annual report

for the year ended 30 June 2014

FIRSTRAND BANK

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FIRSTRAND BANK

1929/001225/06

Certain entities within the FirstRand Group are Authorised Financial Services and Credit Providers

This report is available on the Group's website: **www.firstrand.co.za**

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

INTRODUCTION

FirstRand Bank Limited (the Bank or FRB) is a wholly-owned subsidiary of FirstRand Limited (FirstRand or the Group), which is listed on the Johannesburg Stock Exchange (JSE) and the Namibian Stock Exchange (NSX). The Bank provides a comprehensive range of retail, commercial, corporate and investment banking services in South Africa and offers niche products in certain international markets. The Bank has three major divisions which are separately branded. These are First National Bank (FNB), the retail and commercial bank, Rand Merchant Bank (RMB), the corporate and investment bank and WesBank, the instalment finance business. FRB has branches in London and India, and representative offices in Kenya, Angola, Dubai and Shanghai.

This report covers the audited separate and consolidated financial results of the Bank based on International Financial Reporting Standards (IFRS) for the year ended 30 June 2014.

In the detailed financial analysis section of this report, the primary results and accompanying commentary for FRB are presented on a normalised basis as the Bank believes this most accurately reflects its economic performance. The normalised results have been derived from the audited IFRS financial results. A detailed description of the difference between normalised and IFRS results is provided on page 19.

Jaco van Wyk, CA(SA), supervised the preparation of the financial results.

FIRSTRAND'S STRATEGY

FirstRand's vision is to be the African financial services group of choice, create long-term franchise value, deliver superior and sustainable economic returns to shareholders within acceptable levels of volatility and maintain balance sheet strength.

FirstRand seeks to achieve this with two parallel growth strategies, which are executed through its portfolio of operating franchises, within a framework set by the Group. The growth strategies are:

- 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.

With regard to expansion into the rest of Africa, there are three pillars to its execution:

- utilise the capabilities of the South African franchise, particularly the domestic balance sheet, intellectual capital, international platforms and the existing operating footprint in the rest of Africa;
- start an in-country franchise and grow organically; and
- small- to medium-sized acquisitions where it makes commercial sense.

The Group executes its expansion strategies through the appropriate platforms (legal entities). FRB's balance sheet is utilised for the first pillar of the rest of Africa expansion strategy and to capitalise on the investment flows between Africa, India and China. The subsidiaries in the rest of Africa form part FirstRand EMA (Pty) Ltd (FREMA) and thus fall outside of the Bank.

For more information on the Group's strategy, please refer to the 2014 annual integrated report for FirstRand Limited which is published on the Group's website, www.firstrand.co.za.

OVERVIEW OF DIVISIONS

FNB

FNB represents FirstRand's retail and commercial activities in South Africa. 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).

RMB

RMB is the corporate and investment banking arm of FirstRand. Offering innovative, value-added advisory, funding, trading, corporate banking and principal investing solutions, RMB is a market leader in South Africa and has a deal footprint across more than 35 African countries.

WesBank

WesBank provides full-service instalment credit finance to both the retail and corporate market. It is a market leader in both asset-based finance and fleet-management solutions. WesBank's strategy of partnering with motor manufacturers and dealer groups is a significant factor in the growth of its business and the dominant position that it holds in the financing of motor vehicles. WesBank runs a motor finance business, MotoNovo Finance, in the UK.

PHYSICAL PRESENCE IN AFRICA AND CORRIDOR STRATEGY

Through its FNB Africa subsidiaries (housed in FREMA and not FRB), the Group offers full service banking in seven African countries, namely, Namibia, Botswana, Swaziland, Lesotho, Mozambique, Zambia and Tanzania. In addition to its physical operating footprint in Africa, the Group has established platforms in certain key financial centres that can generate opportunities from cross-border investment flows between Europe, Africa and Asia.

RMB Nigeria, which was established in 2013, provides the full spectrum of investment banking services to large local, regional and international corporates already operating in, or entering Nigeria and the broader west African economies. RMB Nigeria is housed in FREMA, not the Bank.

The Bank also has a number of representative offices. RMB has been active in Kenya for a number of years, and, through the management of FRB's representative office, is increasing its focus on what is the trade and investment hub of east Africa with increasing flows from China and India. The Angolan representative office also provides a platform in west Africa to identify investment banking opportunities across this region.

The Middle East remains an important source of global capital and the FRB representative office, based in Dubai, plays a pivotal role in facilitating investment into the African continent and investment flows between Europe, Africa and Asia.

China is strategically important to the African continent's growth story. The Shanghai representative office, which was opened in 2007, has played a leading role in facilitating trade flows between both China and the African continent and supporting the ongoing investment and infrastructural development that China is able to provide.

One of the pillars of the Group's growth strategy in Africa is to 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.

With the increased international investment in the African continent, the major focus of the Bank's London branch is one of funding through the capital and banking markets. It has built a particularly strong track record in arranging and distributing African-based debt instruments.

FRB 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.

RISK AND CAPITAL MANAGEMENT DISCLOSURES IN THIS REPORT

Risk is managed on a Group basis which includes FirstRand Bank Limited and its subsidiaries.

A full *risk and capital management report* for FirstRand Bank Limited (unconsolidated) is provided on pages 81 to 190.

There are some differences between the separate and consolidated risk disclosures. The consolidated annual financial statements of FirstRand Bank Limited Group (Bank Ltd Group) includes *a risk management note*, which quantifies risk exposure to credit risk, securitisations, market risk in the trading book, equity investment risk, interest rate risk in the banking book and liquidity risk. Even though there are no differences in the objectives, policies and processes for managing risk or in the risk measurement methods between the Bank and FirstRand Bank Limited Group, these are also included in the note.

SIMPLIFIED GROUP STRUCTURE

FIRSTRAND

LISTED HOLDING COMPANY (FIRSTRAND LIMITED, JSE: FSR)

100% – FIRSTRAND BANK LIMITED (JSE company code: BIFR1)

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]

100% – FIRSTRAND EMA (PTY) LTD (FREMA)

Africa and emerging markets

- **58%** FNB Namibia
- **69%** FNB Botswana
- **100%** FNB Swaziland
- **90%** FNB Mozambique
- **100%** FNB Zambia
- **100%** FNB Lesotho
- **100%** FNB Tanzania
- **100%** RMB Nigeria
- **100%** FirstRand International – Mauritius

100% – FIRSTRAND INVESTMENT HOLDINGS (PTY) LTD (FRIHL)

Other activities**

- **96%** RMB Private Equity Holdings (Pty) Ltd
- **93%** RMB Private Equity (Pty) Ltd
- **100%** RMB Securities (Pty) Ltd
- **50%** RMB Morgan Stanley (Pty) Ltd
- **100%** RentWorks Africa (Pty) Ltd
- **66%** Direct Axis SA (Pty) Ltd
- **100%** FirstRand International Limited – Guernsey
- **100%** RMB Australia Holdings Limited

100% – ASHBURTON INVESTMENTS HOLDINGS LIMITED

Investment management

- **100%** Ashburton Fund Managers (Pty) Ltd
- **100%** Ashburton Investor Services (Pty) Ltd
- **100%** Ashburton Management Company (Pty) Ltd
- **100%** Ashburton Investments International 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).
** The Group's securitisations and conduits are in FRIHL.

BOARD OF DIRECTORS

LAURITZ LANSER (LAURIE) DIPPENAAR (65)
Non-executive chairman
MCom, CA(SA)
Appointed July 1992

Directorships – FirstRand Group
- FirstRand Limited – chairman

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

SIZWE ERROL NXASANA (57)
Chief executive officer
BCom, BCompt (Hons), CA(SA)
Appointed January 2006

Directorships – FirstRand Group
- Ashburton Investments Holdings Limited
- FirstRand Limited – CEO
- FirstRand EMA Holdings Proprietary Limited
- FirstRand Investment Holdings Proprietary Limited

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

JOHAN PETRUS BURGER (55)
Deputy chief executive officer
BCom (Hons), CA(SA)
Appointed January 2009

Directorships – FirstRand Group
- Ashburton Investments Holdings Limited
- FirstRand Limited – deputy CEO
- RMB Holdings Limited
- Rand Merchant Insurance Holdings Limited

Directorships – external
- MMI Holdings Limited – deputy chairman
- MMI Group Limited
- Momentum Group Limited
- Metropolitan Life Limited
- University of Johannesburg

HETASH (HARRY) SURENDRAKUMAR KELLAN (42)
Financial director
BCom, BCom (Hons), CA(SA)
Appointed January 2014

Directorships – FirstRand Group
- FirstCorp Holdings Proprietary Limited
- FirstCorp Investments Proprietary Limited
- FirstRand Limited – financial director
- FirstRand EMA Holdings Proprietary Limited
- FirstRand Investment Holdings Proprietary Limited
- FirstRand Finance Company Proprietary Limited

VIVIAN WADE (VIV) BARTLETT (71)
Independent non-executive director
AMP (Harvard), FIBSA
Appointed May 1998

Directorships – FirstRand Group
- FirstRand Limited
- RMB Co-investment Trust – trustee

JURIE JOHANNES HUMAN BESTER (72)
Independent non-executive director
BSc Eng Elect (Pret), ISMP (Harvard)
Appointed July 2010

Directorships – FirstRand Group
- FirstRand Limited
- RMB Co-investment Trust – trustee

MARY SINA BOMELA (41)
Non-executive director
BCom (Hons), CA(SA), MBA
Appointed September 2011

Directorships – FirstRand Group
- FirstRand Limited

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 (58)
Alternate non-executive director
BCom (Hons), H Dip Tax, CA(SA)
Appointed July 2013

Directorships – FirstRand Group
- FirstRand Limited

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

LEON CROUSE (61)
Non-executive director
CA(SA)
Appointed September 2008

Directorships – FirstRand Group
- FirstRand Limited

Directorships – external
- Dark Fibre Africa Proprietary Limited
- MMI Holdings Limited
- Remgro Limited
- RMB Holdings Limited
- Rand Merchant Insurance Holdings Limited – alternate director
- Total SA Proprietary Limited

JAN JONATHAN (JANNIE) DURAND (47)
Non-executive director
BAcc (Hons), MPhil (Oxon), CA(SA)
Appointed October 2012

Directorships – FirstRand Group
- FirstRand Limited

Directorships – external
- Discovery Holdings Limited
- Distell Group Limited
- Grindrod Limited
- Mediclinic International Limited
- RCL Foods Limited
- Rand Merchant Insurance Holdings Limited
- RMB Holdings Limited – alternate director
- Unilever SA Holdings Limited

GRANT GLENN GELINK (64)
Independent non-executive director
BCompt (Hons), BCom (Hons), CA(SA)
Appointed January 2013

Directorships – FirstRand Group
- FirstRand Limited

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

PATRICK MAGUIRE (PAT) GOSS (66)
Independent non-executive director
BEcon (Hons), BAccSc (Hons), CA(SA)
Appointed May 1998

Directorships – FirstRand Group
- FirstRand Limited

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

NOLULAMO NOBAMBISWANO (LULU) GWAGWA (55)
Independent non-executive director
BA (Fort Hare), MTRP (Natal), MSc (cum laude) (London), PhD (London)
Appointed February 2004

Directorships – FirstRand Group
- FirstRand 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 (64)
Non-executive director
MCom
Appointed July 1992

Directorships – FirstRand Group
- FirstRand Limited

Directorships – external
- Remgro Limited
- RMB Holdings Limited
- Rand Merchant Insurance Holdings Limited

WILLIAM RODGER (ROGER) JARDINE (49)
Independent non-executive director
BSc (Physics), MSc (Radiological Physics)
Appointed July 2010

Directorships – FirstRand Group
- FirstRand Limited

Directorships – external
- The Sharks Proprietary Limited
- Primedia Proprietary Limited

RUSSELL MARK LOUBSER (64)
Independent non-executive director
MCom (Statistics), BCom (Hons) (Accounting), CA(SA)
Appointed 5 September 2014

Directorships – FirstRand Group
- FirstRand Limited

Directorships – external
- Aardklop Nasionale Kunstefees – non-profit organisation
- Afrika Tikkun – non-profit organisation
- Bandurria Proprietary Limited
- Indexco Managers Proprietary Limited
- Marcar Family Investments Proprietary Limited
- PLC Nominees Proprietary Limited
- Solipex Proprietary Limited
- Strate Proprietary Limited

ETHEL GOTHATAMODIMO MATENGE-SEBESHO (59)
Independent non-executive director
MBA (Brunel), CAIB (SA)
Appointed July 2010

Directorships – FirstRand Group
- FirstRand Limited

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

AMANDA TANDIWE (TANDI) NZIMANDE (44)
Non-executive director
BCom, CTA (UCT), CA(SA), H Dip Co Law (Wits)
Appointed February 2008

Directorships – FirstRand Group
- FirstRand 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
- Hollard Foundation Trust – trustee

DEEPAK PREMNARAYEN (68)
Non-executive director
BA Economics (Hons) India
Appointed January 2009

Directorships FirstRand Group
- FirstRand 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 (50)
Non-executive director
BA Economics, Advanced Financial Management Diploma
Appointed May 2008

Directorships FirstRand Group
- FirstRand 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 (67)
Independent non-executive director
Dip Law (UCT)
Appointed May 1998

Directorships FirstRand Group
- FirstRand Limited

Directorships external
- Distell Group Limited
- Lewis Group Limited
- MMI Holdings Limited
- Naspers Limited
- Naspers Investments Limited
- Pick 'n Pay Stores Limited
- Strategic Real Estate Management Proprietary Limited – chairman, managers of the Emira Property fund

JAN HENDRIK (HENNIE) VAN GREUNING (61)
Independent non-executive director
DCom (Economics), DCompt (Accounting Science), CA(SA), CFA
Appointed January 2009

Directorships – FirstRand Group
- FirstRand Limited

Directorships – external
- BIBD, Brunei

CORPORATE GOVERNANCE

COMPLIANCE STATEMENT

FirstRand Limited is the bank-controlling company of FirstRand Bank Limited. The governance structures for FirstRand Bank Limited were constituted at a FirstRand Limited level in terms of authority received from the South African Registrar of Banks. The directors of FirstRand ensure compliance with all relevant regulations including the SA Banks Act, SA Companies Act, Basel Committee on Banking Supervision and Financial Stability Board requirements, and other best practice regulations flowing from both local and international authorities. FirstRand endorses the Code of Corporate Practices and Conduct recommended in the Code of Conduct on Corporate Governance for South Africa (2009) (King III), and is satisfied that the Bank has applied the principles of the King III Code consistently during the year under review.

Stakeholders are referred to FirstRand Limited's annual integrated report for detailed disclosures on the Group's corporate governance practices.

BOARD OF DIRECTORS

Changes to directorate

Mr Hetash Surendrakumar (Harry) Kellan was appointed to the board as executive financial director on 1 January 2014.

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

Mr Russell Mark Loubser was appointed as an independent non-executive director with effect from 5 September 2014.

Responsibilities of directors

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

Composition and frequency of meetings

A common board serves FirstRand Limited and FirstRand Bank Limited.

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

During the year ended 30 June 2014 the board of directors comprised 21 directors of whom three serve in an executive capacity. The directors of the Bank are listed on pages 4 to 6. Non-executive directors comprise individuals of high calibre with diverse backgrounds and expertise. This ensures that their views carry significant weight in the board's deliberations and decisions.

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

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

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

Limitation to appointment period

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

COMPANY SECRETARY

The company secretary is suitably qualified and experienced and was appointed by the board on 6 January 2014. She is, *inter alia*, responsible for the duties stipulated in section 88 of the Companies Act 71 of 2008, as amended and the certificate required to be signed in terms of subsection (2)(e) thereof appears on page 78.

analysis of financial results

INTRODUCTION

This section covers the separate normalised results of the Bank for the year ended 30 June 2014. The primary results and accompanying commentary are presented on a normalised basis as the Bank believes this most accurately reflects its economic performance. The normalised results have been derived from the IFRS financial results.

This normalised information has been reviewed and reported by the Group's auditors, Deloitte & Touche and PricewaterhouseCoopers Inc. Their unqualified reasonable assurance report thereon is available for inspection at FirstRand Bank's registered address.

Prior year numbers have been restated as a result of the adoption of new and revised IFRS standards (refer to pages 208 to 212).

Normalised results include an income statement, statement of comprehensive income and statement of financial position. A detailed description of the difference between normalised and IFRS results is provided on page 19. Detailed reconciliations of normalised to IFRS results are provided on pages 26 to 29. Commentary is based on normalised results, unless indicated otherwise.

FirstRand's board of directors take full responsibility for the preparation of this section. The auditors expressed an unmodified opinion dated 8 September 2014 on the annual financial statements. Their report can be found on page 77.

Financial highlights (audited)

	Year ended 30 June		
	2014	**2013***	**% change**
Normalised earnings (R million)	**12 321**	10 842	14
Normalised ROE (%)	**21.9**	22.4	
Tier 1 ratio (%)**	**14.2**	13.3	
Common Equity Tier 1 ratio (%)**	**13.6**	12.6	
Credit loss ratio (%)	**0.82**	1.01	
Credit loss ratio (%) excluding impact of merchant acquiring event	**0.82**	0.97	
NPLs (%) of advances	**2.36**	2.88	

* *Refer to restatement of prior year numbers on pages 208 to 212.*
** *Comparatives have not been restated for IFRS changes.*

KEY FINANCIAL RESULTS, RATIOS AND STATISTICS
for the year ended 30 June

R million	2014	2013*	% change
Earnings attributable to ordinary equityholders (refer page 213)	**12 555**	10 782	16
Headline earnings	**12 623**	10 867	16
Normalised earnings	**12 321**	10 842	14
Normalised net asset value	**61 064**	51 407	19
Average normalised net asset value	**56 236**	48 363	16
Gross advances	**635 136**	560 543	13
Normalised ROE (%)	**21.9**	22.4	
Cost-to-income ratio (%)	**57.0**	56.4	
Net interest margin (%)	**4.93**	4.79	
Capital adequacy**, #			
Capital adequacy ratio (%)	**16.1**	14.9	
Tier 1 ratio (%)	**14.2**	13.3	
Common Equity Tier 1 (CET1) ratio (%)	**13.6**	12.6	

* *Refer to restatement of prior year numbers on pages 208 to 212.*
** *Reflects solo supervision, i.e. FRB excluding foreign branches.*
# *Comparatives have not been restated for IFRS changes.*

STATEMENT OF HEADLINE EARNINGS – IFRS (AUDITED)
for the year ended 30 June

R million	2014	2013*	% change
Profit for the year (refer page 213)	**12 747**	10 978	16
NCNR preference shareholders	**(192)**	(196)	(2)
Earnings attributable to ordinary equityholders	**12 555**	10 782	16
Adjusted for:	**68**	85	(20)
Loss/(gain) on disposal of investment securities and other investments of a capital nature	**7**	(35)	
Gain on disposal of available-for-sale assets	**(66)**	(32)	
Gain on disposal of investments in associates	**(13)**	–	
Loss on the disposal of property and equipment	**20**	56	
Impairment of assets in terms of IAS 36	**117**	260	
Other	**(15)**	(127)	
Tax effects of adjustments	**18**	(37)	
Headline earnings	**12 623**	10 867	16

* *Refer to restatement of prior year numbers on pages 208 to 212.*

RECONCILIATION FROM HEADLINE TO NORMALISED EARNINGS (AUDITED)
for the year ended 30 June

R million	2014	2013*	% change
Headline earnings	**12 623**	10 867	16
Adjusted for:	**(302)**	(25)	>100
Total return swap and IFRS 2 liability remeasurement	**(198)**	85	(>100)
IAS 19 adjustment	**(104)**	(110)	(5)
Normalised earnings	**12 321**	10 842	14

* *Refer to restatement of prior year numbers on pages 208 to 212.*

OVERVIEW OF RESULTS

INTRODUCTION

The operating environment remained difficult throughout the financial year, largely the consequence of uncertainty in the global macroeconomic arena combined with subdued domestic demand growth and protracted industrial action in the platinum sector.

South Africa is vulnerable to slowing capital flows due to its large current account deficit and this translated into rand weakness and higher domestic inflation, together with similar issues in other emerging markets. This triggered the start of an interest rate hiking cycle.

Subdued domestic demand growth was evident across most of the economy: household consumption and government spending slowed as sluggish employment growth, rising inflation, a 50 bps interest rate hike and a weaker rand exchange rate weighed on consumer and business confidence.

While some of these headwinds also affected the rest of the sub-Saharan region, most economies continued to expand at a brisk pace. Domestic demand – fuelled by credit growth and investment in infrastructure development – remained the major catalyst.

OVERVIEW OF RESULTS

FirstRand Bank produced good results for the year to 30 June 2014, achieving an increase of 14% in normalised earnings to R12 321 million and producing a normalised ROE of 21.9%, which in the Bank's view remains at a cyclical high given the slower than expected emergence of the credit cycle.

The Bank's divisions, FNB, RMB and WesBank, delivered strong operational performances and continued to outperform the market. The key drivers of that outperformance are outlined below.

FNB benefited from:

- its proactive workout strategy in residential mortgages, resulting in lower NPLs, together with good advances growth in line with property price increases and repricing benefits;
- ongoing customer acquisition in targeted segments and increased cross-sell;
- migration of customers to electronic channels continued to drive growth in volumes; and
- counter-cyclical origination actions taken in personal loans in 2011 has paid dividends in that bad debts have materially reduced.

RMB benefited from:

- its positioning as the leading advisory and origination franchise in South Africa; and
- strong growth in corporate advances, both in South Africa and cross border, whilst further improving overall portfolio quality.

WesBank benefited from:

- its consistent point of sale presence and partnership model, which ensured resilient new business volumes;
- an excellent performance from MotoNovo, which grew strongly in GBP terms; and
- discipline in origination which resulted in better than expected cost of credit.

Sources of normalised earnings

	Year ended 30 June				
R million	**2014**	**% composition**	**2013**	**% composition**	**% change**
FNB	**7 513**	**62**	6 264	58	20
RMB	**3 481**	**28**	3 336*	31	4
WesBank	**2 009**	**16**	1 994	18	1
FCC (including Group Treasury) and other	**(490)**	**(4)**	(556)	(5)	(12)
NCNR preference dividend	**(192)**	**(2)**	(196)	(2)	(2)
Normalised earnings	**12 321**	**100**	10 842	100	14

* *Includes R155 million of IT enablement impairments relating to financial years prior to and including June 2012.*

The Bank's income statement benefited from an increase of 18% in net interest income (NII), driven by ongoing gains in new business, repricing in certain asset classes and lower overall NPLs. There was also a marginal endowment benefit resulting from the 50 bps increase in interest rates in January 2014. Group Treasury's strategies to hedge capital, investment risk and liquidity risk further positively impacted NII.

Total non-interest revenue (NIR) increased 7% year-on-year. FNB grew NIR 8%, driven by both the retail and commercial segments and resulted from increases in fee and commission income. FNB's ongoing strategy to encourage customers to migrate onto electronic platforms continued to produce good growth in electronic volumes of 15% year-on-year.

WesBank's NIR increased 30%. This was driven by new business volumes and benefited from continued growth in the full maintenance rental book. The inclusion of WesBank's fleet business in the Bank (historically a separate legal entity) and management fees from associates also contributed to this increase.

Growth in NIR from FNB and WesBank was partially offset by lower levels of investment income in RMB.

Overall operating costs increased 15%, reflecting the continued investment in platforms and growth initiatives.

Whilst overall bad debts continued to trend down, NPLs showed a mixed picture. Residential mortgages, FNB commercial, FNB personal loans and RMB's investment banking division saw NPLs reduced whilst NPLs in FNB card, vehicle and asset finance (VAF) and WesBank personal loans NPLs increased. Strong book growth resulted in an increase in NPLs in FNB's business segment.

Portfolio overlays at a franchise level increased 40% year-on-year. This reflects the Bank's view that the negative retail credit cycle will continue to emerge, already reflected in the higher levels of arrears being experienced in the VAF, WesBank personal loans and card books. In addition, portfolio overlays increased on the back of deteriorating macroeconomic indicators, resulting in the creation of an additional R450 million of central portfolio overlays. The total performing book coverage ratio increased from 102 bps to 112 bps.

The overall credit picture remains in line with expectations and all of the Bank's portfolios are tracking as anticipated, reflecting decisions taken as early as 2011 to exit origination in high-risk segments, particularly in personal loans.

The Bank's balance sheet continued to show good growth in advances year-on-year, particularly from FNB's card and commercial books. RMB's core advances book also posted strong growth, particularly benefiting from activities in the rest of Africa and renewable energy drawdowns in South Africa. On a rolling six-month basis, growth in certain retail portfolios, such as personal loans and VAF, continued to moderate.

DIVISIONAL OVERVIEW

Below is a brief overview of the financial and operational performance of each division.

FNB

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

FNB financial highlights

	Year ended 30 June		
R million	**2014**	**2013**	**% change**
Normalised earnings	**7 513**	6 264	20
Normalised profit before tax	**10 437**	8 698	20
Total assets	**270 766**	248 638	9
Total liabilities	**260 472**	239 927	9
Credit loss ratio* (%)	**0.88**	1.25	

* *2013 figure includes special impairment relating to the merchant acquiring event of R215 million.*

Segment results

	Year ended 30 June		
Normalised PBT R million	**2014**	**2013**	**% change**
Retail	**6 399**	5 257	22
FNB Africa*	**(124)**	(63)	97
Commercial	**4 162**	3 504	19
Total FNB	**10 437**	8 698	20

* *Relates to head office costs. Earnings of the subsidiaries in the rest of Africa form part of FREMA and are not reported in the Bank (see simplified group structure on page 3).*

FNB produced an excellent performance for the year, increasing pre-tax profits 20%, driven by strong growth in both NII and NIR, and a decrease in bad debts, particularly in residential mortgages. This performance can continue to be attributed to FNB's 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. This strategy resulted in ongoing growth in new customers within the targeted segments and increased cross-sell, particularly as customers migrate up FNB's value chain.

FNB's NII increased 14% driven by growth in both advances (+9%) and deposits (+16%). The lending businesses, residential mortgages in particular, performed extremely well with new business margin improving and bad debt levels continuing to decline. FNB's bad debt charge dropped to 0.88% of advances, while preserving overall provisioning levels. Deposit margins benefited slightly from the interest rate increase during the year. Deposit and advances growth came from both retail and commercial as indicated in the following table.

Segment analysis of advances and deposit growth

	Year ended 30 June 2014			
	Deposit growth		**Advances growth**	
Segments	**%**	**R million**	**%**	**R million**
Retail	**13**	**16 334**	**6**	**12 582**
Commercial	**19**	**22 177**	**18**	**7 808**

In terms of advances, residential mortgages grew 5% in line with property prices. Card increased 13% on the back of new customer acquisition. Personal loans declined 3% year-on-year, reflecting adjustments in credit appetite in that segment, especially at the bottom end of the market.

FNB's overall NPLs decreased 15% due to ongoing proactive workout strategies (particularly in residential mortgages). The year-on-year decrease is mainly attributable to residential mortgages (-19%), commercial (-8%) and personal loans (-23%).

FNB's NIR increased 8% year-on-year with continued strong growth of 12% in overall transactional volumes with electronic volumes up 15%. Customers continue to migrate to electronic channels with year-on-year ADT deposits increasing 17%, whilst branch-based deposits decreased 15%. The rollout of FNB's innovative customer proposition in the commercial and business segments resulted in NIR growth of 9% and 21%, respectively.

FNB's overall operating expenditure increased 12%, reflecting ongoing investment in its operating infrastructure.

RMB

RMB represents the Group's activities in the corporate and investment banking segments in South Africa, the broader African continent and India. The business 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.

RMB financial highlights

	Year ended 30 June		
R million	**2014**	**2013**	**% change**
Normalised earnings	**3 481**	3 336	4
Normalised profit before tax	**4 834**	4 648	4
Total assets	**326 513**	301 636	8
Total liabilities	**321 753**	298 821	8
Credit loss ratio (%)	**0.10**	0.56	

Divisional performance

	Year ended 30 June		
Normalised PBT R million	**2014**	**2013**	**% change**
Investment banking	**4 369**	4 156	5
– Global markets	**1 452**	1 310	11
– IBD	**3 236**	2 817	15
– Private equity*	**32**	3	>100
– Other RMB	**(351)**	26	(>100)
Corporate banking	**465**	492**	(5)
Operational performance	**465**	399	17
Normalisation adjustment (IT enablement for Dec 2012 period)	**–**	93	(100)
Total RMB	**4 834**	4 648	4

* *The majority of private equity activities are in FRIHL.*

** *Includes normalisation adjustment of R248 million for December 2012 which carries through to June 2013 for IT enablement spend of which R155 million relates to years prior to and including June 2012.*

RMB corporate and investment banking increased pre-tax profits 4% to R4.8 billion. This performance was achieved against a very challenging backdrop for investment banking and can be attributed to the strength of the domestic franchise combined with growing momentum from the African expansion strategy.

During the year, RMB continued to focus on building scale in the corporate banking franchise, generating growth on the South African balance sheet from the rest of Africa, strengthening the balance sheet and consolidating market share in the more established business lines.

The investment banking division delivered strong results, increasing pre-tax profits 15% to R3.2 billion. This performance was supported by good balance sheet growth, with advances up 26% for the year under review and the core loan book's risk profile remains robust. IBD also benefited from strong growth in bespoke investment grade lending on the back of client balance sheet restructures. In addition, there was a strong increase in knowledge-based fee income, as the franchise continued to benefit from its market leadership position.

The global markets division delivered a good performance for the year across all business lines. This was achieved in spite of challenging, volatile market conditions, a subdued macroeconomic environment and increased competitive pressures.

Corporate banking had a solid year, with total revenue increasing due to gains in interest turn on both advances and deposits on the back of strong growth, especially in liabilities. Deriving further value from the transactional banking platform remains a priority.

The year-on-year change in RMB Other was driven by provisions created centrally.

WesBank

WesBank represents the Group's activities in asset-based finance in the retail, commercial and corporate segments of South Africa and asset-based motor finance sector through MotoNovo Finance in the UK. Through the Direct Axis brand, WesBank also operates in the personal loans 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.

WesBank financial highlights

	Year ended 30 June		
R million	**2014**	**2013**	**% change**
Normalised earnings	**2 009**	1 994	1
Normalised profit before tax	**2 788**	2 770	1
Total assets	**156 743**	134 869	16
Total liabilities	**155 058**	132 765	17
Credit loss ratio (%)	**1.42**	1.28	
Cost-to-income ratio (%)	**47.8**	45.4	
Net interest margin (%)	**5.28**	5.54	

WesBank's performance remained resilient despite its sensitivity to the motor retail market and the credit cycle. Notwithstanding higher credit and operating costs, new business volumes continued and pre-tax profits grew by 1% to R2.8 billion.

The table below shows the relative performance year-on-year of WesBank's activities.

Breakdown of profit contribution by activity*

	Year ended 30 June		
Normalised PBT R million	**2014**	**2013**	**% change**
VAF			
– Local retail	**1 001**	1 101	(9)
– International (MotoNovo)	**650**	444	46
– Corporate and commercial	**345**	476	(28)
Personal loans	**792**	749	6
Total WesBank	**2 788**	2 770	1

* *Refer to additional segmental disclosure on page 54.*

Profit growth continued in the personal loans and MotoNovo businesses, however, local retail VAF was down on the prior year, which is expected given the current cycle. The decrease in corporate relates mainly to a loss on the restructure of certain legal entities including some loan writedowns (which had a zero impact at Group level) and other related expenses.

New business reflects a good risk profile across all portfolios, with systemic tightening continuing in credit appetite for higher risk segments. Production was up 15% year-on-year with local retail VAF, corporate, personal loans and MotoNovo origination volumes up 6%, 10%, 21% and 58% (GBP), respectively.

Interest margins remained resilient despite increased competition across all portfolios with origination well within agreed risk thresholds. As corporate grows faster relative to local retail VAF, the average margin is expected to contract.

Bad debts are trending up but remain below WesBank's through-the-cycle expectations. Given the macroeconomic outlook and the levels of indebtedness of consumers, WesBank expects impairments to continue to move up, however, it remains conservatively provided at this point in the cycle.

NPLs are 23% up year-on-year with local retail VAF increasing 37%. This is, however, inflated by an increasing proportion of restructured debt review accounts, most of which are still paying according to arrangement. This conservative treatment is in line with Group practice. 33% of NPLs are currently under debt review (compared to 23% in the prior year), a high percentage of which have never defaulted, or reflect balances lower than when they went into debt review.

Credit origination remains well within agreed risk appetite and vintage performance is very closely monitored. Systematic scorecard adjustments have been effected where early warning signs of underlying stress have been evident, and/or where warranted by changes in the macro environment.

NIR increased 30% year-on-year, reflecting the growth in the advances book and rental assets, and the inclusion for the first time of WesBank's fleet business in the Bank as a result of certain restructures in the current year.

Core operating costs increased 13%, however, total expenses grew 23% when including the impact of the increase in profit share payments to alliance partners (which now total R726 million and are up 11% year-on-year), investment in platforms and strategic initiatives, and the increase in depreciation of full maintenance rental assets.

STRATEGIES TO ENSURE SUSTAINABILITY OF GROWTH AND RETURNS

FirstRand's franchises have consistently executed on a set of operational strategies aligned to certain Group financial strategies and frameworks which are designed to ensure earnings resilience and growth, balance sheet strength and an appropriate return profile.

Ultimately the Group seeks to create long-term sustainable franchise value and believes it is currently delivering this through the operating franchises, all of which have strong market positioning, unique customer value propositions, efficient platforms, a relentless focus on innovation and a proven entrepreneurial culture.

These deliverables are underpinned by the application of critical financial discipline through frameworks set at the centre, such as:

Risk management framework

- assess the impact of the cycle on the portfolio;
- understand and price properly for risk; and
- originate within cycle appropriate risk appetite and volatility parameters.

Performance management framework

- allocate capital appropriately to capital-light or capital-intensive activities;
- ensure an efficient capital structure with appropriate/conservative gearing; and
- ensure earnings exceed cost of capital, i.e. positive net income after capital charge (NIACC).

Balance sheet framework

- execute sustainable funding and liquidity strategies;
- protect the credit rating; and
- preserve a "fortress" balance sheet that can sustain shocks through the cycle.

The consistent application of these financial strategies and frameworks has over time allowed FirstRand to deliver the financial metrics the Group targets on behalf of its shareholders, namely earnings growth of nominal GDP plus 3% – 5% and a ROE of 18% – 22%.

FirstRand does not target a cost-to-income ratio as it believes this to be an outcome of its ability to utilise its business model effectively in order to deliver on its growth strategies. The Group rigorously assesses cost structures at both a franchise and business unit level, but will always consider costs incurred to run the business versus costs incurred to build the business.

The financial strategies are also focused on ensuring that the Group extracts the maximum quality of earnings from its operations. The improved quality of the Group's earnings is manifested in the upward shift over the past five years in the Group's ROA, particularly as RMB has adapted its business model to focus on client-centric activities and FNB has built a market leading transactional and deposit franchise. Further proof lies in the fact that 94% of the Group's revenues are derived from client activities. The Group's commitment to pricing appropriately for risk has also had a meaningful impact on the quality of earnings generated from its lending businesses.

