Limited

During the year, a 28.3% shareholding was acquired in Mvelaphanda Group Limited for a consideration of R334 million. Subsequently, Mvelaphanda Group Limited was sold, resulting in a loss of R7 million.

Other insignificant disposals

In addition to the above disposals, a number of individually insignificant associates and joint ventures were disposed of during the year.

39 ACQUISITION AND DISPOSAL OF SIGNIFICANT SUBSIDIARIES AND ASSOCIATES continued

39.8 Significant disposals during the 2012 financial year

		2012			
R million	Notes	Total	Weston Atlas Fund	RMB Private Equity associates	Other insignificant disposals
Carrying amount at the date of disposal		127	55	68	4
Fair value of the consideration received	30.9	202	55	140	7
– Discharged by cash		202	55	140	7
– Non-cash consideration		–	–	–	–
Gain on disposal of associates		75	–	72	3

Weston Atlas Fund

On 30 January 2012, the Group disposed of its shareholding in Weston Atlas Fund to third parties for a consideration of R55 million. Weston Atlas Fund is no longer equity accounted as the Group no longer has significant influence over the entity.

RMB Private Equity associates

During the year, various RMB Private Equity associates, were disposed of to third parties for a consideration of R140 million.

Other insignificant disposals

In addition to the above disposals, a number insignificant associates were disposed of during 2012.

40 RELATED PARTIES

The Group defines related parties as:

(i) Subsidiaries;
(ii) Associate companies;
(iii) Joint ventures;
(iv) Entities that have significant influence over the Group. If an investor has significant influence over the Group that investor and its subsidiaries are related parties of the Group. The Group is FirstRand Limited and its subsidiaries;
(v) Post-employment benefit funds (pension funds);
(vi) Key management personnel, being the FirstRand Limited board of directors and the FirstRand executive committee;
(vii) Close family members of key management personnel (individual's spouse/domestic partner and children; domestic partner's children and dependants of individual or domestic partner); and
(viii) Entities controlled, jointly controlled or significantly influenced by any individual referred to in (vi) and (vii).

The principal shareholder of the FirstRand Group is RMB Holdings Limited, incorporated in South Africa.

40.1 Subsidiaries

Details of investments in subsidiaries are disclosed in note 38. Transactions between the Group and its subsidiaries have been eliminated on consolidation and are not disclosed in this note.

40.2 Associates and joint ventures

Details of investments in associate and joint venture companies are disclosed in note 14.

During the year the Group, in the ordinary course of business, entered into various transactions with associates and joint ventures on the same terms as those arranged with third parties.

40 RELATED PARTIES continued

40.3 Details of transactions with relevant related parties appear below

	2013		
R million	Groups that have significant influence over the Group and their subsidiaries	Associates	Joint ventures
Advances			
Opening balance	**1 211**	**5 475**	**5**
Disposals of associates and joint ventures	**–**	**(211)**	**–**
Advanced during year	**–**	**2 084**	**5 150**
Repayments during year	**(61)**	**(2 736)**	**(2 327)**
Interest income	**–**	**304**	**94**
Exchange rate differences	**–**	**33**	**–**
Fair value movements during the year	**87**	**75**	**–**
Provision for impairment loss	**–**	**33**	**–**
Closing balance	**1 237**	**5 057**	**2 922**
Accounts receivable			
Opening balance	**–**	**468**	**63**
Disposals of associates and joint ventures	**–**	**(117)**	**–**
Raised during the year	**–**	**309**	**125**
Repayments during year	**–**	**(302)**	**(151)**
Exchange rate differences	**–**	**–**	**–**
Closing balance	**–**	**358**	**37**
Derivative assets			
Notional amount	**11**	**(3 467)**	**14 507**
Fair value	**–**	**57**	**79**
Guarantees received	**–**	**91**	**–**
Deposits			
Opening balance	**45**	**283**	**469**
Disposals of associates and joint ventures	**–**	**(83)**	**–**
Received during year	**216**	**4 673**	**–**
Repayments during year	**(260)**	**(4 411)**	**(438)**
Interest expense	**1**	**2**	**–**
Closing balance	**2**	**464**	**31**
Accounts payable			
Opening balance	**–**	**33**	**19**
Raised during the year	**–**	**442**	**219**
Repayments during year	**–**	**(410)**	**(188)**
Closing balance	**–**	**65**	**50**
Derivative liabilities			
Notional amount	**27**	**3**	**–**
Fair value	**–**	**–**	**–**
Commitments	**–**	**94**	**–**

40 RELATED PARTIES continued

40.3 Details of transactions with relevant related parties appear below continued

R million	2013 Groups that have significant influence over the Group and their subsidiaries
Fees and commissions earned	**92**

R million	2012 Groups that have significant influence over the Group	2012 Associates	2012 Joint ventures
Advances			
Opening balance	1 355	2 393	48
Disposals of associates and joint ventures	–	–	–
Advanced during year	117	3 534	2
Repayments during year	(361)	(1 021)	(45)
Interest income	–	243	–
Exchange rate differences	–	37	–
Fair value movements during the year	100	128	–
Provision for impairment loss	–	161	–
Closing balance	1 211	5 475	5
Accounts receivable			
Opening balance	–	73	5
Disposals of associates and joint ventures	–	–	–
Raised during the year	–	558	68
Repayments during year	–	(163)	(19)
Exchange rate differences	–	–	9
Closing balance	–	468	63
Derivative assets			
Notional amount	–	7	–
Fair value	–	–	–
Guarantees received	–	–	–
Deposits			
Opening balance	42	834	34
Disposals of associates and joint ventures	–	–	–
Received during year	190	2 823	1 039
Repaid during year	(187)	(3 371)	(607)
Interest expense	–	(3)	3
Closing balance	45	283	469

40 RELATED PARTIES continued

40.3 Details of transactions with relevant related parties appear below continued

	2012		
R million	Groups that have significant influence over the Group	Associates	Joint ventures
Accounts payable			
Opening balance	–	–	–
Received during year	–	470	19
Repayments during year	–	(437)	–
Closing balance	–	33	19
Derivative liabilities			
Notional amount	–	–	21
Fair value	–	–	1
Commitments	–	47	2

	2012
R million	Groups that have significant influence over the Group and their subsidiaries
Fees and commissions earned	127

40 RELATED PARTIES continued

40.4 Key management personnel

R million	2013	2012
Total advances		
Opening balance	**40**	154
Advanced during the year	**248**	276
Repayments during the year	**(245)**	(398)
Interest earned	**4**	8
Closing balance	**47**	40
The amounts advanced to key management personnel consist of mortgages, instalment finance agreements, credit cards and other loans.		
Total deposits		
Opening balance	**211**	188
Net (withdrawals)/deposits	**(90)**	16
Net interest and service cost	**7**	7
Closing balance	**128**	211
The amounts deposited by key management personnel are held in cheque and current accounts, savings accounts and other term accounts.		
Investments under co-investment scheme		
Opening balance	**23**	20
Net investment return credited	**2**	3
Closing balance	**25**	23
Commitments	**–**	–
Other fees		
Financial consulting fees and commissions	**4**	5
Key management compensation		
Salaries and other short-term benefits	**203**	174
Share-based payments	**225**	75
Total	**428**	249
Deferred compensation included in the above and payable in FirstRand shares in October 2014	**38**	30
Post-employment benefit plan		
Details of transactions between the Group and the Group's post-employment benefit plan are listed below:		
Dividend income	**1**	3
Fee income	**4**	3
Deposits held with the Group	**145**	110
Interest expenses	**6**	9
Value of assets under management	**2 995**	2 986

41 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In preparing the financial statements, the Group makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

41.1 Credit impairment losses on loans and advances

The Group continuously assesses its credit portfolios for impairment. In determining whether an impairment loss should be recognised in the income statement, the Group makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans.

(a) Performing loans

The impairment provision on the performing portfolio is split into two parts:

(i) The first part consists of the portion of the performing portfolio where an incurred impairment event is inherent in a portfolio of performing advances but has not specifically been identified. An incurred but not reported (IBNR) provision is calculated on this subsegment of the portfolio, based on historical analysis of loss ratios, roll rates from performing status into non-performing status and similar risk indicators over an estimated loss emergence period.

Estimates of roll rates, loss ratios and similar risk indicators are based on analysis of internal and, where appropriate, external data. Estimates of the loss emergence period are made in the context of the nature and frequency of credit assessments performed, availability and frequency of updated data regarding customer creditworthiness and similar factors. Loss emergence periods differ from portfolio to portfolio, but typically range from 1 – 12 months.

(ii) The second part consists of the portfolio specific impairment (PSI) to reflect the decrease in estimated future cash flows for the subsegment of the performing portfolio where there is objective evidence of impairment. The decrease in future cash flows is primarily estimated based on analysis of historical loss and recovery rates for comparable subsegments of the portfolio.

The assessment of whether objective evidence of impairment exists requires judgement and depends on the class of the financial asset. In the FNB Retail and WesBank portfolios, the account status, namely, arrears versus non-arrears status, is taken as a primary indicator of an impairment event. In the FNB Commercial portfolios, other indicators such as the existence of high risk accounts, based on internally assigned risk ratings and management judgement, are used, while the wholesale (includes RMB Investment Banking and RMB Corporate Banking) portfolio assessment includes a judgemental review of individual industries for objective signs of distress.

(b) Non-performing loans

Retail loans are individually impaired if amounts are due and unpaid for three or more months, or if there is evidence before this that the customer is unlikely to repay his obligations in full. 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 12 for a detailed analysis of the impairment of advances and the carrying amounts of the specific and portfolio provisions.

41.2 Impairment of available-for-sale equity instruments

The Group determines that available-for-sale equity instruments are impaired and the impairment recognised in profit or loss, when there has been a significant or prolonged decline in the fair value below cost. The determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates factors such as, *inter alia*, the normal volatility in share prices, evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

41 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES continued

41.3 Securitisations and special purpose entities

The Group sponsors the formation of SPEs primarily for the purpose of allowing clients to hold investments, for asset securitisation transactions and for buying and selling credit protection. The Group consolidates SPEs that it controls in terms of IFRS. As it can sometimes be difficult to determine whether the Group controls an SPE, it makes judgements about its exposure to the risks and rewards, as well as about its ability to make operational decisions for the SPE. In many instances, elements are present that, considered in isolation, indicate control or lack of control over an SPE, but when considered together make it difficult to reach a clear decision. In such cases, the SPE is accounted for based on management's best estimate of the economic reality of the underlying transaction.

Refer to note 11 for more information regarding the Group's synthetic securitisations and the respective carrying amounts.

41.4 Income taxes

The Group is subject to direct tax in a number of jurisdictions. There may be transactions and calculations for which the ultimate tax determination has an element of uncertainty during the ordinary course of business. The Group recognises liabilities based on objective estimates of the amount of tax that may be due. Where the final tax determination is different from the amounts initially recorded, the difference will impact the income tax and deferred income tax provisions in the period in which such determination is made.

Refer to notes 4 and 20 for more information regarding the income tax expense and deferred income tax charges, assets and liabilities.

41.5 Impairment of goodwill

The recoverable amount of goodwill is tested annually for impairment in accordance with the stated accounting policy. The recoverable amount of the cash generating units (CGU) has been determined based on value-in-use calculations or fair value less costs to sell. The value-in-use is calculated as the net present value of the discounted cash flows of the CGU. Details of the main assumptions applied in determining the net present value of the CGU are provided in note 16.

41.6 Employee benefit liabilities

The cost of the benefits and the present value of the defined benefit pension funds and post-employment medical obligations depend on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the charge to profit or loss arising from these obligations include the expected long-term rate of return on the relevant plan assets, discount rate and expected salary and pension increase rates. Any changes in these assumptions will impact the charge to profit or loss and may affect planned funding of the pension plans.

The assumptions related to the expected return on plan assets are determined on a uniform basis, considering long-term historical returns, asset allocation and future estimations of long-term investment returns. The Group determines the appropriate discount rate at the end of each year, which represents the interest rate that should be used to determine the present value of the expected cash outflows required to settle the pension and post-employment medical obligations. In determining the appropriate discount rate, the Group considers the interest rate on high quality corporate bonds and government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. The expected salary and pension increase rates are based on inflation rates, adjusted for salary scales and country specific conditions. The inflation rate used is a rate within the government's monetary policy target for inflation and is calculated as the difference between the yields on portfolios of fixed interest government bonds and a portfolio of index linked bonds of a similar term.

Additional information is provided in note 18.

41.7 Fair value of commodities recognised in accordance with the broker trader exception in IAS 2

The Group is long on certain commodities through the outright purchase of the specific commodity. The most recent transactions between market participants in a market-related transaction does not represent a forced sale or distressed sale, and is used to calculate the fair value of the physical commodity positions.

41.8 Investment properties

Fair value is based on observable market prices adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses valuation methods such as discounted cash flow projections or recent prices on less active markets. These valuations are reviewed annually by a combination of independent and internal valuation experts.