Proactive funding and liquidity management is becoming increasingly critical and the Bank'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.

On the back of a deliberate strategy to grow retail deposits, FirstRand Bank now generates a larger proportion of its funding from the deposit franchise in comparison to the SA aggregate, and emphasis is placed on lengthening the term profile of institutional funding.

The Bank has maintained its very strong capital position.

Current targets and actual ratios are summarised below.

Capital ratios and targets

%	CET1	Tier 1	Total
Regulatory minimum*	5.5	7.0	10.0
Targets	10.0 – 11.0	>12.0	>14.0
FRB actual**	**13.6**	**14.2**	**16.1**

* *Excludes the bank-specific individual capital requirement.*
** *Reflects solo supervision, i.e. FRB excluding foreign branches.*

The Bank's internal target levels have been revised in order to meet the 2019 end-state regulatory minimum requirements including the capital conservation buffer, and also after considering various stakeholder constraints.

DESCRIPTION OF DIFFERENCE BETWEEN NORMALISED AND IFRS RESULTS

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

ECONOMIC INTEREST RATE HEDGES

From time-to-time the Bank enters into economic interest rate hedging transactions, which do not qualify for hedge accounting in terms of the requirements of IFRS. When presenting normalised results, the Bank 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 Bank accounts for the majority of its wholesale advances book in RMB on a fair value basis in terms of IFRS. As a result, the margin on these advances is reflected as part of NIR.

When calculating normalised results, the Bank 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.

IAS 19 REMEASUREMENT OF PLAN ASSETS

In terms of the revised *IAS 19 Employee Benefits*, interest income is recognised on the plan assets and set off against staff costs in the income statement. All other remeasurements of plan assets are recognised in other comprehensive income. In instances where the plan asset is a qualifying insurance policy, which has a limit of indemnity, the fair value of the plan asset is limited to that limit of indemnity. The limit of indemnity continually reduces as payments are made in terms of the insurance policy. After the recognition of interest income on the plan asset, any further adjustment required to revalue the plan asset to the limit of indemnity is recognised in other comprehensive income. Therefore, to the extent that interest income on plan assets results in an increase in the fair value of the plan asset above the limit of indemnity, a downward fair value measurement is recognised in other comprehensive income. Economically, the value of the plan asset has simply reduced with claims paid. Normalised results are adjusted to reflect this by increasing staff costs for the value of the interest on the plan assets and increasing other comprehensive income.

MARGIN ON SECURITISED ASSETS

From time-to-time the Bank securitises certain advances. The advances are sold to a special purpose vehicle and derecognised from the Bank's statement of financial position. As part of the sale transaction, the Bank retains the right to any margin earned in the securitisation vehicle through a deferred purchase price (DPP). The value of the DPP on the date that the advances are sold is equal to the present value of the margin that would have been earned on the advances over their life had the sale not taken place. On the date that the securitisation takes place the Bank recognises the DPP as an asset and the investment income in NIR. The amount recognised in NIR is the present value of the future margin on the derecognised advances. As this is interest-related income by nature, the Bank reclassifies this income out of NIR into NII when presenting normalised results.

CASH-SETTLED SHARE-BASED PAYMENTS AND THE ECONOMIC HEDGE

The Group entered into a total return swap (TRS) with external parties in order to economically hedge itself against the exposure to changes in the FirstRand share price associated with the Group's share option schemes.

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

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.

When calculating normalised results, the Bank defers the recognition of the fair value gain or loss on the hedging instrument for the current year 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 Bank.

In addition, the portion of the share-based payment expense which relates to the remeasurement of the liability arising from changes in the share price is reclassified from operating expenses into NIR in accordance with the economics of the transaction. The share-based payment expense included in operating expenses is equal to the grant date fair value of the awards given.

HEADLINE EARNINGS ADJUSTMENTS

All adjustments that are required by *Circular 2/2013 Headline Earnings* in calculating headline earnings are included in normalised results on a line-by-line basis based on the nature of the adjustment.

The description and the amount of these adjustments are provided in the reconciliation between headline earnings and IFRS profit on page 13. These adjustments include the write back of impairment losses recognised on intangible assets and goodwill.

detailed financial analysis

This section is based on normalised results. A detailed reconciliation between IFRS and normalised results is set out on pages 26 to 29.

KEY FINANCIAL RESULTS, RATIOS AND STATISTICS – NORMALISED
for the year ended 30 June

R million	2014	2013*	% change
Earnings performance			
Normalised earnings contribution by franchise	**12 321**	10 842	14
FNB	**7 513**	6 264	20
RMB	**3 481**	3 336	4
WesBank	**2 009**	1 994	1
FCC (including Group Treasury)	**(490)**	(556)	(12)
NCNR preference dividend	**(192)**	(196)	(2)
Attributable earnings (refer page 213)	**12 555**	10 782	16
Headline earnings	**12 623**	10 867	16
Normalised earnings	**12 321**	10 842	14
Normalised net asset value	**61 064**	51 407	19
Tangible normalised net asset value	**60 980**	51 253	19
Average normalised net asset value	**56 236**	48 363	16
Balance sheet			
Normalised total assets	**851 209**	779 575	9
Loans and advances (net of credit impairment)	**622 112**	548 581	13
Ratios and key statistics			
ROE (%)	**21.9**	22.4	
Return on assets (%)	**1.51**	1.48	
Average loan-to-deposit ratio (%)	**90.4**	89.7	
Diversity ratio (%)	**43.6**	46.0	
Credit impairment charge	**4 925**	5 334	(8)
NPLs as % of advances	**2.36**	2.88	
Credit loss ratio (%)	**0.82**	1.01	
Credit loss ratio (%) excluding impact of merchant acquiring event	**0.82**	0.97	
Total impairment coverage ratio (%)	**86.9**	74.2	
Performing book coverage ratio (%)	**1.12**	1.02	
Cost-to-income ratio (%)	**57.0**	56.4	
Effective tax rate (%)	**25.3**	22.3	

* *Refer to restatement of prior year numbers on pages 208 to 212.*

INCOME STATEMENT – NORMALISED (AUDITED)
for the year ended 30 June

R million	2014	2013*	% change
Net interest income before impairment of advances	**29 491**	24 901	18
Impairment of advances	**(4 925)**	(5 334)	(8)
Net interest income after impairment of advances	**24 566**	19 567	26
Non-interest revenue**	**22 789**	21 236	7
Income from operations	**47 355**	40 803	16
Operating expenses**	**(29 807)**	(26 024)	15
Income before tax	**17 548**	14 779	19
Indirect tax	**(796)**	(579)	37
Profit before tax	**16 752**	14 200	18
Income tax expense	**(4 239)**	(3 162)	34
Profit for the year	**12 513**	11 038	13
NCNR preference shareholders	**(192)**	(196)	(2)
Normalised earnings attributable to ordinary equityholders of the Bank	**12 321**	10 842	14

* *Refer to restatement of prior year numbers on pages 208 to 212.*

** *2013 figures have been restated, staff costs relating to the remeasurement of the share-based payment liability as a result of changes in the share price are now included in NIR and not operating expenses.*

STATEMENT OF COMPREHENSIVE INCOME – NORMALISED (AUDITED)

for the year ended 30 June

R million	2014	2013*	% change
Profit for the year	**12 513**	11 038	13
Items that may subsequently be reclassified to profit or loss			
Cash flow hedges	**361**	853	(58)
(Losses)/gains arising during the year	**(111)**	417	(>100)
Reclassification adjustments for amounts included in profit or loss	**613**	768	(20)
Deferred income tax	**(141)**	(332)	(58)
Available-for-sale financial assets	**(149)**	(117)	(27)
Losses arising during the year	**(149)**	(134)	11
Reclassification adjustments for amounts included in profit or loss	**(67)**	(32)	>100
Deferred income tax	**67**	49	37
Exchange differences on translating foreign operations	**193**	240	(20)
Gains arising during the year	**193**	240	(20)
Items that may not subsequently be reclassified to profit or loss			
Remeasurements on defined benefit post-employment plans	**(103)**	132	(>100)
(Losses)/gains arising during the year	**(142)**	183	(>100)
Deferred income tax	**39**	(51)	(>100)
Other comprehensive income for the year	**302**	1 108	(73)
Total comprehensive income for the year	**12 815**	12 146	6
Attributable to:			
Ordinary equityholders	**12 623**	11 950	6
NCNR preference shareholders	**192**	196	(2)
Total comprehensive income for the year	**12 815**	12 146	6

* *Refer to restatement of prior year numbers on pages 208 to 212.*

STATEMENT OF FINANCIAL POSITION – NORMALISED (AUDITED)
as at 30 June

R million	2014	2013*	2012*
ASSETS			
Cash and cash equivalents	**51 788**	42 296	31 557
Derivative financial instruments	**38 633**	51 755	52 392
Commodities	**7 904**	6 016	5 108
Accounts receivable	**4 131**	4 574	3 314
Current tax asset	**–**	140	250
Advances	**622 112**	548 581	483 113
Amounts due by holding company and fellow subsidiary companies	**26 005**	20 628	23 111
Investment securities and other investments	**88 783**	94 961	78 723
Investments in subsidiary companies	**–**	5	–
Investments in associates	**–**	44	165
Property and equipment	**11 369**	10 421	8 882
Intangible assets	**84**	154	336
Deferred income tax asset	**400**	–	–
Non-current assets and disposal groups held for sale	**–**	–	215
Total assets	**851 209**	779 575	687 166
EQUITY AND LIABILITIES			
Liabilities			
Short trading positions	**5 398**	2 923	4 019
Derivative financial instruments	**41 628**	52 940	53 666
Creditors and accruals	**10 380**	8 920	6 441
Current tax liability	**53**	–	–
Deposits	**693 176**	629 872	545 822
Provisions	**386**	246	234
Employee liabilities	**8 080**	7 002	6 524
Other liabilities	**4 268**	1 062	922
Amounts due to holding company and fellow subsidiary companies	**12 292**	14 528	13 285
Deferred income tax liability	**–**	50	498
Tier 2 liabilities	**11 484**	7 625	7 437
Total liabilities	**787 145**	725 168	638 848
Equity			
Ordinary shares	**4**	4	4
Share premium	**15 304**	15 304	15 304
Reserves	**45 756**	36 099	30 010
Capital and reserves attributable to ordinary equityholders	**61 064**	51 407	45 318
NCNR preference shares	**3 000**	3 000	3 000
Total equity	**64 064**	54 407	48 318
Total equity and liabilities	**851 209**	779 575	687 166

* *Refer to restatement of prior year numbers on pages 208 to 212.*

RECONCILIATION OF NORMALISED TO IFRS INCOME STATEMENT (AUDITED)

for the year ended 30 June 2014

R million	Normalised	Economic hedges	Fair value annuity income (lending)	IAS 19 adjustments
Net interest income before impairment of advances	**29 491**	(253)	(3 081)	–
Impairment of advances	**(4 925)**	–	98	–
Net interest income after impairment of advances	**24 566**	(253)	(2 983)	–
Non-interest revenue	**22 789**	253	2 983	–
Income from operations	**47 355**	–	–	–
Operating expenses	**(29 807)**	–	–	145
Income before tax	**17 548**	–	–	145
Indirect tax	**(796)**	–	–	–
Profit before tax	**16 752**	–	–	145
Income tax expense	**(4 239)**		–	(41)
Profit for the year	**12 513**	–	–	104
Attributable to:				
NCNR preference shareholders	**(192)**	–	–	–
Ordinary equityholders of the Bank	**12 321**	–	–	104
Headline and normalised earnings adjustments	**–**	–	–	(104)
Normalised earnings	**12 321**	–	–	–

Margin on securitised assets	TRS adjustment and IFRS 2 liability remeasure-ment	Other headline earnings adjustments	IFRS
(958)	–	–	**25 199**
–	–	–	**(4 827)**
(958)	–	–	**20 372**
958	1 572	67	**28 622**
–	1 572	67	**48 994**
–	(1 297)	(117)	**(31 076)**
–	275	(50)	**17 918**
–	–	–	**(796)**
–	275	(50)	**17 122**
–	(77)	(18)	**(4 375)**
–	198	(68)	**12 747**
–	–	–	**(192)**
–	198	(68)	**12 555**
–	(198)	68	**(234)**
–	–	–	**12 321**

RECONCILIATION OF NORMALISED TO IFRS INCOME STATEMENT (AUDITED)

*for the year ended 30 June 2013**

R million	Normalised	Economic hedges	Fair value annuity income (lending)	IAS 19 adjustments
Net interest income before impairment of advances	24 901	(166)	(2 588)	–
Impairment of advances	(5 334)	–	893	–
Net interest income after impairment of advances	19 567	(166)	(1 695)	–
Non-interest revenue**	21 236	166	1 695	–
Income from operations	40 803	–	–	–
Operating expenses**	(26 024)	–	–	153
Income before tax	14 779	–	–	153
Indirect tax	(579)	–	–	–
Profit before tax	14 200	–	–	153
Income tax expense	(3 162)		–	(43)
Profit for the year	11 038	–	–	110
Attributable to:				
NCNR preference shareholders	(196)	–	–	–
Ordinary equityholders of the Bank	10 842	–	–	110
Headline and normalised earnings adjustments	–	–	–	(110)
Normalised earnings	10 842	–	–	–

* *Refer to restatement of prior year numbers on pages 208 to 212.*

** *2013 figures has been restated, staff costs relating to the remeasurement of the share-based payment liability as a result of changes in the share price are now included in NIR and not operating expenses.*

Margin on securitised assets	TRS adjustment and IFRS 2 liability remeasure-ment	Other headline earnings adjustments	IFRS
(464)	–	–	21 683
–	–	–	(4 441)
(464)	–	–	17 242
464	424	138	24 123
–	424	138	41 365
–	(542)	(260)	(26 673)
–	(118)	(122)	14 692
–	–	–	(579)
–	(118)	(122)	14 113
–	33	37	(3 135)
–	(85)	(85)	10 978
–	–	–	(196)
–	(85)	(85)	10 782
–	85	85	60
–	–	–	10 842

FLOW OF FUNDS ANALYSIS

R million	June 2014 vs June 2013 12-month movement	June 2013 vs June 2012 12-month movement
Sources of funds		
Capital account movement (including profit and reserves)	**9 657**	6 089
Working capital movement	**(1 543)**	5 452
Derivatives positions	**4 285**	(1 185)
Investments	**(2 717)**	(2 149)
Deposits and long-term liabilities	**67 163**	84 238
Advances	**(73 531)**	(65 468)
Total	**3 314**	26 977
Application of funds		
Cash and cash equivalents	**(9 492)**	(10 739)
Investment securities and other investments	**6 178**	(16 238)
Total	**(3 314)**	(26 977)

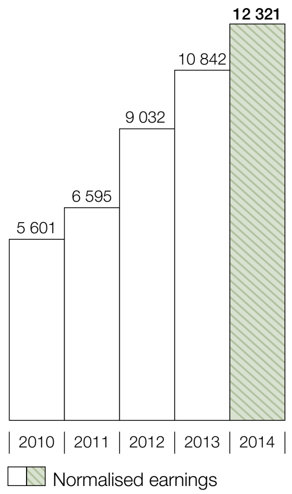
OVERVIEW OF RESULTS

EARNINGS PERFORMANCE

Normalised earnings

R million

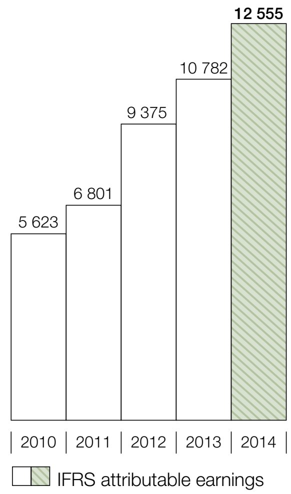
CAGR 22%



IFRS attributable earnings

R million

CAGR 22%



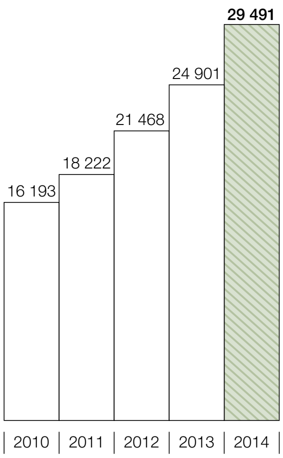
Note: Figures from 2010 to 2012 presented on a continuing normalised basis.
2013 and 2014 figures have been prepared in terms of IFRS 10 and 11, and the revised IAS 19.

NET INTEREST INCOME (BEFORE IMPAIRMENT OF ADVANCES) – UP 18%

Net interest income

R million

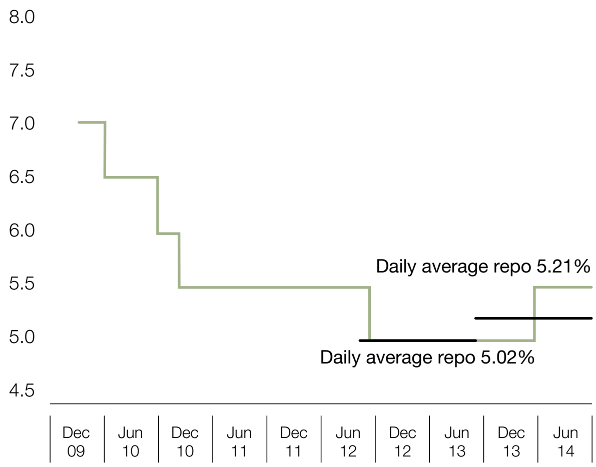
CAGR 16%



Note: Figures from 2010 to 2012 presented on a continuing normalised basis. 2013 and 2014 figures have been prepared in terms of IFRS 10 and 11, and the revised IAS 19.

Repo rate

%



Note: R106 billion = average endowment book for the year. Rates were higher by 19 bps on average in the current year, which translates into a positive endowment impact of approximately R201 million for the year.

Margin cascade table

Percentage of average interest-earning banking assets	%
June 2013 normalised margin	**4.79**
Capital and deposit endowment	**0.04**
Advances	**(0.04)**
– Change in balance sheet mix	**(0.01)**
– Asset pricing	**(0.03)**
Liabilities	**(0.01)**
– Change in balance sheet mix (deposits)	**(0.01)**
– Change in balance sheet mix (capital)	**0.01**
– Term funding cost	**0.02**
– Deposit pricing	**(0.03)**
Group Treasury and other movements	**0.15**
– Foreign currency liquidity buffer carry cost	**0.02**
– Accounting mismatches and interest rate hedges	**0.13**
June 2014 normalised margin	**4.93**

Segmental analysis of net interest income before impairment of advances

	Year ended 30 June		
R million	**2014**	**2013**	**% change**
FNB	**15 034**	13 145	14
Retail	**10 140**	8 891	14
– Residential mortgages	**3 033**	2 477	22
– Card	**1 382**	1 215	14
– Personal loans	**2 069**	2 194	(6)
– Other	**3 656**	3 005	22
Commercial	**4 900**	4 261	15
FNB Africa	**(6)**	(7)	(14)
RMB	**4 376**	3 664	19
Investment banking	**3 668**	3 061	20
Corporate banking	**708**	603	17
WesBank	**7 721**	6 767	14
FCC (including Group Treasury)	**2 376**	1 321	80
Net interest income – banking activities	**29 507**	24 897	19
Other*	**(16)**	4	(>100)
Net interest income	**29 491**	24 901	18

* *Includes consolidation adjustments.*

Key drivers

- Strong advances growth and ongoing asset repricing benefits in certain asset classes, such as residential mortgages, card, FNB commercial and RMB corporate banking.
- Continued reduction in overall NPLs, primarily driven by residential mortgages, corporate and commercial resulting in lower interest in suspense (ISP), although this benefit was tempered by increasing levels of NPLs in VAF and WesBank loans.
- Higher capital levels.
- Marginal endowment benefit resulting from the 50 bps increase in interest rates in January 2014.
- Unwind of the majority of the mark-to-market losses of R304 million on fair value term funding instruments relating to the narrowing of term funding spreads in the prior year, as these instruments pull to par.
- Non-repeat of hedging costs of R215 million associated with the capital investment in RMB Nigeria in 2013.
- Reduced dollar funding carry costs associated with dollar excess liquidity compared to the prior year.
- Deposit margins remained flat, although marginally negatively affected by some competitive pricing pressures.

Average balance sheet

		As at 30 June					
		2014			2013		
R million	Notes	Average balance	Interest income/ (expense)	Average rate %	Average balance	Interest income/ (expense)	Average rate %
INTEREST-EARNING ASSETS							
Average prime rate				**8.71**			8.52
Balances with central banks		**15 151**	**–**	**–**	13 464	–	–
Cash and cash equivalents		**17 824**	**795**	**4.46**	15 579	561	3.60
Liquid assets portfolio		**48 482**	**3 627**	**7.48**	42 784	3 059	7.15
Loans and advances to customers	1	**517 186**	**48 967**	**9.47**	448 099	41 994	9.37
Interest-earning assets		**598 643**	**53 389**	**8.92**	519 926	45 614	8.77
INTEREST-BEARING LIABILITIES							
Average JIBAR				**5.33**			5.18
Deposits due to customers	2	**(347 858)**	**(12 314)**	**3.54**	(308 792)	(10 111)	3.27
Group Treasury funding		**(215 109)**	**(11 401)**	**5.30**	(197 251)	(10 255)	5.20
Interest-bearing liabilities		**(562 967)**	**(23 715)**	**4.21**	(506 043)	(20 366)	4.02
ENDOWMENT AND TRADING BOOK							
Other assets*		**116 210**	**(183)**	**(0.16)**	128 040	(347)	(0.27)
Other liabilities**		**(90 508)**	**–**	**–**	(89 820)	–	–
NCNR preference shares		**(3 000)**	**–**	**–**	(3 000)	–	–
Equity		**(58 378)**	**–**	**–**	(49 103)	–	–
Endowment and trading book		**(35 676)**	**(183)**	**0.51**	(13 883)	(347)	2.50
Total interest-bearing liabilities, endowment and trading book		**(598 643)**	**(23 898)**	**3.99**	(519 926)	(20 713)	3.98
Net interest margin on average interest-earning assets		**598 643**	**29 491**	**4.93**	519 926	24 901	4.79

Interest income represents gross interest received on assets and interest expense represents gross interest paid on liabilities.

* *Includes preference share advances and trading assets.*

** *Includes trading liabilities.*

Note 1 – Margin analysis on loans and advances to customers

	Year ended 30 June			
	2014		**2013**	
R million	**Average balance**	**Average margin %**	**Average balance**	**Average margin %**
Average prime rate (RSA)		**8.71**		8.52
Advances				
Retail – secured	**269 218**	**2.93**	242 700	2.75
Residential mortgages	**166 620**	**1.73**	159 579	1.46
VAF*	**102 598**	**4.87**	83 121	5.23
Retail – unsecured	**41 409**	**13.08**	36 244	13.60
Card	**13 841**	**9.13**	12 192	9.08
Personal loans	**21 091**	**17.49**	19 373	17.99
– FNB loans	**12 696**	**15.49**	12 804	16.39
– WesBank loans	**8 395**	**20.51**	6 569	21.10
Overdrafts	**6 477**	**7.17**	4 679	7.18
Corporate and commercial	**206 559**	**2.63**	169 155	2.70
FNB commercial	**45 008**	**3.76**	38 930	3.73
– Mortgages	**12 490**	**2.58**	11 057	2.17
– Overdrafts	**18 911**	**4.93**	16 360	5.23
– Term loans	**13 607**	**3.21**	11 513	3.10
WesBank corporate	**34 116**	**2.77**	30 178	3.00
RMB investment banking	**124 789**	**2.19**	97 884	2.22
RMB corporate banking	**2 646**	**2.22**	2 163	2.05
Total advances**	**517 186**	**3.62**	448 099	3.61

The loans and advances margins are calculated using total net interest as a percentage of gross advances before impairments. Average balances are daily averages for FNB and WesBank and monthly averages for RMB and non-South African operations.

* *Normalised interest margin on WesBank's MotoNovo book has been impacted by a transfer of NII from FCC (including Group Treasury) to compensate WesBank for margin forfeited on securitised assets (refer to page 19). This is included in WesBank's NII whilst the securitised advances are not reflected on the Bank's balance sheet.*

** *Excluded from loans and advances to customers are assets under agreements to resell and preference share advances.*

Margin analysis on advances and deposits to customers is based on net interest income as a percentage of average advances/deposits. Net interest income is calculated as the difference between the client rate (earned or paid) and the transfer pricing rate (earned or paid by Group Treasury). The average margin is, therefore, net of funds transfer pricing.

The Bank operates a transfer pricing framework that incorporates liquidity cost benefits and risks into product pricing, including any regulatory costs and performance measurement for all significant business activities on- and off-balance sheet, thereby aligning liquidity risk-taking incentives of individual business units with the liquidity risk exposure this activity creates for the Bank as a whole.

Where fixed rate commitments are undertaken (fixed-rate loans or fixed deposits), the transfer pricing will also include the interest rate transfer price.

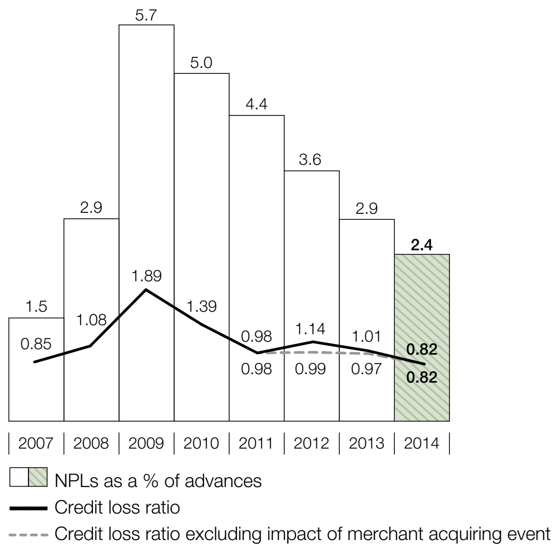
Note 2 – Margin analysis on deposits due to customers

	Year ended 30 June			
	2014		**2013**	
R million	**Average balance**	**Average margin %**	**Average balance**	**Average margin %**
Average prime rate (RSA)		**8.71**		8.52
Deposits				
Retail	**119 277**	**2.57**	107 173	2.56
Current and savings	**41 146**	**4.91**	35 953	4.80
Call	**3 111**	**2.63**	3 083	2.64
Money market	**28 032**	**1.55**	27 242	1.69
Term	**46 988**	**1.12**	40 895	1.16
Commercial	**129 098**	**2.32**	114 421	2.33
Current and savings	**48 898**	**4.37**	42 748	4.34
Call	**31 301**	**1.26**	27 019	1.37
Money market	**18 138**	**1.84**	17 328	1.89
Term	**30 761**	**0.43**	27 326	0.39
Corporate and investment banking	**99 483**	**0.69**	87 198	0.74
Current and savings	**40 623**	**1.21**	32 883	1.45
Call	**30 559**	**0.38**	31 783	0.37
Term	**28 301**	**0.29**	22 532	0.24
Total deposits	**347 858**	**1.94**	308 792	1.96

Average balances are daily averages for FNB and WesBank and monthly averages for RMB and non-South African operations.
Institutional funding is excluded from deposits due to customers.

CREDIT HIGHLIGHTS

NPL and impairment history



The table below summarises key information on advances, NPLs and impairments in the credit portfolio.

	Year ended 30 June		
R million	**2014**	**2013**	**% change**
Total gross advances*,^	**635 136**	560 543	13
NPLs^	**14 984**	16 125	(7)
NPLs as a % of advances	**2.36**	2.88	
Impairment charge – total^	**4 925**	5 334	(8)
– Business as usual	**4 925**	5 104	(4)
– Special impairment**	**–**	230	(100)
Impairment charge as a % of average advances	**0.82**	1.01	
– Business as usual	**0.82**	0.97	
– Special impairment	**–**	0.04	
Total impairments*,^	**13 024**	11 962	9
– Portfolio impairments	**6 963**	5 540	26
– Specific impairments	**6 061**	6 422	(6)
Implied loss given default (coverage)#	**40.4**	39.8	
Total impairments coverage ratio†	**86.9**	74.2	
Performing book coverage ratio‡	**1.12**	1.02	

* *Includes cumulative credit fair value adjustments.*
** *This impairment relates to the discovery of the deliberate concealment by employees of unrecovered amounts in FNB's merchant acquiring business unit during the year ended June 2012. This was classified as a boundary event. The amount shown in June 2013 is the final impairment charge for that event.*
# *Amortised cost specific impairments and non-performing book cumulative credit fair value adjustments as a percentage of NPLs.*
† *Total amortised cost impairments and total cumulative credit fair value adjustments as a percentage of NPLs.*
‡ *Portfolio impairments as a percentage of the performing book.*
^ *Audited.*

Credit impairments trended down 8% during the year.

Excluding the impact of the merchant acquiring event of R230 million in 2013, operational credit impairments decreased 4%. Strong book growth resulted in an increase in NPLs in business banking, whilst the emergence of a worsening credit cycle resulted in higher NPLs in certain of the other retail portfolios.

The increased impairment coverage ratio reflects the change in NPL mix and higher portfolio impairments. Portfolio impairments were driven by increasing levels of arrears in VAF, WesBank loans and card (which remain in line with expectations) and strong book growth. In addition, portfolio overlays increased on the back of deteriorating macroeconomic indicators, resulting in the net creation of an additional R450 million of central portfolio overlays. The total performing book coverage ratio increased from 102 bps in the prior year to 112 bps.

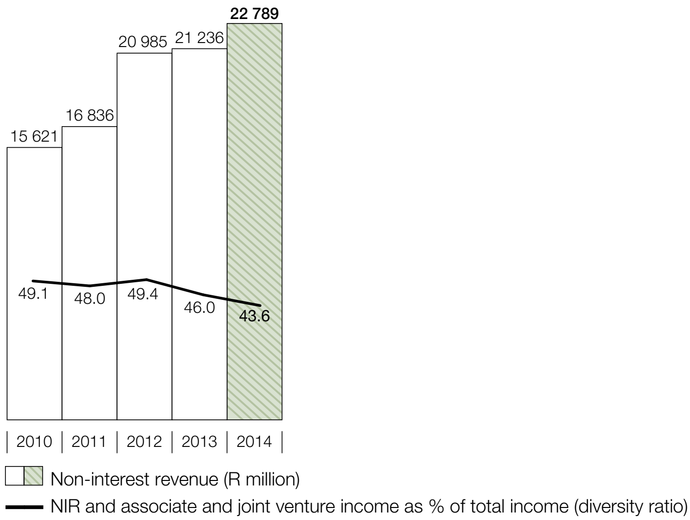
Key drivers

- The 19% reduction in residential mortgage NPLs reflecting stable new inflow levels on the back of disciplined origination strategies, continued high curing rates of defaulted accounts and the effectiveness of workout strategies.
- FNB commercial and RMB investment banking division NPLs reduced as a result of a combination of workout and debt restructuring opportunities.
- Increased NPLs in card, other retail, VAF and WesBank loans, impacted by a combination of strong book growth in the current and prior financial years and the worsening credit cycle.
- Post write-off recoveries in excess of R1.6 billion, primarily driven by card, personal loans and VAF.
- Increased NPLs in business banking, impacted by strong book growth and the worsening cycle.

NON-INTEREST REVENUE – UP 7%

Non-interest revenue and diversity ratio

NIR CAGR 10%



Note: Figures from 2010 to 2012 presented on a continuing normalised basis.
2013 and 2014 figures have been prepared in terms of IFRS 10 and 11, and the revised IAS 19.
2013 and 2014 figures are presented net of staff costs relating to the remeasurement of the share-based payment liability as a result of changes in the share price.

NIR growth was underpinned by ongoing strategies to grow volumes. Fee and commission income represents 83% of total NIR.

Analysis of non-interest revenue

		Year ended 30 June		
R million	**Notes**	**2014**	**2013**	**% change**
Fee and commission income	1	**18 812**	17 428	8
Fair value income	2	**2 116**	2 309	(8)
Investment loss	3	**(99)**	(69)	43
Other non-interest revenue*		**1 960**	1 568	25
Total non-interest revenue		**22 789**	21 236	7

* *Significant increase driven by growth in rental income in general, and specifically full maintenance rentals during the year.*

Note 1 – Fee and commission income – up 8%

R million	2014	2013	% change
	Year ended 30 June		
Bank commissions and fee income	**18 568**	17 020	9
– Card commissions	**3 149**	2 618	20
– Cash deposit fees	**1 664**	1 623	3
– Commissions on bills, drafts and cheques	**1 595**	1 272	25
– Bank charges	**12 160**	11 507	6
Knowledge-based fees	**1 137**	1 054	8
Insurance income	**964**	893	8
Other non-bank commissions	**1 301**	1 246	4
Gross fee and commission income	**21 970**	20 213	9
Fee and commission expenditure	**(3 158)**	(2 785)	13
Total fee and commission income	**18 812**	17 428	8

Key drivers

- FNB grew fee and commission income 6%, underpinned by a 12% increase in transaction volumes on the back of ongoing growth in core transactional accounts and an increase in product cross-sell.
- Total electronic volumes increased 15%:

	Year-on-year increase in transaction volumes %
Cellphone banking (excludes prepaid)	**30**
Internet banking	**17**
Debit card	**16**
Cheque card	**24**
Banking app	**>100**

- The increase in WesBank's fee and commission income was driven by new business volume growth of 15% and the inclusion for the first time of the fleet business and management fees from associates in the Bank's results.
- Resilient levels of knowledge-based fees at RMB, driven by:
  - structuring and origination fees on the back of robust balance sheet growth in the current year;
  - a solid performance from M&A advisory activities especially in the second half of the financial year, benefiting from certain key transactions and a strong rebound in equity capital markets activity; and
  - lower capital raising and underwriting fees due to a slowdown in both debt and equity capital market activity, impacted by lower business confidence levels.

Note 2 – Fair value income – down 8 %

Key drivers

- RMB's South African client execution revenue growth remained muted due to increased competition, compressed margins and lower volumes.
- The flow trading and residual risk business benefited from higher levels of client flow across various product classes, resulting in income increasing 19%.
- The prior year included large fair value gains on structured transactions that were not repeated in the current year.

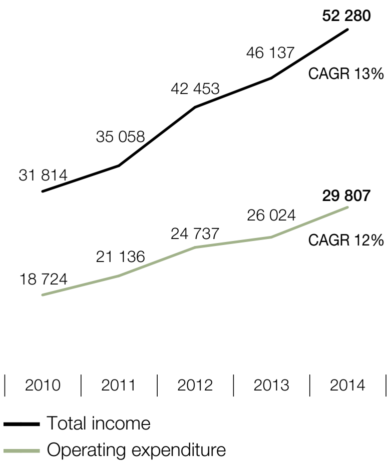
Note 3 – Investment loss – up 43%

	Year ended 30 June		
R million	**2014**	**2013**	**% change**
Profit on disposal of investment in associates	**–**	27	(100)
Other investment income	**(99)**	(96)	3
Total investment loss	**(99)**	(69)	43

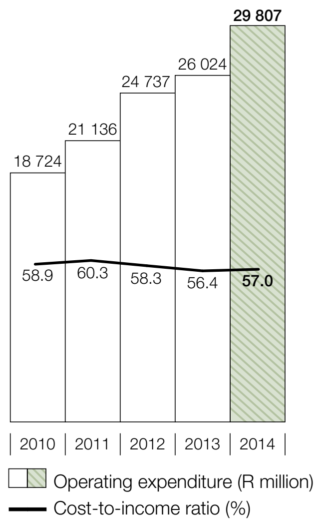
OPERATING EXPENSES – UP 15%

Operating jaws

R million



Operating efficiency



Note: Figures from 2010 to 2012 presented on a continuing normalised basis.
2013 to 2014 figures have been prepared in terms of IFRS 10 and 11, and the revised IAS 19.