42 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The Group will comply with the following new standards and interpretations from the stated effective date.

		Effective date
IAS 19 (revised)	**Employee Benefits** The accounting requirements relating to defined benefit post-employment plans were amended. 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 these plans. The revised standard requires that all remeasurements arising from defined benefit plans be recognised in other comprehensive income. The standard also contains revisions to the calculation of the amount included in profit or loss should in respect of the return on plan assets. It also includes enhanced disclosure requirements for defined benefits plans. Based on our assessment of the effect of the amendments on the financial statements for the year ended 30 June 2013 the changes would have resulted in an increase in employee liabilities and a decrease in reserves of an amount equal to the unrecognised actuarial gains or losses. The impact on the staff costs relating to a decrease on return on plan assets included in profit or loss is not expected to be material.	Annual periods commencing on or after 1 January 2013
IAS 27 (amended)	**Separate Financial Statements** The accounting and disclosure requirements for consolidated financial statements have been removed from IAS 27 as a result of the issue of IFRS 10 and IFRS 12, which establish new consolidation and disclosure standards. IAS 27 (as amended in 2011) contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. These amendments are only applicable to separate financial statements and, therefore, do not have an impact on the Group's consolidated results.	Annual periods commencing on or after 1 January 2013
Other amendments	Amendments issued in October 2012 provide investment entities an exemption from the consolidation of particular subsidiaries. If this exemption is applied, the amendments require an investment entity to account for its investment in a relevant subsidiary in the same way in its consolidated and separate financial statements (or to only provide separate financial statements if all subsidiaries are unconsolidated). The Group does not meet the definition of an investment entity and, as such, the exemption is not available to the Group and will have no impact on the results.	Annual periods commencing on or after 1 January 2014
IAS 28 (amended)	**Investments in Associates and Joint ventures** IAS 28 amended supersedes IAS 28 as a result of the issue of IFRS 11 and IFRS 12. The new IAS 28 prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The disclosure requirements relating to these investments are now contained in IFRS 12. The Group has always applied the equity accounting principles in IAS 28 to both investments in associates and joint ventures. The amendments are, therefore, not expected to impact the Group.	Annual periods commencing on or after 1 January 2013

42 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE continued

		Effective date
IAS 32	**Financial Instruments: Presentation** The amendments issued to IAS 32 clarifies the existing requirements related to offsetting of financial assets and financial liabilities. The application guidance to the standard has been amended to clarify the practical application of the offsetting requirements. The amendments relate to presentation and as such will not have an impact on the net asset value or results of the Group. The Group has performed a preliminary assessment of the potential impact of the amendments and the results of this indicate that the effect is unlikely to result in significant changes in presentation for the Group.	Annual periods commencing on or after 1 January 2014
IAS 36 (amended)	**Impairment of assets** IAS 36 has been amended to reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to disclosed. The amendment has also introduced an explicit requirement for an entity to disclose the discount rates that have been used in determining impairment or impairment loss, if the recoverable amount of the asset based on fair value less costs of disposal, is determined using a present value technique. The amendment addresses disclosure in the annual financial statements and not recognition and measurement. The amendment will therefore have no impact on the Group's results but may result in additional disclosure.	Annual periods commencing on or after 1 January 2014
IAS 39 (amended)	**Financial Instruments: Recognition and Measurement** IAS 39 has been amended to clarify that there is no need to discontinue hedge accounting if a derivative that has been designated as a hedging instrument is novated, provided certain criteria are met. A novation indicates an event where the original parties to a derivative agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties. In order to apply the amendments and continue hedge accounting, novation to a central counterparty must happen as a consequence of laws or regulations or the introduction of laws or regulations. The amendments are not expected to have a significant impact on the Group.	Annual periods commencing on or after 1 January 2014

42 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE continued

		Effective date
IFRS 1 (amended)	**First-time Adoption of International Financial Reporting Standards** On 13 March 2012 the IASB published an amendment to IFRS 1. The amendment, dealing with loans received from governments at a below market rate of interest, give first-time adopters of IFRS relief from full retrospective application of IFRS when accounting for these loans on transition. It provides the same relief to first-time adopters as is granted to existing preparers of IFRS financial statements when applying IAS 20. The Group is not a first-time adopter and this amended standard will, therefore, have no impact.	Annual periods commencing on or after 1 January 2013
IFRS 7	**Financial Instruments: Disclosures** The amendment requires information about all recognised financial instruments that are set off in accordance with paragraph 42 of IAS 32. Information includes the gross amounts subject to rights of set off, amounts set off in accordance with the accounting standards followed, and the related net credit exposure. This information will help investors understand the extent to which an entity has set off in its statement of financial position and the effects of set off on the entity's rights and obligations. This amendment addresses disclosure in the annual financial statements not recognition and measurement. The amendment will therefore have no impact on the Group's results but will result in significant additional disclosure for financial instruments where set off is applied or where there is a master netting arrangement in place with the counterparty.	Annual periods commencing on or after 1 January 2013
IFRS 9	**Financial Instruments** IFRS 9 is the first phase in the IASB's three-part project to replace IAS 39. 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. A decision was reached by the IASB on 7 November 2011, to change the effective date to annual reporting periods beginning on or after 1 January 2015. The requirement to restate comparatives and disclosures required on transition have also been modified. Subsequent to issuing IFRS 9, the IASB has issued exposure drafts to amend the classification and measurement guidance, expected credit losses and hedge accounting. Given the uncertainty around the final classification and measurement rules that will be applied and the date at which the entire IFRS 9 will be completed, it is impracticable for the Group to quantify the expected impact of the standard on the Group.	Annual periods beginning on or after 1 January 2015

42 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE continued

		Effective date
IFRS 10	**Consolidated Financial Statements** IFRS 10 establishes a new control model for determining which entities should be included in consolidated financial statements. 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. Consolidation principles have remained unchanged and are now incorporated as part of IFRS 10. IFRS 10 supersedes a portion of IAS 27 and SIC 12. Transitional guidance issued in June 2012 amends IFRS 10 to provide additional transition relief by limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The Group is in the process of assessing the impact that IFRS 10 would have on the financial statements. Until the process is completed, the Group is unable to determine the significance of the impact of IFRS 10.	Annual periods commencing on or after 1 January 2013
Amendments	Amendments issued in October 2012 provide investment entities an exemption from the consolidation of particular subsidiaries and instead require that an investment entity measure the investment in each eligible subsidiary at fair value through profit or loss in accordance with IFRS 9 or IAS 39. The Group does not meet the definition of an investment entity and, as such, the exemption is not available to the Group and will have no impact on the results.	Annual periods commencing on or after 1 January 2014
IFRS 11	**Joint Arrangements** The standard supersedes IAS 31 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. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. Transitional guidance issued in June 2012 amends IFRS 11 to provide additional transition relief by limiting the requirement to provide adjusted comparative information to only the preceding comparative period. Amendments to IFRS 11 also eliminate the requirement to provide comparative information for periods prior to the immediately preceding period. The Group has performed a preliminary assessment of the impact of the standard. From a measurement perspective it is the Group's accounting policy to apply equity accounting to investments in joint ventures and therefore the standard is not expected to have a material impact on the net asset value or results of the Group. From a presentation perspective preliminary investigations indicate that there will be changes in the classification of certain investments.	Annual periods commencing on or after 1 January 2013

42 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE continued

		Effective date
IFRS 12	**Disclosure of Interests in Other Entities** The standard aims to provide consistent disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off-balance sheet vehicles. IFRS 12 requires disclosure of information that will enable users to evaluate the nature of the risks associated with the interest and the effect of the interest on the financial position, performance and cash flows of the reporting entity. Transitional guidance issued in June 2012 amends IFRS 12 to provide additional transition relief by limiting the requirement to provide adjusted comparative information to only the preceding comparative period. Amendments to IFRS 12 also eliminate the requirement to provide comparative information for periods prior to the immediately preceding period. This standard addresses disclosure in the annual financial statements and will not affect recognition and measurement. There will, therefore, be no impact on the Group's results.	Annual periods commencing on or after 1 January 2013
Amendments	Amendments issued in October 2012 provide investment entities an exemption from the consolidation of particular subsidiaries. If this exemption is applied, the amendments require additional disclosure about why the entity is considered an investment entity, details of the entity's unconsolidated subsidiaries, and the nature of relationship and certain transactions between the investment entity and its subsidiaries. The Group does not meet the definition of an investment entity and as such the exemption is not available to the Group and will have no impact on the results.	Annual periods commencing on or after 1 January 2014
IFRS 13	**Fair Value Measurement** IFRS 13 was issued in order to eliminate inconsistencies in the guidance on how to measure fair value and disclosure requirements that currently exist under the different IFRS that require or permit fair value measurement. It provides a single source of guidance to prescribe how fair value should be measured. It provides a fair value hierarchy, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The standard requires entities to make various disclosures depending on the nature and level of the fair value measurement. The measurement requirements are not expected to have a significant impact on the net asset value of the Group. The standard is, however, likely to have an impact on the disclosures provided by the Group in respect of fair value measurements, particularly for non-financial assets and in the interim financial statements.	Annual periods commencing on or after 1 January 2013

42 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE continued

		Effective date
IFRIC 20	**Stripping Costs in the Production Phase of a Surface Mine** This interpretation applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine (production stripping costs). The interpretation falls outside the scope of the Group's operations and will have no impact on the Group.	Annual periods commencing on or after 1 January 2013
IFRIC 21	**Levies** This interpretation provides guidance on when to recognise a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37 and those where the timing and amount of the levy is certain. The Interpretation identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation. Guidance provided indicates that the liability is recognised progressively if the obligating event occurs over a period of time and if an obligation is triggered on reaching a minimum threshold, the liability is recognised when that minimum threshold is reached. The Interpretation falls outside the scope of the Group's operations and will have no impact on the Group.	Annual periods beginning on or after 1 January 2014
Annual Improvements	**Improvements to IFRS** The IASB issued Annual Improvements 2009-2011 Cycle in May 2012, as its latest set of annual improvements to various accounting standards. The annual improvement project's aim is to clarify and improve accounting standards. The improvements include terminology or editorial changes with minimal effect on recognition and measurement. The amendments have been assessed and are not expected to have a significant impact on the Group.	Annual periods commencing on or after 1 January 2013

43 TRANSACTIONS INVOLVING THE LEGAL FORM OF A LEASE

The Group entered into an arrangement with the counterparty for the refurbishment of moveable assets, which are for the exclusive use of the counterparty. The duration of the arrangement is for 14 years and will conclude in May 2016. The transactions are a series of back-to-back leases, which, although the transactions are structured as leases, are in substance a financing arrangement. The arrangement also provides for a final balloon payment, which will be serviced through sinking fund deposits ceded to the Group, into which the counterparty is making payments and earning interest.

Fees received are recognised annually in non-interest income. During the current year the interest paid on the sinking fund deposits exceeded the interest earned on the leases, resulting in a net interest expense reflected in the income statement of R2 million (2012: R20 million).

44 SUBSEQUENT EVENTS

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

45 RISK DISCLOSURE

The risk disclosure has been disclosed as part of the *Risk and capital management report*. Refer to page 129 to 229.

FirstRand company annual financial statements

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June

R million	Notes	2013	2012
Interest and similar income	2	**19**	67
Interest expense and similar charges	2	*****	*
Net interest income		**19**	67
Non-interest income	3	**7 138**	10 020
Income from operations		**7 157**	10 087
Operating expenses	4	**(99)**	(80)
Income before tax		**7 058**	10 007
Indirect tax	5.1	**(1)**	(2)
Profit before tax		**7 057**	10 005
Income tax expense	5.2	**(19)**	(19)
Profit for the year		**7 038**	9 986
Other comprehensive income		**–**	–
Total comprehensive income for the year		**7 038**	9 986
Attributable to:			
Ordinary equityholders of the company		**6 744**	9 711
NCNR preference shareholders		**294**	275
Total comprehensive income for the year		**7 038**	9 986

* *Less than R500 000.*

STATEMENT OF FINANCIAL POSITION

as at 30 June

R million	Notes	2013	2012
ASSETS			
Cash and cash equivalents	7	**50**	45
Accounts receivable	8	**5**	5
Investment in subsidiaries	9	**56 783**	55 992
Investment securities and other investments	10	**–**	400
Total assets		**56 838**	56 442
EQUITY AND LIABILITIES			
Liabilities			
Creditors and accruals	11	**52**	51
Provisions	12	**8**	8
Current tax liability		**14**	–
Employee liabilities	13	**61**	45
Total liabilities		**135**	104
Equity			
Ordinary shares	15	**56**	56
Share premium	15	**7 082**	7 082
Reserves		**45 046**	44 681
Capital and reserves attributable to ordinary equityholders		**52 184**	51 819
NCNR preference shares	15	**4 519**	4 519
Total equity		**56 703**	56 338
Total equity and liabilities		**56 838**	56 442

STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June

	Ordinary share capital and ordinary equityholders' funds			
R million	Share capital	Share premium	**Share capital and share premium**	
Balance as at 1 July 2011	56	7 082	**7 138**	
Total comprehensive income for the year	–	–	**–**	
Ordinary dividends	–	–	**–**	
Preference dividends	–	–	**–**	
Movement in other reserves	–	–	**–**	
Balance as at 30 June 2012	56	7 082	**7 138**	
Total comprehensive income for the year	–	–	**–**	
Ordinary dividends	–	–	**–**	
Preference dividends	–	–	**–**	
Movement in other reserves	–	–	**–**	
Balance as at 30 June 2013	56	7 082	**7 138**	

Ordinary share capital and ordinary equityholders' funds					
Share-based payment reserve	Capital redemption reserve	Retained earnings	**Reserves attributable to ordinary equityholders**	**NCNR preference shareholders**	**Total equity**
2 030	1	41 946	**43 977**	**4 519**	**55 634**
–	–	9 711	**9 711**	**275**	**9 986**
–	–	(9 021)	**(9 021)**	**–**	**(9 021)**
–	–	–	**–**	**(275)**	**(275)**
14	–	–	**14**	**–**	**14**
2 044	1	42 636	**44 681**	**4 519**	**56 338**
–	–	6 744	**6 744**	**294**	**7 038**
–	–	(6 371)	**(6 371)**	**–**	**(6 371)**
–	–	–	**–**	**(294)**	**(294)**
10	–	(18)	**(8)**	**–**	**(8)**
2 054	1	42 991	**45 046**	**4 519**	**56 703**

STATEMENT OF CASH FLOWS

for the year ended 30 June

R million	Notes	2013	2012
Cash flows from operating activities			
Cash generated by operations	16.1	**7 100**	9 961
Working capital changes	16.2	**(11)**	(13)
Net cash flows from operating activities		**7 089**	9 948
Interest received		**19**	67
Interest paid		*****	*
Cash paid to employees		**(45)**	–
Income tax paid	16.3	**(6)**	(29)
Dividends paid	16.4	**(6 665)**	(9 296)
Net cash generated from operating activities		**392**	690
Cash flow from investing activities			
Increase in investment in subsidiaries		**(259)**	(3 850)
Proceeds on disposal of investment securities and other investments		**387**	–
(Increase)/decrease in loans to subsidiaries		**(515)**	3 136
Net cash outflow from investing activities		**(387)**	(714)
Net increase in cash and cash equivalents		**5**	(24)
Cash and cash equivalents at the beginning of the year		**45**	69
Cash and cash equivalents at the end of the year		**50**	45

* *Less than R500 000.*

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The annual financial statements of FirstRand Limited (FirstRand) are prepared according to the same accounting policies used in preparing the consolidated financial statements of the Group other than accounting policy 3 which deals with consolidated financial statements. For detailed accounting policies refer to pages 230 to 250.

2 INTEREST INCOME AND EXPENSE

	2013		
R million	**Amortised cost**	**Non-financial assets and liabilities**	**Total**
Interest and similar income			
Cash and cash equivalents	**17**	**–**	**17**
Interest on accounts receivable	**–**	**2**	**2**
Interest and similar income	**17**	**2**	**19**
Interest expense and similar charges			
Borrowed funds	**–**	*****	*****
Interest expense and similar charges	**–**	*****	*****

	2012		
R million	Amortised cost	Non-financial assets and liabilities	Total
Interest and similar income			
Cash and cash equivalents	67	–	67
A preference share dividends received	*	–	*
Interest and similar income	67	–	67
Interest expense and similar charges			
Borrowed funds	*	–	*
Interest expense and similar charges	*	–	*

* *Less than R500 000.*

3 NON-INTEREST INCOME

R million	2013	2012
Fees from subsidiaries**	**194**	24
Other fees	**1**	*
Total fees and commission income	**195**	24
Gains less losses from investment activities		
Dividends received from subsidiaries – unlisted shares		
Ordinary dividends	**6 728**	9 782
Preference dividends	**228**	214
Dividends received from listed shares	*****	*
Fair value income on listed shares	*****	*
Other non-interest income		
Loss on investments of a capital nature excluding disposals of subsidiaries, associates or joint ventures	**(13)**	–
Total gains less losses from investment activities	**6 943**	9 996
Total non-interest income	**7 138**	10 020

* *Less than R500 000.*

** *Non-interest income relates to non-financial instruments.*

4 OPERATING EXPENSES

R million	2013	2012
Advertising and marketing	**–**	(2)
Annual reports	**–**	(4)
Audit fees (note 12)	**–**	(4)
Directors remuneration*	**(23)**	(18)
Direct staff costs		
– Salaries, wages and allowances	**(28)**	(27)
– Contributions to employee benefit funds	**(2)**	(2)
– Share-based payment expense (note 13)	**(34)**	(9)
– Social security levies	**(1)**	–
Travel	**(2)**	(3)
Investor relations	**–**	(5)
Rental charges		
– Property	**(1)**	(1)
– Furniture and equipment	**(1)**	(1)
Professional fees	**(1)**	–
Registrar fees	**(2)**	(1)
Stock exchange fees	**(1)**	(1)
Corporate memberships	**(1)**	(1)
Other	**(2)**	(1)
Total operating expenses	**(99)**	(80)

* *Disclosed as part of corporate governance on pages 91 to 96.*

5 INDIRECT TAX AND INCOME TAX EXPENSE

R million	2013	2012
5.1 Indirect tax		
Value added tax	**(1)**	(2)
Total indirect tax	**(1)**	(2)
5.2 Income tax expense		
South African normal taxation		
Normal tax – current year	**(19)**	(19)
Total income tax expense	**(19)**	(19)

Tax rate reconciliation – South African normal tax

%	2013	2012
Standard rate of income tax	**28**	28
Total tax has been affected by:		
Dividends received	**(28)**	(28)
Effective rate of tax*	**–**	–

* *Less than 0.5%.*

6 ANALYSIS OF ASSETS AND LIABILITIES BY CATEGORY

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost. The principal accounting policies on pages 230 to 250 describe how the classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised.

The following table analyses the financial assets and liabilities in the statement of financial position per category of financial instrument to which they are assigned and therefore by measurement basis and according to when the assets are expected to be realised and the liabilities settled:

R million	Notes	**2013** Loans and receivables	**2013** Financial liabilities at amortised cost	**2013** Available-for-sale financial assets	
ASSETS					
Cash and cash equivalents	7	**50**	**–**	**–**	
Accounts receivable	8	**5**	**–**	**–**	
Investment in subsidiaries	9	**–**	**–**	**–**	
Investment securities and other investments	10	**–**	**–**	**–**	
Total assets		**55**	**–**	**–**	
LIABILITIES					
Creditors and accruals	11	**–**	**52**	**–**	
Provisions	12	**–**	**–**	**–**	
Current tax liability		**–**	**–**		
Employee liabilities	13	**–**	**–**	**–**	
Total liabilities		**–**	**52**	**–**	

R million	Notes	2012 Loans and receivables	2012 Financial liabilities at amortised cost	2012 Available-for-sale financial assets	
ASSETS					
Cash and cash equivalents	7	45	–	–	
Accounts receivable	8	5	–	–	
Investment in subsidiaries	9	–	–	–	
Investment securities and other investments	10	–	–	400	
Total assets		50	–	400	
LIABILITIES					
Creditors and accruals	11	–	51	–	
Provisions	12	–	–	–	
Current tax liability		–	–	–	
Employee liabilities	13	–	–	–	
Total liabilities		–	51	–	

	2013			
	Non-financial instruments	**Total carrying value**	**Current**	**Non-current**
	–	**50**	**50**	**–**
	–	**5**	**5**	**–**
	56 783	**56 783**	**1 621**	**55 162**
	–	**–**	**–**	**–**
	56 783	**56 838**	**1 676**	**55 162**
	–	**52**	**52**	**–**
	8	**8**	**8**	**–**
	14	**14**	**–**	**14**
	61	**61**	**53**	**8**
	83	**135**	**113**	**22**

	2012			
	Non-financial instruments	Total carrying value	Current	Non-current
	–	45	45	–
	–	5	5	–
	55 992	55 992	1 102	54 890
	–	400	400	–
	55 992	56 442	1 552	54 890
	–	51	51	–
	8	8	8	–
	–	–	–	–
	45	45	16	29
	53	104	75	29

7 CASH AND CASH EQUIVALENTS

R million	2013	2012
Money at call and short notice	**50**	45
Cash and cash equivalents	**50**	45

The carrying value for cash and cash equivalents approximates the fair value. Money at short notice constitutes amounts withdrawable in 32 days or less.

8 ACCOUNTS RECEIVABLE

R million	2013	2012
Other accounts receivable	**5**	5
Total accounts receivable	**5**	5

At the reporting date all accounts receivables are considered to be neither past due nor impaired.

The carrying value of accounts receivable approximates the fair value.

Refer to note 36 in the Group annual integrated report for the valuation techniques of accounts receivable.

Refer to note 36 in the Group annual integrated report for the level bucketing of accounts receivable.

9 INVESTMENT IN SUBSIDIARIES

	Effective percentage holding		Investment of holding company: Amounts owing by/(to) subsidiaries		Investment of holding company: Shares at carrying amount	
	2013 %	2012 %	**2013 R million**	2012 R million	**2013 R million**	2012 R million
FirstRand EMA Holdings Limited (FREMA)						
Ordinary shares	**100**	100	**–**	–	**5 538**	5 538
Non-redeemable preference shares	**100**	100	**–**	–	**3 000**	3 000
FirstRand Bank Limited						
Ordinary shares	**100**	100	**727**	212	**38 694**	38 694
FirstRand Investment Holdings Proprietary Limited						
Ordinary shares	**100**	100	**854**	854	**7 338**	7 338
Ashburton Investments Holdings Limited	**100**	–	**–**	–	**259**	–
Total			**1 581**	1 066	**54 829**	54 570
Investment through equity-settled share incentive scheme	**100**	100			**373**	356
Total interest in subsidiaries					**56 783**	55 992

R million	**2013**	2012
Carrying amount at the beginning of the year	**54 570**	50 720
Movement for the year:		
Increase in investment in FirstRand Bank Limited	**–**	3 850
Ashburton Investments Holdings Limited	**259**	–
Carrying amount at the end of the year	**54 829**	54 570

FirstRand Limited has interests in the following share trusts:
Southern Life Association Limited share scheme
First National Bank share purchase/option scheme
FirstRand Limited share trust
FirstRand staff assistance trust
FirstRand black employee trust
FirstRand black non-executive directors trust
FirstRand Empowerment Foundation
FirstRand Empowerment Trust

The carrying amount of these investments is R nil.

10 INVESTMENT SECURITIES AND OTHER INVESTMENTS

R million	2013 Available-for-sale	2013 Total	2012 Available-for-sale	2012 Total
Total				
Equities	–	–	400	400
Total investment securities and other investments	–	–	400	400
Unlisted				
Equities	–	–	400	400
Total unlisted	–	–	400	400

Refer to note 36 in the Group annual integrated report for valuation techniques for investment securities and other investments.

The Momentum preference shares, classified as available-for-sale in the prior year, were level 2 observable. Refer to note 36 in the Group annual integrated report.

Analysis of investment securities and other investments

R million	2013	2012
Unlisted		
Equities	–	400
Total unlisted	–	400

Information regarding other investments is kept at the Group's registered offices. This information is open for inspection in terms of the provisions of Section 26 of the Companies Act 71 of 2008.

11 CREDITORS AND ACCRUALS

R million	**2013**	2012
Unclaimed dividends	**41**	37
Accounts payable and accrued liabilities	**11**	14
Total creditors and accruals	**52**	51

The carrying value of creditors and accruals approximates their fair value at year end.

12 PROVISIONS

R million	**2013**	2012
Audit fees		
Opening balance	**8**	7
Additional provisions created	**8**	4
Utilised during the year	**(8)**	(3)
Total audit fees	**8**	8
Total provisions	**8**	8

13 EMPLOYEE LIABILITIES

Staff-related provisions

The staff-related provision consists mainly of the provision for leave pay, staff bonuses and the liability relating to the MMI shares that 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 29 of the Group annual integrated report.