Operating expenses

	Year ended 30 June		
R million	**2014**	**2013**	**% change**
Staff expenditure	**17 149**	14 799	16
– Direct staff expenditure	**10 374**	9 144	13
– Other staff-related expenditure*	**6 775**	5 655	20
Depreciation	**1 673**	1 627	3
Amortisation of other intangible assets	**54**	94	(43)
Advertising and marketing	**1 020**	957	7
Insurance	**206**	209	(1)
Lease charges	**1 023**	960	7
Professional fees	**1 156**	967	20
Audit fees	**190**	185	3
Computer expenses	**1 407**	1 088	29
Maintenance	**662**	751	(12)
Telecommunications	**289**	293	(1)
Cooperation agreements and joint ventures**	**1 052**	986	7
Property	**678**	687	(1)
Business travel	**288**	262	10
Other expenditure	**2 960**	2 159	37
Total operating expenses	**29 807**	26 024	15

* *2013 figures have been restated, staff costs relating to the remeasurement of the share-based payment liability as a result of changes in the share price are now included in NIR and not operating expenses.*

** *The 2013 cooperation agreements and JV profit share expense has been restated as the process was refined during the current year.*

Key drivers

- Cost growth of 15% was driven by higher levels of variable costs associated with income generation and ongoing investment into infrastructure, capacity and expansion.
- Staff costs increased 16%:

Description	% change	Reasons
Direct staff costs	13	Unionised increases of 8% and a 2% increase in the staff complement in South Africa.
Variable staff costs	23	Directly related to higher levels of profitability.
IFRS 2 Share-based payment expenses	5	Reflecting the increase in FirstRand's share price of the shares granted and the number of new grants.

- Growth in revenues from WesBank's various alliance partners resulted in an increase of 7% in cooperation agreements and JV profit share expense.
- Advertising and marketing spend increased on the back of ongoing new product and client acquisition campaigns.
- The 29% growth in computer expenses reflects the increased spend on electronic platforms and related infrastructure.

DIRECT TAXATION – UP 34%

Key drivers

- Higher levels of profitability during the year.
- A change in income mix, with strong growth in NII and standard-rate taxable NIR, e.g. fee and commission income.

SUMMARISED STATEMENT OF FINANCIAL POSITION – NORMALISED

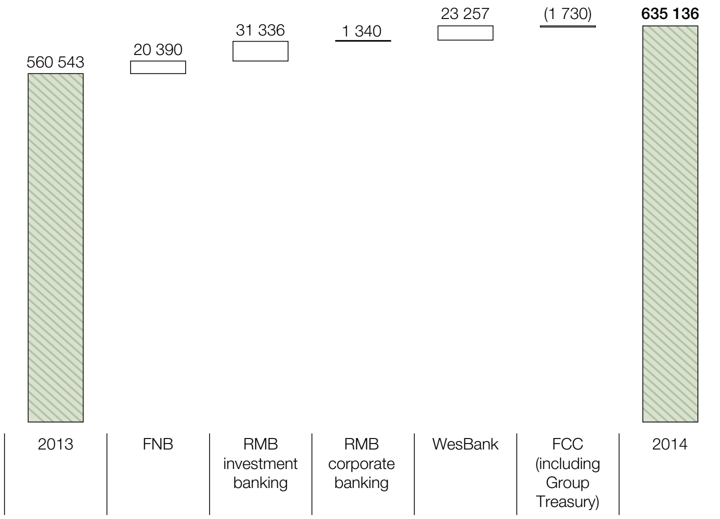
	Year ended 30 June		
R million	**2014**	**2013**	**% change**
ASSETS			
Derivative financial instruments	**38 633**	51 755	(25)
Advances	**622 112**	548 581	13
Investment securities and other investments	**88 783**	94 961	(7)
Other assets	**101 681**	84 278	21
Total assets	**851 209**	779 575	9
EQUITY AND LIABILITIES			
Liabilities			
Deposits	**693 176**	629 872	10
Short trading positions and derivative financial instruments	**47 026**	55 863	(16)
Other liabilities	**46 943**	39 433	19
Total liabilities	**787 145**	725 168	9
Total equity	**64 064**	54 407	18
Total equity and liabilities	**851 209**	779 575	9

ADVANCES – UP 13%

	Year ended 30 June		
R million	**2014**	**2013**	**% change**
Normalised gross advances	**635 136**	560 543	13
Normalised impairment of advances	**(13 024)**	(11 962)	9
Normalised net advances	**622 112**	548 581	13

Gross advances by franchise

R million



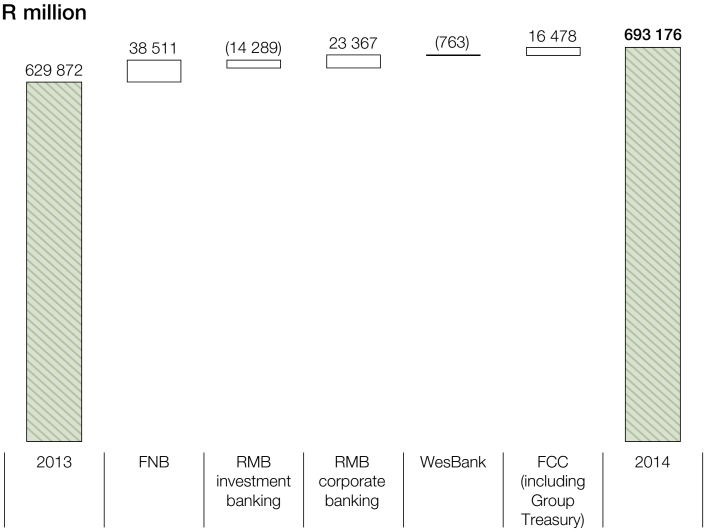
The Bank delivered strong advances growth. Although retail is moderating, robust growth continues in the commercial and wholesale portfolios.

Portfolio/product	% change	Key drivers
FNB retail	**6**	
Residential mortgages	5	Growth of 19% in secured affordable housing, reflecting client demand. 6% growth in FNB HomeLoans benefiting from an improvement in new business volumes.
Card	13	Driven by targeted new client acquisition and maturing utilisation profile.
Other	>50	Growth of 41% in overdrafts and in excess of 50% in revolving credit facilities, although growth has moderated from the comparative period, reflecting lower credit appetite, slowing customer acquisition and competitive pressures.
Personal loans	(3)	Reflects conservative origination strategies and risk appetite, with consumer personal loans (including student loans) growing modestly at 5%, and mass market loans reducing 16% year-on-year.
FNB commercial	**18**	Driven by new client acquisition in the business segment, resulting in a 31% growth in business banking advances, with continuing growth in commercial property finance, agriculture and overdraft product sets resulting in 17% growth in commercial advances.
RMB investment banking core advances (excluding repos)	**28**	Bespoke investment grade lending on the back of client balance sheet restructures. Drawdowns relating to infrastructure development in South Africa, in particular renewable energy. Strong cross-border deal flow from the rest of Africa.
WesBank	**17**	Strong growth in new business volumes with 58% (in GBP terms) from MotoNovo, 10% from corporate and 21% from personal loans. Growth in new business volumes moderated to 6% in SA motor retail reflecting the more constrained economic environment and significant year-on-year slowdown in new vehicle sales.

DEPOSITS – UP 10%

Gross deposits by franchise

R million



Client deposits grew 10% year-on-year.

Key drivers

- FNB's growth of 16% across all segments.
- Strong contributions from wealth (30%) and business banking (18%).
- Retail deposit growth of 13% supported by ongoing product innovation. Commercial deposit growth (19%) was assisted by new client acquisition and cross-sell.

Product	Growth in deposit balances %
Current accounts	**10**
Savings and transmission accounts	**10**
Call accounts	**22**
Notice accounts	**20**

segment report

SEGMENT REPORT
for the year ended 30 June 2014

R million	FNB							
	Retail segment							
	Residential mortgages	Card	Personal loans	Retail other	**Retail segment**	Commercial	FNB Africa*	**Total FNB**
Net interest income before impairment of advances	3 033	1 382	2 069	3 656	**10 140**	4 900	(6)	**15 034**
Impairment of advances	(158)	(88)	(980)	(593)	**(1 819)**	(332)	(30)	**(2 181)**
Net interest income after impairment of advances	2 875	1 294	1 089	3 063	**8 321**	4 568	(36)	**12 853**
Non-interest revenue	310	1 173	848	7 782	**10 113**	5 419	337	**15 869**
Income from operations	3 185	2 467	1 937	10 845	**18 434**	9 987	301	**28 722**
Operating expenses	(1 444)	(1 255)	(782)	(8 096)	**(11 577)**	(5 795)	(424)	**(17 796)**
Income before tax	1 741	1 212	1 155	2 749	**6 857**	4 192	(123)	**10 926**
Indirect tax	(37)	(38)	(33)	(350)	**(458)**	(30)	(1)	**(489)**
Profit for the year before tax	1 704	1 174	1 122	2 399	**6 399**	4 162	(124)	**10 437**
Income tax expense	(477)	(329)	(314)	(674)	**(1 794)**	(1 165)	35	**(2 924)**
Profit for the year	1 227	845	808	1 725	**4 605**	2 997	(89)	**7 513**
Attributable to:								
Ordinary equityholders	1 227	845	808	1 725	**4 605**	2 997	(89)	**7 513**
NCNR preference shareholders	–	–	–	–	**–**	–	–	**–**
Profit for the year	1 227	845	808	1 725	**4 605**	2 997	(89)	**7 513**
Attributable earnings to ordinary equityholders	1 227	845	808	1 725	**4 605**	2 997	(89)	**7 513**
Headline earnings adjustments	–	–	–	–	**–**	–	–	**–**
Headline earnings	1 227	845	808	1 725	**4 605**	2 997	(89)	**7 513**
TRS adjustment	–	–	–	–	**–**	–	–	**–**
IAS 19 adjustment	–	–	–	–	**–**	–	–	**–**
Normalised earnings	1 227	845	808	1 725	**4 605**	2 997	(89)	**7 513**
Cost-to-income ratio (%)	43.2	49.1	26.8	70.8	**57.2**	56.2	>100	**57.6**
Diversity ratio (%)	9.3	45.9	29.1	68.0	**49.9**	52.5	>100	**51.4**
Credit loss ratio (%)	0.09	0.64	7.72	6.78	**0.90**	0.71	–	**0.88**
NPLs as a percentage of advances (%)	3.30	2.33	5.82	5.29	**3.48**	2.61	–	**3.31**
Income statement includes:								
Depreciation	(6)	(5)	(2)	(1 148)	**(1 161)**	(24)	–	**(1 185)**
Amortisation	–	–	–	(9)	**(9)**	(13)	–	**(22)**
Impairment charges	–	–	–	(17)	**(17)**	–	–	**(17)**
Statement of financial position includes:								
Advances (after ISP – before impairments)	170 677	14 634	12 516	10 596	**208 423**	50 642	–	**259 065**
NPLs	5 625	341	729	561	**7 256**	1 321	–	**8 577**
Investments in associates	–	–	–	–	**–**	–	–	**–**
Total deposits (including non-recourse deposits)	128	1 232	25	140 304	**141 689**	139 394	–	**281 083**
Total assets	169 282	14 102	11 448	26 120	**220 952**	49 710	104	**270 766**
Total liabilities	167 640	12 928	10 327	23 787	**214 682**	45 561	229	**260 472**
Capital expenditure	6	9	1	2 328	**2 344**	45	–	**2 389**

* *Relates to head office costs. Earnings from subsidiaries in the rest of Africa form part of FREMA and are not reported in Bank (see simplified group structure on page 3).*

RMB								
Investment banking	Corporate banking	Total RMB	WesBank	FCC (including Group Treasury)	Consolidation and IFRS adjustments	FirstRand Bank – normalised	Normalised and headline earnings adjustments	FirstRand Bank – IFRS
3 668	708	4 376	7 721	2 376	(16)	29 491	(4 292)	25 199
(170)	(31)	(201)	(2 060)	(34)	(449)	(4 925)	98	(4 827)
3 498	677	4 175	5 661	2 342	(465)	24 566	(4 194)	20 372
4 858	1 086	5 944	2 045	5	(1 074)	22 789	5 833	28 622
8 356	1 763	10 119	7 706	2 347	(1 539)	47 355	1 639	48 994
(3 930)	(1 273)	(5 203)	(4 665)	(2 583)	440	(29 807)	(1 269)	(31 076)
4 426	490	4 916	3 041	(236)	(1 099)	17 548	370	17 918
(57)	(25)	(82)	(253)	28	–	(796)	–	(796)
4 369	465	4 834	2 788	(208)	(1 099)	16 752	370	17 122
(1 223)	(130)	(1 353)	(779)	61	756	(4 239)	(136)	(4 375)
3 146	335	3 481	2 009	(147)	(343)	12 513	234	12 747
3 146	335	3 481	2 009	(339)	(343)	12 321	234	12 555
–	–	–	–	192	–	192	–	192
3 146	335	3 481	2 009	(147)	(343)	12 513	234	12 747
3 146	335	3 481	2 009	(339)	(343)	12 321	234	12 555
–	–	–	–	–	–	–	68	68
3 146	335	3 481	2 009	(339)	(343)	12 321	302	12 623
–	–	–	–	–	–	–	(198)	(198)
–	–	–	–	–	–	–	(104)	(104)
3 146	335	3 481	2 009	(339)	(343)	12 321	–	12 321
46.1	71.0	50.4	47.8	>100	40.4	57.0	–	57.7
57.0	60.5	57.6	20.9	0.2	98.5	43.6	–	53.2
0.09	0.54	0.10	1.42	1.06	(>100)	0.82	–	0.81
0.83	0.09	0.81	2.97	–	–	2.36	–	2.37
(65)	(5)	(70)	(375)	(43)	–	(1 673)	–	(1 673)
(5)	–	(5)	(25)	(1)	(1)	(54)	–	(54)
–	–	–	–	3	–	(14)	(117)	(131)
210 401	6 441	216 842	156 856	2 403	(30)	635 136	(3 485)	631 651
1 740	6	1 746	4 661	–	–	14 984	–	14 984
–	–	–	–	–	–	–	–	–
103 111	69 222	172 333	48	241 157	(1 445)	693 176	–	693 176
319 688	6 825	326 513	156 743	99 879	(2 692)	851 209	–	851 209
315 450	6 303	321 753	155 058	52 103	(2 241)	787 145	–	787 145
77	4	81	972	37	–	3 479	–	3 479

SEGMENT REPORT
for the year ended 30 June 2013

R million	FNB Retail segment: Residential mortgages	FNB Retail segment: Card	FNB Retail segment: Personal loans	FNB Retail segment: Retail other	FNB Retail segment: Retail segment	FNB: Commercial	FNB: FNB Africa*	FNB: Total FNB
Net interest income before impairment of advances	2 477	1 215	2 194	3 005	**8 891**	4 261	(7)	**13 145**
Impairment of advances	(507)	(23)	(1 402)	(613)	**(2 545)**	(317)	–	**(2 862)**
Net interest income after impairment of advances	1 970	1 192	792	2 392	**6 346**	3 944	(7)	**10 283**
Non-interest revenue	293	1 182	1 031	7 149	**9 655**	4 731	303	**14 689**
Income from operations	2 263	2 374	1 823	9 541	**16 001**	8 675	296	**24 972**
Operating expenses	(1 358)	(1 163)	(834)	(7 033)	**(10 388)**	(5 139)	(358)	**(15 885)**
Income before tax	905	1 211	989	2 508	**5 613**	3 536	(62)	**9 087**
Indirect tax	(34)	(38)	(34)	(250)	**(356)**	(32)	(1)	**(389)**
Profit for the year before tax	871	1 173	955	2 258	**5 257**	3 504	(63)	**8 698**
Income tax expense	(244)	(328)	(267)	(630)	**(1 469)**	(983)	18	**(2 434)**
Profit for the year	627	845	688	1 628	**3 788**	2 521	(45)	**6 264**
Attributable to:								
Ordinary equityholders	627	845	688	1 628	**3 788**	2 521	(45)	**6 264**
NCNR preference shareholders	–	–	–	–	**–**	–	–	**–**
Profit for the year	627	845	688	1 628	**3 788**	2 521	(45)	**6 264**
Attributable earnings to ordinary equityholders	627	845	688	1 628	**3 788**	2 521	(45)	**6 264**
Headline earnings adjustments	–	–	–	–	**–**	–	–	**–**
Headline earnings	627	845	688	1 628	**3 788**	2 521	(45)	**6 264**
TRS adjustment	–	–	–	–	**–**	–	–	**–**
IAS 19 adjustment	–	–	–	–	**–**	–	–	**–**
Normalised earnings	627	845	688	1 628	**3 788**	2 521	(45)	**6 264**
Cost-to-income ratio (%)	49.0	48.5	25.9	69.3	**56.0**	57.2	>100	**57.1**
Diversity ratio (%)	10.6	49.3	32.0	70.4	**52.1**	52.6	>100	**52.8**
Credit loss ratio (%)	0.32	0.19	11.39	11.54	**1.34**	0.80	–	**1.25**
NPLs as a percentage of advances (%)	4.24	2.32	7.32	6.64	**4.40**	3.34	–	**4.21**
Income statement includes:								
Depreciation	(9)	(4)	(2)	(1 105)	**(1 120)**	(24)	–	**(1 144)**
Amortisation	–	–	–	(48)	**(48)**	(13)	–	**(61)**
Impairment charges	–	–	–	(10)	**(10)**	–	–	**(10)**
Statement of financial position includes:								
Advances (after ISP – before impairments)	163 046	13 001	12 885	6 909	**195 841**	42 834	–	**238 675**
NPLs	6 911	302	943	459	**8 615**	1 429	–	**10 044**
Investments in associates	18	–	–	(18)	**–**	–	–	**–**
Total deposits (including non-recourse deposits)	129	1 212	–	124 014	**125 355**	117 217	–	**242 572**
Total assets	161 302	12 499	11 713	20 966	**206 480**	42 035	123	**248 638**
Total liabilities	160 495	11 333	10 758	18 604	**201 190**	38 551	186	**239 927**
Capital expenditure	7	7	1	2 172	**2 187**	102	–	**2 289**

* *Relates to head office costs. Earnings from subsidiaries in the rest of Africa form part of FREMA and are not reported in Bank (see simplified group structure on page 3).*

RMB								
Investment banking	Corporate banking	Total RMB	WesBank	FCC (including Group Treasury)	Consolidation and IFRS adjustments	FirstRand Bank – normalised	Normalised and headline earnings adjustments	FirstRand Bank – IFRS
3 061	603	**3 664**	**6 767**	1 321	4	**24 901**	(3 218)	**21 683**
(912)	(43)	**(955)**	**(1 565)**	48	–	**(5 334)**	893	**(4 441)**
2 149	560	**2 709**	**5 202**	1 369	4	**19 567**	(2 325)	**17 242**
5 562	1 039	**6 601**	**1 576**	255	(1 885)	**21 236**	2 887	**24 123**
7 711	1 599	**9 310**	**6 778**	1 624	(1 881)	**40 803**	562	**41 365**
(3 506)	(1 075)	**(4 581)**	**(3 789)**	(2 336)	567	**(26 024)**	(649)	**(26 673)**
4 205	524	**4 729**	**2 989**	(712)	(1 314)	**14 779**	(87)	**14 692**
(49)	(32)	**(81)**	**(219)**	110	–	**(579)**	–	**(579)**
4 156	492	**4 648**	**2 770**	(602)	(1 314)	**14 200**	(87)	**14 113**
(1 174)	(138)	**(1 312)**	**(776)**	182	1 178	**(3 162)**	27	**(3 135)**
2 982	354	**3 336**	**1 994**	(420)	(136)	**11 038**	(60)	**10 978**
2 982	354	**3 336**	**1 994**	(616)	(136)	**10 842**	(60)	**10 782**
–	–	**–**	**–**	196	–	**196**	–	**196**
2 982	354	**3 336**	**1 994**	(420)	(136)	**11 038**	(60)	**10 978**
2 982	354	**3 336**	**1 994**	(616)	(136)	**10 842**	(60)	**10 782**
–	–	**–**	**–**	–	–	**–**	85	**85**
2 982	354	**3 336**	**1 994**	(616)	(136)	**10 842**	25	**10 867**
–	–	**–**	**–**	–	–	**–**	85	**85**
–	–	**–**	**–**	–	–	**–**	(110)	**(110)**
2 982	354	**3 336**	**1 994**	(616)	(136)	**10 842**	–	**10 842**
40.7	65.5	**44.6**	**45.4**	>100	30.1	**56.4**	–	**58.2**
64.5	63.3	**64.3**	**18.9**	16.2	>100	**46.0**	–	**52.7**
0.54	1.11	**0.56**	**1.28**	–	–	**1.01**	–	**0.85**
1.28	0.18	**1.25**	**2.83**	–	–	**2.88**	–	**2.89**
(62)	(33)	**(95)**	**(297)**	(89)	(2)	**(1 627)**	–	**(1 627)**
(13)	–	**(13)**	**(15)**	(5)	–	**(94)**	–	**(94)**
(2)	–	**(2)**	**–**	–	–	**(12)**	(260)	**(272)**
179 065	5 101	**184 166**	**133 599**	4 028	75	**560 543**	(3 250)	**557 293**
2 296	9	**2 305**	**3 776**	–	–	**16 125**	–	**16 125**
44	–	**44**	**–**	–	–	**44**	–	**44**
117 400	45 855	**163 255**	**811**	224 520	(1 286)	**629 872**	–	**629 872**
296 530	5 106	**301 636**	**134 869**	98 632	(4 200)	**779 575**	–	**779 575**
294 020	4 801	**298 821**	**132 765**	57 408	(3 753)	**725 168**	–	**725 168**
57	13	**70**	**1 333**	60	63	**3 815**	–	**3 815**

ADDITIONAL SEGMENTAL DISCLOSURE – WESBANK

	Year ended 30 June 2014				
	VAF				
	Retail				
R million	South Africa and Africa	MotoNovo	Corporate and commercial	Personal loans	Total WesBank
NII before impairment of advances	**3 847**	**1 147**	**993**	**1 734**	**7 721**
Impairment of advances	**(1 204)**	**(135)**	**(119)**	**(602)**	**(2 060)**
Profit before tax	**1 001**	**650**	**345**	**792**	**2 788**
Normalised earnings	**723**	**468**	**248**	**570**	**2 009**
Advances	**95 863**	**13 185**	**38 659**	**9 149**	**156 856**
NPLs	**3 387**	**37**	**578**	**659**	**4 661**
Advances margin (%)	**4.23**	**10.59***	**2.77**	**20.51**	**5.28**
NPLs (%)	**3.53**	**0.28**	**1.50**	**7.20**	**2.97**
Credit loss ratio (%)	**1.32**	**1.30**	**0.33**	**7.34**	**1.42**

	Year ended 30 June 2013				
	VAF				
	Retail				
R million	South Africa and Africa	MotoNovo	Corporate and commercial	Personal loans	Total WesBank
NII before impairment of advances	3 488	777	1 063	1 439	6 767
Impairment of advances	(908)	(97)	(130)	(430)	(1 565)
Profit before tax	1 101	444	476	749	2 770
Normalised earnings	792	320	343	539	1 994
Advances	85 758	7 689	32 905	7 247	133 599
NPLs	2 439	29	864	444	3 776
Advances margin (%)	4.64	13.78*	3.00	21.10	5.54
NPLs (%)	2.84	0.38	2.63	6.13	2.83
Credit loss ratio (%)	1.18	1.62	0.41	6.54	1.28

* *Normalised interest margin on WesBank's MotoNovo book has been impacted by a transfer of NII from FCC (including Group Treasury) to compensate WesBank for margin forfeited on securitised assets (refer to page 19). This is included in WesBank's NII, whilst the securitised advances are not reflected on the Bank's balance sheet.*

balance sheet analysis

ECONOMIC VIEW OF THE BALANCE SHEET

The balance sheet structure has remained largely unchanged year-on-year.

When assessing the underlying risk in the balance sheet, the Bank's asset profile is dominated by a balanced advances portfolio, which constitutes 78% of total assets. The composition of the net advances portfolio consists of retail secured (45%), retail unsecured (7%) and corporate and commercial (48%). Total NPLs were R15.0 billion (2.36% as a percentage of advances) with a credit loss ratio of 0.82% and 89% of advances are rated B upper or better.

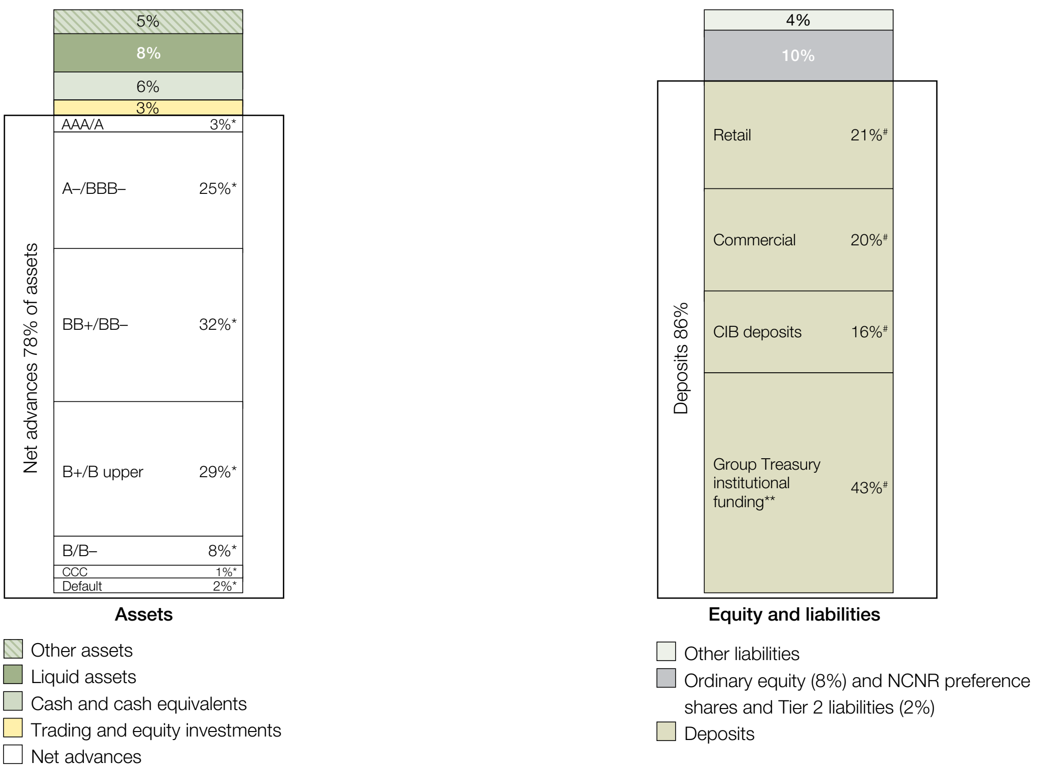
Cash and cash equivalents and liquid assets represent 6% and 8% respectively of total assets. Only a small portion of assets relates to the investment and trading businesses. Market risk arising from trading activities has remained low.

The Bank's funding profile continues to reflect the structural funding issues associated with the South African banking sector, however, the Bank has continued to reduce its reliance on institutional funding and has further improved the term profile of institutional funding from a weighted average remaining term of 12 months in 2009 to 27 months in 2014.

The Bank's capital ratios remained strong with the CET1 ratio at 13.6%, Tier 1 ratio at 14.2% and total capital adequacy ratio at 16.1%. Financial gearing reduced to 14.5 times (2013: 15.2 times).

Economic view of the balance sheet as at 30 June 2014

%



* *Of net advances*

\# *Of deposits*

** *Includes consolidation and IFRS adjustments*

Note: Derivative-, securities lending- and short trading position assets and liabilities have been netted off.

CAPITAL

Refer to pages 107 to 113 of the *risk and capital management report* for an overview of the Bank's capital position and capital management practices.

FUNDING AND LIQUIDITY

Refer to pages 169 to 182 of the *risk and capital management report* for an analysis of the Bank's funding and liquidity position and strategies.

CREDIT

Credit strategy is managed as part of the broader financial resource management process and is aligned with the Group's macroeconomic outlook.

CREDIT HIGHLIGHTS AT A GLANCE

The Bank's total gross advances increased 13% year-on-year with growth in corporate and commercial advances particularly robust at 18%. Retail advances growth of 10% was achieved within the Group's risk appetite framework.

NPLs continued to trend downwards and decreased 7% year-on-year. Retail NPLs declined 2% mainly as a result of the continued improvement in the residential mortgage portfolio offset by the 7% increase in the unsecured lending portfolio. The workout of certain non-performing accounts led to the significant improvement of 21% in corporate and commercial NPLs at June 2014. Total NPLs as a percentage of advances improved to 2.36% from 2.88% at June 2013.

NPL coverage is 40.4%. The decline in retail coverage to 33% is expected and attributable to the positive performance of the underlying portfolios in recent years due to proactive risk mitigating measures implemented by the Bank since 2011. The increasing proportion of restructured debt review accounts (on which a lower coverage ratio applies) continues to drive the VAF coverage ratio down. Corporate coverage increased significantly to 64% from 54% at June 2013 as a result of the enhancement of collateral information and ongoing actions to resolve certain non-performing accounts.

The credit loss ratio of 0.82% is a significant improvement on the prior year as specific impairment losses continued to reduce.

The table below summarises key information on advances, NPLs and impairments in the credit portfolio for the year under review.

		Year ended 30 June		
R million	**Notes**	**2014**	**2013**	**% change**
Total gross advances*,^	1	**635 136**	560 543	13
NPLs^	2	**14 984**	16 125	(7)
NPLs as a % of advances		**2.36**	2.88	
Impairment charge – total^	3	**4 925**	5 334	(8)
– Business as usual		**4 925**	5 104	(4)
– Special impairment**		**–**	230	(100)
Impairment charge as a % of average advances		**0.82**	1.01	
– Business as usual		**0.82**	0.97	
– Special impairment		**–**	0.04	
Total impairments*,^	4	**13 024**	11 962	9
– Portfolio impairments		**6 963**	5 540	26
– Specific impairments		**6 061**	6 422	(6)
Implied loss given default (coverage)#	4	**40.4**	39.8	
Total impairments coverage ratio†		**86.9**	74.2	
Performing book coverage ratio‡		**1.12**	1.02	

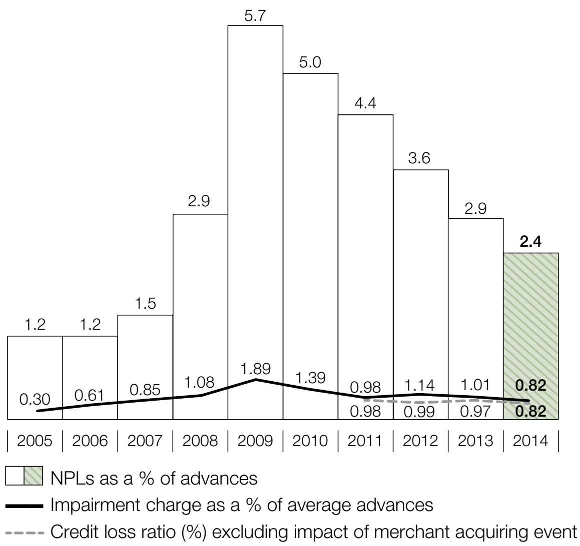
* *Includes cumulative credit fair value adjustments.*
** *This impairment relates to the discovery during the year ended June 2012 of the deliberate concealment by employees of unrecovered amounts in FNB's merchant acquiring business unit. This was classified as a boundary event. The amount shown in June 2013 is the final impairment charge for that event.*
\# *Amortised cost specific impairments and non-performing book cumulative credit fair value adjustments as a percentage of NPLs.*
† *Total amortised cost impairments and total cumulative credit fair value adjustments as a percentage of NPLs.*
‡ *Portfolio impairments as a percentage of the performing book.*
^ *Audited.*

The notes referred to in the table above are detailed on the following pages. Certain portfolio comparatives have been restated to reflect the current segmentation of the business.

The credit information in this section is presented on a normalised basis. The normalised basis differs from IFRS in that the credit fair value adjustments on fair value advances were reversed to reflect the advances and impairments as if accounted for on an accrual basis. The adjustments had the following impact:

- advances were adjusted (upwards) by the statement of financial position credit fair value adjustments of R3 485 million (June 2013: R3 250 million); and
- IFRS credit impairments in the statement of comprehensive income were adjusted to include the credit fair value adjustment impact of R98 million (June 2013: R893 million). Under IFRS, these are accounted for under NIR.

Total NPLs and impairments



Retail credit portfolios

- Retail NPLs decreased 2%. NPLs as a percentage of advances decreased to 3.47% from 3.89%.
- NPLs in the residential mortgage portfolio continue to decline. The rate of inflows into NPLs has also slowed. NPLs as a percentage of advances declined from 4.24% to 3.30%.
- The 48% increase in WesBank personal loans NPLs is due to increased inflows as well as increasing debt review restructured accounts. At 30 June 2014, debt review restructured accounts represented 51% of NPLs and, due to the amended repayment profile, debt review restructured accounts remain on the books for an extended period if in adherence with renegotiated terms. These accounts are reported in NPLs even though clients may be fully performing in terms of the revised repayment terms. This is in line with the Group's policy not to reclassify accounts out of NPLs, i.e. accounts will only migrate out of NPLs when clients have repaid all arrears in terms of their original credit facilities.
- The retail impairment charge as a percentage of average advances was 1.22% (June 2013: 1.34%). The improvement was due to the slowdown in the inflow of NPLs and benefited from strong post write-off recoveries of R1.6 billion, mainly emanating from the unsecured portfolios and VAF.

Corporate and commercial credit portfolios

- NPLs in the corporate and commercial portfolios declined year-on-year as a result of various strategies to resolve NPL accounts. NPLs as a percentage of advances improved to 1.19% from 1.77%.
- The increase in NPL coverage ratios is the result of recent collateral valuations and is also due to the resolution of certain accounts which had higher levels of collateral. The write-off of these accounts led to increased coverage on the remaining accounts.
- The impairment charge decreased to 0.23% from 0.57% at June 2013 as a result of lower NPL inflows.