R million	**2013**	2012
Opening balance	**17**	20
Additional provisions created	**14**	11
Utilised during the year	**(12)**	(14)
Total staff-related provisions	**19**	17
Share-based payment liability		
For a detailed description of share option schemes and trusts in which FirstRand Limited participates refer to note 29 in the Group annual integrated report.		
Opening balance	**28**	11
Income statement charge	**14**	17
Total share-based payment liability	**42**	28
Total employee liabilities	**61**	45
The income statement charge for share-based payments is as follows:		
FirstRand black non-executive directors trust	**3**	1
FirstRand share appreciation rights scheme	**14**	16
Conditional share plan	**17**	(8)
Total share-based payment expense	**34**	9

14 DIVIDENDS

R million	2013	2012
Ordinary dividends		
An interim dividend of 55.00 cents (7 March 2012: 44.00 cents) per share was declared on 5 March 2013 in respect of the six months ended 31 December 2012.	**3 101**	2 481
A final dividend of 58.00 cents (12 September 2011: 46.00 cents) per share was declared on 10 September 2012 in respect of the six months ended 30 June 2012.	**3 270**	2 593
A special dividend of 70 cents per share was declared on 12 September 2011 due to the sale of non-core assets.	**–**	3 947
Total ordinary dividends paid for the year	**6 371**	9 021
B preference shares		
An interim dividend of 320.25 cents (27 February 2012: 305.16 cents) per share was declared on 25 February 2013 in respect of the six months ended 31 December 2012.	**144**	137
A final dividend of 333.08 cents (4 August 2011: 305.16 cents) per share was declared on 27 August 2012 in respect of the six months ended 30 June 2012.	**150**	138
Total preference dividends paid for the year	**294**	275
A final ordinary dividend per share was declared on 9 September 2013 (10 September 2012)	**81.0**	58.0

15 SHARE CAPITAL AND SHARE PREMIUM

	2013		
	Number of ordinary shares	Number of A preference shares#	
Authorised			
Number of shares	**6 001 688 450**	**198 311 550**	
Issued – fully paid up**			
Ordinary shares			
Opening balance	**5 637 941 689**	**–**	
Closing balance	**5 637 941 689**	**–**	
B preference shares			
Opening balance	**–**	**–**	
Closing balance	**–**	**–**	
Total issued share capital and share premium – closing balance	**5 637 941 689**	**–**	
Analysis of total issued share capital closing balance			
Ordinary issued share capital at end of year as above of 1 cent each	**5 637 941 689**	**–**	
B variable rate NCNR preference shares of 1 cent each	**–**	**–**	
Total issued share capital – closing balance	**5 637 941 689**	**–**	
Disclosed on the face of the statement of financial position			
Ordinary share capital			
Ordinary share premium			
NCNR preference shares			
Total			

* *Less than R500 000.*

** *All issued share capital is fully paid up.*

The A variable rate cumulative convertible redeemable preference shares are not listed.

† *The B preference shares are variable rate NCNR preference shares and are listed on the JSE. Dividends on B preference shares are calculated at a rate of 75.5% of the FNB prime lending rate effective 23 May 2012.*

‡ *The C preference shares are variable rate convertible non-cumulative redeemable preference shares.*

	2013				
	Number of B preference shares†	Number of C preference shares‡	Ordinary share capital R million	Share premium R million	Total R million
	100 000 000	100 000 000	–	–	–
	–	–	56	7 082	7 138
	–	–	56	7 082	7 138
	45 000 000	–	*	4 519	4 519
	45 000 000	–	*	4 519	4 519
	45 000 000	–	56	11 601	11 657
	–	–	56	7 082	7 138
	45 000 000	–	*	4 519	4 519
	45 000 000	–	56	11 601	11 657
					56
					7 082
					4 519
					11 657

15 SHARE CAPITAL AND SHARE PREMIUM continued

	2012		
	Number of ordinary shares	Number of A preference shares#	
Authorised			
Number of shares	6 001 688 450	198 311 550	
Issued – fully paid up**			
Ordinary shares			
Opening balance	5 637 941 689	–	
Closing balance	5 637 941 689	–	
B preference shares			
Opening balance	–	–	
Closing balance	–	–	
Total issued share capital and share premium – closing balance	5 637 941 689		
Analysis of total issued share capital closing balance			
Ordinary issued share capital at end of year as above of 1 cent each	5 637 941 689	–	
B variable rate NCNR preference shares of 1 cent each	–	–	
Total issued share capital – closing balance	5 637 941 689	–	
Disclosed on the face of the statement of financial position			
Ordinary share capital			
Ordinary share premium			
NCNR preference shares			
Total			

* *Less than R500 000.*

** *All issued share capital is fully paid up.*

\# *The A variable rate cumulative convertible redeemable preference shares are not listed.*

† *The B preference shares are variable rate NCNR preference shares and are listed on the JSE. Dividends on B preference shares are calculated at a rate of 75.5% of the FNB prime lending rate effective 23 May 2012.*

‡ *The C preference shares are variable rate convertible non-cumulative redeemable preference shares.*

R million	**2013**	2012
Redeemable preference shares		
Authorised		
5 billion redeemable preference shares with a par value of R0.0001 per share	**1**	1
100 million cumulative redeemable preference shares with a par value of R0.01 per share	**1**	1

2012				
Number of B preference shares†	Number of C preference shares‡	Ordinary share capital R million	Share premium R million	Total R million
100 000 000	100 000 000	–	–	–
–	–	56	7 082	7 138
–	–	56	7 082	7 138
45 000 000	–	*	4 519	4 519
45 000 000	–	*	4 519	4 519
45 000 000		56	11 601	11 657
–	–	56	7 082	7 138
45 000 000	–	*	4 519	4 519
45 000 000	–	56	11 601	11 657
				56
				7 082
				4 519
				11 657

16 CASH FLOW INFORMATION

R million	2013	2012
16.1 Cash generated by operations		
Income before tax	**7 058**	10 007
Adjustment for non-cash items	**48**	21
Loss on disposal of investment securities and other investments	**13**	–
Interest received	**(19)**	(67)
Interest paid	*****	*
Cash generated by operations	**7 100**	9 961
16.2 Working capital changes		
Increase in accounts receivable	**–**	(5)
Decrease in employee liabilities	**(12)**	(14)
Increase in creditors and accruals	**1**	6
Net working capital changes	**(11)**	(13)
16.3 Taxation paid		
Tax payable at beginning of the year	**–**	(8)
Charge to income statement	**(19)**	(19)
Indirect tax paid	**(1)**	(2)
Tax payable at the end of the year	**14**	–
Taxation paid	**(6)**	(29)
16.4 Dividends paid		
Ordinary dividends		
Final dividend paid	**(3 270)**	(2 481)
Interim dividend paid	**(3 101)**	(6 540)
Ordinary dividends paid	**(6 371)**	(9 021)
Preference dividends on B preference shares		
Final dividends paid	**(150)**	(138)
Interim dividends paid	**(144)**	(137)
Preference dividends paid	**(294)**	(275)
Total dividends paid	**(6 665)**	(9 296)

* *Less than R500 000.*

17 RELATED PARTIES

FirstRand Limited defines related parties as:

(i) The parent company;
(ii) Subsidiaries;
(iii) Associate companies;
(iv) Joint ventures;
(v) Associates and joint ventures of the subsidiaries;
(vi) Groups that have significant influence over FirstRand Limited. If an investor has significant influence over the parent, it is a related party not only over the parent but also the subsidiaries. If an investor that has significant influence over the parent has subsidiaries, those subsidiaries are also related to FirstRand Limited;
(vii) Post-employment benefit funds (pension funds);
(viii) Key management personnel, being the FirstRand Limited board of directors;
(ix) Close family members of key management personnel (individual's spouse/domestic partner and children; domestic partner's children and dependants of individual or domestic partner); and
(x) Entities controlled, jointly controlled or significantly influenced by an individual referred to in (viii) and (ix).

The principal shareholder of FirstRand Limited is RMB Holdings Limited, incorporated in South Africa.

During the current year FirstRand Limited did not directly enter into a transaction with its principal shareholder.

17.1 Subsidiaries

Details of interests in subsidiaries are disclosed in note 9.

Refer below for details on transactions with subsidiaries.

17.2 Details of transactions with relevant related parties appear below

	2013	
R million	**Entities that have significant influence over FirstRand Limited and their subsidiaries**	**Subsidiaries**
Interest received	**–**	**17**
Non-interest income	**–**	**193**
Dividends received	**–**	**6 924**
Dividends paid	**2 159**	**–**

	2012	
R million	Entities that have significant influence over FirstRand Limited and their subsidiaries	Subsidiaries
Interest received	–	67
Non-interest income	–	23
Dividends received	–	9 965
Dividends paid	3 060	–

18 CONTINGENT LIABILITIES

FirstRand Limited provides put options to holders of certain debt instruments issued by its subsidiaries. The term of the put options determines that, in the instance where the subsidiaries default on the terms of debt instrument agreements, the capital amount of the debt and any accrued dividend will be repaid by FirstRand Limited. At 30 June 2013 and 30 June 2012 no instance of default by a subsidiary had occurred.

19 EVENTS AFTER THE REPORTING PERIOD

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

Definitions and abbreviations

DEFINITIONS

Additional Tier 1 (AT1) capital	NCNR preference share capital plus qualifying capital instruments issued out of fully consolidated subsidiaries to third parties less specified regulatory deductions.
CAGR	Compound annual growth rate.
Capital adequacy ratio (CAR)	Total qualifying capital and reserves divided by RWA.
Common Equity Tier 1 (CET1) capital	Share capital and premium plus accumulated comprehensive income and reserves plus qualifying capital instruments issued out of fully consolidated subsidiaries to third parties less specified regulatory deductions.
Cost-to-income ratio	Operating expenses excluding indirect taxes expressed as a percentage of total income including share of profits from associates and joint ventures.
Credit loss ratio	Total impairment charge per the income statement expressed as a percentage of average advances (average between the opening and closing balance for the year).
Diversity ratio	Non-interest revenue expressed as a percentage of total income including share of profits from associates and joint ventures.
Dividend cover	Normalised earnings per share divided by dividend per share.
Effective tax rate	Tax per the income statement divided by the profit before tax per the income statement.
Exposure at default (EAD)	Gross exposure of a facility upon default of a counterparty.
Loan-to-deposit ratio	Average advances expressed as a percentage of average deposits.
Loss given default (LGD)	Economic loss that will be suffered on an exposure following default of the counterparty, expressed as a percentage of the amount outstanding at the time of default.
Net income after capital charge (NIACC)	Normalised earnings less the cost of equity multiplied by the average ordinary shareholders' equity and reserves.
Normalised earnings	The Group believes normalised earnings more accurately reflect its economic performance. Headline earnings are adjusted to take into account non-operational and accounting anomalies. Refer to pages 50 and 51 for a detailed description of the difference between normalised and IFRS results.
Normalised earnings per share	Normalised earnings attributable to ordinary equityholders divided by the weighted average number of shares including treasury shares.
Normalised net asset value	Normalised equity attributable to ordinary equityholders.
Normalised net asset value per share	Normalised equity attributable to ordinary equityholders divided by the number of issued ordinary shares.
Price earnings ratio (times)	Closing price on 30 June divided by basic normalised earnings per share.
Price-to-book (times)	Closing share price on 30 June divided by normalised net asset value per share.
Probability of default (PD)	Probability that a counterparty will default within the next year (considering the ability and willingness of the counterparty to repay).
Return on assets (ROA)	Normalised earnings divided by average assets.
Return on equity (ROE)	Normalised earnings divided by average normalised ordinary shareholders' equity.

Risk weighted assets (RWA)	Prescribed risk weightings relative to the credit risk of counterparties, operational risk, market risk, equity investment risk and other risk multiplied by on- and off-balance sheet assets.
Shares in issue	Number of ordinary shares listed on the JSE.
Tier 1 ratio	Tier 1 capital divided by RWA.
Tier 1 capital	Common Equity Tier 1 capital plus Additional Tier 1 capital.
Tier 2 capital	Qualifying subordinated debt instruments plus qualifying capital instruments issued out of fully consolidated subsidiaries to third parties plus general provisions for entities on the standardised approach less specified regulatory deductions.
Total qualifying capital and reserves	Tier 1 capital plus Tier 2 capital.
Weighted average number of ordinary shares	Weighted average number of ordinary shares in issue during the year as listed on the JSE.

ABBREVIATIONS

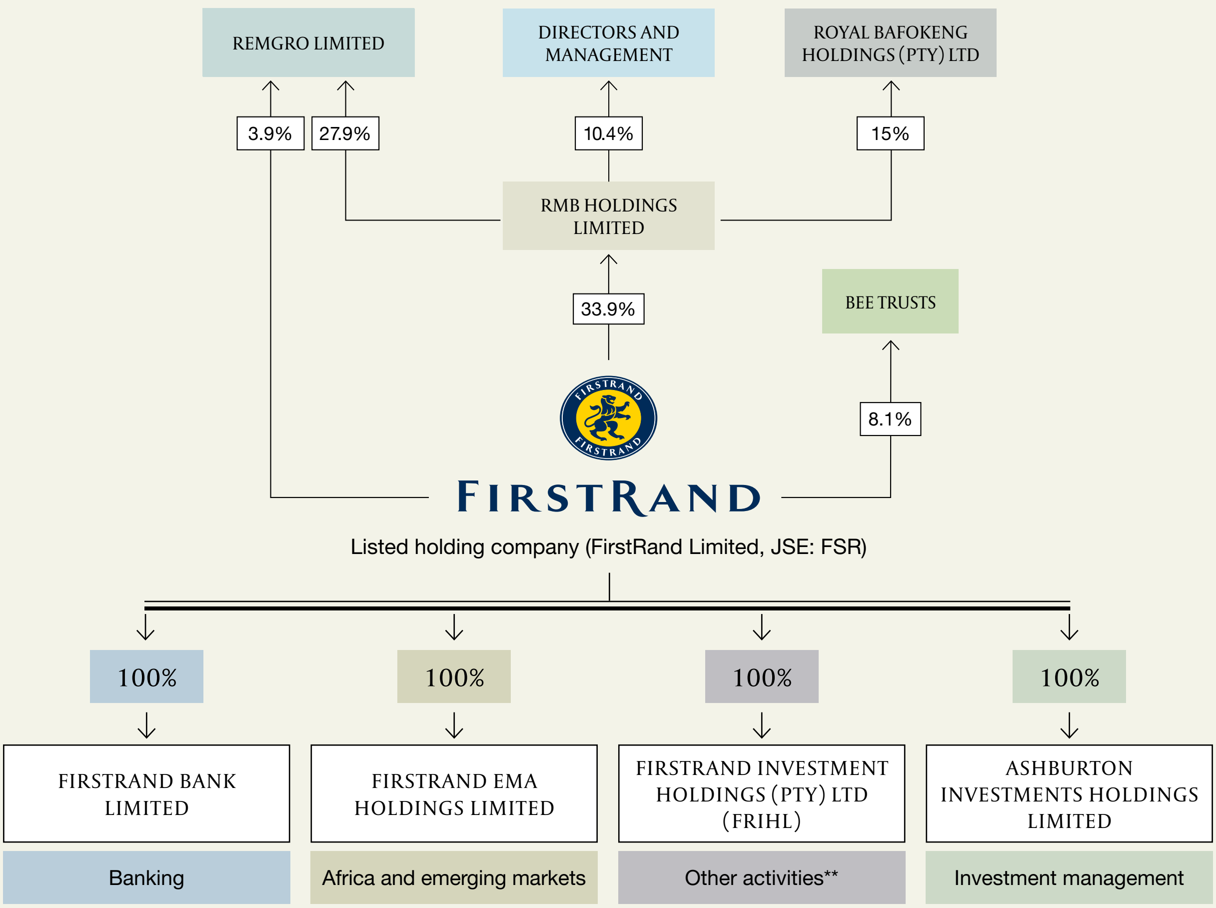
AIRB	Advanced internal ratings based approach
AMA	Advanced measurement approach
AVC	Asset value correlation
BIA	Basic indicator approach
BPRMF	Business performance and risk management framework
CVA	Credit value adjustment
ICR	Individual capital requirement
LCR	Liquidity coverage ratio
NOFP	Net open forward position in foreign exchange
NSFR	Net stable funding ratio
TSA	The standardised approach
VaR	Value-at-Risk

Shareholders' information

CONTENTS

FIRSTRAND GROUP

SIMPLIFIED GROUP STRUCTURE



Banking

100%	First National Bank[1]
100%	Rand Merchant Bank[1]
100%	WesBank[1]
100%	FirstRand Bank India[2]
100%	FirstRand Bank London[2,#]
100%	FirstRand Bank Kenya[3]
100%	FirstRand Bank Angola[3]
100%	FirstRand Bank Dubai[3]
100%	FirstRand Bank Shanghai[3]

Africa and emerging markets

59%	FNB Namibia
70%	FNB Botswana
100%	FNB Swaziland
90%	FNB Mozambique
100%	FNB Zambia
100%	FNB Lesotho
100%	FNB Tanzania
100%	RMB Nigeria
100%	FirstRand International – Mauritius

Other activities**

96%	RMB Private Equity Holdings
93%	RMB Private Equity
100%	RMB Securities
50%	RMB Morgan Stanley
100%	Rentworks
65%	Direct Axis
100%	FirstRand International – Guernsey (includes RMB Australia Holdings)

Investment management

100%	Ashburton Fund Managers (Pty) Ltd
100%	Ashburton Investor Services (Pty) Ltd
100%	Ashburton Management Company (Pty) Ltd
100%	FNB International Wealth Management Holdings Ltd
100%	RMB CIS Management Company (Pty) Ltd

Structure shows effective consolidated shareholding.

1. Division
2. Branch
3. Representative office

MotoNovo Finance is a business segment of FirstRand Bank Limited (London Branch).

** For segmental analysis purposes, entities included in FRIHL are reported as part of results of the managing franchise.
The Group's securitisations and conduits are in FRIHL.

ANALYSIS OF ORDINARY SHAREHOLDERS

as at 30 June 2013

	Number of shareholders	Shares held (thousands)	%
Shareholders holding more than 5%			
RMB Holdings Limited		**1 910 433**	**33.9**
Public Investment Commissioner		**501 702**	**8.9**
FirstRand empowerment trust and related parties		**457 355**	**8.1**
Financial Securities Limited (Remgro)		**219 805**	**3.9**
Subtotal		**3 089 295**	**54.8**
Other		**2 548 647**	**45.2**
Total		**5 637 942**	**100.0**
Shareholder type			
Corporates (RMB Holdings and Remgro)		**2 130 239**	**37.8**
Pension funds		**916 113**	**16.3**
Insurance companies and banks		**258 556**	**4.6**
Unit trusts		**920 365**	**16.3**
Individuals		**40 581**	**0.7**
Empowerment trusts		**285 954**	**5.1**
Employee share trusts		**171 401**	**3.0**
Other		**914 733**	**16.2**
Total		**5 637 942**	**100.0**
Public and non-public shareholders			
Public	**43 351**	**3 020 973**	**53.6**
Non-public			
– corporates (RMB Holdings and Remgro)	**2**	**2 130 239**	**37.8**
– directors and prescribed officers	**11**	**29 375**	**0.5**
– empowerment trusts	**1**	**285 954**	**5.1**
– employee share trusts	**3**	**171 401**	**3.0**
Total	**43 368**	**5 637 942**	**100.0**
Geographic ownership			
South Africa		**4 175 053**	**74.0**
International		**1 087 393**	**19.3**
Unknown/unanalysed		**375 496**	**6.7**
Total		**5 637 942**	**100.0**

ANALYSIS OF B PREFERENCE SHAREHOLDERS

as at 30 June 2013

	Number of shareholders	Share held (thousands)	%
Public and non-public shareholders			
Public	**7 180**	**44 418**	**98.7**
Non-public			
– directors	**2**	**582**	**1.3**
Total	**7 182**	**45 000**	**100.0**

PERFORMANCE ON THE JSE

as at 30 June

	2013	2012
Number of shares in issue (thousands)	**5 637 942**	5 637 942
Market price (cents per share)		
Closing	**2 893**	2 639
High	**3 359**	2 819
Low	**2 515**	2 074
Weighted average	**2 957**	2 203
Closing price/net asset value per share	**2.18**	2.30
Closing price/earnings (headline)	**10.46**	11.40
Volume of shares traded (millions)	**3 398**	1 723
Value of shares traded (R million)	**99 406**	42 242
Market capitalisation (R billion)	**163.11**	148.79

COMPANY INFORMATION

DIRECTORS

LL Dippenaar (Chairman), SE Nxasana (Chief executive officer), VW Bartlett, JJH Bester, MS Bomela, JP Burger (Financial director and chief operating officer), P Cooper (alternate), L Crouse, JJ Durand, GG Gelink, PM Goss, NN Gwagwa, PK Harris, WR Jardine, EG Matenge-Sebesho, AT Nzimande, D Premnarayen (India), KB Schoeman, BJ van der Ross, JH van Greuning

SECRETARY AND REGISTERED OFFICE

BW Unser
4 Merchant Place, Corner Fredman Drive and Rivonia Road
Sandton 2196
PO Box 650149, Benmore 2010
Tel: +27 11 282 1808
Fax: +27 11 282 8088
Website: www.firstrand.co.za

JSE SPONSOR

Rand Merchant Bank (a division of FirstRand Bank Limited)
Corporate Finance
1 Merchant Place, Corner Fredman Drive and Rivonia Road
Sandton 2196
Tel: +27 11 282 8000
Fax: +27 11 282 4184

JSE INDEPENDENT SPONSOR

PricewaterhouseCoopers Corporate Finance (Pty) Ltd
2 Eglin Road
Sunninghill
Sandton 2196

NAMIBIAN SPONSOR

Simonis Storm Securities (Pty) Ltd
4 Koch Street
Klein Windhoek
Namibia

TRANSFER SECRETARIES – SOUTH AFRICA

Computershare Investor Services (Pty) Ltd
70 Marshall Street
Johannesburg 2001
PO Box 61051, Marshalltown 2107
Tel: +27 11 370 5000
Fax: +27 11 688 5248

TRANSFER SECRETARIES – NAMIBIA

Transfer Secretaries (Pty) Ltd
4 Robert Mugabe Avenue, Windhoek
PO Box 2401, Windhoek, Namibia
Tel: +264 612 27647
Fax: +264 612 48531

LISTED FINANCIAL INSTRUMENTS OF THE GROUP AND ITS SUBSIDIARIES

LISTED EQUITY INSTRUMENTS

JSE Limited (JSE)

Ordinary shares

Issuer	Share code	ISIN code
FirstRand Limited	FSR	ZAE000066304

Non-cumulative non-redeemable B preference shares

Issuer	Share code	ISIN code
FirstRand Limited	FSRP	ZAE000060141

Namibian Stock Exchange (NSX)

Ordinary shares

Issuer	Share code	ISIN code
FirstRand Limited	FST	ZAE000066304
FNB Namibia Holdings Limited	FNB	NA0003475176

Botswana Stock Exchange (BSE)

Ordinary shares

Issuer	Share code	ISIN code
First National Bank of Botswana Limited	FNBB	BW0000000066

LISTED DEBT INSTRUMENTS

JSE

	Issuer	Bond code	ISIN code
Subordinated debt	FirstRand Bank Limited	FRB03	ZAG000026774
	FirstRand Bank Limited	FRB05	ZAG000031337
	FirstRand Bank Limited	FRB08	ZAG000047796
	FirstRand Bank Limited	FRB09	ZAG000047804
	FirstRand Bank Limited	FRB10	ZAG000092487
	FirstRand Bank Limited	FRB11	ZAG000102054
Upper Tier 2	FirstRand Bank Limited	FRBC21	ZAG000052283
	FirstRand Bank Limited	FRBC22	ZAG000052390
Senior unsecured	FirstRand Bank Limited	FRBI07	ZAG000055849
	FirstRand Bank Limited	FRBN04	ZAG000041005
	FirstRand Bank Limited	FRBN05	ZAG000042169
	FirstRand Bank Limited	FRBZ01	ZAG000049255
	FirstRand Bank Limited	FRBZ02	ZAG000072711
	FirstRand Bank Limited	FRBZ03	ZAG000080029
	FirstRand Bank Limited	FRJ13	ZAG000079823
	FirstRand Bank Limited	FRJ14	ZAG000069683
	FirstRand Bank Limited	FRJ15	ZAG000094368
	FirstRand Bank Limited	FRJ16	ZAG000073826
	FirstRand Bank Limited	FRJ17	ZAG000094343

	Issuer	Bond code	ISIN code
Senior unsecured	FirstRand Bank Limited	FRJ18	ZAG000084187
	FirstRand Bank Limited	FRJ19	ZAG000104563
	FirstRand Bank Limited	FRS36	ZAG000077397
	FirstRand Bank Limited	FRS37	ZAG000077793
	FirstRand Bank Limited	FRS43	ZAG000078643
	FirstRand Bank Limited	FRS46	ZAG000079807
	FirstRand Bank Limited	FRS49	ZAG000081787
	FirstRand Bank Limited	FRS51	ZAG000086117
	FirstRand Bank Limited	FRS56	ZAG000087271
	FirstRand Bank Limited	FRS59	ZAG000089855
	FirstRand Bank Limited	FRS61	ZAG000090523
	FirstRand Bank Limited	FRS62	ZAG000090614
	FirstRand Bank Limited	FRS63	ZAG000091513
	FirstRand Bank Limited	FRS64	ZAG000092529
	FirstRand Bank Limited	FRS72	ZAG000096033
	FirstRand Bank Limited	FRS75	ZAG000096363
	FirstRand Bank Limited	FRS77	ZAG000097361
	FirstRand Bank Limited	FRS78	ZAG000097916
	FirstRand Bank Limited	FRS79	ZAG000100397
	FirstRand Bank Limited	FRS80	ZAG000100801
	FirstRand Bank Limited	FRS81	ZAG000100892
	FirstRand Bank Limited	FRS82	ZAG000101601
	FirstRand Bank Limited	FRS83	ZAG000102112
	FirstRand Bank Limited	FRS84	ZAG000104514
	FirstRand Bank Limited	FRS85	ZAG000104985
	FirstRand Bank Limited	FRS86	ZAG000105008
	FirstRand Bank Limited	FRS87	ZAG000105420
	FirstRand Bank Limited	FRS88	ZAG000106154
	FirstRand Bank Limited	FRS89	ZAG000106337
	FirstRand Bank Limited	FRS90	ZAG000106410
	FirstRand Bank Limited	FRS91	ZAG000106477
	FirstRand Bank Limited	FRS92	ZAG000106709
	FirstRand Bank Limited	FRX14	ZAG000079815
	FirstRand Bank Limited	FRX15	ZAG000051103
	FirstRand Bank Limited	FRX16	ZAG000084203
	FirstRand Bank Limited	FRX17	ZAG000094376
	FirstRand Bank Limited	FRX18	ZAG000076472
	FirstRand Bank Limited	FRX19	ZAG000073685
	FirstRand Bank Limited	FRX23	ZAG000104969
	FirstRand Bank Limited	FRX24	ZAG000073693
	FirstRand Bank Limited	FRX31	ZAG000084195
	FirstRand Bank Limited	FRX45	ZAG000076480