NOTE 1: ANALYSIS OF ADVANCES

Segmental analysis of advances

	Advances			
	As at 30 June			2014
R million	2014	2013	% change	% composition
Retail	**326 620**	296 535	10	52
Retail – secured	**279 725**	256 493	9	44
Residential mortgages	**170 677**	163 046	5	27
VAF	**109 048**	93 447	17	17
Retail – unsecured	**46 895**	40 042	17	8
Card	**14 634**	13 001	13	2
Personal loans	**21 665**	20 132	8	4
– FNB loans	**12 516**	12 885	(3)	2
– WesBank loans	**9 149**	7 247	26	2
Other	**10 596**	6 909	53	2
Corporate and commercial	**306 143**	259 905	18	48
FNB commercial	**50 642**	42 834	18	8
WesBank corporate	**38 659**	32 905	17	6
RMB investment banking	**210 401**	179 065	17	33
RMB corporate banking	**6 441**	5 101	26	1
FCC (including Group Treasury)	**2 373**	4 103	(42)	–
Total advances	**635 136**	560 543	13	100
Of which:				
Accrual book	**453 778**	404 695	12	71
Fair value book*	**181 358**	155 848	16	29

* *Including advances classified as available-for-sale.*

Fluctuations in assets under agreements to resell included in the RMB loan book can impact the analysis of total book growth significantly as illustrated in the table below.

RMB investment banking core advances

	As at 30 June			2014
R million	2014	2013	% change	% composition
Investment banking advances	**210 401**	179 065	17	100
Less: assets under agreements to resell	**(32 753)**	(40 502)	(19)	(16)
Investment banking advances net of assets under agreements to resell	**177 648**	138 563	28	84

Sector and geographical view of advances

R million	As at 30 June 2014	2013	% change	2014 % composition
Gross advances	**636 658**	562 310	13	100
Less: interest in suspense	**(1 522)**	(1 767)	(14)	–
Advances net of interest in suspense	**635 136**	560 543	13	100
Sector analysis				
Agriculture	**20 345**	18 756	8	3
Banks	**8 352**	6 981	20	1
Financial institutions	**74 792**	65 505	14	12
Building and property development	**32 395**	31 745	2	5
Government, Land Bank and public authorities	**14 088**	15 945	(12)	2
Individuals	**327 275**	296 769	10	52
Manufacturing and commerce	**75 665**	62 606	21	12
Mining	**20 153**	19 868	1	3
Transport and communication	**17 898**	13 929	28	3
Other services	**44 173**	28 439	55	7
Total advances	**635 136**	560 543	13	100
Geographic analysis				
South Africa	**590 484**	533 259	11	93
Other Africa	**19 192**	10 885	76	3
UK	**18 794**	10 358	81	3
Other Europe	**4 238**	3 379	25	1
North America	**714**	402	78	–
South America	**–**	318	(100)	–
Australasia	**2**	501	(100)	–
Asia	**1 712**	1 441	19	–
Total advances	**635 136**	560 543	13	100

NOTE 2: ANALYSIS OF NPLS

Portfolio view of NPLs

	NPLs				NPLs as a % of advances	
	As at 30 June			2014	As at 30 June	
R million	2014	2013	% change	% composition	2014	2013
Retail	**11 339**	11 527	(2)	75	**3.47**	3.89
Retail – secured	**9 049**	9 379	(4)	60	**3.23**	3.66
Residential mortgages	**5 625**	6 911	(19)	38	**3.30**	4.24
VAF	**3 424**	2 468	39	22	**3.14**	2.64
Retail – unsecured	**2 290**	2 148	7	15	**4.88**	5.36
Card	**341**	302	13	2	**2.33**	2.32
Personal loans	**1 388**	1 387	–	9	**6.41**	6.89
– FNB loans	**729**	943	(23)	5	**5.82**	7.32
– WesBank loans	**659**	444	48	4	**7.20**	6.13
Other	**561**	459	22	4	**5.29**	6.64
Corporate and commercial	**3 645**	4 598	(21)	25	**1.19**	1.77
FNB commercial	**1 321**	1 429	(8)	9	**2.61**	3.34
WesBank corporate	**578**	864	(33)	4	**1.50**	2.63
RMB investment banking	**1 740**	2 296	(24)	12	**0.83**	1.28
RMB corporate banking	**6**	9	(33)	–	**0.09**	0.18
FCC (including Group Treasury)	**–**	–	–	–	**–**	–
Total NPLs	**14 984**	16 125	(7)	100	**2.36**	2.88
Of which:						
Accrual book	**13 344**	13 835	(4)	89	**2.94**	3.42
Fair value book	**1 640**	2 290	(28)	11	**0.90**	1.47

Sector and geographic analysis of NPLs

	NPLs				NPLs as a % of advances	
	As at 30 June			2014	As at 30 June	
R million	2014	2013	% change	% composition	2014	2013
Sector analysis						
Agriculture	**174**	603	(71)	1	**0.86**	3.21
Financial services	**167**	244	(32)	1	**0.22**	0.37
Building and property development	**2 080**	2 488	(16)	14	**6.42**	7.84
Government, Land Bank and public authorities	**53**	13	>100	–	**0.38**	0.08
Individuals	**11 323**	11 540	(2)	76	**3.46**	3.89
Manufacturing and commerce	**469**	580	(19)	3	**0.62**	0.93
Mining	**52**	95	(45)	–	**0.26**	0.48
Transport and communication	**65**	115	(43)	–	**0.36**	0.83
Other services	**601**	447	34	5	**1.36**	1.57
Total NPLs	**14 984**	16 125	(7)	100	**2.36**	2.88
Geographic analysis						
South Africa	**14 886**	15 708	(5)	99	**2.52**	2.95
Rest of Africa	**–**	1	(100)	–	**–**	0.01
UK	**37**	29	28	–	**0.20**	0.28
North America	**–**	34	(100)	–	**–**	8.46
South America	**–**	315	(100)	–	**–**	99.06
Australasia	**–**	–	–	–	**–**	–
Asia	**61**	38	61	1	**3.56**	2.64
Total NPLs	**14 984**	16 125	(7)	100	**2.36**	2.88

Security and recoverable amounts by portfolio

	2014			2013		
R million	**NPLs**	**Security held and expected recoveries**	**Specific impairments***	**NPLs**	**Security held and expected recoveries**	**Specific impairments***
Retail	**11 339**	**7 603**	**3 736**	11 527	7 579	3 948
Retail – secured	**9 049**	**6 886**	**2 163**	9 379	7 053	2 326
Residential mortgages	**5 625**	**4 504**	**1 121**	6 911	5 408	1 503
VAF	**3 424**	**2 382**	**1 042**	2 468	1 645	823
Retail – unsecured	**2 290**	**717**	**1 573**	2 148	526	1 622
Card	**341**	**92**	**249**	302	85	217
Personal loans	**1 388**	**474**	**914**	1 387	353	1 034
– FNB loans	**729**	**159**	**570**	943	173	770
– WesBank loans	**659**	**315**	**344**	444	180	264
Other	**561**	**151**	**410**	459	88	371
Corporate and commercial	**3 645**	**1 320**	**2 325**	4 598	2 124	2 474
FNB commercial	**1 321**	**526**	**795**	1 429	647	782
WesBank corporate	**578**	**170**	**408**	864	381	483
RMB investment banking	**1 740**	**624**	**1 116**	2 296	1 096	1 200
RMB corporate banking	**6**	**–**	**6**	9	–	9
FCC (including Group Treasury)	**–**	**–**	**–**	–	–	–
Total	**14 984**	**8 923**	**6 061**	16 125	9 703	6 422

* *Includes cumulative credit fair value adjustments.*

NOTE 3: ANALYSIS OF INCOME STATEMENT CREDIT IMPAIRMENTS

Income statement impairments

	Total impairment charge			As a % of average advances	
	As at 30 June			As at 30 June	
R million	2014	2013	% change	2014	2013
Retail	**3 790**	3 765	1	**1.22**	1.34
Retail – secured	**1 497**	1 512	(1)	**0.56**	0.62
Residential mortgages	**158**	507	(69)	**0.09**	0.32
VAF	**1 339**	1 005	33	**1.32**	1.20
Retail – unsecured	**2 293**	2 253	2	**5.28**	6.20
Card	**88**	23	>100	**0.64**	0.19
Personal loans	**1 582**	1 832	(14)	**7.57**	9.70
– FNB loans	**980**	1 402	(30)	**7.72**	11.39
– WesBank loans	**602**	430	40	**7.34**	6.54
Other	**623**	398	57	**7.12**	7.49
Corporate and commercial	**652**	1 387	(53)	**0.23**	0.57
FNB commercial	**332**	317	5	**0.71**	0.80
WesBank corporate	**119**	130	(8)	**0.33**	0.41
RMB investment banking	**170**	912	(81)	**0.09**	0.54
RMB corporate banking	**31**	28	11	**0.54**	0.72
FCC (including Group Treasury)*	**483**	(48)	(>100)	**0.08**	(0.01)
Business as usual impairment charge*	**4 925**	5 104	(4)	**0.82**	0.97
Special impairment*	**–**	230	(100)	**–**	0.04
Total impairment charge	**4 925**	5 334	(8)	**0.82**	1.01
Of which:					
Portfolio impairment charge	**971**	1 211	(20)	**0.16**	0.23
Specific impairment charge	**3 954**	4 123	(4)	**0.66**	0.78

* *Percentages calculated on total average advances.*

NOTE 4: BALANCE SHEET IMPAIRMENTS AND COVERAGE RATIOS

The Bank constantly monitors market conditions as well as recent and expected recoveries on NPLs to determine coverage ratios. The NPL coverage ratio is 40.4% (2013: 39.8%).

Implied loss given default and total impairment coverage ratios

	Balance sheet impairments			Coverage ratios (% of NPLs)	
	As at 30 June			As at 30 June	
R million	2014	2013	% change	2014	2013
Specific impairments*					
Retail	**3 736**	3 948	(5)	**32.9**	34.3
Retail – secured	**2 163**	2 326	(7)	**23.9**	24.8
Residential mortgages	**1 121**	1 503	(25)	**19.9**	21.7
VAF**	**1 042**	823	27	**30.4**	33.3
Retail – unsecured	**1 573**	1 622	(3)	**68.7**	75.5
Card	**249**	217	15	**73.0**	71.9
Personal loans	**914**	1 034	(12)	**65.9**	74.5
– FNB loans	**570**	770	(26)	**78.2**	81.7
– WesBank loans**	**344**	264	30	**52.2**	59.5
Other	**410**	371	11	**73.1**	80.8
Corporate and commercial	**2 325**	2 474	(6)	**63.8**	53.8
FNB commercial	**795**	782	2	**60.2**	54.7
WesBank corporate	**408**	483	(16)	**70.6**	55.9
RMB investment banking	**1 116**	1 200	(7)	**64.1**	52.3
RMB corporate banking	**6**	9	(33)	**100.0**	100.0
FCC (including Group Treasury)	**–**	–	–	**–**	–
Total specific impairments/implied loss given default#	**6 061**	6 422	(6)	**40.4**	39.8
Portfolio impairments†	**6 963**	5 540	26	**46.5**	34.4
Total impairments/total impairment coverage ratio‡	**13 024**	11 962	9	**86.9**	74.2

* *Specific impairments including credit fair value adjustments relating to the non-performing fair value advances.*

** *The decline in the coverage ratio in the current year is a result of the lower coverage ratio applied to accounts that have been restructured in terms of the debt review process and where a specific court order has been granted. These accounts are reported in NPLs even though the clients may be fully performing in terms of the revised repayment terms. This is in line with the Bank's policy not to reclassify accounts out of NPLs, i.e. accounts will only migrate out of NPLs when clients have repaid all arrears in terms of their original credit facility.*

Amortised cost specific impairments and credit fair value adjustments as a percentage of NPLs.

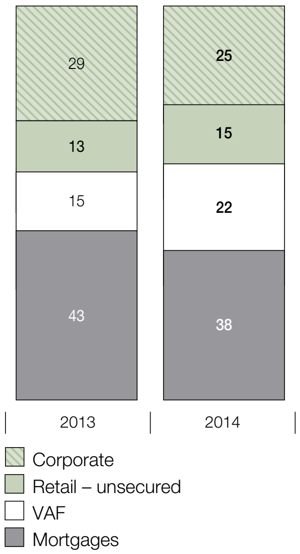
† *Amortised cost portfolio impairments and credit fair value adjustments relating to the performing book as a percentage of NPLs.*

‡ *Total impairments and credit fair value adjustments as a percentage of NPLs.*

NPL DISTRIBUTION

The graph below provides the NPL distribution across the various portfolios, showing decreases in the proportion of residential mortgage and corporate NPLs since June 2013 and an increase in VAF NPLs.

NPLs distribution (%)



RECONCILIATION OF IMPAIRMENTS

The Bank incorporates cumulative fair value adjustments to loans that are held at fair value through profit or loss in the calculation of total impairments. The composition of the total book impairments is detailed in the table below.

Balance sheet impairments and credit fair value adjustments

	As at 30 June					
	Amortised cost book		**Fair value book**		**Total book**	
R million	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Non-performing book	**4 995**	5 228	**1 066**	1 194	**6 061**	6 422
Performing book	**4 544**	3 484	**2 419**	2 056	**6 963**	5 540
Total impairments	**9 539**	8 712	**3 485**	3 250	**13 024**	11 962

The following table provides an analysis of the amortised cost specific impairments.

Balance sheet specific impairments – amortised cost

	2014		
R million	**Retail**	**Corporate**	**Total**
Opening balance	**3 983**	**1 245**	**5 228**
Reclassifications and transfers	**57**	**(61)**	**(4)**
Acquisitions	**–**	**22**	**22**
Exchange rate difference	**5**	**4**	**9**
Unwinding and discounted present value on NPLs	**(119)**	**(9)**	**(128)**
Bad debts written off	**(5 107)**	**(440)**	**(5 547)**
Net new impairments created	**4 916**	**499**	**5 415**
Closing balance	**3 735**	**1 260**	**4 995**

	2013		
R million	**Retail**	**Corporate**	**Total**
Opening balance	3 878	1 241	5 119
Reclassifications and transfers	186	(41)	146
Acquisitions	–	–	–
Exchange rate difference	3	2	5
Unwinding and discounted present value on NPLs	(143)	(14)	(157)
Bad debts written off	(4 449)	(468)	(4 917)
Net new impairments created	4 508	525	5 032
Closing balance	3 983	1 245	5 228

The Bank's income statement charge continues to benefit from increased post write-off recoveries, particularly in retail. The following table provides an analysis of the income statement impact of amortised cost impairments and credit fair value adjustments.

Income statement impairments

	Year ended 30 June		
R million	**2014**	**2013**	**% change**
Specific impairment charge	**5 415**	5 032	8
Recoveries of bad debts written off	**(1 616)**	(1 116)	45
Net specific impairment charge (amortised cost)	**3 799**	3 916	(3)
Portfolio impairment charge (amortised cost)	**1 028**	525	96
Credit fair value adjustments	**98**	893	(89)
– Non-performing book	**155**	207	(25)
– Performing book	**(57)**	686	(>100)
Total impairments	**4 925**	5 334	(8)

RISK ANALYSES

Refer to pages 142 to 144 of the *risk and capital management report* for selected risk analyses (e.g. balance-to-value and age distribution of residential mortgages and vintage analyses for selected retail portfolios).

SUPPLEMENTARY INFORMATION

Segmental advances NPLs and impairment analysis

The table below provides an analysis of the advances, NPLs and credit impairment charges of the year under review.

	Year ended 30 June 2014				
R million/%	**Advances**	**NPLs**	**NPLs as a % of advances**	**Total impairment charge**	**Impairments as % of average advances**
FNB*	259 065	8 577	3.31	2 181	0.88
FNB retail	208 423	7 256	3.48	1 849	0.91
– Residential mortgages	170 677	5 625	3.30	158	0.09
– Card	14 634	341	2.33	88	0.64
– Personal loans	12 516	729	5.82	980	7.72
– Other	10 596	561	5.29	623	7.12
FNB commercial	50 642	1 321	2.61	332	0.71
WesBank	156 856	4 661	2.97	2 060	1.42
WesBank asset-backed finance	147 707	4 002	2.71	1 458	1.06
– WesBank retail	109 048	3 424	3.14	1 339	1.32
– WesBank corporate	38 659	578	1.50	119	0.33
WesBank loans	9 149	659	7.20	602	7.34
RMB	216 842	1 746	0.81	201	0.10
RMB investment banking	210 401	1 740	0.83	170	0.09
RMB corporate banking	6 441	6	0.09	31	0.54
FCC (including Group Treasury)*	2 373	–	–	483	0.08
Subtotal	635 136	14 984	2.36	4 925	0.82
Special impairments**	–	–	–	–	–
Total	635 136	14 984	2.36	4 925	0.82

* *The impairment charge has been calculated as a percentage of total average advances.*

** *Special impairment applicable to June 2013 relates to FNB (R215 million) and RMB corporate banking (R15 million).*

	Year ended 30 June 2013				
	Advances	NPLs	NPLs as a % of advances	Total impairment charge	Impairments as % of average advances
	238 675	10 044	4.21	2 647	1.15
	195 841	8 615	4.40	2 330	1.22
	163 046	6 911	4.24	507	0.32
	13 001	302	2.32	23	0.19
	12 885	943	7.32	1 402	11.39
	6 909	459	6.64	398	7.49
	42 834	1 429	3.34	317	0.80
	133 599	3 776	2.83	1 565	1.28
	126 352	3 332	2.64	1 135	0.98
	93 447	2 468	2.64	1 005	1.20
	32 905	864	2.63	130	0.41
	7 247	444	6.13	430	6.54
	184 166	2 305	1.25	940	0.55
	179 065	2 296	1.28	912	0.54
	5 101	9	0.18	28	0.72
	4 103	–	–	(48)	(0.01)
	560 543	16 125	2.88	5 104	0.97
	–	–	–	230	0.04
	560 543	16 125	2.88	5 334	1.01

RESTATED RECONCILIATION OF IFRS INCOME STATEMENT TO NORMALISED FOR THE YEAR ENDED 30 JUNE 2013

			Normalised adjustments						
R million	As previously reported	IFRS adjust-ments	Fair value income funding cost treasury shares	IAS 19 adjust-ments	Impair-ment private equity sub-realisation	Margin on securi-tised assets	HEPS adjust-ments	IFRS adjustment and IFRS 2 liability remeasure-ment	Restated
Net interest income before impairment of advances	24 432	6 217	(6 212)	–	–	464	–	–	24 901
Impairment of advances	(5 334)	–	–	–	–	–	–	–	(5 334)
Net interest income after impairment of advances	19 098	6 217	(6 212)	–	–	464	–	–	19 567
Non-interest revenue	22 391	(6 223)	6 212	–	–	(464)	(138)	(542)	21 236
Income from operations	41 489	(6)	–	–	–	–	(138)	(542)	40 803
Operating expenses	(26 680)	255	–	(153)	(248)	–	260	542	(26 024)
Income before tax	14 809	249	–	(153)	(248)	–	122	–	14 779
Indirect tax	(579)	–	–	–	–	–	–	–	(579)
Profit before tax	14 230	249	–	(153)	(248)	–	122	–	14 200
Income tax expense	(3 173)	(64)	–	43	69	–	(37)	–	(3 162)
Profit for the year	11 057	185	–	(110)	(179)	–	85	–	11 038
Attributable to:									
NCNR preference shareholders	(196)	–	–	–	–	–	–	–	(196)
Ordinary equityholders of the Bank	10 861	185	–	(110)	(179)	–	85	–	10 842
Headline and normalised earnings adjustments	(77)	(127)	–	110	179	–	(85)	–	–
Normalised earnings	10 784	58	–	–	–	–	–	–	10 842

annual financial statements

DIRECTORS' RESPONSIBILITY STATEMENT

TO THE SHAREHOLDER OF FIRSTRAND BANK LIMITED

The directors of FirstRand Bank Limited are responsible for the preparation of the 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 separate annual financial statements in accordance with International Financial Reporting Standards (IFRS) and for keeping adequate accounting records in accordance with the Bank's system of internal control. As such, the separate annual financial statements include amounts based on judgements and estimates made by management.

In preparing the separate 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. The financial statements incorporate full and responsible disclosure in line with the Bank's philosophy on corporate governance.

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

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 separate annual financial statements in accordance with IFRS and maintaining accountability for the Bank'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 Bank, 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 separate annual financial statements fairly present the state of affairs of the Bank at the end of the financial year and the net income and cash flows for the year. Jaco van Wyk, CA(SA), supervised the preparation of the financial statements for the year.

The directors have reviewed the Bank's budget and flow of funds forecast and considered the Bank's ability to continue as a going concern in 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 light of the current financial position and profitable trading history, the directors are satisfied that the Bank 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 Bank'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 77.

The separate annual financial statements of the Bank, which appear on pages 78 to 79 and 191 to 359 and specified sections of the *risk and capital management report* were approved by the board of directors on 8 September, 2014 and are signed on its behalf by:

SE Nxasana
Chief executive officer

HS Kellan
Financial director

Sandton

8 September 2014

AUDIT COMMITTEE REPORT

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

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

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

On behalf of the audit committee.

JH van Greuning
Chairman, audit committee

Sandton

8 September 2014

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDER OF FIRSTRAND BANK LIMITED

We have audited the annual financial statements of FirstRand Bank Limited, set out on pages 191 to 359 which comprise the statement of financial position as at 30 June 2014, the income statement, statement of comprehensive income, statement of changes in equity and statement 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 financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 financial statements fairly present, in all material respects, the financial position of FirstRand Bank Limited as at 30 June 2014, and its financial performance and its 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 financial statements for the year ended 30 June 2014, 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 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 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: Francois Prinsloo

Sandton

8 September 2014

COMPANY SECRETARY'S CERTIFICATION

DECLARATION BY THE COMPANY SECRETARY IN RESPECT OF SECTION 88(2)(e) OF THE COMPANIES ACT

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

C Low
Company secretary

Sandton

8 September 2014

DIRECTORS' REPORT

NATURE OF BUSINESS

The activities of FirstRand Bank Limited include retail, commercial, corporate and investment banking and instalment finance.

SHARE CAPITAL

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

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

DIVIDENDS

Ordinary cash dividends of R4 289 million were paid during the 2014 financial year (2013: R5 710 million).

Dividends of R192 million were paid on NCNR preference shares (2013: R196 million).

OWNERSHIP OF FIRSTRAND BANK LIMITED

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

PROFIT AFTER TAX

Profit after tax amounted to R12 747 million (2013: R10 978 million).

FINANCIAL REPORTS

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

LONG-TERM INCENTIVE SCHEMES

Details of the long-term incentive schemes established for the benefit of employees of the Bank by FirstRand Limited can be found in note 27 of the financial statements.

risk and capital management report

OVERVIEW

This risk and capital management report covers the operations of FirstRand Bank Limited (FRB or the Bank). Risk is managed on a Group basis and therefore, this report also covers FirstRand Limited's (FirstRand or the Group) risk philosophy and management practices (which also apply to the Bank).

The Group believes that effective risk, capital and performance management are of primary importance to its success and is a key component of the delivery of sustainable returns to its shareholders. It is, therefore, deeply embedded in the Group's tactical and strategic decision making. 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 Ashburton Investments, FirstRand aims to be appropriately represented in all significant profit pools across all chosen markets and risk-taking activities. This entails building revenue streams that are diverse and create long-term value within acceptable earnings volatility parameters.

MANAGING THE RISK PROFILE

The Group believes a strong balance sheet and resilient earnings are key to growth, particularly when entering periods of uncertainty. 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, appropriate risk appetite and positive operating margins.
- Quality of returns with a focus on return on assets (not gearing) and discipline in deployment of capital.
- Maintain balance sheet strength through:
  - appropriate action in new business origination;
  - managing non-performing loans and coverage ratios;
  - growing the deposit franchise and improving liquidity profile; and
  - maintaining a strong capital position.

Current board-approved adjusted targets and actual capital ratios are summarised in the following table.

Capital adequacy position

%	CET1	Tier 1	Total
Regulatory minimum*	5.5	7.0	10.0
Target	10.0 – 11.0	>12.0	>14.0
FRB actual**	**13.6**	**14.2**	**16.1**

* *Excludes the bank-specific individual capital requirement.*
** *Reflects solo supervision, i.e. FRB excluding foreign branches.*

Refer to the *deputy CEO's report* in the Group's annual integrated report for a detailed discussion on the Group's strategies to ensure resilience in earnings, growth and returns and maintain balance sheet strength.

Risk governance

- Balancing 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 applied consistently throughout the organisation.

TOP AND EMERGING RISKS

- While there are signs of an improvement in South Africa's external imbalances, the country continues to run a large current account deficit. This imbalance reflects the economy's dependence on foreign capital inflows to fund growth and renders the economy vulnerable to any global or domestic economic developments that could affect foreign capital inflows.
- The normalisation of monetary policy in the US could also result in a slowdown in capital flows to South Africa, which will result in more currency weakness, higher inflation and lower economic growth.
- Factors that may impact the economy include potential power blackouts, an economic slump in China and/or European economic fallout.

- Consumers' disposable income continues to be under pressure due to rising unemployment, tighter credit conditions, inflation (particularly linked to fuel and food) and additional tariffs (including e-tolls and electricity increases). Private investment spending will also slow as confidence wanes and profitability falls.
- Economic growth is affected by unrest in the labour market. A prolonged period of strike action across different sectors of the economy could negatively impact potential GDP growth and the long-term growth potential of the country.
- A changing and tougher regulatory landscape requires the Group to deal with a raft of new regulatory requirements. This includes recent and proposed changes relating to Anti-Money Laundering, Treating Customers Fairly, Protection of Personal Information and Basel III. This is further exacerbated by new and complex international requirements, such as the 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 comply with in order to maintain correspondent banking relationships and secure funding.
- Cybercrime and potential money laundering threats continue to increase globally.

RECENT AND FUTURE REGULATORY CHANGES

The large volume of new regulatory and supervisory standards and requirements issued by international standard-setting bodies, such as the Basel Committee on Banking Supervision (BCBS) requires ongoing review of South Africa's banking legislation and regulatory requirements in order to ensure that it aligns appropriately with international standards. Recent amendments to the Banks Act and the Regulations relating to Banks (the Regulations) included the implementation of the Basel III regulations with effect from 1 January 2013 and the Banks Amendment Act 22 of 2013, which came into effect on 10 December 2013.

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 this regard, four policy priorities were identified in order to reform the financial sector, including:

- financial stability;
- consumer protection and market conduct;
- expanding access of financial services through inclusion; and
- combating financial crime.

National Treasury indicated that the achievement of these objectives necessitates a change in the South African regulatory landscape from both a structural and a policy perspective which will include the introduction of a twin-peaks approach to financial sector regulation. A twin-peaks approach will primarily be aimed at the enhancement of systemic stability, improving market conduct regulation, sound micro- and macroprudential regulation and the strengthening of the operational independence, governance and accountability of regulators.

Financial regulatory 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 draft Financial Sector Regulation Bill, 2013, the first of a series of bills to be published in order to achieve the financial regulatory objectives of the twin peaks model of financial regulation in South Africa, was published in December 2013. The design and implementation of a twin peaks model of financial regulation is a complex undertaking that requires substantial consultation and the Group will, as a key stakeholder, continue to foster close interaction and cooperation with the authorities and other stakeholders.

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	
• Guidance issued by the South African Reserve Bank (SARB) covered the loss absorbency requirements for capital instruments, including Additional Tier 1 (AT1) and Tier 2 instruments. The add-on for domestic systemically important banks (D-SIB) was finalised in the current financial year but remains confidential. • Consultative papers released by the BCBS on various topics are at different stages of testing, finalisation and implementation. There is increased focus on the leverage ratio framework, with additional disclosure requirements from 1 January 2015.	• Maintain strong capital levels, with particular focus on the quality of capital and optimise the Group's risk-weighted assets (RWA) and capital mix during the transitional period of Basel III implementation. • Continue to focus on optimal capital mix following guidance from SARB on the loss absorbency requirements for capital instruments, and capacity for new issuance in the capital markets. • Continued participation in the SARB quantitative impact studies to assess the impact of Basel III developments on capital adequacy and leverage.
Credit risk	
• The Bank's total gross advances increased 13% year-on-year with growth in corporate and commercial advances particularly robust at 18%. Retail advances growth of 10% was achieved within the Group's risk appetite framework. • With respect to FNB's retail advances, residential mortgages grew 5% in line with property prices. Card increased 13% on the back of new customer acquisition. Personal loans declined 3% year-on-year, reflecting adjustments in credit appetite in that segment, especially at the bottom end of the market. • FNB commercial advances growth of 18% was driven by new client acquisition in the business segment, resulting in 31% growth in business banking advances, with continuing growth in commercial property finance, agriculture and overdraft product sets. • RMB investment banking core advances growth (excluding repos) was driven by strong deal flow from the rest of Africa, especially in sectors such as oil and gas, telecoms and resources and drawdowns relating to infrastructure development in South Africa, in particular renewable energy. • WesBank's advances growth reflects strong growth in new business volumes with 58% (in GBP terms) from MotoNovo, 10% from corporate and 21% from personal loans, whilst growth in new business volumes moderated to 6% in SA motor retail reflecting the more constrained economic environment and significant year-on-year slowdown in new vehicle sales. • Total NPLs continued to trend downwards and decreased 7% year-on-year. Retail NPLs declined 2% mainly as a result of the continued improvement in the residential mortgage portfolio. The workout of certain non-performing accounts led to the significant improvement of 21% in corporate and commercial NPLs at June 2014.	*Retail credit portfolio* • Continued focus on limiting credit extension in the unsecured portfolios to existing retail transactional customers. • Ongoing refinement of credit scorecards and affordability risk management practices aligned to risk appetite and deteriorating macroeconomic context. • Focus on extending credit to lower-risk customers and investment in collection capabilities across the retail portfolios. *Commercial credit portfolio* • Relationship banking with non-banked lending limited to where pricing is appropriate for increased risk. • Further develop commercial lending skills and product offerings, especially across the rest of Africa and India. • Strengthen risk management and legal recoveries capacity to cater for expected increase in NPLs as credit cycle emerges. *Corporate credit portfolio* • Available capacity for portfolio growth to be allocated to strategic growth areas and clients. • Continue to strengthen risk management in recognition of the challenging operating environment.

Outcomes	Risk management focus areas
Credit risk (continued)	
- The credit loss ratio of 0.82% remains below the long-run expected range of 100 to 110 bps. - Portfolio overlays at a franchise level increased 40% year-on-year. This reflects the Bank's view that the negative retail credit cycle will continue to emerge, already reflected in the higher levels of arrears being experienced in the VAF, WesBank personal loans and card books. In addition, portfolio overlays increased on the back of deteriorating macroeconomic indicators, resulting in the creation of an additional R450 million of central portfolio overlays. - The overall credit picture remains in line with expectations and all of the Bank's portfolios are tracking as anticipated, reflecting decisions taken as early as 2011 to exit origination in high-risk segments, particularly in personal loans.	
Counterparty credit risk	
- Successful implementation of global derivative regulatory reform requirements and a new, upgraded legal agreements database. - Improvement in analytics and reporting of derivative exposures, fair value adjustments and funding.	- Extend counterparty credit risk process to business in the rest of Africa businesses. - Improve platform and process for security collateral. - Further improve exposure modelling.
Market risk in the trading book	
- Overall diversified levels of market risk remained relatively unchanged. - More focussed market risk analysis and reporting in line with the Group's new risk appetite framework and governance structure.	- Upgrading the Group's central risk engine in order to improve the current operating environment and cater for anticipated regulatory changes.
Interest rate risk in the banking book	
- During the year, the average repo rate increased by 19 bps, resulting in a positive endowment impact as the SARB started to increase rates.	- The endowment book (capital and non-maturing deposits) is positioned to benefit from rising interest rates. - Continue to monitor developments relating to and quantify impact of a possible BCBS proposed Pillar 1 charge for interest rate risk in the banking book, currently in discussion phase.

Outcomes	Risk management focus areas
Foreign exchange and translation risk in the banking book	
- Continued to strengthen principles regarding the management of foreign exchange positions and funding to the Bank's foreign entities. - Monitored net open forward positions in foreign exchange (NOFP) limits in each of the foreign entities.	- Management of foreign exchange exposures on the balance sheets of the Bank's foreign entities. - Continually assess and review the Bank's foreign exchange exposures and enhance the quality and frequency of reporting.
Funding and liquidity risk	
- The liquidity coverage ratio (LCR) was fully adopted by the SARB with the inclusion of a committed liquidity facility and will be phased in from 2015 to 2019. The minimum LCR requirement will be 60% at 1 January 2015, with 10% incremental step-ups each year to 100% on 1 January 2019. - During the year under review, the deposit franchise grew 19%, which resulted in a reduction in the Bank's reliance on institutional funding. Capital markets issuance increased 36% and the term profile of institutional funding was further lengthened to 27 months.	- Continue to focus on the Basel III liquidity regime with emphasis on both funding and market liquidity risk management. - Further optimise a risk-adjusted diversified funding profile in line with Basel III requirements relating to the LCR and continue to focus on growing its deposit franchise through innovative products and improve the risk profile of institutional funding. - In order to include the committed liquidity facility in the Bank's available liquidity resources, work is required to appropriately structure and prepare the Bank's assets to access this facility. FirstRand is in the process of applying to the SARB for a committed liquidity facility.
Operational risk	
- Improved quality of operational risk management information across the Bank. - Created a single platform with an integrated view of the Bank's operational risk profile based on the risk tool outputs. - Improved understanding of key risks and controls in key business processes. - Reviewed operational risk appetite at Group and franchise levels and defined operational risk appetite at segment level. - Increased use of external data in scenario analysis to increase objectivity in the process. - Updated mandatory key risk indicators (KRIs) to cover significant Group-wide risks and improve the predictive capability of KRIs. - Implemented formal tracking and reporting of progress on critical projects/initiatives to address key operational risk themes across the Bank.	- Embed operational risk appetite in business decision making at segment and business unit levels. - Continued refinement of the process-based risk and control identification and assessment through comprehensive coverage of, *inter alia,* critical handover points, information governance, regulatory, legal and IT risks. - Refine the scenario analysis process by appropriate linkages to key risk drivers and risk mitigation plans. - Refine KRIs to be more predictive of risk and align with operational risk appetite settings. - Embed the tracking of Bank-wide mandatory KRIs (including IT risk). - Update advanced measurement approach capital modelling methodology and software. - Implement Basel principles for risk data aggregation and risk reporting.

Outcomes	Risk management focus areas
Regulatory risk	
• During the year under review the SARB levied fines totalling R125 million on South Africa's four largest banks in relation to FICA regulations. FirstRand received a fine of R30 million relating to customer verification and recordkeeping. Required governance improvements in anti-money laundering reporting processes were also identified. The nature and extent of the SARB findings did not indicate any abuse of FirstRand's banking platforms by money launderers and the identified issues of non-compliance have not directly or indirectly led to any customer being financially prejudiced. • The proposed implementation of a twin peaks model of financial regulation in South Africa. • The Banks Amendment Act 22 of 2013, effective 10 December 2013, serves to, *inter alia,* amend banking legislation in line with requirements of the BCBS. • The draft Financial Sector Regulation Bill, 2013, was published in December 2013.	• FirstRand has, over the past five years, made significant investments in systems, processes and resources to ensure the correct capturing of customer information and the appropriate identification of suspicious transactions, and remains fully committed to addressing any ongoing weaknesses. • Continued support for regulatory objectives, improvements in risk management and governance practices, and cooperation with regulatory authorities and other stakeholders. • Continue to make significant investments in people, systems and processes to manage the risks emanating from a number of new local and international regulatory requirements.