	Issuer	Bond code	ISIN code
Inflation-linked bonds	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	FirstRand Bank Limited	FRC29	ZAG000069857
	FirstRand Bank Limited	FRC37	ZAG000076712
	FirstRand Bank Limited	FRC40	ZAG000081027
	FirstRand Bank Limited	FRC41	ZAG000081670
	FirstRand Bank Limited	FRC46	ZAG000082959
	FirstRand Bank Limited	FRC57	ZAG000086414
	FirstRand Bank Limited	FRC61	ZAG000087347
	FirstRand Bank Limited	FRC66	ZAG000088485
	FirstRand Bank Limited	FRC67	ZAG000088741
	FirstRand Bank Limited	FRC68	ZAG000088758
	FirstRand Bank Limited	FRC69	ZAG000088766
	FirstRand Bank Limited	FRC70	ZAG000088840
	FirstRand Bank Limited	FRC71	ZAG000088923
	FirstRand Bank Limited	FRC72	ZAG000088956
	FirstRand Bank Limited	FRC74	ZAG000089178
	FirstRand Bank Limited	FRC76	ZAG000089574
	FirstRand Bank Limited	FRC78	ZAG000089806
	FirstRand Bank Limited	FRC79	ZAG000089947
	FirstRand Bank Limited	FRC82	ZAG000090796
	FirstRand Bank Limited	FRC83	ZAG000090952
	FirstRand Bank Limited	FRC84	ZAG000090986
	FirstRand Bank Limited	FRC85	ZAG000091109
	FirstRand Bank Limited	FRC86	ZAG000091182
	FirstRand Bank Limited	FRC87	ZAG000091570
	FirstRand Bank Limited	FRC94A	ZAG000106725
	FirstRand Bank Limited	FRC95	ZAG000092792
	FirstRand Bank Limited	FRC96A	ZAG000106733
	FirstRand Bank Limited	FRC97	ZAG000093212
	FirstRand Bank Limited	FRC98	ZAG000093220
	FirstRand Bank Limited	FRC99	ZAG000093501
	FirstRand Bank Limited	FRC101	ZAG000093576
	FirstRand Bank Limited	FRC103	ZAG000093840
	FirstRand Bank Limited	FRC104	ZAG000093857
	FirstRand Bank Limited	FRC105	ZAG000093998
	FirstRand Bank Limited	FRC106	ZAG000093956
	FirstRand Bank Limited	FRC107	ZAG000094574
	FirstRand Bank Limited	FRC108	ZAG000094871
	FirstRand Bank Limited	FRC109	ZAG000094889
	FirstRand Bank Limited	FRC110	ZAG000094954
	FirstRand Bank Limited	FRC112	ZAG000095621

	Issuer	Bond code	ISIN code
Credit-linked notes	FirstRand Bank Limited	FRC113	ZAG000095761
	FirstRand Bank Limited	FRC114	ZAG000095837
	FirstRand Bank Limited	FRC115	ZAG000095852
	FirstRand Bank Limited	FRC116	ZAG000095860
	FirstRand Bank Limited	FRC117	ZAG000095928
	FirstRand Bank Limited	FRC118	ZAG000096280
	FirstRand Bank Limited	FRC119	ZAG000096298
	FirstRand Bank Limited	FRC120	ZAG000096306
	FirstRand Bank Limited	FRC121	ZAG000096314
	FirstRand Bank Limited	FRC122	ZAG000096322
	FirstRand Bank Limited	FRC123	ZAG000096272
	FirstRand Bank Limited	FRC124	ZAG000096579
	FirstRand Bank Limited	FRC125	ZAG000096678
	FirstRand Bank Limited	FRC126	ZAG000096934
	FirstRand Bank Limited	FRC127	ZAG000096942
	FirstRand Bank Limited	FRC128	ZAG000096959
	FirstRand Bank Limited	FRC129	ZAG000096967
	FirstRand Bank Limited	FRC130	ZAG000096975
	FirstRand Bank Limited	FRC131	ZAG000096983
	FirstRand Bank Limited	FRC132	ZAG000096991
	FirstRand Bank Limited	FRC133	ZAG000097007
	FirstRand Bank Limited	FRC134	ZAG000097056
	FirstRand Bank Limited	FRC135	ZAG000097122
	FirstRand Bank Limited	FRC136	ZAG000097106
	FirstRand Bank Limited	FRC137	ZAG000097114
	FirstRand Bank Limited	FRC138	ZAG000097130
	FirstRand Bank Limited	FRC139	ZAG000097148
	FirstRand Bank Limited	FRC140	ZAG000097155
	FirstRand Bank Limited	FRC141	ZAG000097189
	FirstRand Bank Limited	FRC142	ZAG000097445
	FirstRand Bank Limited	FRC144	ZAG000097569
	FirstRand Bank Limited	FRC145	ZAG000097627
	FirstRand Bank Limited	FRC146	ZAG000099425
	FirstRand Bank Limited	FRC147	ZAG000099433
	FirstRand Bank Limited	FRC148	ZAG000099466
	FirstRand Bank Limited	FRC149	ZAG000099607
	FirstRand Bank Limited	FRC150	ZAG000099821
	FirstRand Bank Limited	FRC151	ZAG000099904
	FirstRand Bank Limited	FRC152	ZAG000100330
	FirstRand Bank Limited	FRC153	ZAG000100348
	FirstRand Bank Limited	FRC154	ZAG000100694
	FirstRand Bank Limited	FRC155	ZAG000101643
	FirstRand Bank Limited	FRC157	ZAG000101973
	FirstRand Bank Limited	FRC158	ZAG000101981
	FirstRand Bank Limited	FRC159	ZAG000101999
	FirstRand Bank Limited	FRC160	ZAG000102013

	Issuer	Bond code	ISIN code
Credit-linked notes	FirstRand Bank Limited	FRC161	ZAG000102260
	FirstRand Bank Limited	FRC162	ZAG000102286
	FirstRand Bank Limited	FRC163	ZAG000102898
	FirstRand Bank Limited	FRC164	ZAG000103110
	FirstRand Bank Limited	FRC165	ZAG000103128
	FirstRand Bank Limited	FRC166	ZAG000103573
	FirstRand Bank Limited	FRC167	ZAG000104019
	FirstRand Bank Limited	FRC168	ZAG000104753
	FirstRand Bank Limited	FRC169	*ZAG000104852*
	FirstRand Bank Limited	FRC170	*ZAG000105586*
	FirstRand Bank Limited	FRC171	*ZAG000105719*
	FirstRand Bank Limited	FRC172	*ZAG000105818*
	FirstRand Bank Limited	FRC173	ZAG000105826
	FirstRand Bank Limited	FRC174	ZAG000105891
	FirstRand Bank Limited	FRC175	ZAG000106527
Senior unsecured callable bonds	FirstRand Bank Limited	FR002U	ZAG000042748
	FirstRand Bank Limited	FR003U	ZAG000042755
Investment security index contracts	Rand Merchant Bank	RMBI01	ZAG000050865
	Rand Merchant Bank	RMBI02	ZAG000052986
	Rand Merchant Bank	RMBI03	ZAG000054032
	Rand Merchant Bank	RMBI04	ZAG000055013
	Rand Merchant Bank	RMBI05	ZAG000055864
	Rand Merchant Bank	RMBI06	ZAG000056722
	Rand Merchant Bank	RMBI07	ZAG000057910
	Rand Merchant Bank	RMBI08	ZAG000072265
Structured notes	FirstRand Bank Limited	OILRMB	ZAG000152732
	FirstRand Bank Limited	COLRMB	ZAE000155222

NSX

	Issuer	Bond code	ISIN code
Subordinated debt	First National Bank of Namibia Limited	FNBJ22	NA000A1G3AF2
	First National Bank of Namibia Limited	FNBX22	NA000A1G3AG0

London Stock Exchange (LSE)

European medium term note (EMTN) programme

	Issuer	ISIN code
Senior unsecured	FirstRand Bank Limited	XS0610341967
	FirstRand Bank Limited	XS0595260141
	FirstRand Bank Limited	XS0635404477

NOTICE OF ANNUAL GENERAL MEETING

FIRSTRAND LIMITED

(Incorporated in the Republic of South Africa)
(Registration number: 1966/010753/06)
Share Code: (JSE): FSR ISIN: ZAE000066304
JSE B preference share code: FSRP ISIN: ZAE000060141
NSX ordinary share code: FST
(FirstRand or the company or FSR)

Notice is hereby given to all holders of ordinary shares in the company (shareholders) that the seventeenth annual general meeting (the meeting) of FirstRand will be held in the Auditorium, FNB Conference and Learning Centre, 114 Grayston Drive, Sandton, on Tuesday, 3 December 2013, at 09:00, to deal with such business as may lawfully be dealt with at the meeting and to consider and, if deemed fit, pass, with or without modification, the ordinary and special resolutions set out hereunder in the manner required by the Companies Act, 71 of 2008, as amended (the Act), as read with the Listings Requirements of the JSE Limited (JSE).

The record date in terms of section 59 of the Act for shareholders to be recorded in the securities register of the company in order to be able to attend, participate and vote at the meeting, is Friday, 22 November 2013. Accordingly, the last day to trade in order to be able to attend, participate and vote at the annual general meeting is Friday, 15 November 2013. This notice will be sent to all shareholders who are recorded as such in the company's securities register on Friday, 18 October 2013.

Kindly note that participants at the meeting (including shareholders and proxies) will be required to provide reasonably satisfactory identification before being entitled to attend or participate in the meeting. Forms of identification include valid identity documents, drivers' licences and passports.

AGENDA

1. Annual financial statements

Presentation of the consolidated audited annual financial statements of the company as approved by the board of directors of the company (directors or board), including the reports of the external auditor, audit committee and directors for the financial year ended 30 June 2013, all of which are included in the annual integrated report 2013 and the summarised financial statements 2013 (annual report), of which this notice forms part, distributed as required to shareholders.

2. Ordinary resolution number 1

Re-election of directors by way of separate resolutions

To re-elect, by way of separate resolutions, directors of the company in accordance with the Act and in terms of clause 25.7.1 of the company's Memorandum of Incorporation (MOI). The directors proposed, being eligible and having been recommended by the board, have offered themselves for re-election:

1.1 Paul Kenneth Harris
Non-executive director
Date of appointment: 1 July 1992
Educational qualifications
MCom
Board committees
Directors' affairs and governance

1.2 William Rodger Jardine
Independent non-executive director
Date of appointment: 1 July 2010
Educational qualifications
BSc (Physics)
MSc (Radiological Physics)
Board committees
Directors' affairs and governance – chairman
Large exposures

1.3 Ethel Gothatamodimo Matenge-Sebesho
Independent non-executive director
Date of appointment: 1 July 2010
Educational qualifications
MBA (Brunel University of London)
CAIB (SA)
Board committees
Directors' affairs and governance
Audit

1.4 Amanda Tandiwe Nzimande
Non-executive director
Date of appointment: 28 February 2008
Educational qualifications
BCom
CTA (UCT)
CA(SA)
H Dip Law (Wits)
Board committees
Directors' affairs and governance
Remuneration
Transformation

Biographical details of these directors are set out in the annual report.

The percentage of voting rights required for each ordinary resolution contained under this point 2 of the notice to be adopted is more than 50% (fifty percent) of the voting rights exercised on each resolution.

Election of directors by way of separate resolutions

In terms of clause 26.9.2 of the company's MOI, a non-executive director should vacate office at the first annual general meeting of the company after reaching age 70, provided that the board has discretion to extend that age on one or more occasions for an additional one-year period in each instance. Directors Mr VW Bartlett and Mr JJH Bester have reached age 70.

To re-elect the following directors in accordance with the Act and in terms of clause 25.7.1 of the company's MOI.

1.5 Vivian Wade Bartlett

Independent non-executive director
Date of appointment: 27 May 1998
Educational qualifications
AMP (Harvard), FIBSA
Board committees
Audit
Directors' affairs and governance
Large exposures
Remuneration
Credit portfolio review

Mr Bartlett reached age 70 on 12 April 2013. The board has considered and has unanimously approved the extension of his tenure as a director.