BASEL PILLAR III 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 Bank's Basel Pillar 3 disclosure and complies with the risk disclosure requirements of regulation 43 of the Regulations. The Basel III additional capital disclosure templates (as required per SARB Directive 8 of 2013) can be found on the Group's website, www.firstrand.co.za/investorcentre/pages/capitaldisclosures.aspx.

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 Proprietary Limited (FREMA);
- FirstRand Investment Holdings Proprietary Limited (FRIHL); and
- Ashburton Investments Holdings Limited (Ashburton Investments).

FRB and FREMA include the regulated banking operations. Ashburton Investments is the Group's investment management business and all other activities are included under FRIHL. A simplified group structure can be found on page 3 of this 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 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.

SARB APPROACHES TO CALCULATION OF RWA

The following approaches are adopted by the Group for the calculation of RWA.

Risk type	FRB domestic operations	SARB approval date	Remaining FirstRand subsidiaries and FRB foreign operations
Credit risk	Advanced internal ratings-based (AIRB) approach	January 2008	Standardised approach
Counterparty credit risk	Standardised method	May 2012	Current exposure method
Market risk	Internal model approach	July 2007	Standardised approach
Equity investment risk	Market-based approach: Simple risk-weighted method	June 2011	Market-based approach: Simple risk-weighted method
Operational risk*	Advanced measurement approach (AMA)	January 2009	The standardised approach (TSA) and basic indicator approach (BIA)
Other assets	Standardised approach	January 2008	Standardised approach

* *All entities on the 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. All other entities in FRIHL remain on the BIA approach.*

BASIS OF CONSOLIDATION

Consolidation of all entities for accounting purposes is in accordance with IFRS and for regulatory purposes in accordance with the requirements of the 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>Refer to threshold rules*.</td><td>Refer to threshold rules*.</td><td>Internal rating-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>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><td>Refer to threshold rules*.</td></tr>
</table>

* *As per regulation 38(5) of the Regulations.*

DEFINITIONS

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

Risk category reference	Risk components	Definition
Strategic and business risks	Includes strategic risk, business risk, volume and margin risk, reputational risk, and environmental and social 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.
		Environmental and social risks focus on the environmental and social issues which impact the Group's ability to successfully and sustainably implement business strategy.
Financial risks	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.
		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

The Group's risk appetite frames all organisational decision making and is fully integrated with FirstRand's strategic objectives. The risk/reward framework, which includes the risk appetite statement below, aims to ensure that the Bank maintains an appropriate balance between risk and reward. Business and strategic decisions and the setting of risk appetite are aligned to risk appetite targets to ensure they are met during normal business cycles. 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.

Risk appetite statement

FirstRand's **risk appetite** is the aggregate level and type of risks the Group is willing and able to accept within its overall **risk capacity,** and is captured by a number of qualitative principles and quantitative measures.

The aim is to ensure that the Group maintains an appropriate balance between risk and reward. Risk appetite limits and targets are set to ensure the Group achieves its overall strategic objectives, namely to:

- deliver long-term franchise value;
- deliver superior and sustainable economic returns to shareholders within acceptable levels of volatility; and
- maintain balance sheet strength.

The Group's strategic objectives and financial targets frame its risk appetite in the context of risk and reward and contextualise the level of reward the Group expects to deliver to its stakeholders under normal and stressed conditions for the direct and consequential risk it assumes in the normal course of business.

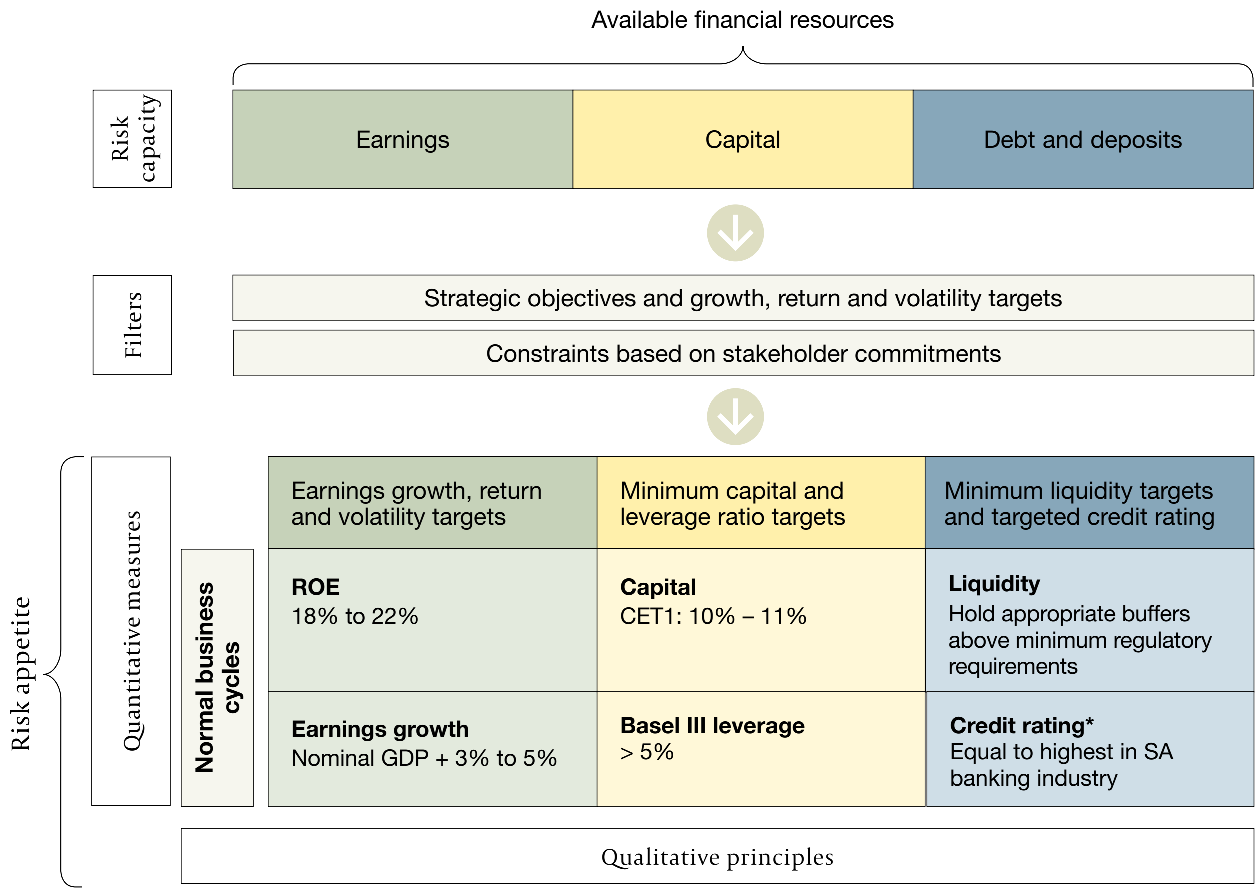
Risk capacity represents the absolute maximum level of risk the Group can technically assume given its current available financial resources, i.e. earnings, capital, debt and deposits. The Group views earnings as the primary defence against adverse outcomes. Risk capacity provides a reference for risk appetite and is not intended to be reached under any circumstances.

Risk appetite articulates what proportion of the Group's financial resources should be utilised in the execution of its strategy and is determined through consideration of a number of filters, including:

- overall strategic objectives;
- growth, volatility and return targets; and
- meeting the Group's commitments to all stakeholders including regulators, depositors, debt holders and shareholders.

Risk appetite is captured through both quantitative measures and qualitative principles, which include set objectives for the level of earnings volatility and minimum levels of capital and liquidity to be maintained during defined time horizons in normal and stressed environments within a defined level of confidence.

Process for determining risk appetite



* *Refers to a rating agency's measure of a bank's intrinsic creditworthiness before considering external factors, e.g. affiliate or government support. The three major rating agencies use different terminology for this concept – Standard & Poor's, standalone credit profile; Fitch Ratings, viability rating; and Moody's, baseline credit assessment.*

The qualitative principles include:

- always act with a fiduciary mindset;
- comply with prudential regulatory requirements;
- comply with the spirit and intention of accounting and regulatory requirements;
- build and maintain a strong balance sheet which reflects conservatism and prudence across all disciplines;
- no risk taking without a deep understanding thereof;
- comply with internal targets in various defined states to the required confidence interval;
- no business models with excessive gearing through either on- or off-balance sheet leverage;
- limit concentrations in risky asset classes or sectors;
- ensure the Group's sources of income remain appropriately diversified across business lines, products, markets and regions;
- manage the business on a through-the-cycle basis to ensure sustainability;
- identify, measure, understand and manage the impact of downturn and stress conditions;
- strive for operational excellence and responsible business conduct; and
- avoid reputational damage.

Application of the risk/reward framework

Risk appetite, targets and limits are used to monitor the Group's risk/reward profile on an ongoing basis. The risk/reward profile should be measured point-in-time and forward looking. Risk appetite should influence the business plans of each of the businesses and inform the risk taking activities and strategies set in each business.

The Group cascades overall appetite into **targets and limits** at risk type and franchise and subsequent activity level, and these represent the constraints the Group imposes to ensure its commitments are attainable.

Management of risk is the responsibility of everybody across all levels of the organisation, supported through the three lines of control of risk management.

The risk/reward framework provides for a structured approach to define risk appetite, targets and limits that apply to each key resource as well as the level of risk that can be assumed in this context. The framework provides guidance on how financial resources, including risk-taking capacity, should be allocated. Although different commitments are made to various stakeholders, these are monitored collectively. Quantitative targets and limits are augmented by a number of qualitative principles that serve to provide guidelines on boundaries for risk taking activities.

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 buffers, capital and liquidity planning, validate existing quantitative risk models and to understand required management action.

Stress testing and scenario planning are used to assess whether the desired profile can be delivered and whether the business stays within the constraints it has set for itself. The scenarios are based on changing macroeconomic variables, plausible event risks, and regulatory and competitive changes.

RISK GOVERNANCE

The Group believes that effective risk management is supported by effective governance structures, robust policy frameworks and a risk-focused culture. Strong governance structures and policy frameworks foster the embedding of risk considerations in 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, setting risk appetite and ensuring that risks are adequately identified, measured, monitored, managed and reported on.

RISK GOVERNANCE FRAMEWORK

The Group's business performance and risk management framework (BPRMF) describes the Group's approach to risk management. Effective risk management requires multiple points of control or safeguards that should be consistently applied at various levels throughout the organisation. There are three lines of control across the Group's operations, which are recognised in the BPRMF:

- first line – risk ownership;
- second line – risk control; and
- third line – independent assurance.

In the first line (risk ownership), risk taking is inherent in the individual businesses' activities. Management carries the primary responsibility for 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 in FCC.

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 franchises. Franchise heads of risk have a direct reporting line to the Group chief risk officer 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 in FCC, namely enterprise risk management (ERM) and regulatory risk management (RRM). ERM and RRM are represented on FirstRand's exco by the Group's chief risk officer and the head of regulatory risk management, respectively. These central risk control functions provide independent oversight and monitoring across the Group on behalf of the board and relevant committees.

In the third line, Group Internal Audit (GIA) in FCC and external advisors provide independent and objective assurance on the adequacy and effectiveness of governance, risk management practices and control across the Group to the board, audit committee and regulators. Group Internal Audit is headed by the chief audit executive and reports to the board through the audit committee chairman. The chief audit executive has direct, unrestricted access to the Group CEO, executives, franchises and all business unit functions, records, property and personnel.

Group Internal Audit conducts work in accordance with international internal audit standards and practices, and its activities are considered annually by the external auditors.

The table below lists the responsibilities of the different business areas in the operating franchises and FCC within the lines of risk control.

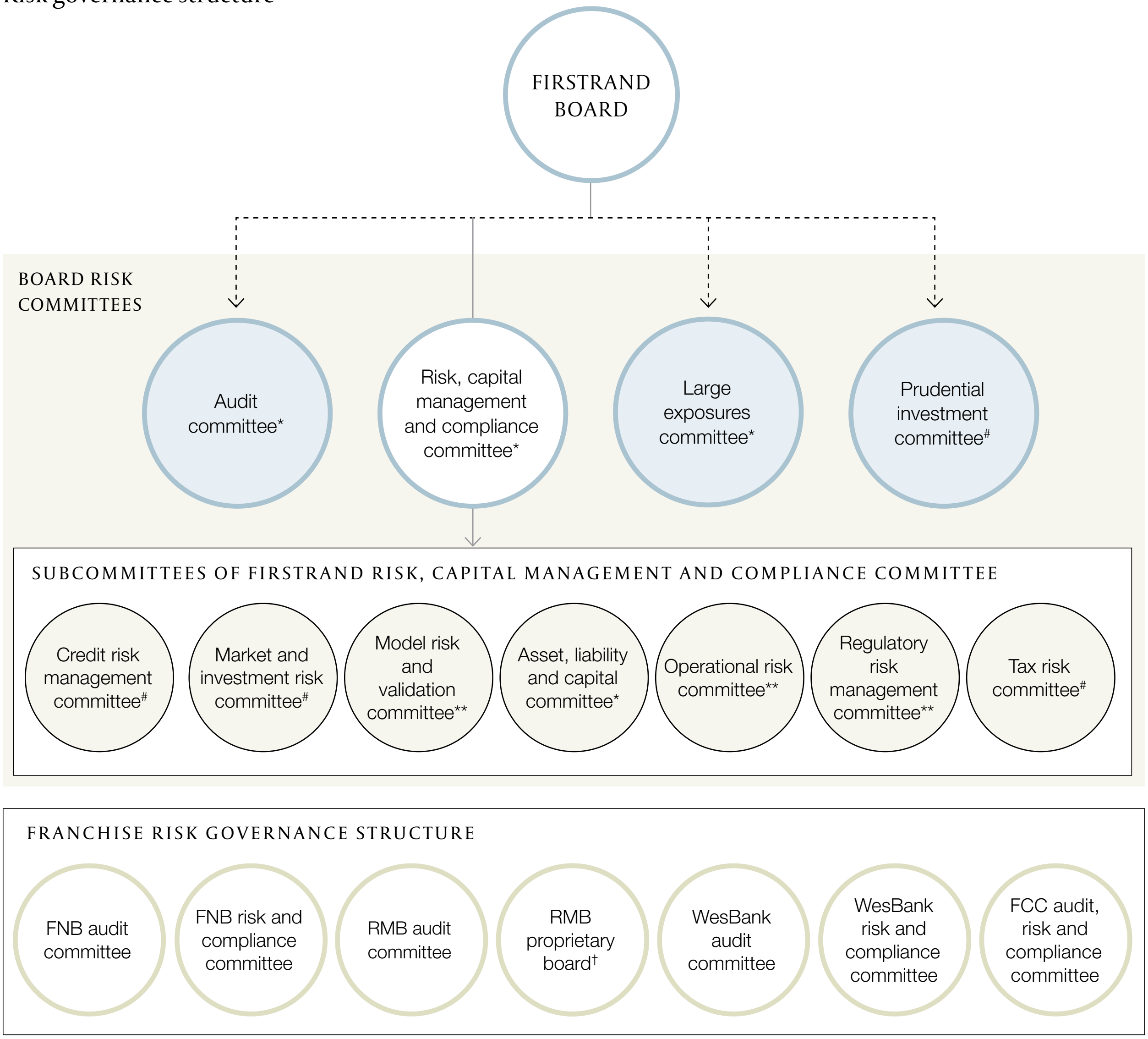
Responsibilities in the lines of risk control

FIRST LINE	SECOND LINE	THIRD LINE
HEADS OF BUSINESS	**DEPLOYED RISK MANAGEMENT**	**GROUP INTERNAL AUDIT**
• 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 parameters; • design business processes to appropriately manage risk; • ensure that board-approved risk policies, frameworks, standards, processes, methodologies and risk tools are implemented; • specify and implement early warning measures, associated reporting, management and escalation processes through governance structures; • implement risk mitigation and response strategies; • implement timeous corrective actions and loss control measures as required; and • ensure staff understand and implement responsibilities for risk management.	• supports management in identifying and quantifying key risks; • ensures that board-approved risk policies, frameworks, standards, methodologies and tools are adhered to; • approves design of business risk processes to ensure appropriate risk management; • identifies process flaws and risk management issues and initiates and monitors corrective action; • ensures timeous risk management and loss containment activities; and • compiles, analyses and escalates risk reports on performance, risk exposures and corrective actions, through governance structures in appropriate format and frequency.	• monitors risk management infrastructure and practices; • reviews the reliability and integrity of financial and operational information; • reviews the significant systems established by management to ensure compliance with laws and regulations; • reviews safeguarding and existence of assets; • assesses whether resources are acquired economically and used efficiently and effectively; • reviews operations or programmes for consistency with established goals and objectives; • evaluates and assesses significant changes in functions, systems, services, processes, operations and controls; and • provides an assessment of the adequacy and effectiveness of the system of internal controls (including financial controls) and risk management to the audit committee.
GROUP TREASURY	**ENTERPRISE RISK MANAGEMENT**	
• provides an integrated approach to financial resource management; • optimises the Group's portfolio to deliver sustainable returns within an acceptable level of risk; • performs scenario analysis and stress testing; • manages the Group's liquidity, funding, interest rate risk and market risk in the banking book and foreign exchange mismatch; • performs capital management and planning; and • advises senior management on potential capital actions, dividend strategy and other capital management developments.	• maintains the BPRMF and its ancillary risk frameworks, policies, standards and risk governance structures; • develops and communicates risk management strategy and challenges risk profiles; • monitors adequate and effective implementation of risk management processes; • reports risk exposures and performance to management and governance structures; • supports management with risk aspects of business decisions; • ensures appropriate risk management skills and culture; • performs risk measurement validation; and • manages regulatory relationships from a risk perspective.	
	REGULATORY RISK MANAGEMENT	
	• monitors that business practices, policies, frameworks and approaches are consistent with applicable laws and regulations.	

RISK GOVERNANCE STRUCTURE

The risk management structure is set out in the Group's BPRMF. As a policy of both the board and exco, it delineates the roles and responsibilities of key stakeholders in business, support and control functions across the various franchises and the Group. The following diagram illustrates how the risk committees fit into the board committee structure. Other board committees, with clearly defined responsibilities, exist and are described in the *corporate governance* section of this report. One of these is the strategic executive committee which ensures alignment of franchise strategies, sets risk appetite and is responsible for optimal deployment of the Group's financial and non-financial resources.

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 RMB proprietary board is the risk and regulatory committee for RMB.*

The primary board committee overseeing risk matters across the Group is the FirstRand risk, capital management and compliance (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.

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 Group board committees comprise members of franchise advisory boards, audit and risk committees to ensure a common understanding of the challenges businesses face and how these are addressed across the Group. The franchise audit, risk and compliance committees, as illustrated in the previous diagram, support the board risk committees and the subcommittees of the RCC committee in the third line of control across the Group.

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
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; ensures that a combined assurance model is applied to provide a coordinated approach to all assurance activities (by management, internal and external assurance providers); oversees and reviews work performed by the external auditors and internal audit function; and oversees financial risks and internal financial controls including the integrity, accuracy and completeness of the integrated report, which are provided to shareholders and other stakeholders.
Risk, capital management and compliance committee	approves risk management policies, frameworks, strategies and processes; monitors containment of risk exposures within the risk appetite framework; reports assessment of the adequacy and effectiveness of risk appetite, risk management, ICAAP and compliance processes to the board; monitors the implementation of risk management strategy, risk appetite limits and effectiveness of risk management; initiates and monitors corrective action, where appropriate; monitors that the Group takes appropriate action to manage its regulatory and supervisory risks and complies with applicable laws, rules, codes and standards; approves regulatory capital models, risk and capital targets, limits and thresholds; and monitors capital adequacy and ensures that a sound capital management process exists.
Large exposures committee (LEC)	approves credit applications or renewals in excess of 10% of the Group's qualifying capital and reserves; and delegates the mandate for approval of group and individual facilities to the FirstRand wholesale credit approval committee, commercial credit approval committee and the FirstRand retail credit policy, risk appetite committee and mandate approval (subcommittees of LEC), as appropriate.
Prudential investment committee	provides oversight to ensure that investment risk and transactions are carefully assessed prior to approval; and 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 as well as forward looking credit risk indicators developed by the retail, commercial and corporate portfolios; - 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, 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; - monitors corrective actions in terms of non-adherence to the credit risk management framework based on reports by Group Internal Audit and reports to the RCC committee; 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	- 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	- approves or recommends for approval by the RCC committee, 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 calculation.
Asset, liability and capital committee (ALCCO)	- approves and monitors effectiveness of management policies, assumptions, limits and processes for liquidity and funding risk, capital and market risk in the banking book (interest rate risk and 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 and monitors capital adequacy ratios; and - approves frameworks and policies relating to internal funds transfer pricing for the Group.

Committee	Responsibility
Operational risk committee	- provides governance, oversight and coordination of relevant operational risk management practices and initiates corrective action, where required; - monitors the Group and franchise operational risk profiles against operational risk appetite; - mandates the FirstRand operational risk management committee to approve operational risk-related methodologies, processes, guidelines and relevant documentation; - reviews and recommends the Group's operational risk appetite for approval by RCC committee; - approves the operational risk management framework and all its subpolicies/frameworks used in the management of the different operational risk classes including fraud risk, legal risk, business resilience, information governance, information technology and physical security; - monitors the formal reports of the ORC subcommittees on the effectiveness of specific operational risk classes; - ensures the maintenance of an independent and appropriately skilled operational risk management function; - monitors the adequate and effective implementation of the operational risk management framework across the Group and key corrective actions; and - reports on material operational risk items to the RCC committee.
Regulatory risk management 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	- sets tax strategy and tax risk appetite; - approves the tax management frameworks and policies; and - monitors tax risk assessments and profiles, compliance tax risks, corrective actions and escalation to the RCC committee, where required.

Combined assurance

Formal enterprise-wide governance structures for enhancing the practice of combined assurance at Group and franchise 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 appropriate assurance cost effectively. The assurance providers in this model include Group Internal Audit, 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.

Combined assurance results in a more efficient assurance process 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 Group Internal Audit, ensures 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 control over the Group's risk position at all times.

RISK CULTURE

The Group and its stakeholders 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.

ERM, in conjunction with 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 strategy, risk appetite and a positive attitude towards appropriate risk practices;
- robust risk governance structures to ensure risk policy frameworks are visible and 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; and ensure that ethics and accountability to risk management parameters are considered as important as innovation and profit.
Providing resources	ensure risk management goals are attainable by adequately resourcing risk management functions; and apply fit and proper tests for key risk roles.
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 covering each major risk type 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;
- an analysis of the relevant portfolios;
- the risk profile with respect to the type of risk under consideration; and
- the capital requirement.

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.

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 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 the 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 considered part of strategic planning and is regularly assessed through the Group's management and governance processes and internal capital adequacy assessment process (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 AND SOCIAL RISK MANAGEMENT

Equator Principles and environmental and social risk analysis (ESRA)

FirstRand has formally integrated environmental and social risk management processes into its credit risk governance process, which is supported by enterprise-wide social and ethics committee structures. These processes include the following key measures:

- 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 framework for determining, assessing and managing environmental and social risk in affected 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. This new revised standard (EP III) has been implemented at FirstRand effective December 2013 for all products within the new scope of EP, which includes the types of transactions set out in the following table:

ESRA transaction type

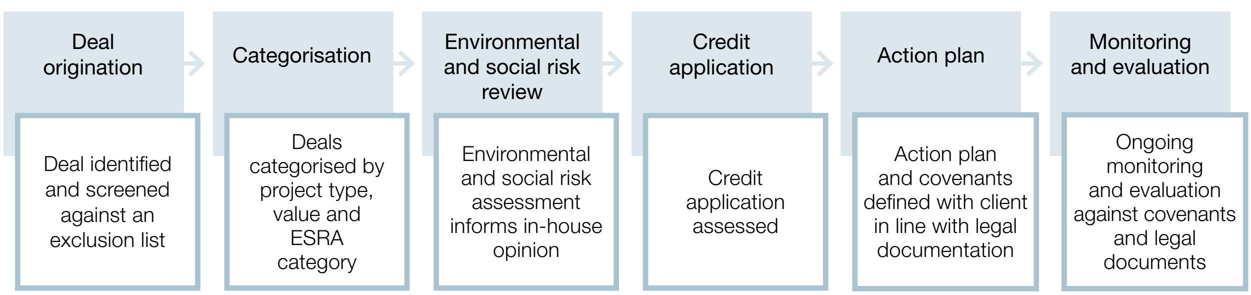
Transaction type	Threshold amount after which an ESRA review is triggered
Project finance transactions	Total project capital costs at or above US$10 million: EP review. All category A (high risk) and B (medium risk) transactions with a total project capital cost of less than US$10 million: in-house ESRA review.
Project finance advisory	Total project capital costs at or above US$10 million: EP review.
Corporate loans	No threshold applied, all corporate loans: in-house ESRA review.
Corporate loans – project related	Total aggregate loan amount is at least US$100 million of which the member banks' individual commitment (before syndication or sell down) is at least US$50 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 US$10 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

Specialist resources in the franchises serve as technical advisors to franchise senior management and employees involved with credit transactions and provide assessment, review, consultation and specialist advice on lending transactions.

Each of the Group's operating franchises have formalised credit and compliance processes for the implementation of ESRA, with oversight provided by franchise social and ethics committees, risk and compliance officers and credit committees throughout the Group. The ESRA process is incorporated in the FirstRand credit risk management framework as an aspect of transaction risk management, and in the FirstRand environmental sustainability risk framework, a subframework of the regulatory risk management framework as an aspect of environmental and social risk management. At a Group level, oversight is also provided by RRM and franchise social and ethics committees. The ESRA review process is illustrated in the following chart.

ESRA review process



In the event that a transaction is identified as being a high environmental or social risk, or an exception to the defined process, the transactor, franchise chief risk officers, and franchise heads of credit are informed through a formalised escalation process. Transaction approval is provided by franchise chief risk officers and heads of credit and reported to the relevant quarterly franchise social and ethics committees by the chief risk officer for discussion and noting.

FirstRand has formal governance processes for managing ESG risks affecting the Group's ability to successfully implement business strategy. These processes involve the integration of ESG information into the relevant sections of risk reports at Group and franchise level. 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 the executive, RCC and audit committees.

2014 EP performance

The Bank 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 in the table.

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 to no risk)	Projects with minimal or no social or environmental impacts.

During the financial year the new automated categorisation tool was implemented in the franchises, which will improve the accuracy of future reporting of ESRA transactions. Additional disclosure to comply with the EP III reporting requirements are included in this report.

EP transactions

The projects reported are the structured EP-defined deals, which were reviewed by in-house environmental and social risk specialists. These specialists provide technical advice to divisional senior management and employees involved with credit transactions and provide assessment, review, consultation and specialist advice on lending transactions.

All category A and B transactions were subjected to independent EP review to establish environmental and social risks of the project and have reached financial close during the reporting period. Financial close is assumed when all conditions precedent to initial drawing of the debt have been satisfied or waived. EP reporting is externally assured for public disclosure by an independent third party as per the requirements set out by the EP Association.

Analysis of EP transactions

The number of EP transactions screened per industry categories and regions is provided in the following tables.

EP project finance loans

	2014				2013*			
Transactions per category**	**Total**	**A high risk**	**B medium risk**	**C low risk**	**Total**	**A high risk**	**B medium risk**	**C low risk**
By sector								
Mining		**2**	**–**	**–**		3	–	–
Infrastructure		**–**	**–**	**1**		–	–	2
Power		**–**	**1**	**–**		–	–	–
Renewable energy		**–**	**2**	**–**		–	4	–
Retail		**–**	**–**	**8**		–	–	12
By region								
Americas		**–**	**–**	**–**		2	–	–
Middle East and Africa		**2**	**3**	**9**		1	4	14
By country designation								
Designated#		**–**	**–**	**–**		2	–	–
Non-designated		**2**	**3**	**9**		1	4	14
Independent review†								
Yes		**2**	**3**	**–**		3	4	–
No		**–**	**–**	**9**		–	–	14
By EP category								
Total number of EP transactions	**14**	**2**	**3**	**9**	21	3	4	14

* *The 2013 financial year data were restated in order to reflect transactions that reached financial close during the 2013 period in line with changes in the reporting requirements of EP III.*

** *No transactions in the oil and gas category or Europe, Asia and Oceania regions reached financial close during 2013 and 2014.*

\# *A designated country is a high income country as per the Organisation for Economic Cooperation and Development (OECD) country list.*

† *An independent review is not required for category C projects. EP provides details on what is required for each category and product type.*

Project related corporate loans

The Bank is required to disclose project related corporate loans that reached financial close, from year ending 30 June 2014, with comparative information from 30 June 2015. The information will include the detail breakdown of project-related corporate loans per category split by sector, region, country designation, independent review and total transactions. Whilst there are project related corporate loans that were initiated during the 2014 financial year, none of these reached financial close. Performance data of project related corporate loans, that have reached financial close, will be disclosed from 2015 onwards.

EP project finance advisory transactions

	2014				2013*			
Transactions per category**	**Total**	**A high risk**	**B medium risk**	**C low risk**	**Total**	**A high risk**	**B medium risk**	**C low risk**
By sector								
Mining		**1**	**–**	**–**		2	–	–
Infrastructure		**–**	**1**	**–**		–	–	–
Power		**–**	**–**	**–**		–	1	–
Renewable energy		**–**	**1**	**–**		–	4	–
By region								
Middle East and Africa		**1**	**2**	**–**		2	5	–
Total by EP category	**3**	**1**	**2**	**–**	7	2	5	–

* *The 2013 financial year data were restated in order to reflect transactions that reached financial close during the 2013 period in line with changes in the reporting requirements of EP III.*

** *No project finance advisory transactions reached financial close in the oil, gas and retail sectors, and Americas, Europe and Asia and Oceania regions during 2013 and 2014.*

ESRA process going forward

The Bank is currently in the sixth year of implementation of ESRA processes. Continued focus will be given to awareness training, effective application and continued improvement of the ESRA process. In the new financial year areas of focus will include the expansion of the ESRA process into the Group's subsidiaries in the rest of Africa. Rollout of this process is expected to take place over a three year period.

CAPITAL MANAGEMENT

INTRODUCTION AND OBJECTIVES

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. Capitalisation ratios within our risk appetite, and appropriate to safeguarding operations and interests of stakeholders, are therefore maintained.

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 capital instruments;
- stress testing scenarios;
- appropriate buffers in excess of minimum requirements;
- rating agencies' considerations;
- investor expectations including debt holders;
- economic capital requirements;
- proposed regulatory changes; and
- the board's risk appetite.

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 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 Bank is appropriately capitalised under a range of normal and severe scenarios (including stress events) and taking into account ongoing regulatory changes and expansion initiatives in the rest of Africa.

The Bank excluding foreign branches operated above its targeted capitalisation range throughout the year under review, reporting a total capital adequacy ratio of 16.1% and a CET1 ratio of 13.6% at 30 June 2014. Similarly, Bank Ltd Group exceeded its target ranges with a total capital adequacy of 16.4% and CET1 ratio of 13.6%. The add-on for domestic systemically important banks (D-SIB) was finalised during the current financial year, however, remains confidential. The Bank's internal target levels have been revised in order to take into account the end-state regulatory minimum requirements, including the capital conservation buffer, and also after considering various stakeholder constraints.

The board-approved adjusted targets and actual capital ratios at 30 June 2014 are summarised in the table below.

Capital adequacy position

%	CET1	Tier 1	Total
Regulatory minimum*	5.5	7.0	10.0
Target	10.0 – 11.0	>12.0	>14.0
Bank actual**	**13.6**	**14.2**	**16.1**
Bank Ltd Group actual	**13.6**	**14.1**	**16.4**

* *Excludes the bank-specific individual capital requirement.*
** *Reflects solo supervision, i.e. FRB excluding foreign branches.*

Basel III

Regulatory capital supply includes CET1, Tier 1 and Tier 2 qualifying capital and reserves. The following diagram illustrates the main elements:

Qualifying capital components

TOTAL QUALIFYING CAPITAL AND RESERVES =

TIER 1 CAPITAL

CET1 CAPITAL

- share capital and premium
- retained earnings
- other reserves
- non-controlling interests

Deductions

- goodwill and intangibles
- deferred tax assets (other than temporary differences)
- investment in own shares
- shortfall of expected losses over provisions
- cash flow hedging reserve
- investments in financial, banking and insurance institutions

AT1 CAPITAL

- NCNR preference shares
- instruments issued out of subsidiaries to third parties

Deductions

- investments in financial institutions, banking and insurance (AT1 instruments)

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TIER 2 CAPITAL

- subordinated debt instruments
- general provisions under standardised method
- surplus of provisions exceeding expected losses
- instruments issued out of subsidiaries to third parties

Deductions

- investment in financial, banking and insurance institutions (Tier 2 instruments)

The BCBS has issued a number of consultative documents over the past year. These papers cover various topics and are at different stages of testing, finalisation and implementation.

The Bank continues to participate in the BCBS's quantitative impact studies to assess the effect of Basel III and monitor the impact of leverage for the industry. The BCBS issued the final leverage framework in January 2014, with final calibrations and adjustments expected by 2017. The ratio is expected to transition to a Pillar 1 requirement by 2018. The leverage ratio is calculated by dividing Tier 1 capital by total exposures (on- and off-balance sheet) as defined. The Bank's current leverage ratio comfortably exceeds the existing SARB minimum requirement of 4%.

Internal capital adequacy assessment process

ICAAP is key to the Bank's risk and capital management processes as it is an integral tool in meeting the capital management objectives of the Bank. ICAAP allows and facilitates:

- the link between business strategy, risk introduced and capital required to support the strategy;
- the establishment of frameworks, policies and procedures for the effective management of material risks;
- the embedding of a responsible risk culture at all levels in the organisation;
- the effective allocation and management of capital in the organisation;
- the development of recognised stress tests to provide useful information which serve as early warnings/triggers, so that contingency plans can be implemented;
- the determination of the capital management strategy and how the Group will manage its capital during business as well periods of stress; and
- the capital plan.

The board-approved capital plan is reviewed annually as part of the Bank's ICAAP, with the stress-testing framework an extension of the process. ICAAP assists in the allocation of capital in proportion to 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.

The Bank aims to back all economic risk with CET1 capital adjusted for volatile reserves (foreign currency translation and available-for-sale reserves) and remains well capitalised in the current environment.

Capital adequacy

Supply of capital

The following table summarises the qualifying capital of the Bank.

Composition of supply of capital

	Bank*	
R million	**2014**	**2013****
Total CET1 capital	**57 532**	50 173
Total Tier 1 capital	**59 932**	52 873
Total qualifying capital and reserves#	**68 164**	59 572

	Bank Limited Group	
R million	**2014**	**2013****
Total CET1 capital	**60 415**	51 500
Total Tier 1 capital	**62 815**	54 200
Total qualifying capital and reserves#	**73 098**	60 919

* *Reflects solo supervision, i.e. FRB excluding foreign branches.*
** *Comparatives have not been restated for IFRS changes.*
# *Share capital, share premium and retained earnings included in total qualifying capital and reserves have been audited.*

CET 1 capital benefited from strong internal capital generation through earnings. All profits were appropriated at 30 June 2014.