Accordingly, being eligible for re-election and having been recommended by the board, Mr Bartlett offers himself for re-election.

1.6 Jurie Johannes Human Bester

Independent non-executive director
Date of appointment: 1 July 2010
Educational qualifications
BSc Eng Elect (Pret)
ISMP (Harvard)
Board committees
Audit
Directors' affairs and governance
Remuneration
Risk, capital management and compliance – chairman
Large exposures – chairman

Mr Bester reached age 71 on 25 February 2013. The board, having previously extended his term of service, considered and unanimously approved the further extension of his tenure as a director.

Accordingly, being eligible for re-election and having been recommended by the board, Mr Bester offers himself for re-election.

The percentage of voting rights required for each ordinary resolution contained under points 1.5 and 1.6 of the notice to be adopted is more than 50% (fifty percent) of the voting rights exercised on the resolution.

Vacancies filled by the directors

To elect the following director who was appointed by the board on 23 October 2012 to fill a temporary vacancy and is now recommended by the board for election by shareholders:

1.7 Jan Jonathan Durand

Non-executive director
Date of appointment: 23 October 2012
Educational qualifications
CA(SA)
Board committees
Directors' affairs and governance
Remuneration

To elect the following director who was appointed by the board on 1 January 2013 to fill a temporary vacancy and is now recommended by the board for election by shareholders:

1.8 Grant Glenn Gelink

Independent non-executive director
Date of appointment: 1 January 2013
Educational qualifications
CA(SA)
Board committees
Audit
Directors' affairs and governance
Risk, capital management and compliance

To elect the following alternate director who was appointed by the board on 9 July 2013 as alternate to Mr Paul Kenneth Harris and is now recommended by the board for election by shareholders:

1.9 Peter Cooper

Alternate non-executive director
Date of appointment: 9 July 2013
Educational qualifications
BCom (Hons)
CA(SA)
H Dip Tax
Board committees
Directors' affairs and governance

The percentage of voting rights required for each ordinary resolution contained under points 1.7 to 1.9 of the notice to be adopted is more than 50% (fifty percent) of the voting rights exercised on the resolution.

3. Ordinary resolution number 2

Appointment of joint auditors and the individual registered auditors jointly responsible for the audit of the company

2.1 Resolved that as recommended by the audit committee of the company, Deloitte & Touche be appointed auditors of the company until the next annual general meeting and that Mr Kevin Black be appointed as the individual registered auditor responsible for the audit for the company for the ensuing year.

2.2 Resolved that as recommended by the audit committee of the company, PricewaterhouseCoopers Inc. be appointed auditors of the company until the next annual general meeting and that Mr Tom Winterboer be appointed as the individual registered auditor responsible for the audit for the company for the ensuing year.

The company's audit committee has recommended and the directors have endorsed the proposed appointments. It is proposed that the aforementioned appointments be made on a joint basis. If either resolution 2.1 or resolution 2.2 is not passed, the resolution passed shall be effective.

The remuneration of the company's auditors and the audit terms of reference are determined by the audit committee pursuant to the Act.

The percentage of voting rights required for each ordinary resolution contained under points 2.1 and 2.2 of the notice to be adopted is more than 50% (fifty percent) of the voting rights exercised on the resolution.

4. Endorsement of remuneration policy

Resolved, by way of a non-binding advisory vote, that the company's remuneration policy (excluding the remuneration of the non-executive directors and the members of board committees for their services as directors and members of committees) be and is hereby endorsed.

The company's remuneration report is set out in the annual report.

In terms of King III, every year, the company's remuneration policy should be tabled for a non-binding advisory vote at the annual general meeting. The essence of this vote is to enable the shareholders to express their views on the remuneration policies adopted and on their implementation. Shareholders are accordingly requested to endorse the company's remuneration policy.

5. Ordinary resolution number 3

Place the unissued ordinary shares under the control of the directors

Resolved that the authorised but unissued ordinary shares in the capital of the company be and are hereby placed under the control and authority of the directors and that the directors be and are hereby generally authorised and empowered to allot, issue and otherwise dispose of such shares to such person or persons on such terms and conditions and at such times as the directors may from time to time and in their discretion deem fit, subject to the provisions of the Act, the Banks Act 94 of 1990 as amended (the Banks Act), the MOI and the Listings Requirements of the JSE and the Namibian Stock Exchange (NSX), when applicable.

Shareholders are asked to note that at 363 746 761 ordinary shares, the unissued ordinary share capital of the company, represents approximately 6% of the entire authorised share capital of the company.

The percentage of voting rights required for ordinary resolution number 3 to be adopted is more than 50% (fifty percent) of the voting rights exercised on the resolution.

6. Ordinary resolution number 4

General authority to issue authorised but unissued ordinary shares

Resolved that, subject to the passing of ordinary resolution number 3, the directors be and are hereby authorised:

1. By way of a renewable general authority, to issue all or any of the authorised but unissued equity securities in the capital of the company for cash as and when they in their discretion deem fit, subject to the Act, the Banks Act, the MOI and the Listings Requirements of the JSE and NSX, when applicable, on the basis that:

- this authority shall be valid until the company's next annual general meeting or for 15 months from the date that this resolution is passed, whichever period is shorter;
- the ordinary shares must be issued to public shareholders as defined by the Listings Requirements of the JSE and the NSE and not to related parties;
- the equity securities which are the subject of the issue for cash must be of a class already in issue, or where this is not the case, must be limited to such securities or rights that are convertible into a class already in issue;
- in respect of securities which are the subject of the general issue of shares for cash:

– in the aggregate in any one financial year the ordinary shares may not exceed 5% (281 897 084) of the company's relevant number of equity securities in issue of that class, as at the date of this notice:

  – any equity securities issued under this authority during the period contemplated must be deducted from such number;

  – in the event of a subdivision or consolidation of issued equity securities during the period contemplated, the existing authority must be adjusted to represent the same allocation ratio;

- a maximum discount at which the ordinary shares may be issued is 10% of the weighted average traded price of the company's ordinary shares measured over 30 business days prior to the date that the price of the issue is determined or agreed by the directors and the party subscribing for the securities;
- any such general issues are subject to exchange control regulations and approval at that point in time; and
- a paid press announcement giving full details, including the impact on net asset value and earnings per share, will be published at the time of any issue representing, on a cumulative basis within one financial year, 5% or more of the number of ordinary shares in issue prior to that issue, in terms of the Listings Requirements of the JSE.

2. To issue shares required to be issued to support the conversion and/or exchange (as the case may be) of Basel III compliant additional Tier 1 and Tier 2 instruments issued by FSR or FirstRand Bank Limited as contemplated in the regulations published pursuant to the Banks Act, 1990 (published on 12 December 2012 as No. R. 12 1029 in Government Gazette No. 35950) (the Regulations) into FSR ordinary shares upon the occurrence of a trigger event as specified in writing by the Registrar of Banks or such other regulatory body in South Africa that has the authority to make such decisions.

Basel III requires that the terms and conditions of additional Tier 1 and Tier 2 capital instruments contain a provision that such instruments, at the option of the Registrar of Banks, either be written off or converted into ordinary shares upon the occurrence of a trigger event. The Regulations further require that FSR must at all times maintain all prior authorisations necessary to immediately issue the relevant number of ordinary shares specified in the terms and conditions of the additional Tier 1 and Tier 2 capital instruments and/or in terms of the provisions of the Banks Act, 1990 and the Regulations dealing with additional Tier 1 and/or Tier 2 capital should the relevant trigger event occur. It is FSR's intention to issue additional Tier 1 and/or Tier 2 capital instruments and the purpose of part 2 of this resolution is to give effect to these requirements.

The percentage of voting rights required for ordinary resolution 4 to be adopted, is more than 50% (fifty percent) of the voting rights exercised on the resolution, provided that in accordance with the Listings Requirements of the JSE this ordinary resolution shall not be capable of being implemented without achieving a 75% (seventy five percent) majority of the votes exercised on the resolution.

7. Special resolution number 1

Authority to repurchase ordinary shares

Resolved, as a special resolution of the company, that the company and/or its subsidiaries be and are hereby generally authorised, in terms of a general authority contemplated in section 48 of the Act, read with sections 46, 114 and 115, as amended, to acquire the company's issued shares from time to time on such terms and conditions and in such amounts as the directors may from time to time decide, but always subject to the approval, to the extent required, of the Registrar of Banks, the provisions of the Act, the Banks Act, the MOI and the Listings Requirements of the JSE and NSX, and subject to the following conditions:

- this general authority will be valid only until the company's next annual general meeting, provided that it will not extend beyond 15 months from the date of the passing of this special resolution, whichever is shorter;
- the repurchase of securities will be effected through the main order book operated by the JSE trading system and done without any prior understanding or arrangement between the company and the counterparty;
- repurchases may not be made at a price greater than 10% above the weighted average of the market value for the securities for the five business days immediately preceding the date on which the repurchase of such securities by the company is effected;
- the acquisitions of ordinary shares shall in the aggregate in any one financial year, not exceed 10% of the company's issued ordinary share capital as at the beginning of the financial year, provided that the number of shares purchased and held by a subsidiary/ies of the company shall not exceed 10% in aggregate of the number of issued shares in the company at the relevant times;
- neither the company nor its subsidiaries will repurchase securities during a prohibited period, as defined in

paragraph 3.67 of the Listings Requirements of the JSE, unless they have in place a repurchase programme where the dates and quantities of securities to be traded during the relevant period are fixed (not subject to any variation) and full details of the programme have been disclosed in an announcement on the JSE Stock Exchange News Service (SENS) prior to the commencement of the prohibited period;

- a resolution having been passed by the board of directors confirming that the board has authorised the repurchase, that the company passed the solvency and liquidity test and that since the test was done there have been no material changes to the financial position of the company;
- any such general repurchases are subject to exchange control regulations and approval at that point in time;
- when the company has cumulatively repurchased 3% of the initial number of the relevant class of securities, and for each 3% in aggregate of the initial number of that class acquired thereafter, an announcement shall be published on SENS and in the financial press; and
- at any point in time the company shall appoint only one agent to effect any repurchase(s) on its behalf.

The percentage of voting rights required for this special resolution number 1 to be adopted is at least 75% (seventy five percent) of the voting rights exercised on the resolution.

Additional Information in respect of special resolution number 1

The reason for special resolution number 1 is to grant the company's directors a general authority, up to and including the date of the following annual general meeting of the company, to approve the company's purchase of shares in itself, or to permit a subsidiary of the company to purchase shares in the company.

The directors have no immediate intention to use this authority to repurchase company shares. However, the directors are of the opinion that this authority should be in place should it become appropriate to undertake a share repurchase in the future.

The directors undertake that the company will not commence a general repurchase of shares as contemplated above unless the following can be met:

- the company and the Group will be in a position to repay its debts in the ordinary course of business for a period of 12 months after the date of the general repurchase of shares in the open market;
- the assets of the company and the Group will be in excess of the liabilities of the company and the Group for a period of twelve months after the date of the general repurchase of shares in the open market, for which purpose the assets and liabilities will be recognised and measured in accordance with the accounting policies used in the latest audited consolidated annual financial statements which comply with the Act;
- the ordinary capital and reserves of the company and the Group will be adequate for ordinary business purpose for the twelve months after the general repurchase of shares in the open market;
- the available working capital will be adequate to continue the operations of the company and the Group for a period of 12 months after the repurchase of shares in the open market; and
- upon entering the market to proceed with the general repurchase, the company's sponsor has confirmed the adequacy of the company and the Group's working capital for the purposes of undertaking a general repurchase of shares, in writing to the JSE.

8. Special resolution number 2.1

Financial assistance to directors and prescribed officers as employee share scheme beneficiaries

Resolved, as a special resolution of the Company in terms of sections 44 and 45 of the Act, that the directors may, subject to compliance with the requirements of the MOI, the Act and the JSE and NSE, when applicable, each as presently constituted and as amended from time to time, authorise the company to provide direct or indirect financial assistance (as contemplated in sections 44 and 45 of the Act) to, *inter alia*, any director or prescribed officer of the company or of a related or interrelated company on such terms and conditions as the directors may determine from time to time in order to facilitate the participation by such director or prescribed officer in any employee share incentive scheme, provided that nothing in this approval will limit the provision by the company of financial assistance that does not require approval by way of a special resolution of the shareholders in terms of sections 44 and 45 of the Act or falls within the exemptions contained in those sections.

The percentage of voting rights required for this special resolution number 2.1 to be adopted is at least 75% (seventy five percent) of the voting rights exercised on the resolution.

Additional information in respect of special resolution number 2.1

The company may elect to fund the long-term incentive schemes in which executive directors, prescribed officers and identified staff of the company and related and interrelated companies participate.