Existing non-compliant Basel III NCNR preference shares and Tier 2 instruments were grandfathered by an additional 10% in January 2014. Given SARB guidance on the loss absorbency requirements for capital instruments, the Bank continues to focus on the most optimal capital mix and pricing. During the year under review the Bank issued R3.8 billion Basel III-compliant Tier 2 instruments. For more detail on these instruments refer to the main features template discussed below.

Demand for capital

The table below provides a breakdown of RWA and the capital requirement in terms of current SARB regulations.

RWA and capital requirements

	FirstRand Bank*				
	2014				2013
	RWA				
R million	**Advanced approach**	**Standardised approach**	**Total**	**Capital requirement****	**RWA**
Credit risk	**319 368**	**–**	**319 368**	**31 937**	295 315
– Corporate, banks and sovereigns	**140 257**	**–**	**140 257**	**14 026**	126 357
– Small and medium enterprises (SMEs)	**41 835**	**–**	**41 835**	**4 184**	37 664
– Residential mortgages	**48 203**	**–**	**48 203**	**4 820**	48 579
– Qualifying revolving retail	**20 030**	**–**	**20 030**	**2 003**	18 382
– Other retail	**67 130**	**–**	**67 130**	**6 713**	59 691
– Securitisation exposure	**1 913**	**–**	**1 913**	**191**	4 642
Counterparty credit risk#	**1 127**	**–**	**1 127**	**113**	2 548
Total credit risk	**320 495**	**–**	**320 495**	**32 050**	297 863
Operational risk†	**67 364**	**–**	**67 364**	**6 736**	62 748
Market risk	**11 577**	**–**	**11 577**	**1 158**	7 855
Equity investment risk	**6 564**	**–**	**6 564**	**656**	10 511
Other assets‡	**–**	**17 257**	**17 257**	**1 726**	19 542
Total RWA	**406 000**	**17 257**	**423 257**	**42 326**	398 519

* *Reflects solo supervision, i.e. excluding foreign branches.*
** *Capital requirement calculated at 10.0% of RWA.*
# *Excludes default risk.*
† *Exposures subject to the basic indicator approach are included under the standardised approach.*
‡ *Includes the investment in financial, banking and insurance entities, and deferred tax assets risk weighted at 250%.*

RWA and capital requirements

	Bank Ltd Group				
	2014				2013
	RWA				
R million	**Advanced approach**	**Standardised approach**	**Total**	**Capital requirement***	**RWA**
Credit risk	**319 368**	**19 376**	**338 744**	**33 874**	304 458
– Corporate, banks and sovereigns	**140 257**	**9 514**	**149 771**	**14 977**	129 512
– Small and medium enterprises (SMEs)	**41 835**	**951**	**42 786**	**4 279**	38 166
– Residential mortgages	**48 203**	**–**	**48 203**	**4 820**	48 579
– Qualifying revolving retail	**20 030**	**–**	**20 030**	**2 003**	18 382
– Other retail	**67 130**	**8 869**	**75 999**	**7 600**	64 859
– Securitisation exposure	**1 913**	**–**	**1 913**	**191**	4 642
– Other	**–**	**42**	**42**	**4**	318
Counterparty credit risk**	**1 127**	**111**	**1 238**	**124**	2 548
Total credit risk	**320 495**	**19 487**	**339 982**	**33 998**	307 006
Operational risk#	**67 645**	**2 362**	**70 007**	**7 001**	64 725
Market risk	**11 577**	**460**	**12 037**	**1 203**	8 517
Equity investment risk	**6 567**	**–**	**6 567**	**657**	10 337
Other assets†	**–**	**17 000**	**17 000**	**1 700**	19 017
Total RWA	**406 284**	**39 309**	**445 593**	**44 559**	409 602

* *Capital requirement calculated at 10.0% of RWA.*
** *Excludes default risk.*
# *Exposures subject to the basic indicator approach are included under the standardised approach.*
† *Includes the investment in financial, banking and insurance entities and deferred tax assets, risk weighted at 250%.*

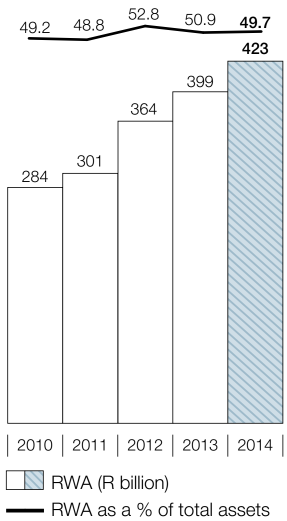
Overall movement in RWA can be attributed to the following:

- credit risk increased due to volume growth, partly offset by model recalibrations;
- operational risk increased due to:
  - recalibration of risk scenarios;
  - increase in gross income for entities on the standardised approach; and
  - the SARB add-on for the difference between the capital calculated on the AMA approach and standardised approach;
- market risk increased due to the implementation of the higher capital multiplier resulting in an increase in general market risk; and
- equity investment risk decreased mainly due to the change in IFRS reporting for post-retirement assets and realisations of equity investments.

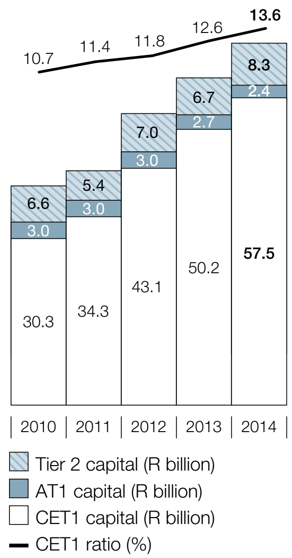
Historical overview of capital adequacy

The graphs below show the historical overview of RWA and capital adequacy.

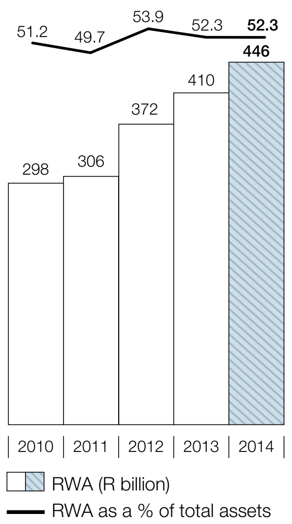
RWA history – FRB



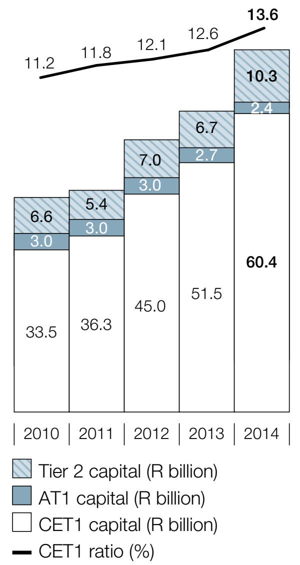
Capital adequacy – FRB



RWA history – Bank Ltd Group



Capital adequacy – Bank Ltd Group



Refer to www.firstrand.co.za/investorcentre/pages/capitaldisclosures.aspx for further detail on the following:

- composition of capital;
- main features of capital instruments; and
- reconciliation of audited financial statements to regulatory capital and reserves.

The abovementioned disclosure templates comply with the requirements of SARB Directive 8 of 2013, which forms part of the annual Pillar 3 disclosure for the year ended 30 June 2014.

Scan with your smart device's QR code reader to access additional capital disclosures on the Group's website.

CREDIT RISK

INTRODUCTION AND OBJECTIVES

The goal of credit risk management is to maximise the Bank's risk-adjusted return, i.e. 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 Bank's business objectives. It is the most significant risk type in terms of regulatory and economic capital requirements. Credit risk management objectives 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 Bank is split into three distinct portfolios: retail, commercial and corporate. These portfolios are aligned to customer profiles. As advances are split across operating franchises, default risk is allocated to the income-receiving portfolio.

Based on the Bank's risk appetite for credit risk, as measured on a ROE, NIACC and volatility of earnings basis, credit risk management principles include appropriate capital holdings and pricing for risk on an individual and portfolio basis. The scope of credit risk identification and management practices across the Bank, therefore, spans the credit value chain, including credit origination strategy, risk appetite, risk quantification and measurement and collection and recovery of delinquent accounts.

Credit risk is managed through comprehensive policies and processes that ensure adequate identification, measurement, monitoring, control and reporting of credit risk exposure. The objective is 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

FNB's secured retail products include mortgage finance with property as security for the loan and pension-backed loans, where lending is secured by a portion of the client's pension fund to purchase or improve a property. WesBank's secured retail credit exposure arises mainly from 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;
- revolving loans, overdrafts, temporary loans and device loans linked mainly to transactional accounts of FNB-banked clients; 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 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 the facilitation of transactions;
- forward exchange contracts and interest rate swaps;
- secured term loans;
- property finance includes owner-occupied and multi-tenanted properties as well as finance for residential developments secured by the properties;
- leveraged finance provides specialised business financing to fund, amongst others, business acquisitions, management buy-outs, management buy-ins, BEE transactions and balance sheet restructuring; and
- working capital facilities secured against debtors books and selective invoice discounting.

Corporate credit

Corporate credit products include the following offered by RMB to large corporate multi-banked customers:

- 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 jurisdictions in the rest of Africa;
- structuring, raising and underwriting of equity capital and structured equity solutions;
- infrastructure and project finance;
- guarantees and letters of credit to assist in the facilitation of transactions;
- working capital and general balancing facilities;
- 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 Bank. 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 Bank. 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. Approved by the RCC committee and FirstRand credit risk management committee (a subcommittee of the RCC committee), the credit risk management framework is a board-approved policy and a subframework of the BPRMF, as discussed in the *risk governance* section.

The large exposure committee (a board committee) and the FirstRand credit risk management committee support the RCC committee in its tasks. The model risk and validation committee, also a subcommittee of the RCC committee, supports the RCC committee specifically on 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 function

The Group credit risk management function in ERM provides independent oversight of the credit risk management practices of the Group's operating franchises to ensure effective and holistic credit risk management process. It is responsible for the credit risk management framework and related policies and monitors the implementation of credit risk-related frameworks. In addition, its responsibilities include:

- reporting an independent view of the Bank's credit risk profile and potential areas of concern via the risk committees to the board;
- challenging the risk profile, providing advice or guidance on credit risk management matters as requested, setting standards for credit risk reporting and providing additional reporting where required;
- maintaining and overseeing the Group's credit governance structures and credit measurement process;
- performing independent validations of regulatory capital credit rating systems;
- acting as key contact to the SARB on credit risk matters, including credit BA returns;
- ensuring completeness of credit risk identification;
- implementing credit risk methodologies and capabilities across the Bank; and
- facilitating and managing credit risk appetite processes across the Bank.

The Group credit risk management function is supported by credit risk functions within the franchises, which are managed by portfolio heads (retail, commercial and corporate).

Specific credit responsibilities lie with each credit portfolio head, including:

- accountability to the Bank'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 volatility profile for aggregate portfolios.

ASSESSMENT AND MANAGEMENT

Calculation of internal ratings and rating process

The assessment of credit risk across the Bank relies on internally-developed quantitative models for regulatory purposes under the Regulations 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 portfolio. All of these models are built on a number of client and facility rating models, in line with SARB AIRB approach requirements and the Bank's model building frameworks. The Bank was granted regulatory approval under Basel for the AIRB 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.

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; 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 Bank 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

FR rating	Midpoint PD	International scale mapping*
FR 1 – 14	0.06%	AAA, AA, A
FR 15 – 25	0.29%	BBB
FR 26 – 32	0.77%	BB+, BB
FR 33 – 39	1.44%	BB-
FR 40 – 53	2.52%	B+
FR 54 – 83	6.18%	B
FR 84 – 90	13.68%	B-
FR 91 – 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 the highest. External ratings have also been mapped to the master rating scale for reporting purposes. In line with international best practice, the Bank 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 Bank. These have been developed internally and are calibrated to 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 (long-run 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. The more conservative measure of LGD 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 along with other risk measures. EL is not directly comparable to impairment levels, as EL calculations are based on the regulatory parameters TTC PD and downturn LGD, and impairment calculations are driven by IFRS requirements.

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 risk and mapped to one of four supervisory categories. This will apply where the Bank 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

The Bank employs a consistent rating process 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 FCC) 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 the Regulations. **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 (Corporate: RMB and FCC) Exposures to sovereign and bank counterparties.	The default definitions applied in the rating systems are aligned to the Regulations. **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 (Corporate: 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 the Regulations. **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 the Regulations. **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 Ratings) and Basel guidelines; and - EAD: Portfolio level credit conversion factors are estimated on the basis of the Bank's internal historical experience and benchmarked against international studies.

<table>
<tr><th>Portfolio and type of exposures</th><th>Description of rating system</th></tr>
<tr><td>Residential mortgages
(Retail portfolios in FNB HomeLoans, FNB housing finance and 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.</td><td rowspan="3">The default definition applied in the rating systems is aligned to the Regulations.

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 characteristic of these product types. EAD estimates are based on actual historic EAD, segmented appropriately (e.g. straight versus budget in the case of credit cards).</td></tr>
<tr><td>Qualifying revolving retail exposures
(Retail portfolios in FNB card, FNB core banking solutions and wealth)

Exposures to individuals providing a revolving limit through a credit card or overdraft facility.</td></tr>
<tr><td>Other retail exposures
(Retail portfolios in FNB loans, FNB smart segment, WesBank VAF and WesBank loans)</td></tr>
</table>

Model validation

Rating models are recalibrated and independently validated on an annual basis to ensure validity, efficacy and accuracy. Rating models across 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 Group credit risk management function in ERM. It is responsible for reviewing all rating systems and an annual comprehensive revalidation of all material rating systems. The model risk audit team in Group Internal Audit carries out sample revalidations of the rating systems. The results of these reviews are reported to and approved by the model risk and validation committee and the RCC committee, depending on materiality. As part of this process, extensive documentation covering all steps of the model development lifecycle from inception through to validation is maintained, including:

- 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, which are reviewed and, where required, updated annually. These frameworks provide guidance, principles and minimum standards which the model development teams are required to adhere to.

Credit risk mitigation

Since 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, credit assessment focuses on the counterparty's ability to repay the debt, credit mitigation instruments are used where appropriate to reduce the Bank'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 exposures are secured by the assets of the SME counterparties and commercial property finance deals are secured by the underlying property and associated cash flows;
- working capital facilities in RMB corporate banking are unsecured;
- structured facilities in RMB are secured as part of the structure through financial or other collateral, including guarantees, credit derivative instruments and assets; and
- credit risk in RMB is mitigated through the use of netting agreements and financial collateral.

The Bank employs strict policies governing the valuation and management of collateral across all business areas. Collateral is managed internally 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 corporate 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 and physical inspection is performed in the event of default at the beginning of the recovery process.

The concentrations within credit risk mitigation types, such as property, are monitored and managed in the three credit portfolios. FNB HomeLoans, housing finance and 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 LGD. Collateral reduces LGD, and LGD levels are determined through statistical modelling techniques based on 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 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 Bank.

Use of credit risk measures

The credit risk measures are used extensively in the Bank's credit risk processes such as, including the following:

- credit approval;
- pricing;
- limit setting/risk appetite;
- reporting;
- provisioning;
- capital calculations and allocation;
- profitability analysis;
- stress testing;
- risk management and credit monitoring; and
- performance measurement.

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

	Corporate	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.	- same measures as for corporate; 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.	- same measures as for corporate; and - modeled 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.	- same measures as for corporate.
Credit approval	- consideration of application'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 for large transactions that will increase concentration risk.	- same measures as for corporate; 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 PD, LGD and roll rates used for specific, portfolio and incurred but not reported 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 macroeconomic outlook.

The Bank's total gross advances increased 13% year-on-year with growth in corporate and commercial advances particularly robust at 18%. Retail advances growth of 10% was achieved within the Group's risk appetite framework.

Total NPLs continued to trend downwards and decreased 7% year-on-year. Retail NPLs declined 2% mainly as a result of the continued improvement in the residential mortgage portfolio offset by the 7% increase in the unsecured lending portfolio. The workout of certain non-performing accounts led to the significant improvement of 21% in corporate and commercial NPLs at June 2014. Total NPLs as a percentage of advances improved to 2.37% from 2.89% at June 2013.

NPL coverage is 33.3%. The decline in retail coverage to 33% is expected and attributable to the positive performance of the underlying portfolios in recent years due to proactive risk mitigating measures implemented by the Group since 2011. The increasing proportion of debt review accounts (on which a lower coverage ratio applies) continues to drive the VAF coverage ratio down. Corporate coverage increased as a result of the enhancement of collateral information and ongoing actions to resolve certain non-performing accounts.

The credit loss ratio of 0.81% is an improvement on the prior year as specific impairment losses continued to reduce. The portfolio impairment loss ratio is in line with that of the prior year and incorporates increased portfolio overlays both in the franchises and at the centre.

Credit assets

The following table provides a breakdown of credit exposure (including off-balance sheet exposures) by type, segment and SARB approach. The figures are based on IFRS and differ from exposure figures used for regulatory capital calculation, which reflect the recognition of permissible adjustments such as the netting of certain exposures.

Credit exposure by type, segment and SARB approach* (audited)

		AIRB	Standardised approach	
R million	**2014**	**FirstRand Bank (SA)**	**Foreign operations**	**2013****
On-balance sheet exposures				
Cash and short-term funds	**46 770**	**46 295**	**475**	37 238
– Money at call and short notice	**30 636**	**30 255**	**381**	22 882
– Balances with central banks	**16 134**	**16 040**	**94**	14 356
Gross advances	**631 651**	**607 946**	**23 705**	557 293
FNB	**259 065**	**258 823**	**242**	238 675
– FNB retail	**208 423**	**208 423**	**–**	195 841
– FNB commercial#	**50 642**	**50 400**	**242**	42 834
WesBank	**156 856**	**143 671**	**13 185**	133 599
RMB investment banking	**206 916**	**196 829**	**10 087**	175 815
RMB corporate banking	**6 441**	**6 301**	**140**	5 101
FCC	**2 373**	**2 322**	**51**	4 103
Derivatives	**38 633**	**38 548**	**85**	51 755
Debt investment securities (excluding non-recourse investments)	**78 936**	**75 087**	**3 849**	87 749
Accounts receivable	**4 131**	**4 015**	**116**	4 574
Amounts due by holding company and fellow subsidiaries	**26 005**	**24 683**	**1 322**	20 628
Off-balance sheet exposure	**117 791**	**114 288**	**3 503**	116 274
– Guarantees	**30 895**	**30 287**	**608**	28 515
– Letters of credit†	**7 075**	**6 945**	**130**	8 928
– Irrevocable commitments	**73 659**	**71 142**	**2 517**	74 054
– Credit derivatives	**6 162**	**5 914**	**248**	4 777
Total	**943 917**	**910 862**	**33 055**	875 511

* *Credit exposure for Bank Ltd Group disclosed in note 44 in notes to the consolidated annual financial statements.*
** *June 2013 balances have been restated to reflect IFRS changes.*
# *Includes public sector.*
† *Includes acceptances.*

Credit quality

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 Bank.

Age analysis of advances* (audited)

	2014					
	Neither past due nor impaired		Past due but not impaired			
R million	Current	Re-negotiated but current	One full instalment past due	Two full instalments past due	Impaired	Total
– FNB retail	196 483	769	2 548	1 367	7 256	208 423
– FNB commercial**	49 148	88	54	31	1 321	50 642
FNB	245 631	857	2 602	1 398	8 577	259 065
WesBank	146 112	–	4 201	1 882	4 661	156 856
RMB investment banking#	205 571	–	100	571	674	206 916
RMB corporate banking	6 435	–	–	–	6	6 441
FCC	2 373	–	–	–	–	2 373
Total	**606 122**	**857**	**6 903**	**3 851**	**13 918**	**631 651**
Percentage of total book	**96.0%**	**0.1%**	**1.1%**	**0.6%**	**2.2%**	**100.0%**

* *Credit exposure from Bank Ltd Group disclosed in note 44 in notes to the consolidated annual financial statements.*
** *Includes public sector.*
# *Impaired advances for RMB investment banking are net of cumulative credit fair value adjustments on the non-performing book.*

Age analysis of advances* (audited) (continued)

	2013**					
	Neither past due nor impaired		Past due but not impaired			
R million	Current	Re-negotiated 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	224 128	608	2 486	1 409	10 044	238 675
WesBank	126 023	–	2 708	1 092	3 776	133 599
RMB investment banking†	173 802	–	112	799	1 102	175 815
RMB corporate banking	5 091	–	1	–	9	5 101
FCC	4 103	–	–	–	–	4 103
Total	533 147	608	5 307	3 300	14 931	557 293
Percentage of total book	95.6%	0.1%	1.0%	0.6%	2.7%	100.0%

* *Credit exposure from Bank Ltd Group disclosed in note 44 in notes to the consolidated annual financial statements.*
** *Balances have been restated to reflect IFRS changes.*
# *Includes public sector.*
† *Impaired advances for RMB investment banking are net of cumulative credit fair value adjustments on the non-performing book.*

Renegotiated advances

Renegotiated but current financial assets would be past due or impaired were it not for renegotiation and are separately classified as neither past due nor impaired assets.

Renegotiated but current advances include advances where, due to a deterioration in the counterparty's financial condition, the Group grants a concession whereby the original terms and conditions of the facility are amended and the counterparty is within the new terms of the advance. Renegotiated but current advances are advances which have not been classified as defaulted.

Advances are only classified as renegotiated but current if the terms of the renegotiated contract have not yet expired and remain classified as such until the terms of the renegotiated contract expire. Adherence to the new terms and conditions for each product segment is closely monitored. Renegotiated but current 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.

NPLs cannot be reclassified as renegotiated but current 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.

Retail accounts which have been renegotiated and classified as NPLs cannot be reclassified to performing until all arrears have been paid up as per the Group's policy. All credit agreements which are subject to debt review orders in terms of the National Credit Act of 2007 are classified as NPLs in accordance with the Group's impairment policy. These agreements remain classified as such until arrears measured in terms of the initial contract have been repaid. Specific impairment is calculated on this group of assets.

Past due but not impaired

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 2014 exposures to technical and partial arrears of R6.2 billion (June 2013: R5.4 billion) were classified as neither past due nor impaired in accordance with FirstRand impairment methodology, primarily driven by retail exposures.

The following tables provide the credit quality of advances of the in-force portfolio. Detail 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)

	2014						
R million	**Total neither past due nor impaired****	**FNB**					
		Retail	**Commercial#**	**WesBank**	**RMB investment banking**	**RMB corporate banking**	**FCC**
FR 1 – 25	**170 863**	**42 762**	**3 314**	**2 970**	**117 867**	**1 697**	**2 253**
FR 26 – 91†	**426 873**	**147 286**	**45 419**	**142 154**	**87 178**	**4 737**	**99**
Above FR 92†	**9 243**	**7 204**	**503**	**988**	**526**	**1**	**21**
Total	**606 979**	**197 252**	**49 236**	**146 112**	**205 571**	**6 435**	**2 373**

* Credit exposure from Bank Ltd Group disclosed in note 44 in notes to the consolidated annual financial statements.
** Includes renegotiated but current advances.
# Includes public sector.
† The mapping of the FR rating scale to the international rating scale was realigned during the 2014 financial year. The impact is a misalignment in the top range affecting advances which fall into FR 91 and is considered to be insignificant. The rating buckets for financial reporting will be aligned in the next financial year.

	2013**						
R million	**Total neither past due nor impaired#**	**FNB**					
		Retail	**Commercial†**	**WesBank**	**RMB investment banking**	**RMB corporate banking**	**FCC**
FR 1 – 25	146 877	42 919	2 037	3 440	92 608	3 388	2 485
FR 26 – 91	376 382	132 552	38 620	122 017	79 993	1 703	1 497
Above FR 92	10 496	7 904	704	566	1 201	–	121
Total	533 755	183 375	41 361	126 023	173 802	5 091	4 103

* Credit exposure from Bank Ltd Group disclosed in note 44 in notes to the consolidated annual financial statements.
** Balances have been restated to reflect IFRS changes.
# Includes renegotiated but current advances.
† Includes public sector.

The following tables provide an overview of the credit quality of other financial assets that are neither past due nor impaired.

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

	2014				
R million	**Debt investment securities****	**Derivatives**	**Cash and short-term funds**	**Amounts due by fellow subsidiary companies**	**Total**
AAA to BBB	**73 099**	**30 869**	**46 638**	**26 005**	**176 611**
BB+ to B-	**5 836**	**7 762**	**14**	**–**	**13 612**
CCC	**–**	**–**	**–**	**–**	**–**
Unrated	**1**	**2**	**118**	**–**	**121**
Total	**78 936**	**38 633**	**46 770**	**26 005**	**190 344**

* Credit exposure from Bank Ltd Group disclosed in note 44 in notes to the consolidated annual financial statements.
** Excludes non-recourse investments.

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

	2013				
R million	Debt investment securities**	Derivatives	Cash and short-term funds	Amounts due by fellow subsidiary companies#	Total
AAA to BBB	83 848	33 764	37 010	20 628	175 250
BB+ to B-	3 900	17 949	217	–	22 066
CCC	–	36	–	–	36
Unrated	1	6	11	–	18
Total	87 749	51 755	37 238	20 628	197 370

* *Credit exposure from Bank Ltd Group disclosed in note 44 in notes to the consolidated annual financial statements.*
** *Excludes non-recourse investments.*
\# *Balances have been restated to reflect IFRS changes.*

Impairment of financial assets and NPLs

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

Refer to the policy for impairment of financial assets in the accounting policies and advances note in the annual financial statements for the analysis of the movement in the impairment of advances and NPLs.

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

Specific impairments are created for non-performing loans 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 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.

Fair value sensitivity of corporate advances due to credit risk

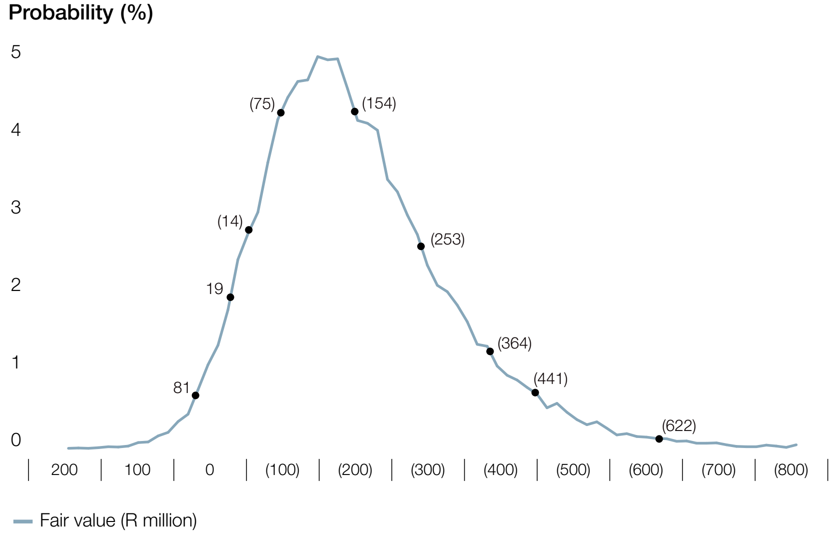
The investment banking division in RMB recognises a significant portion of corporate advances at fair value through profit or loss. The fair value adjustments directly impact the income statement and the value of advances. For risk management purposes, a migration matrix is used to estimate the fair 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 R154 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 R253 million.

Distribution: Fair value impact – long-term scenario (excluding international entities)



Management of concentration risk

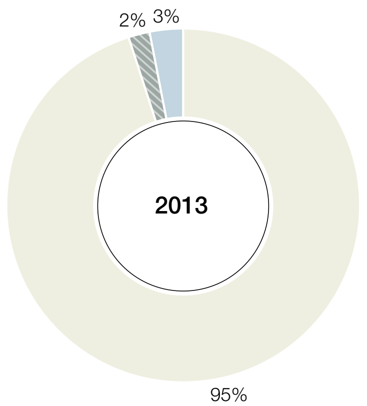
Credit concentration risk is the risk of loss to the Bank arising from an excessive concentration of exposure to a single counterparty, industry, market, product, financial instrument or type of security, country or region, or maturity. This concentration typically exists when a number of counterparties 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.

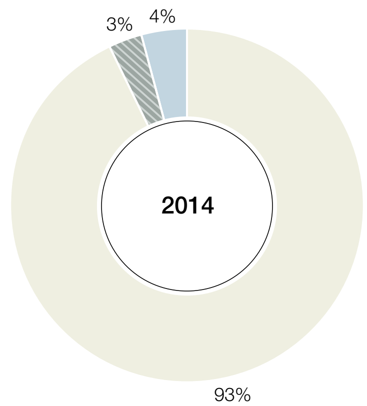
Concentration risk is managed based on the nature of the credit concentration within each portfolio. The Bank's overall credit portfolio is well diversified. Diversification is achieved through setting maximum exposure guidelines to individual counterparties. The Bank constantly reviews its concentration levels and sets maximum exposure guidelines to these. Excesses are reported to the RCC committee.

Geographic and industry concentration risk

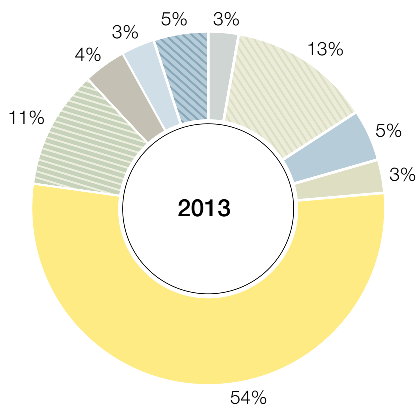
Geographically, most of the Bank's exposures are in South Africa. The following charts provide the geographical and industry split of gross advances after deduction of interest in suspense.

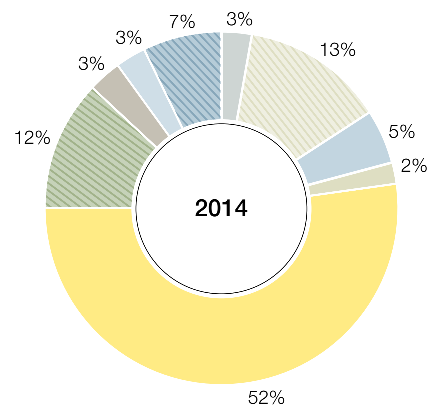
Geographical split by exposure (audited)





Industry split by exposure (audited)





The Bank 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 exposure* (audited)

	2014								
R million	**South Africa**	**Other Africa**	**United Kingdom**	**Other Europe**	**North America**	**South America**	**Australasia**	**Asia**	**Total**
Advances	**586 999**	**19 192**	**18 794**	**4 238**	**714**	**–**	**2**	**1 712**	**631 651**
Derivatives	**21 559**	**189**	**14 120**	**1 961**	**706**	**–**	**–**	**98**	**38 633**
Debt investment securities**	**68 835**	**352**	**2 354**	**68**	**2 126**	**–**	**–**	**5 201**	**78 936**
Guarantees, acceptances and letters of credit#	**30 870**	**4 275**	**77**	**336**	**630**	**–**	**491**	**1 291**	**37 970**
Irrevocable commitments#	**67 253**	**4 451**	**805**	**556**	**–**	**–**	**–**	**594**	**73 659**

* *Credit exposure from Bank Ltd Group disclosed in note 44 in notes to the consolidated annual financial statements.*
** *Excludes non-recourse investments.*
# *Significant off-balance sheet exposures. Refer to the note on contingencies and commitments in the notes to the annual financial statements.*

	2013**								
R million	**South Africa**	**Other Africa**	**United Kingdom**	**Other Europe**	**North America**	**South America**	**Australasia**	**Asia**	**Total**
Advances	530 300	10 858	10 358	3 355	394	89	498	1 441	557 293
Derivatives	29 704	224	18 387	2 194	832	7	–	407	51 755
Debt investment securities#	71 499	226	624	–	10 001	–	–	5 399	87 749
Guarantees, acceptances and letters of credit†	28 014	5 316	129	149	7	–	396	3 432	37 443
Irrevocable commitments†	68 383	2 901	1 485	441	440	–	–	404	74 054

* *Credit exposure from Bank Ltd Group disclosed in note 44 in notes to the consolidated annual financial statements.*
** *Balances have been restated to reflect IFRS changes.*
# *Excludes non-recourse investments.*
† *Significant off-balance sheet exposures. Refer to the note on contingencies and commitments in the notes to the annual financial statements.*

Average advances per major risk portfolios

R million	2014	2013*
Retail	**348 117**	312 569
Wholesale	**188 974**	163 929
Commercial	**46 168**	39 780

* *June 2013 balances have been restated to reflect IFRS changes.*

The average amount of gross credit exposure during the reporting period is calculated on a monthly average basis.

The following table provides a segmental breakdown of credit exposures.

Segmental analysis of advances (audited)

	2014				
R million/%	**Advances**	**NPLs**	**NPLs as a % of advances**	**Total impairment charge**	**Impairments as % of average advances**
FNB*	**259 065**	**8 577**	**3.31**	**2 181**	**0.88**
– FNB retail	**208 423**	**7 256**	**3.48**	**1 849**	**0.91**
– Residential mortgages	**170 677**	**5 625**	**3.30**	**158**	**0.09**
– Card	**14 634**	**341**	**2.33**	**88**	**0.64**
– Personal loans	**12 516**	**729**	**5.82**	**980**	**7.72**
– Other retail	**10 596**	**561**	**5.29**	**623**	**7.12**
– FNB commercial*	**50 642**	**1 321**	**2.61**	**332**	**0.71**
WesBank	**156 856**	**4 661**	**2.97**	**2 060**	**1.42**
– WesBank asset–backed finance	**147 707**	**4 002**	**2.71**	**1 458**	**1.06**
– WesBank retail	**109 048**	**3 424**	**3.14**	**1 339**	**1.32**
– WesBank corporate	**38 659**	**578**	**1.50**	**119**	**0.33**
– WesBank loans	**9 149**	**659**	**7.20**	**602**	**7.34**
RMB investment banking	**206 916**	**1 740**	**0.84**	**72**	**0.04**
RMB corporate banking	**6 441**	**6**	**0.09**	**31**	**0.54**
FCC	**2 373**	**–**	**–**	**483**	**0.08**
Subtotal	**631 651**	**14 984**	**2.37**	**4 827**	**0.81**
Special impairments**	**–**	**–**	**–**	**–**	**–**
Total	**631 651**	**14 984**	**2.37**	**4 827**	**0.81**

* *Includes public sector.*
** *Special impairment in 2013 related to FNB commercial R215 million and RMB corporate banking R15 million.*

2013				
Advances	NPLs	NPLs as a % of advances	Total impairment charge	Impairments as % of average advances
238 675	10 044	4.21	2 647	1.15
195 841	8 615	4.40	2 330	1.22
163 046	6 911	4.24	507	0.32
13 001	302	2.32	23	0.19
12 885	943	7.32	1 402	11.39
6 909	459	6.64	398	7.49
42 834	1 429	3.34	317	0.80
133 599	3 776	2.83	1 565	1.28
126 352	3 332	2.64	1 135	0.98
93 447	2 468	2.64	1 005	1.20
32 905	864	2.63	130	0.41
7 247	444	6.13	430	6.54
175 815	2 296	1.31	19	0.01
5 101	9	0.18	28	0.72
4 103	–	–	(48)	(0.01)
557 293	16 125	2.89	4 211	0.80
–	–	–	230	0.05
557 293	16 125	2.89	4 441	0.85

REGULATORY DISCLOSURE

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 through-the-cycle PDs and downturn LGDs. The Bank uses EAD-weighted PDs based on the FirstRand master rating scale which are then mapped to Basel rating buckets (1 – 25) for regulatory reporting purposes.

The tables provide a summary of the risk weights and 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 are impacted by risk migration in the existing book (reflecting changes in the economic environment), quality of new business originated and any model recalibrations implemented during the course of the year. The risk profile reflects the Bank's credit origination strategy, which focuses on targeting segments that provide an appropriate risk/return profile.

The risk-weight per Basel risk bucket table must be read together with the EAD% distribution per Basel risk bucket table as the significant overall movements year-on-year are explained by the change in low volumes within individual rating buckets. The sovereign asset class includes public sector entities, local government and municipalities and sovereign exposures (including central government and central bank) and specialised lending includes high volatility commercial real estate, income-producing real estate, object finance, commodity finance and project finance. The increase in EAD% and nominal EAD for the 1-5 bucket of banks and securities firms reflects funding provided to the London branch from the South African balance sheet. This is due to a change in the regulatory returns in which London branch exposures are now reflected as part of FRB SA.

Bank's risk profile per asset class: risk-weight per Basel risk bucket

	Risk weight									
%	**Total FRB**		**Corporate**		**Sovereign**		**Specialised lending**		**Banks and securities firms**	
Basel PD risk buckets	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
1 – 5	**3.0**	3.1	**0.1**	10.0	**3.8**	3.1	**5.2**	–	**0.7**	3.6
6 – 10	**22.7**	21.0	**27.2**	27.6	**26.5**	23.4	**16.8**	18.2	**16.1**	14.2
11 – 15	**37.5**	36.5	**60.0**	59.5	**53.1**	56.6	**41.0**	43.1	**51.5**	46.3
16 – 20	**52.3**	51.3	**101.7**	98.3	**74.6**	52.1	**94.6**	98.3	**100.7**	113.0
21 – 25	**110.1**	126.0	**157.1**	277.5	**354.3**	355.4	**235.9**	175.5	**142.1**	139.6
NPLs	**69.0**	59.4	**0.9**	6.2	**5.8**	–	**–**	–	**–**	–

	Risk weight									
%	**SME corporate**		**SME retail**		**Retail mortgages**		**Retail revolving**		**Other retail**	
Basel PD risk buckets	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
1 – 5	**4.1**	2.3	**5.8**	–	**1.2**	–	**1.7**	–	**1.5**	11.2
6 – 10	**1.9**	25.4	**13.1**	15.8	**5.1**	4.9	**5.7**	14.6	**22.1**	45.1
11 – 15	**48.0**	44.2	**34.5**	31.5	**15.3**	14.9	**23.1**	31.4	**29.7**	28.2
16 – 20	**63.9**	63.2	**40.3**	43.6	**36.6**	36.2	**61.7**	70.0	**47.0**	45.1
21 – 25	**116.9**	103.3	**73.7**	67.2	**77.6**	80.8	**157.4**	147.6	**107.1**	117.1
NPLs	**13.6**	173.0	**245.5**	134.7	**14.8**	23.2	**12.1**	76.4	**133.4**	105.8

Bank's risk profile per asset class: EAD% distribution per Basel risk bucket

%	EAD									
	Total FRB		**Corporate**		**Sovereign**		**Specialised lending**		**Banks and securities firms**	
Basel PD risk buckets	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
1 – 5	**9.3**	9.3	**–**	0.4	**80.3**	83.1	**0.3**	0.1	**28.8**	3.9
6 – 10	**16.3**	16.0	**38.2**	33.8	**16.5**	13.5	**17.1**	14.8	**51.1**	67.7
11 – 15	**38.4**	36.9	**49.8**	53.3	**2.2**	2.3	**64.1**	54.7	**15.3**	22.6
16 – 20	**30.0**	31.2	**11.0**	10.3	**0.8**	0.6	**13.5**	23.0	**3.7**	4.9
21 – 25	**4.1**	4.5	**0.9**	2.0	**0.2**	0.2	**1.0**	2.2	**1.0**	0.9
NPLs	**1.8**	2.1	**0.2**	0.1	**–**	0.4	**4.0**	5.2	**–**	–

%	EAD									
	SME corporate		**SME retail**		**Retail mortgages**		**Retail revolving**		**Other retail**	
Basel PD risk buckets	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
1 – 5	**0.2**	2.0	**2.5**	–	**0.6**	–	**2.1**	–	**–**	–
6 – 10	**–**	0.8	**6.3**	13.7	**0.6**	2.2	**8.8**	20.8	**–**	–
11 – 15	**55.7**	56.0	**34.6**	24.8	**53.8**	53.6	**36.0**	32.5	**13.9**	7.3
16 – 20	**39.3**	37.7	**48.7**	54.3	**38.6**	36.5	**43.6**	34.9	**69.0**	76.6
21 – 25	**3.3**	3.5	**5.4**	4.3	**3.8**	4.5	**7.8**	9.8	**13.0**	12.4
NPLs	**1.4**	2.0	**2.6**	2.8	**2.6**	3.2	**1.7**	2.1	**4.1**	3.7

Bank's risk profile per asset class: Nominal EAD per Basel risk bucket

	Nominal EAD									
R million	**Total FRB**		**Corporate**		**Sovereign**		**Specialised lending**		**Banks and securities firms**	
Basel PD risk buckets	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
1 – 5	**74 409**	67 222	**14**	621	**52 907**	64 718	**142**	41	**18 165**	1 833
6 – 10	**130 132**	111 135	**71 707**	51 741	**10 836**	10 489	**8 108**	5 709	**32 205**	31 518
11 – 15	**305 533**	267 689	**93 524**	81 772	**1 427**	1 782	**30 305**	21 087	**9 640**	10 500
16 – 20	**239 110**	226 451	**20 656**	15 818	**538**	448	**6 362**	8 848	**2 343**	2 280
21 – 25	**32 487**	32 860	**1 620**	3 124	**153**	157	**494**	848	**630**	406
NPLs	**14 275**	15 073	**405**	199	**–**	317	**1 873**	1 994	**–**	–
Total	**795 946**	720 430	**187 926**	153 275	**65 861**	77 911	**47 284**	38 527	**62 983**	46 537

	Nominal EAD									
R million	**SME corporate**		**SME retail**		**Retail mortgages**		**Retail revolving**		**Other retail**	
Basel PD risk buckets	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
1 – 5	**111**	9	**980**	–	**1 211**	–	**853**	–	**26**	–
6 – 10	**1**	314	**2 463**	–	**1 174**	4 226	**3 637**	7 108	**1**	30
11 – 15	**24 936**	23 392	**13 523**	8 797	**100 707**	101 273	**14 933**	11 121	**16 538**	7 965
16 – 20	**17 622**	15 753	**19 055**	19 297	**72 206**	68 918	**18 091**	11 952	**82 237**	83 137
21 – 25	**1 496**	1 469	**2 106**	1 544	**7 210**	8 543	**3 246**	3 341	**15 532**	13 428
NPLs	**624**	821	**1 013**	1 011	**4 784**	6 036	**720**	721	**4 856**	3 974
Total	**44 790**	41 758	**39 140**	30 649	**187 292**	188 996	**41 480**	34 243	**119 190**	108 534

Bank's PD%, LGD%, EL/EAD and RWA/EAD ratio per asset class

	Total FRB		Corporate		Sovereign		Specialised lending		Banks and securities firms	
%	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Average performing PD	**2.4**	2.5	**0.9**	1.2	**0.2**	0.1	**1.2**	1.8	**0.4**	0.5
Average performing LGD	**28.9**	28.3	**34.6**	34.5	**29.4**	28.4	**22.9**	23.2	**28.2**	30.2
Performing EL/EAD	**0.8**	0.8	**0.3**	0.5	**0.1**	0.1	**0.4**	0.7	**0.1**	0.2
Performing RWA/EAD	**39.3**	39.9	**52.9**	57.5	**10.0**	8.0	**46.2**	55.1	**21.5**	26.9
Average total book PD	**4.1**	4.5	**1.1**	1.3	**0.2**	0.5	**5.1**	6.9	**0.4**	0.5
Average total book LGD	**29.1**	28.7	**34.6**	34.5	**29.4**	28.4	**23.7**	25.0	**28.2**	30.2
Total book EL/EAD	**1.5**	1.6	**0.4**	0.6	**0.1**	0.1	**2.3**	3.1	**0.1**	0.2
Total book RWA/EAD	**39.8**	41.2	**52.8**	57.4	**10.0**	8.0	**44.4**	52.4	**21.5**	26.9

	SME corporate		SME retail		Retail mortgages		Retail revolving		Other retail	
%	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Average performing PD	**2.3**	2.5	**3.0**	2.9	**2.8**	2.9	**3.8**	4.1	**6.1**	6.0
Average performing LGD	**27.0**	26.5	**32.0**	30.7	**13.8**	13.9	**65.5**	65.2	**33.3**	32.8
Performing EL/EAD	**0.6**	0.6	**1.0**	0.8	**0.4**	0.4	**2.5**	2.7	**2.5**	2.5
Performing RWA/EAD	**56.6**	53.9	**37.5**	37.7	**26.0**	26.2	**48.9**	53.2	**52.6**	53.1
Average total book PD	**3.6**	4.4	**5.5**	5.7	**5.3**	6.0	**5.5**	6.2	**9.9**	9.4
Average total book LGD	**27.2**	27.4	**32.6**	31.0	**13.9**	14.2	**65.5**	65.3	**33.9**	33.6
Total book EL/EAD	**1.6**	1.7	**1.9**	2.0	**1.0**	1.2	**3.7**	4.1	**4.1**	4.2
Total book RWA/EAD	**56.0**	56.2	**42.8**	40.4	**25.7**	26.0	**48.3**	54.6	**55.9**	54.4

Bank's nominal credit extended, drawn exposure and EAD per asset class

R million	Total FRB 2014	Total FRB 2013	Corporate 2014	Corporate 2013	Sovereign 2014	Sovereign 2013	Specialised lending 2014	Specialised lending 2013	Banks and securities firms 2014	Banks and securities firms 2013
Total book credit extended	**1 016 183**	919 707	**236 559**	205 107	**72 449**	83 334	**47 704**	39 252	**180 870**	155 387
Total book drawn exposure	**691 762**	601 736	**151 431**	118 854	**62 698**	72 680	**46 397**	37 524	**55 274**	29 123
Total book nominal EAD	**795 946**	720 430	**187 926**	153 275	**65 861**	77 911	**47 284**	38 527	**62 983**	46 537

R million	SME corporate 2014	SME corporate 2013	SME retail 2014	SME retail 2013	Retail mortgages 2014	Retail mortgages 2013	Retail revolving 2014	Retail revolving 2013	Other retail 2014	Other retail 2013
Total book credit extended	**52 456**	49 445	**42 594**	36 735	**200 502**	195 405	**56 850**	46 262	**119 689**	108 780
Total book drawn exposure	**37 333**	35 338	**32 611**	28 174	**162 651**	153 618	**24 491**	19 278	**118 086**	107 147
Total book nominal EAD	**44 790**	41 758	**39 140**	30 649	**187 292**	188 996	**41 480**	34 243	**119 190**	108 534

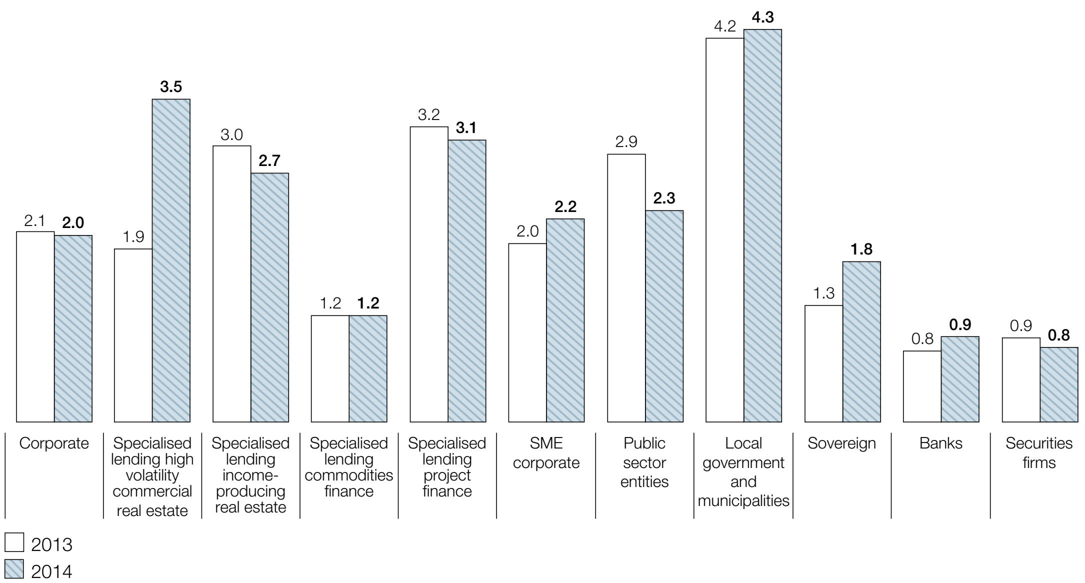
Maturity breakdown

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. The following chart provides a maturity breakdown of AIRB asset classes within the wholesale credit portfolio.

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 2013. 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 period consist of the level of specific impairments at the start of the financial year (1 July 2013) and the net specific impairment charge recorded through the income statement for the year 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 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 2013. These exposures are not reflected in the expected loss value described. As a result, significant volumes of new business can distort the analysis by inflating the actual loss figure.

The following table provides a comparison of actual loss to regulatory expected loss for each significant AIRB asset class. 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 at 30 June 2013. This comparison is supplemented with more detailed analyses on the following page, comparing actual and expected outcomes for each risk parameter (PD, LGD and EAD) during the year under review.

Actual versus expected loss per portfolio segment

	2014		2013		2012	
R million*	**Expected loss**	**Actual loss**	**Expected loss**	**Actual loss**	**Expected loss**	**Actual loss**
Corporate (corporate, banks and sovereign)**	**1 977**	**59**	1 621	70	1 499	313
SMEs (SME corporate and SME retail)#	**1 125**	**998**	1 146	989	1 507	1 094
Residential mortgages#	**2 422**	**1 913**	2 674	2 470	2 793	2 961
Qualifying revolving retail#	**1 434**	**1 512**	1 126	973	1 179	808
Other retail†	**1 981**	**2 336**	1 718	2 413	904	1 990
WesBank†	**3 076**	**3 825**	2 780	3 236	3 160	3 371
Total	**12 015**	**10 643**	11 065	10 151	11 042	10 537

* *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.*

** *Expected losses for the corporate portfolio are much higher than the actual losses due to it being a low default portfolio. The discrepancy is due to the fact that the models use conservative data inputs.*

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.

† *Actual losses exceed expected losses for the Other retail and WesBank portfolios. Other retail and WesBank experienced high levels of new business written during the year. The related impairment 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 contribute to the actual losses as a result of additional provisions raised.*

For the analysis below, estimated values are based on regulatory capital models applied at 30 June 2013. For PDs, this is applied to the total performing book at 30 June 2013. 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 2013 to June 2014. 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 estimated EAD to actual EAD ratio is derived as the ratio of expected nominal exposure at default (for all accounts that defaulted during the 12-month period July 2013 to June 2014) to the actual nominal exposure at default for the same accounts.

Risk parameters used to determine regulatory expected loss

	2014				
	PD		LGD		Estimated EAD to actual EAD ratio
Asset class	**Estimated %**	**Actual %**	**Estimated %**	**Actual %**	**%**
Corporate, banks and sovereign*	**0.8**	**0.2**	**18.7**	**28.2**	**101.9**
Specialised lending – property finance	**2.3**	**0.5**	**16.9**	**2.0**	**133.7**
SME corporate	**2.4**	**1.2**	**26.6**	**20.9**	**111.3**
SME retail	**2.8**	**2.3**	**32.4**	**34.2**	**109.3**
Residential mortgages	**2.9**	**2.0**	**15.4**	**8.8**	**103.2**
Qualifying revolving retail	**4.4**	**2.8**	**65.2**	**71.8**	**106.8**
Other retail	**6.0**	**6.1**	**42.6**	**43.6**	**106.9**
Total	**2.6**	**1.9**	**24.9**	**26.0**	**106.3**

* *Corporate, banks and sovereign are shown as one asset class to align with respective asset class in the actual versus expected loss table.*

	2013				
	PD		LGD		Estimated EAD to actual EAD ratio
Asset class	**Estimated %**	**Actual %**	**Estimated %**	**Actual %**	**%**
Corporate, banks and sovereign*	0.9	0.3	15.8	34.6	107.9
Specialised lending – property finance	2.1	1.2	31.0	3.3	102.7
SME corporate	2.3	1.3	29.3	28.4	109.9
SME retail	2.9	2.8	32.1	26.3	111.6
Residential mortgages	3.5	2.6	15.6	12.6	104.7
Qualifying revolving retail	3.6	2.6	67.6	63.3	91.9
Other retail	6.3	5.6	33.4	33.3	104.1
Total	2.7	2.0	22.2	28.5	106.0

* *Corporate, banks and sovereign are shown as one asset class to align with respective asset class in the actual versus expected loss table.*

	2012				
	PD		LGD		Estimated EAD to actual EAD ratio
Asset class	Estimated %	Actual %	Estimated %	Actual %	%
Corporate, banks and sovereign*	0.7	0.1	37.3	10.9	194.5
Specialised lending – property finance	2.7	2.3	21.8	28.8	116.0
SME corporate	4.9	2.3	27.0	29.0	144.3
SME retail	3.2	3.0	28.8	20.9	113.3
Residential mortgages	3.6	2.9	15.3	11.5	104.4
Qualifying revolving retail	3.0	2.5	72.4	68.5	99.0
Other retail	6.0	5.1	45.0	43.7	102.9
Total	2.7	2.0	30.6	27.52	108.0

* *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 default rates.

Differences between the actual and expected LGDs for corporates, banks and sovereigns as well as specialised lending (property finance) are due to low default volumes where the loss experience on individual defaults can dominate the result. The difference in the outputs as compared to prior years are primarily as a result of the 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.

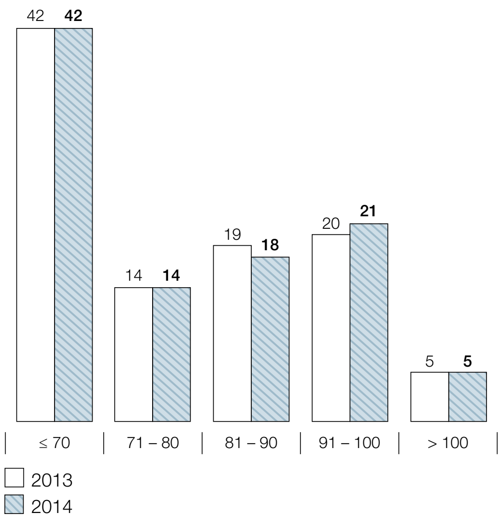
The qualifying revolving retail asset class LGD models applied for regulatory capital at June 2013 underestimated LGDs and reflect the model in use at the time. FNB's strategy to grow core transactional accounts and improve cross-sell resulted in strong new business growth in consumer overdrafts which resulted higher actual losses and LGDs than had been previously experienced. An updated model is being developed and should predict LGDs for this asset class at a more appropriate level.

RISK ANALYSES

The graphs below provide the balance-to-value and distributions of the ageing of residential mortgage portfolios and show that the focus on loan-to-value ratios for new business resulted in an improvement in balance-to-original value although the Bank places more emphasis on counterparty creditworthiness as opposed to only on the underlying security. Pressures on property market values have negatively impacted the balance-to-market value distribution.

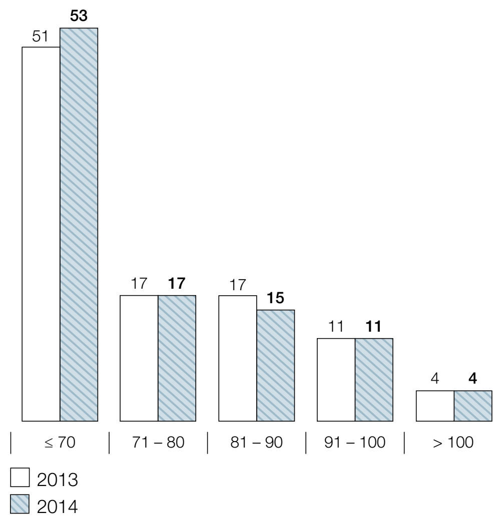
Residential mortgages balance-to-original value

%



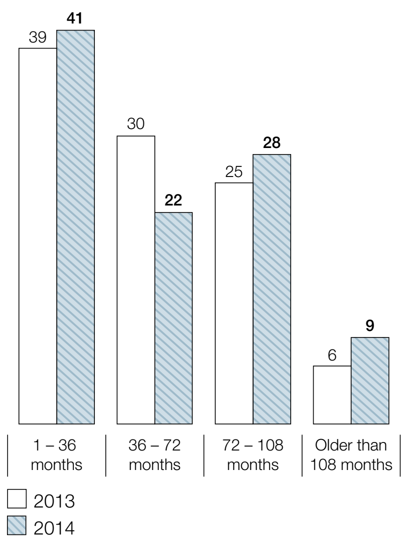
Residential mortgages balance-to-market value

%



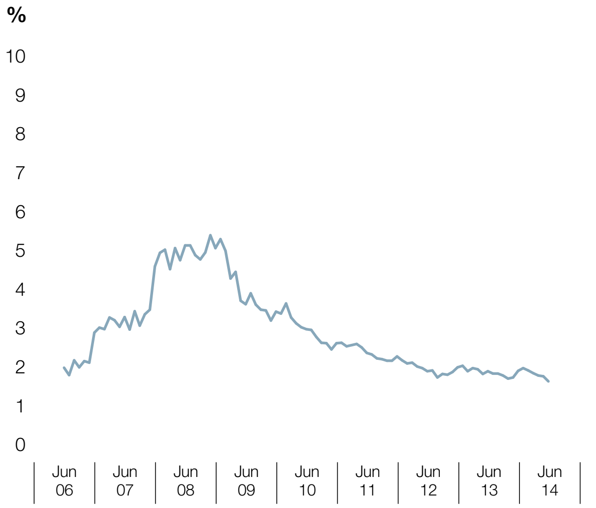
Residential mortgages age distribution

%



The graph below shows the arrears in the FNB HomeLoans portfolio. It includes loans where more than one full payment is in arrears expressed as a percentage of the total advances balance.

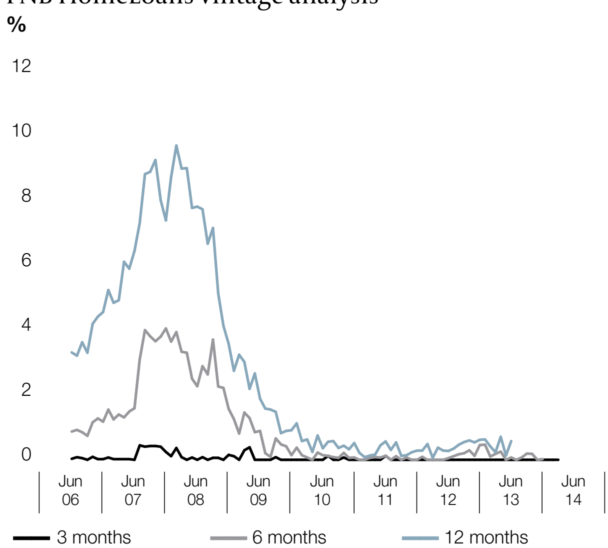
FNB HomeLoans arrears



The following graphs provide vintage analyses for certain retail portfolios. Vintage graphs show default experience three, six and twelve months after origination date. It indicates the impact of origination strategies and the macroeconomic environment.

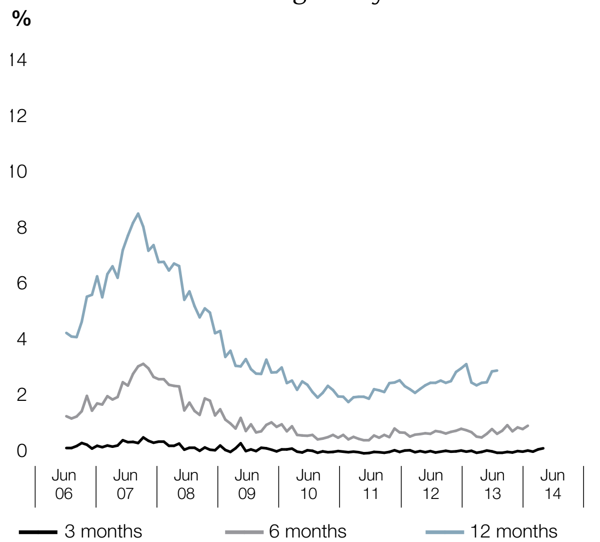
FNB HomeLoan vintages continue to perform at record lows even when considering the pre-2008 period. This can be attributed to risk mitigation actions taken across all residential mortgage portfolios.

FNB HomeLoans vintage analysis



The WesBank retail six and twelve month cumulative vintage analysis continues to show a noticeable improvement in the quality of business written since mid-2007. This is due to improved customer profiles and enhanced collection strategies.

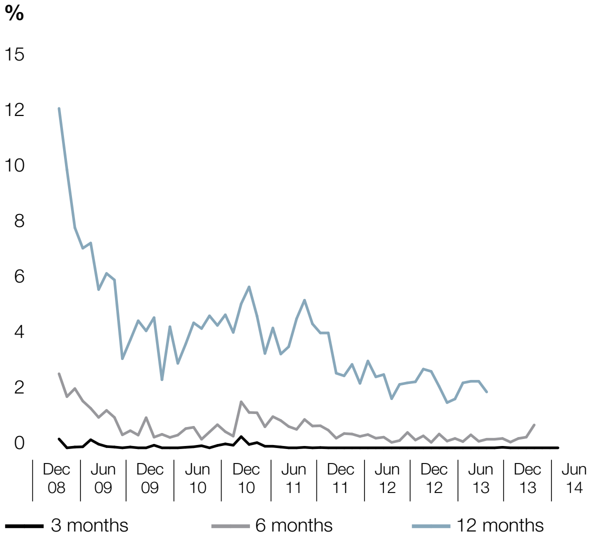
WesBank retail VAF vintage analysis



The uptick in VAF vintages is due, in part, to strong new business volumes in recent years. The emerging strain is driven by pressure on consumer disposable income as a result of rising inflation, higher debt costs and administered price increases on motor vehicles. The Group actively adjusts risk appetite and credit parameters to ensure that vintages continue to perform in line with expectations given where it is in the credit cycle.

The following chart shows that FNB card has experienced a marginal increase in NPLs, in line with expectations. Default rates remain at very low levels, even on a through-the-cycle basis. The expectation is that default rates have bottomed and moderate increases are expected off this level.

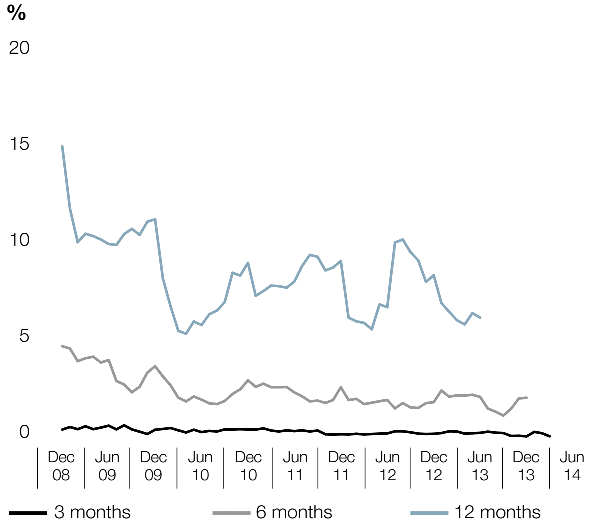
FNB card vintage analysis



The default experience of the FNB and WesBank personal loans portfolios is within risk appetite.

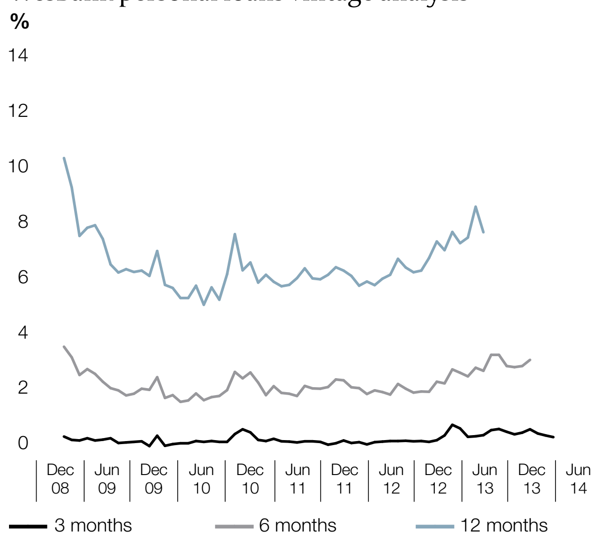
Vintages for personal loans are within thresholds and risk appetite. Continued actions are undertaken to ensure these portfolios remain within risk appetite. FNB loans vintages are performing at the lowest levels since December 2008. The positive risk outcome is the result of active management of credit risk appetite and parameters even as the risk levels within the unsecured lending market have heightened.

FNB personal loans vintage analysis



WesBank personal loans vintages have continued to show a marginal deterioration from 2010 levels. This is due to new joint ventures entered into where performance is expected to be somewhat worse in the initial stages. The introduction of a more conservative risk appetite in early 2014 is expected to improve performance back to 2012 levels and early signs are encouraging.

WesBank personal loans vintage analysis



RETAIL PROPERTIES IN POSSESSION

The Bank took a decision to write off the carrying value of its South African properties in possession. At June 2014, 156 properties were part of the Bank's portfolio (June 2013: 300).

SECURITISATIONS AND CONDUITS

INTRODUCTION AND OBJECTIVES

Securitisation is the 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 Bank to access funding markets at debt ratings higher than its own 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 Bank is able to reduce some of the costs of on-balance sheet financing and manage potential asset-liability mismatches and credit concentrations.

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

- improve the Bank'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.

The table below provides an overview of the Bank's role in securitisation and conduit structures.

The Bank's role in securitisation and conduit structures*

Transaction	Originator	Sponsor	Servicer	Investor	Liquidity provider	Credit enhancement provider	Swap counterparty
Own securitisations							
Fresco 2	✓	✓	✓	✓		✓	
Nitro 4	✓	✓	✓	✓			✓
Turbo Finance 2	✓	✓	✓	✓			
Turbo Finance 3	✓	✓	✓	✓			
Turbo Finance 4	✓	✓	✓	✓			
Conduit structures							
iNdwa**		✓	✓		✓		✓
iVuzi**		✓	✓		✓	✓	✓
iNkotha#			✓				
iNguza#			✓				
Third party							
Homes Obligor Mortgage Enhanced Securities					✓		
Private Residential Mortgages 2					✓		
Superdrive Investments				✓			
Torque Securitisation					✓		

* *Securitisation exposure for Bank Ltd Group disclosed in note 44 in notes to the consolidated annual financial statements.*
** *Conduits incorporated under regulations relating to securitisation scheme.*
# *Conduits incorporated under regulations relating to commercial paper.*

OVERSIGHT AND RISK MITIGATION

The Bank's role in securitisation transactions, both Bank originated and sponsored as well as third party securitisations, results in various financial and operational risks, including:

- liquidity and funding risk;
- interest rate risk;
- credit risk;
- currency risk;
- operational risk;
- reputational risk; and
- compliance risk.

For securitisations originated by the Bank, exposures are managed from a credit perspective by the originating business units as if the securitisation had never occurred. Resultant risks from retained exposure and the overall origination and maintenance of the securitisation structures are managed as part of the day-to-day management of the various risk types. This includes risk mitigation and management actions depending on the risk limits and appetite per risk area. The performance of securitisations is monitored on an ongoing basis and reported to relevant management and governance forums.

Some of the governance and management processes in place to monitor risks as a result of securitisation transactions are outlined below:

- proposed securitisations follow a rigorous internal approval approach and are reviewed for approval by ALCCO, the RCC committee and the board;
- the performance of Bank and third-party off-balance sheet transactions are discussed and monitored at a bimonthly meeting of Group Treasury's off-balance sheet forum, which includes representation from investor relations;
- changes to retained exposures (as a result of ratings, reviews, note redemptions and credit losses) are reflected 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 Bank does not employ credit risk mitigation techniques to hedge credit risk on retained securitisation tranches.

SECURITISATION ACCOUNTING POLICIES

From an accounting perspective, traditional securitisations are treated as sales transactions. At inception, the assets are sold to a special purpose vehicle (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. Liabilities as a result of securitisation vehicles are accounted for in line with Group accounting policies for liabilities, provisions and contingent liabilities.

The Bank does not currently employ any form of warehousing prior to structuring a new securitisation transaction.

YEAR UNDER REVIEW

Issuance of Turbo Finance 4

In November 2013, the Group closed its fourth UK traditional auto loan securitisation, Turbo Finance 4 plc (Turbo Finance 4). Turbo Finance 4 is a revolving cash securitisation of fixed rate auto loans extended to obligors by MotoNovo Finance. The note issuance of GBP378.7 million is rated by both Fitch and Moody's.

The incorporation of a 12-month revolving period has enabled the Bank to extend the term of funding by an additional year. Despite the increase in the weighted average life of the transaction, the Class A note was issued 2 bps below the Turbo 3 Class A note. The performance of past and existing Turbo Finance transactions has helped to further improve rating assumptions used by the rating agencies, allowing for an additional reduction in the level of subordination required for the Aaa/AAA Class A notes (13% compared to 18% for Turbo 3 and 28% for Turbo 1).

The following table provides further detail regarding the notes.

Turbo Finance 4 notes issued

Tranche	Rating (Moody's/Fitch)	Amount (GBP million)	Credit enhancement* (%)	Coupon
A	Aaa(sf)/AAA(sf)	328.9	13.1	1m Libor + 58
B	A1(sf)/A+(sf)	33.6	4.3	1m Libor + 115
C	Ba1(sf)/BBB (sf)	11.3	1.3	6%
D	NR/NR	4.9	0.0	20%
Total		**378.7**		

** Calculated including the class D notes/cash component.*

The Bank was, however, required to retain GBP18 million of the Class B tranche. 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.

Maturity of Fresco 2

Launched in August 2007, Fresco 2 represented the Group's second synthetic securitisation of wholesale corporate credit exposures. Scheduled amortisation of Fresco 2 commenced in November 2012, and in August 2013, the transaction matured with final redemption of all outstanding notes.