8. Special resolution number 2.2

Financial assistance to related and interrelated companies

Resolved, as a special resolution of the company in terms of sections 44 and 45 of the Act, that the directors may, subject to compliance with the requirements of the MOI, the Act and the JSE and NSE, when applicable, each as presently constituted and as amended from time to time, authorise the company to provide direct or indirect financial assistance (as contemplated in sections 44 and 45 of the Act) to, inter alia, any related or interrelated company or corporation on such terms and conditions as the directors may determine from time to time, provided that nothing in this approval will limit the provision by the company of financial assistance that does not require approval by way of a special resolution of the shareholders in terms of sections 44 and 45 of the Act or falls within the exemptions contained in those sections.

The percentage of voting rights required for this special resolution number 2.2 to be adopted is at least 75% (seventy five percent) of the voting rights exercised on the resolution.

Additional information in respect of special resolution number 2.2

Companies within the Group receive and provide loan financing and other support to one another in the normal and ordinary course of business from time to time.

9. Special resolution number 3

Remuneration of non-executive directors with effect from 3 December 2013

Resolved to approve as a special resolution in terms of section 66(9) of the Act that non-executive directors' remuneration (due to the applicable directors for services rendered by them in their capacities as such) be paid as follows:

Rand	Current annual fee	**Proposed annual fee with effect 3 December 2013**
Board		
Chairman*	3 600 000	**4 000 000**
Director	390 000	**417 300**
Audit committee		
Chairman	540 000	**594 000**
Member	212 000	**233 200**
Risk, capital management and compliance committee		
Chairman	540 000	**594 000**
Member	212 000	**233 200**
Remuneration committee		
Chairman	270 000	**300 000**
Member	121 000	**130 000**
Directors' affairs and governance committee		
Chairman	92 400	**101 640**
Member	46 200	**50 820**
Large exposures committee		
Chairman		
Member		
(per meeting payment on an hourly basis for preparation and attendance at the *ad hoc* work fee)		
Transformation monitoring committee		
Chairman	120 000	**132 000**
Member	60 000	**66 000**
Ad hoc* work*		
Chairman	6 600	**7 300**
Member	3 300	**3 650**

* *The chairman will be paid a single fee covering his activities as board chairman and for his activities on board committees.*

** *For work of an ad hoc nature on an hourly basis, or for work on an ad hoc committee or attendance at advisory/subsidiary board or committee meeting where no other fee is specifically approved, hourly on a preparation and attendance basis.*

Directors resident outside of South Africa be paid double the approved fee for South African resident directors, in the foreign currency of the country in which they are resident.

The percentage of voting rights required for this special resolution number 3 to be adopted is at least 75% (seventy five percent) of the voting rights exercised on the resolution.

For the purposes of considering special resolution number 1 and in compliance with Rule 11.26 of the JSE Listings Requirements, the information listed below has been included in annual report to shareholders for the year ended 30 June 2013:

- directors and prescribed officers;
- major shareholders;
- directors' interest in securities;
- share capital of the company;
- the directors, whose names are set out in the annual report, collectively and individually accept full responsibility for the accuracy of the information contained in the special resolutions and certify to the best of their knowledge and belief that there are no other facts, the omission of which would make any statement false or misleading and that they have made all reasonable enquiries in this regard; and that this resolution contains all information required by the JSE Listings Requirements; and
- litigation – save as reported in the annual report, in terms of section 11.26 of the JSE Listings Requirements, the directors, whose names are given in the annual report of which this notice forms part, are not aware of any legal or arbitration proceedings (including any such proceedings that are pending or threatened, that may have or have had in the previous 12 months, a material effect on the Group's financial position.

Other than the facts and developments reported on in the annual report, there have been no material changes in the financial position of the company and its subsidiaries since the date of signature of the audit report and the date of this notice.

10. Social and ethics committee report

The FirstRand social and ethics committee report is set out in the annual report, in terms of Regulation 43 (5) (c) of the Act.

Important notes regarding attendance at the annual general meeting

General

Shareholders wishing to attend the meeting have to ensure beforehand with the transfer secretaries of the company that their shares are in fact registered in their name.

Certificated shareholders and own name dematerialised shareholders

Shareholders who have not dematerialised their shares, who have dematerialised their shares with own name registration are entitled to attend and vote at the meeting and are entitled to appoint a proxy or proxies to attend, speak and vote in their stead. The person so appointed need not be a shareholder.

Proxy forms must be forwarded to reach the registered office of the company's transfer secretaries by 09:00 on Friday, 29 November 2013. Before a proxy exercises any rights of a shareholder at the annual general meeting, such form of proxy must be so delivered. Any forms of proxy not lodged by this time must be handed to the chairman of the meeting immediately prior to the annual general meeting.

Dematerialised shareholders other than with own name registration

Shareholders who have dematerialised their shares, other than those members who have dematerialised their shares with own name registration, should contact their Central Securities Depository Participant (CSDP) or broker in the manner and time stipulated in their agreement:

- to furnish them with their voting instructions; and
- in the event that they wish to attend the meeting, to obtain the necessary authority to do so.

Voting will be by way of a poll and every shareholder of the company present in person or represented by proxy shall have one vote for every share held in the company by such shareholder.

Shares held by a FirstRand share trust or scheme, treasury shares and unlisted shares will not have their votes at the meeting taken into account for the purposes of resolutions proposed in terms of the JSE Listings Requirements.

Proof of identification required

In compliance with section 63 of the Act, kindly note that meeting participants (including proxies) are required to provide reasonably satisfactory identification before being entitled to attend or participate in a shareholders' meeting. Forms of identification include valid identity documents, drivers' licences and passports.

Summary of shareholder rights

In compliance with the provisions of section 58(8)(b)(i) of the Act, a summary of the rights of a shareholder to be represented by proxy, as set out in section 58 of the Act, is set out immediately below:

- **A shareholder entitled to attend and vote at the annual general meeting may appoint any individual (or two or more individuals) as a proxy or as proxies to attend, participate in and vote at the meeting in the place of the shareholder. A proxy need not be a shareholder of the company.**
- **A proxy appointment must be in writing, dated and signed by the shareholder appointing a proxy, and, subject to the rights of a shareholder to revoke such appointment (as set out below), remains valid only until the end of the meeting.**
- **A proxy may delegate the proxy's authority to act on behalf of a shareholder to another person, subject to any restrictions set out in the instrument appointment the proxy.**
- **The appointment of a proxy is suspended at any time and to the extent that the shareholder who appointed such proxy chooses to act directly and in person in the exercise of any rights as a shareholder.**

The appointment of a proxy is revocable by the shareholder in question cancelling it in writing, or making a later inconsistent appointment of a proxy, and delivering a copy of the revocation instrument to the proxy and to the company. The revocation of a proxy appointment constitutes a complete and final cancellation of the proxy's authority to act on behalf of the shareholder as of the later of (a) the date stated in the revocation instrument, if any; and (b) the date on which the revocation instrument is delivered to the company as required in the first sentence of this paragraph.

If the instrument appointing the proxy or proxies has been delivered to the company, as long as that appointment remains in effect, any notice that is required by the Act or the company's MOI to be delivered by the company to the shareholder, must be delivered by the company to (a) the shareholder, or (b) the proxy or proxies, if the shareholder has (i) directed the company to do so in writing; and (ii) paid any reasonable fee charged by the company for doing so.

Attention is also drawn to the notes to the form of proxy.

By order of the board

BW Unser
Company secretary

9 September 2013

Transfer secretaries
Computershare Investor Services (Pty) Ltd
70 Marshall Street
Johannesburg
2001

FIRSTRAND

FIRSTRAND LIMITED
(Incorporated in the Republic of South Africa) (Registration number: 1966/010753/06) Share code: (JSE): FSR ISIN: ZAE000066304
JSE B preference share code: FSRP ISIN: ZAE000060141 NSX ordinary share code: FST (FirstRand or the company or FSR)

Only for use by shareholders who have not dematerialised their shares or who have dematerialised their shares with own name registration.

All other dematerialised shareholders must contact their CSDP or broker to make the relevant arrangements concerning voting and/or attendance at the annual general meeting.

For completion by the aforesaid registered shareholders who hold ordinary shares of the company and who are unable to attend the 2013 annual general meeting of the company to be held in the Auditorium, FNB Conference and Learning Centre, 114 Grayston Drive, on Tuesday, 3 December 2013 at 09:00 (the annual general meeting).

I/We,

Of (address)

Being the holder/s of ordinary shares in the company, hereby appoint (see notes overleaf)

1. or, failing him/her

2. or, failing him/her

3. the chairman of the annual general meeting, as my/our proxy to attend, speak and vote for me/us and on my/our behalf or to abstain from voting at the annual general meeting of the company and at any adjournment thereof, as follows (see notes overleaf).

	Insert an X or the number of votes exercisable (one vote per ordinary share)		
	In favour of	**Against**	**Abstain**
Ordinary resolution numbers 1.1 to 1.4 Re-election of directors by way of separate resolutions: 1.1 PK Harris			
1.2 WR Jardine			
1.3 EG Matenge-Sebesho			
1.4 AT Nzimande			
Ordinary resolution numbers 1.5 to 1.6 To elect directors who have reached age 70:			
1.5 VW Bartlett			
1.6 JJH Bester			
Ordinary resolution numbers 1.7 to 1.9 To elect directors appointed by the directors to fill vacancies:			
1.7 JJ Durand			
1.8 GG Gelink			
To elect an alternate director appointed by the directors:			
1.9 P Cooper			
Ordinary resolution numbers 2.1 and 2.2 Appointment of auditors and the individual registered auditors:			
2.1 Deloitte & Touche, K Black			
2.2 PricewaterhouseCoopers, T Winterboer			
Advisory endorsement of remuneration policy Endorsement of remuneration policy			
Ordinary resolution number 3 Place the unissued ordinary shares under the control of the directors			
Ordinary resolution number 4 General authority to issue authorised but unissued ordinary shares			
Special resolution number 1 Authority to repurchase ordinary shares			
Special resolution number 2.1 Financial assistance to directors and prescribed officers as employee share scheme beneficiaries			
Special resolution number 2.2 Financial assistance to related and interrelated companies			
Special resolution number 3 Remuneration of non-executive directors with effect from 3 December 2013			

Signed at on 2013

Signature/s

Assisted by
(where applicable)

PLEASE SEE NOTES ON REVERSE SIDE OF THE FORM

NOTES

Use of proxies

A shareholder who holds ordinary shares (shareholder) is entitled to attend and vote at the annual general meeting and to appoint one or more proxies to attend, speak and vote in his/her stead. A proxy need not be a shareholder of the company.

Every shareholder present in person or by proxy and entitled to vote at the annual general meeting of the company shall, on a show of hands, have one vote only, irrespective of the number of shares such shareholder holds, but in the event of a poll, every ordinary share in the company shall have one vote.

Instructions on signing and lodging the proxy form:

1. A shareholder may insert the name of a proxy or the names of two alternative proxies of the shareholders' choice in the space/s provided overleaf, with or without deleting "the chairman of the annual general meeting", but any such deletion must be initialled by the shareholder. Should this space be left blank, the chairman of the annual general meeting will exercise the proxy. The person whose name appears first on the proxy form and who is present at the annual general meeting will be entitled to act as proxy to the exclusion of those whose names follow.

2. A shareholder's voting instructions to the proxy must be indicated by the insertion of the number of votes exercisable by that shareholder in the appropriate spaces provided overleaf. Failure to do so shall be deemed to authorise the proxy to vote or to abstain from voting at the annual general meeting, as he/she thinks fit in respect of all the shareholder's exercisable votes. A shareholder or his/her proxy is not obliged to use all the votes exercisable by his/her proxy, but the total number of votes cast, or those in respect of which abstention is recorded, may not exceed the total number of votes exercisable by the shareholder of his/her proxy.

3. A minor must be assisted by his/her parent or guardian unless the relevant documents establishing his/her legal capacity are produced or have been registered by the transfer secretaries.

4. To be valid the completed proxy forms must be forwarded to reach the company's transfer secretaries, Computershare Investor Services (Pty) Ltd, 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107), fax number (011) 688 5238 or in Namibia to Transfer Secretaries (Pty) Ltd, PO Box 2401, Windhoek, Namibia, fax number +264 6124 8531 by no later than 09:00 on Friday, 29 November 2013. Proxy forms may only be completed by shareholders who have not dematerialised their shares or who have dematerialised their shares with own name registration.

5. Documentary evidence establishing the authority of a person signing a proxy form in a representative capacity must be attached to the proxy form unless previously recorded by the transfer secretaries or waived by the chairman of the annual general meeting.

6. The completion and lodging of this proxy form shall not preclude the relevant shareholder from attending the annual general meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof, should such shareholder wish to do so.

7. The completion of any blank spaces overleaf need not be initialled. Any alternations or corrections to this proxy form must be initialled by the signatory/ies.

8. The chairman of the annual general meeting may reject of accept any proxy form which is completed other than in accordance with these instructions, provided that he is satisfied as to the manner in which a shareholder wishes to vote.

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