During its lifetime, the Fresco 2 securitisation provided both funding and credit risk mitigation against the Groups wholesale credit exposures. The transaction performed in line with expectations.

Nitro Securitisation 4 Issuer Trust (Nitro 4) ratings affirmed

In July 2013, Moody's Investor Services confirmed the respective Baa2(sf)/A1.za(sf) and Ba2(sf)/Baa1.za(sf) ratings of the Class B and Class C notes. At the same time, the rating agency affirmed the A1(sf)/Aaa.za (sf) ratings on the outstanding Class A8 to A14 notes. Adequate credit enhancement, which protects against sovereign and counterparty risk, primarily drove the rating action.

Exposures intended to be securitised or resecuritised in the future

The Bank uses securitisation primarily as a funding tool. The ability to securitise assets is dependent on the availability of assets to securitise, investor appetite for securitisation paper and comparison with alternative sources of funding. All assets on the Bank's balance sheet are considered as exposures that could possibly be securitised within the market constraints mentioned above. The Group obtains SARB approval for the structure and limits imposed by the Board on the size of assets that may be securitised.

Resecuritisation paper occurs as a result of portfolio management action, and the size of this exposure is dependent on market factors in the future. This exposure is reported as part of the investor reporting process.

TRADITIONAL AND SYNTHETIC SECURITISATIONS

The following tables show the traditional and synthetic securitisations currently in issue and the rating distribution of any exposures retained. 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.

Securitisation transactions

R million	Asset type	Year initiated	Expected close	Rating agency
Traditional securitisations**				
Nitro 4	Retail: Auto loans	2007	2016	Moody's
Turbo Finance 2	Retail: Auto loans	2012	2015	Moody's and Fitch
Turbo Finance 3	Retail: Auto loans	2012	2015	Moody's and Fitch
Turbo Finance 4	Retail: Auto loans	2013	2021	Moody's and Fitch
Synthetic securitisations**				
Fresco 2	Corporate receivables	2007	2013	Fitch
Total				

* *Does not include cash reserves.*
** *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)	AA – (zaf)	A+ (zaf)	A (zaf)	BBB+ (zaf)	BBB (zaf)	BB (zaf)	B+ (zaf)	Not rated	Total
Traditional												
At 30 June 2014	**1 463**	**–**	**–**	**–**	**247**	**–**	**–**	**30**	**–**	**–**	**–**	**1 740**
At 30 June 2013	98	–	–	–	81	–	–	–	–	–	–	179
Synthetic												
At 30 June 2014	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
At 30 June 2013	–	–	–	–	–	–	–	3 020	52	–	23	3 095
Third party												
At 30 June 2014	**504**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**504**
At 30 June 2013	503	–	–	–	–	–	–	–	–	–	–	503

	Assets outstanding*		Notes outstanding		Retained exposure	
Assets securitised	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
19 167	**10 066**	7 019	**10 895**	7 823	**1 739**	179
3 982	**576**	1 453	**717**	1 747	**38**	179
4 037	**1 067**	2 200	**1 189**	2 402	**–**	–
4 570	**1 907**	3 366	**2 108**	3 674	**–**	–
6 578	**6 516**	–	**6 881**	–	**1 701**	–
20 000	**–**	5 000	**–**	5 000	**–**	3 095
20 000	**–**	5 000	**–**	5 000	**–**	3 095
39 167	**10 066**	12 019	**10 895**	12 823	**1 739**	3 274

RESECURITISATIONS

A resecuritisation exposure is where 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 Bank's asset backed commercial paper conduits 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

	2014		2013	
Programme*	**Resecuritisation exposure (R million)**	**% of total programme**	**Resecuritisation exposure (R million)**	**% of total programme**
iVuzi	**11.0**	**0.3**	47.5	1.1

* *Excludes distributions relating to iNguza underlying exposure as this is driven by note holders and does not impact third parties.*

CONDUIT PROGRAMMES

The Bank 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 traditional bank funding or capital market issuance under their own domestic medium-term debt programmes. 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 deposits.

The commercial paper programme, iNguza, issues bespoke notes to investors. These notes use 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 assets originated for the conduit programmes are rigorously evaluated as part of the Bank'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 experienced a tightening of credit spreads in line with the corporate debt market. Supply of assets and demand for notes issued by the conduits remains healthy, albeit within the constraints of newly-introduced collective investment scheme regulations.

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

Conduit programmes*

					Non-recourse investments		Credit enhancement provided	
R million	**Underlying assets**	**Year initiated**	**Rating agency**	**Programme size**	**2014**	**2013**	**2014**	**2013**
Securitisations**								
iNdwa	Corporate and structured finance term loans	2003	Fitch	15 000	**4 420**	5 160	**–**	–
iVuzi	Corporate and structured finance term loans	2007	Fitch	15 000	**3 871**	4 123	**1 044**	1 070
Total				30 000	**8 291**	9 283	**1 044**	1 070
Fixed income fund#								
iNkotha	Overnight corporate loans	2006	GCR†	10 000	**2 937**	2 957	**–**	–
Total				10 000	**2 937**	2 957	**–**	–
Commercial paper programme#								
iNguza	Corporate and structured finance term loans	2008	GCR†	15 000	9 482	10 964	–	–
Total				15 000	9 482	10 964	–	–

* *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 2014	**–**	**674**	**1 054**	**2 744**	**250**	**1 247**	**1 533**	**789**	**8 291**
At 30 June 2013	–	–	820	2 841	1 777	1 945	1 284	616	9 283
Fixed income funds									
At 30 June 2014	**–**	**–**	**270**	**367**	**422**	**798**	**610**	**470**	**2 937**
At 30 June 2013	–	–	–	648	827	601	321	560	2 957

* *Excludes distributions relating to iNguza underlying exposure as this is driven by note holders and does not impact third parties.*

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 Bank.

Liquidity facilities

R million	Transaction type	2014	2013
Own transactions		**4 363**	5 751
iNdwa	Conduit	**3 204**	3 866
iVuzi	Conduit	**1 159**	1 885
Third party transactions	Securitisations	**214**	1 522
Total		**4 577**	7 273

All liquidity facilities granted to the transactions in the table above rank senior in terms of payment priority in the event of a drawdown. Economic capital is allocated to the liquidity facility extended to iNdwa and iVuzi as if the underlying assets were held by the Bank. The conduit programmes are consolidated into FRIHL for financial reporting purposes.

ADDITIONAL INFORMATION

Capital against securitisation exposures has been calculated on consideration of a hierarchy of approaches based on the Regulations. The supervisory formula is used for conduits and the ratings-based approach has been selected for remaining exposures. Capital calculated under both of these approaches is limited to the capital that would have been held had the assets remained on-balance sheet. The following table provides the securitisation exposures retained or purchased as well as associated capital requirements per risk band.

Retained or purchased securitisation exposure and the associated regulatory capital charges

	Exposure		RWA		Capital*	
R million	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Risk weighted bands						
≤10%	**3 464**	3 989	**671**	347	**67**	33
>10% ≤20%	**2 167**	750	**423**	95	**42**	9
>50% ≤100%	**30**	1 331	**23**	863	**2**	82
1250%/deduction	**–**	23	**–**	242	**–**	23
Look through	**2 303**	6 027	**1 087**	2 958	**109**	281
Total	**7 964**	12 120	**2 204**	4 505	**220**	428

* *Capital is calculated at the SARB transitional minimum requirement of 10% for 2014 (2013: 9.5%) (excluding the bank-specific individual capital requirement) and includes a 6% capital scalar.*

The Bank did not securitise any exposures that were impaired or past due at the time of securitisation.

COUNTERPARTY CREDIT RISK

INTRODUCTION AND OBJECTIVES

Counterparty credit risk measures a counterparty's ability to satisfy its obligations under a contract that has positive economic value to the bank at any point during the life of the contract. It differs from normal credit risk in that the economic value of the transaction is uncertain and dependent on market factors that are typically not under the control of a bank or the client.

Counterparty credit risk is taken mainly in the Bank's trading and securities financing businesses. The objective of counterparty credit risk management is to ensure that this risk is appropriately measured, analysed and reported on, and is only taken within specified limits in line with the bank's risk appetite framework as mandated by the board.

During the year under review, the Bank focused on improving the risk management of the portfolio while growing client market access responsibly. 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

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 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 by 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 counterparties.

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, assess the hypothetical impact of stress scenarios and 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 Bank 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 approved CSA thresholds.

For regulatory purposes, net exposure figures are used 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 Bank in the event of a credit rating downgrade is not material and would not adversely impact its financial position. ISDA agreements with these provisions are, however, being actively phased out.

When assessing the portfolio in aggregate, the collateral that would need to be provided in the event of a rating downgrade is subject to many factors, not least of which are market moves in the underlying traded instruments and netting of existing positions.

While these variables are not quantifiable, the 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 Bank. In aggregate, all of the positive mark-to-market values shown would need to reverse before the Bank would be a net provider of collateral.

COUNTERPARTY CREDIT RISK PROFILE

The following table provides an overview of the counterparty credit risk arising from the Bank's derivative and structured finance transactions.

Composition of counterparty credit exposure

R million	2014*	2013
Gross positive fair value	**97 647**	106 490
Netting benefits	**(11 661)**	(12 054)
Netted current credit exposures before mitigation	**85 986**	94 436
Collateral value	**(76 248)**	(73 415)**
Netted potential future exposure	**11 607**	3 380
Exposure at default#	**24 333**	20 366

* *The large increase in netted potential exposure in June 2014 was due to the inclusion of central counterparties for futures clearing operations not included in June 2013.*

** *The collateral value for 2013 was adjusted to include the foreign branches as in 2014.*

\# *Includes exposures calculated under both the standardised and current exposure method. FRB implemented the standardised method in June 2012. EAD under the standardised method 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 the EAD computed.*

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

Credit derivatives exposure

	2014			
R million	**Credit default swaps**	**Total return swaps**	**Other**	**Total**
Own credit portfolio				
– protection bought	**–**	**–**	**–**	**–**
– protection sold	**127**	**–**	**–**	**127**
Intermediation activities				
– protection bought	**3 555**	**–**	**–**	**3 555**
– protection sold	**5 787**	**–**	**–**	**5 787**

	2013			
R million	**Credit default swaps**	**Total return swaps**	**Other**	**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

MARKET RISK IN THE TRADING BOOK

INTRODUCTION AND OBJECTIVES

The Bank'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 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 market risk is managed and contained within the Bank's appetite.

Compared to previous year, overall diversified levels of market risk have remained relatively unchanged. The performance of market risk-taking activities is measured as the higher of the Bank's internal expected tail loss (ETL) measure (as a proxy for economic capital) and regulatory capital based on VaR plus stressed VaR.

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

ORGANISATIONAL STRUCTURE AND GOVERNANCE

In terms of the market risk framework, a subframework of the BPRMF, responsibility for determining market risk appetite vests with the board, which also retains independent oversight of market risk-related activities through the RCC committee and its market and investment risk subcommittee.

Separate governance forums, such as RMB's proprietary board, take responsibility for allocating these mandates further, whilst deployed and central risk management functions provide independent control and oversight of the overall market risk process.

ASSESSMENT AND MANAGEMENT

Quantification of risk exposures

Market risk exposures are primarily measured and managed using an ETL measure and ETL limits. The ETL measure used by RMB is a historical simulation measure assessing the average loss beyond a selected percentile. RMB's ETL is based on a confidence interval of 99% and applicable holding periods. Since ETL is adjusted for the trading liquidity of the portfolio, it is referred to as liquidity-adjusted ETL. Holding periods, ranging between 10 and 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.

VaR calculations over holding periods of 1 day and 10 days are used as an additional tool in the assessment of market risk. Loss escalation procedures are used to highlight positions to be reviewed by management.

The Bank'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;
- the use of a 99% confidence level does not reflect the extent of potential losses beyond that percentile. The 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 Bank 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. The ETL assessment provides a view of risk exposures under stress conditions.

Additional stress testing, to supplement the ETL assessment, is conducted using historical market downturn scenarios and includes the use of what-if hypothetical and forward-looking simulations. The stress test calibrations are reviewed regularly to ensure that the results are indicative of the possible impact of severely distressed and event-driven market conditions. Stress and scenario analyses are regularly reported to and considered by the relevant governance bodies.

Earnings volatility

A key element of the Bank'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 Bank's risk appetite. Market risk earnings volatility is calculated and assessed on a quarterly 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 99th percentile. The number of breaches over a period of 250 trading days is calculated, and, should the number exceed that which is considered appropriate, the model is recalibrated.

Regulatory and economic capital for market risk

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

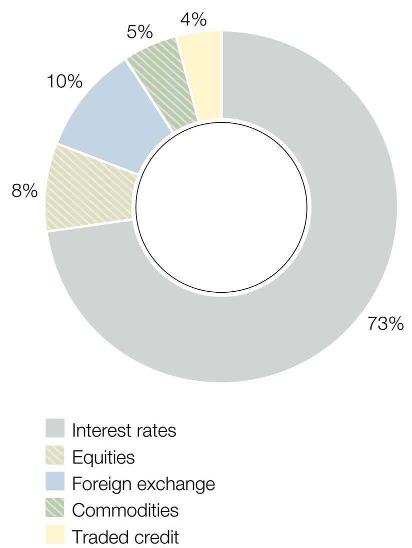
Economic capital for market risk is calculated using liquidity-adjusted ETL plus an assessment of specific risk.

MARKET RISK IN THE TRADING BOOK PROFILE

The following chart shows the distribution of exposures per asset class across the Bank's trading activities at 30 June 2014 based on the VaR methodology. The interest rate asset class represented the most significant exposure at year end. The main difference in asset class mix from the previous year relates to commodities, which at year end constituted a much smaller percentage of the total.

VaR exposure per asset class (audited)

%



VaR analysis by risk type

The following table reflects VaR over a 1-day holding period at a 99% confidence level. Results indicate that overall levels of market risk remained fairly unchanged between June 2013 and 2014. The most notable differences in risk when compared to the prior year relate to the interest rate and commodity components. Commodity exposures were significantly reduced during December 2013 and remained low for the remainder of the year. Overall interest rate risk increased as a result of interest rate derivative exposures on book, as well as the formation of a new trading desk created as part of the Bank's derivative transformation initiative. Overall levels of diversification have remained relatively unchanged compared to the previous year.

1-day 99% VaR analysis by instrument for the Bank excluding foreign branches* (audited)

	2014				2013
R million	**Min****	**Max****	**Average**	**Period end**	**Period end**
Risk type					
Equities	**2.9**	**20.0**	**6.0**	**4.8**	4.4
Interest rates#	**13.5**	**51.5**	**31.5**	**46.9**	29.9
Foreign exchange	**1.7**	**40.2**	**7.1**	**6.3**	2.0
Commodities	**3.0**	**18.4**	**8.6**	**3.3**	19.6
Traded credit	**0.6**	**5.8**	**2.7**	**2.6**	2.9
Diversification effect	**–**	**–**	**–**	**(20.8)**	(17.6)
Diversified total	**19.6**	**74.2**	**39.6**	**43.0**	41.3

* *Market risk VaR analysis for Bank Ltd Group disclosed in note 44 in notes to the consolidated annual financial statements.*
** *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.*

1-day 99% VaR analysis by instrument for the Bank including foreign branches* (audited)

	2014				2013
R million	**Min****	**Max****	**Average**	**Period end**	**Period end**
Risk type					
Equities	**2.9**	**20.0**	**6.0**	**4.8**	4.4
Interest rates#	**16.4**	**57.2**	**33.9**	**49.1**	32.9
Foreign exchange	**1.8**	**40.4**	**7.6**	**6.4**	2.3
Commodities	**3.0**	**18.4**	**8.6**	**3.3**	19.6
Traded credit	**0.6**	**5.8**	**2.7**	**2.6**	2.9
Diversification effect	**–**	**–**	**–**	**(20.8)**	(17.7)
Diversified total	**23.6**	**76.1**	**42.5**	**45.3**	44.4

* *Market risk VaR analysis for Bank Ltd Group disclosed in note 44 in notes to the consolidated annual financial statements.*
** *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.*

The following table reflects 10-day VaR and stress VaR (sVaR) at the 99% confidence level at year end. The 10-day VaR calculation is performed using 10-day scenarios created from the past 260 trading days, whereas the 10-day sVaR is calculated using scenario data from the static stress period (2008/2009).

The overall results are commensurate with the 1-day VaR results above. When considering sVaR only, the abovementioned increase in interest rate risk and decrease in commodity risk is evident. Similarly, the same trends are noted with regards to VaR, except for the interest rate component, where the 10-day VaR has declined slightly from the prior year end. The apparent anomaly reflects the changing interest rate environment experienced during the past year, where 1-day scenarios reflect volatility to a greater extent than 10-day scenarios.

10-day 99% VaR and sVaR analysis by instrument for the Bank excluding foreign branches

	2014		2013	
	Period end		**Period end**	
R million	**VaR**	**sVaR**	**VaR**	**sVaR**
Risk type				
Equities	**11.6**	**29.3**	13.7	14.9
Interest rates	**74.1**	**136.9**	93.1	84.4
Foreign exchange	**16.3**	**24.3**	12.9	35.5
Commodities	**6.9**	**12.9**	37.3	50.8
Traded credit	**4.6**	**5.5**	4.9	9.4
Diversification effect	**(29.7)**	**(57.5)**	(58.3)	(91.5)
Diversified total	**84.0**	**151.5**	103.6	103.5

10-day 99% VaR and sVaR analysis by instrument for the Bank including foreign branches

	2014		2013	
	Period end		**Period end**	
R million	**VaR**	**sVaR**	**VaR**	**sVaR**
Risk type				
Equities	**11.6**	**29.3**	13.7	14.9
Interest rates	**77.5**	**136.9**	96.5	84.4
Foreign exchange	**16.7**	**24.3**	25.4	35.5
Commodities	**6.9**	**12.9**	37.3	50.8
Traded credit	**4.6**	**5.5**	4.9	9.4
Diversification effect	**(29.8)**	**(57.5)**	(59.2)	(91.5)
Diversified total	**87.7**	**151.5**	118.7	103.5

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 risk, credit migration risk and event risk, and identifies concentrations in a portfolio. The following table includes specific risk capital for the year.

Specific risk capital*

R million	2014	2013**
Interest rate specific risk	**80**	87
Equity specific risk	**43**	30
Total	**123**	117

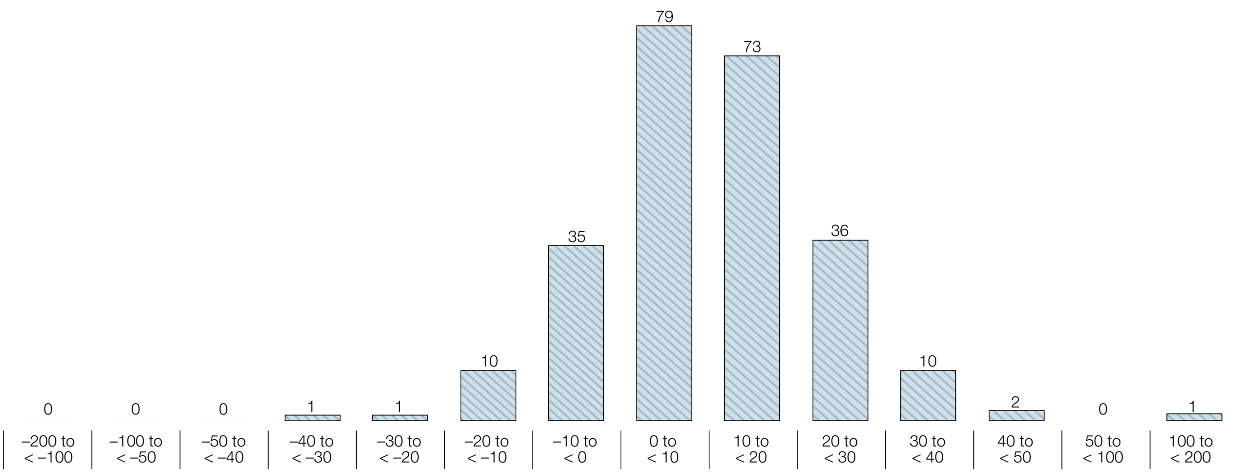
* *Capital calculated at the SARB transitional minimum requirement of 10% (excluding the bank-specific individual capital requirement).*
** *The June 2013 numbers were restated to reflect the required regulatory capital charge for FirstRand.*

Distribution of daily trading earnings from trading units

The following histogram shows the daily revenue for the Bank's local trading units for the year. The results are skewed towards profitability.

2014 distribution of daily earnings – frequency

Days in a period

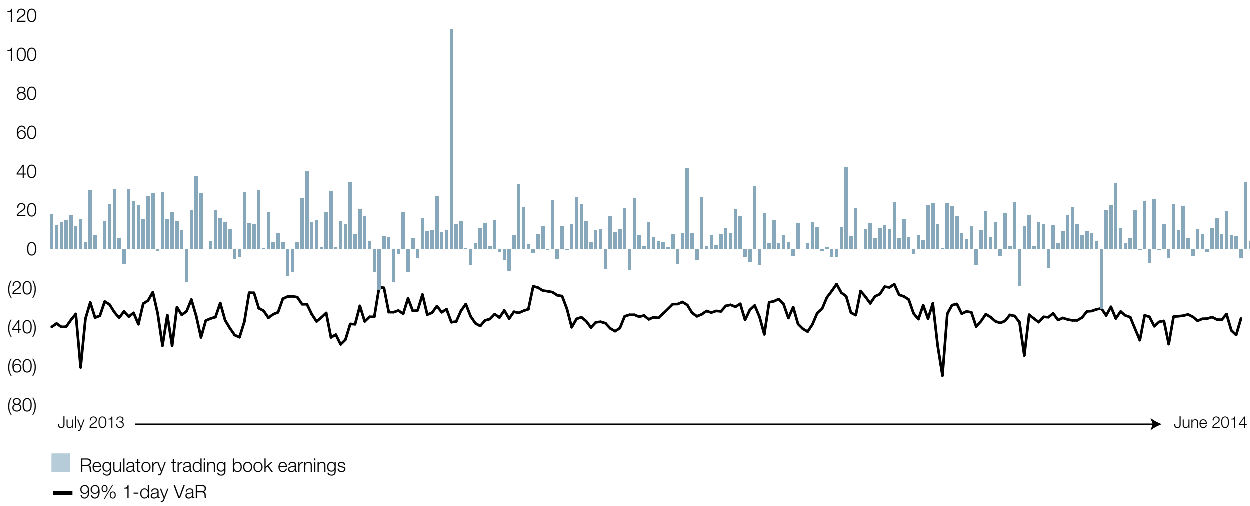


Back testing: daily regulatory trading book earnings and VaR

The Bank tracks its daily local earnings profile as illustrated in the following chart. The earnings and 1-day VaR relate to the Bank's internal VaR model. Exposures were contained within risk limits during the trading period.

Back testing: daily regulatory trading book earnings versus 1-day 99% VaR*

R million



* *Certain 1-day VaR numbers for the six-month period between July and December 2013 have been restated due to a data error. There was no impact on the back test and the error has since been rectified.*

Trading book earnings exceeded 1-day VaR on two occasions during the year under review. This indicates a reasonably accurate quantification of market risk provided by the Bank's internal model.

INTEREST RATE RISK IN THE BANKING BOOK

INTRODUCTION AND OBJECTIVES

Interest rate risk in the banking book (IRRBB) originates from the differing repricing characteristics of balance sheet transactions, yield curve risk, basis risk and client optionality embedded in banking book products.

The endowment effect, which results from a large proportion of non- and low-rate liabilities that fund variable-rate assets, remains the primary driver of IRRBB and results in Bank earnings being vulnerable to interest rate cuts, and would result in increased margins in a hiking cycle. The increase in the repo rate in the current financial year had a positive impact on the margin from the endowment book.

IRRBB is an inevitable risk associated with banking and can be an important source of profitability and shareholder value. Within FirstRand, 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. The strategic hedge positions which were in place in the previous financial year have been allowed to roll off in the current financial year and the book is positioned to benefit from a hiking cycle. The endowment hedge portfolio is managed dynamically taking into account the continuously changing macroeconomic environment.

ORGANISATIONAL STRUCTURE AND GOVERNANCE

The control and management of IRRBB is governed by the framework for the management of IRRBB, a subframework of the BPRMF. Ultimate responsibility for determining risk limits and appetite for the Bank vests with the board. Independent oversight for monitoring is done through the RCC committee, who, in turn, has delegated the responsibility for IRRBB to Group 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 to FirstRand ALCCO.

ASSESSMENT AND MANAGEMENT

FirstRand Bank South Africa

Interest rate risk originates from trading and non-trading/banking book activities. In the trading book, interest rate risk is primarily quantified and managed using ETL measures and limits. This is covered in *market risk in the trading book* section of this report.

Management and monitoring of the FirstRand domestic banking book is split between the RMB book and the remaining domestic banking book. RMB manages its banking book under the market risk framework; as such, risk is measured and monitored in conjunction with the trading book with management oversight provided by the market and investment risk committee. The RMB banking book interest rate risk exposure was R35.2 million on a 10-day ETL basis at 30 June 2014 (June 2013: R31.5 million). Refer to *market risk in the trading book* section. Any further reference relating to the banking book excludes the RMB book.

The remaining banking book consists predominantly of retail balances from FNB and WesBank, and the FCC balance sheet. This is managed centrally by Group Treasury with oversight from FCC risk management.

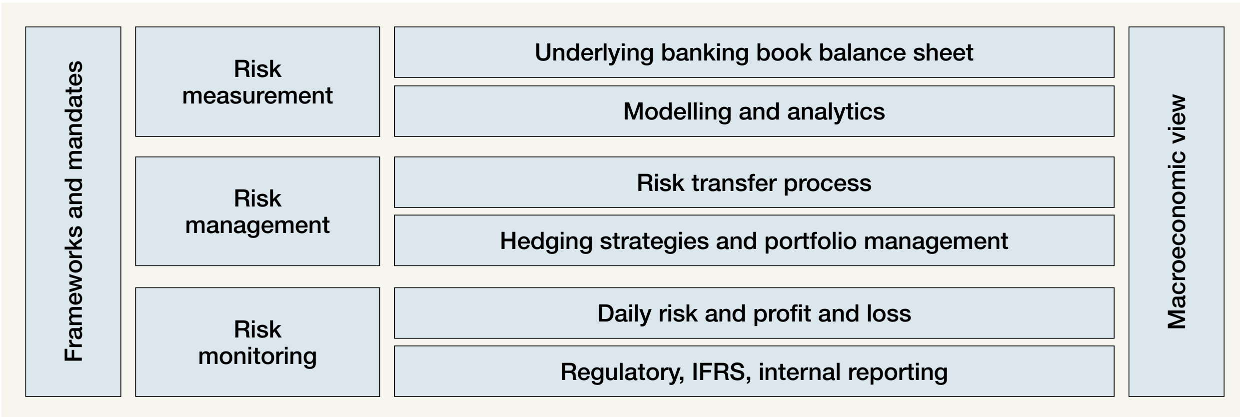
The internal funds transfer pricing (FTP) process is used to transfer interest rate risk from the franchises to Group Treasury. This process allows risk to be managed centrally and holistically in line with the Group's macroeconomic outlook. Management of the resultant risk position is achieved by balance sheet optimisation or 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. The interest rate risk from the fixed-rate book is managed to low levels with remaining risk stemming from timing and basis risk.

A number of measurement techniques are used to monitor IRRBB. These focus on the NII sensitivity/earnings risk and the overall impact on economic value of equity (EVE). A repricing gap is also generated to better understand the repricing characteristics of the balance sheet. In calculating the repricing gap, all banking book assets, liabilities and derivative instruments are placed in gap intervals based on their repricing characteristics.

Foreign operations

Management of foreign branches is performed by in-country management teams with oversight provided by Group Treasury and FCC risk management. Where applicable, PV01 and ETL risk limits are also used for endowment hedges.

Interest rate risk management and assessment



SENSITIVITY ANALYSIS

A change in interest rates impacts both the earnings potential of the banking book (as underlying assets and liabilities reprice to new rates), as well as the economic/net asset value of an entity (as a result of a change in the fair value of any open risk portfolios used to manage the earnings risk). The role of management is to protect both the financial performance as a result of a change in earnings and to protect long-term economic value. To achieve this, both earnings sensitivity and EVE sensitivity measures are monitored and managed within appropriate risk limit and appetite levels, considering the macroeconomic environment and factors which could cause a change in rates.

Earnings sensitivity

Earnings models are run on a monthly basis to provide a measure of the NII sensitivity of the existing banking book balance sheet to shocks in interest rates. 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. Rollover assumptions are not applied to off-balance sheet positions.

The following tables show the 12-month NII sensitivity for a sustained, instantaneous parallel 200 bps downward and upward shock to interest rates. The increased sensitivity in June 2014 compared to June 2013 is attributable to endowment hedges that have rolled off. Given uncertainty in the rate environment in the previous financial year, the endowment book was positioned to provide protection against potential rate cuts. These hedges have been allowed to roll off given changes in the macroeconomic environment and the Bank's net interest margin is positioned to benefit from rate hikes as a result of the endowment impact.

Assuming no change in the balance sheet and no management action in response to interest rate movements, an instantaneous, sustained parallel decrease in interest rates of 200 bps would result in a reduction in projected 12-month NII of R2 254 million. A similar increase in interest rates would result in an increase in projected 12-month NII of R2 214 million. The NII sensitivity analysis below excludes the banking books which are managed separately. The bulk of the sensitivity relates to the endowment book mismatch.

Projected ZAR NII sensitivity to interest rate movements* (audited**)

	Change in projected 12 month NII	
R million	**2014**	**2013**
Downward 200 bps	**(2 254)**	(789)
Upward 200 bps	**2 214**	676

* *Interest rate risk in the banking book sensitivity for Bank Ltd Group disclosed in note 44 in notes to the consolidated annual financial statements.*

** *The earnings modelling process and roll-over assumptions applied are not subject to the scope of reasonable assurance.*

Economic value of equity (EVE)

An EVE sensitivity measure is used to assess the impact on the total net asset value of the Group as a result of a shock to underlying rates. Unlike in the trading book where a change in rates will impact the fair value income and the reportable earnings of an entity when a rate change occurs, the realisation of a rate move in the banking book will impact the distributable and non-distributable reserves of the entity to varying degrees and is reflected in the NII margin more as an opportunity cost/benefit over the life of the underlying transactions. As a result, a purely forward looking EVE measure applied to the banking book, be it a 1 bps shock or a full stress shock, is monitored relative to total risk limit and appetite levels.

The table below highlights the sensitivity of net asset value as a percentage of total capital. The EVE shock applied is based on regulatory guidelines. This is applied to risk portfolios managed by Group Treasury, which, as a result of the risk transfer through the FTP process, captures relevant open risk positions in the banking book. This measure does not take into account the unrealised economic benefit embedded in the entity as a result of the banking book products which are not recognised at fair value. The change in the current period is attributable to the endowment hedge position in place in the previous financial year which was allowed to roll off in anticipation of a hiking cycle.

The table below reflects a point-in-time view which is dynamically managed and can change significantly in a short space of time. This disclosure differs from previous EVE sensitivity disclosure as it looks at the economic sensitivity of the banking book as a whole as opposed to only the sensitivity of products impacting the cash flow and available-for-sale reserves. The economic sensitivity analysis below excludes the banking books of RMB and the foreign operations, which are managed separately. The bulk of the sensitivity originates from the endowment hedges which decreased from the previous financial year.

Net asset value sensitivity to interest rate movements as a percentage of total Bank capital (audited)

%	2014	2013
Downward 200 bps	**0.35**	2.06
Upward 200 bps	**(0.39)**	(2.02)

EQUITY INVESTMENT RISK

INTRODUCTION AND OBJECTIVES

Equity investment risk arises primarily from equity exposures from investment banking activities in RMB, e.g. exposures to equity risk arising from principal investments or structured lending. In addition, equity investment risk arises from strategic investments held by WesBank, FNB and FCC.

The Bank actively monitors regulatory developments, including amendments to the current regulations as a result 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:

- the prudential investment committee (investment committee) chaired by the RMB chief investment officer and its delegated subcommittees are responsible for oversight of the approval of 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 the large exposures committee, 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 the market and investment risk committee. FNB and WesBank executive management monitor and manage investments through the financial reporting process; and
- RCC and the market and investment risk committee committees are responsible for the oversight of investment risk measurement and management across the Bank.

ASSESSMENT AND MANAGEMENT

Management of exposures

The equity investment risk portfolio is managed through a rigorous evaluation and review process from inception to exit of a transaction.

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 Bank seeks to take a number of seats on the company's board and maintains close oversight through monitoring of operations.

Semi-annual reviews of each investment are carried out and crucial parts of these reviews, such as valuation estimates, are independently peer reviewed.

Recording of exposures – accounting policies

IAS 39 requires equity investments to be classified as financial assets at fair value through profit or loss, or available-for-sale financial assets.

Consistent with the Group's accounting policies, the consolidated financial statements include the assets, liabilities and results of operations of all equity investments in which the Bank has power over the relevant activities and the ability to use that power to affect the variable returns received from the entity.

Equity investments in associates and joint ventures are included in the consolidated financial statements using the equity accounting method. Associates are entities where the Bank holds an equity interest of between 20% and 50%, or over which it has the ability to exercise significant influence, but does not control. Joint ventures are entities in which the Bank has joint control over the relevant activities of the joint venture through a contractual agreement.

Measurement of risk exposures

Risk exposures are measured as potential loss under stress conditions. A series of standardised stress tests are used to assess potential losses under current market conditions, adverse market conditions, as well as severe stress/event risk. These stress tests are conducted at individual investment and portfolio levels.

Stress testing

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

Regulatory and economic capital

The SARB simple risk weighted method under the market-based approach of 300% (listed) or 400% (unlisted) is applied for the quantification of regulatory capital. Under the Regulations, the risk weight applied to investments in financial, banking and insurance institutions are subject to the aggregate and individual value of the Bank's shareholding in these investments and also in relation to the Bank's qualifying CET1 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 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

Investment risk exposure and sensitivity of investment risk exposure

R million	2014	2013**
Listed investment risk exposure included in the equity investment risk ETL process	**266**	339
ETL on above equity investment risk exposures	**14**	132
Estimated sensitivity of remaining investment balances		
Sensitivity to 10% movement in market value on investment fair value*	**162**	278
Cumulative gains realised from sale of positions in the banking book during the period	**265**	99

* *Audited. The 10% sensitivity is calculated on the carrying volume of investments excluding the investments subject to the ETL process and investments in associates and joint ventures. The decline in the sensitivity value from 2013 to 2014 relates mainly to a change in accounting treatment of the employee liability insurance cell captive.*

** *The June 2013 number was restated to reflect IFRS changes.*

The following tables provide information relating to equity risk.

Investment valuations and associated regulatory capital requirements

	2014		
R million	**Publicly quoted investments**	**Privately held**	**Total**
Carrying value of investments*	**266**	**1 623**	**1 889**
Per risk bucket**			
250%	**3**	**272**	**275**
300%	**263**	**–**	**263**
400%	**–**	**1 351**	**1 351**
Latent revaluation gains not recognised in the balance sheet#	**183**	**11**	**194**
Fair value†	**449**	**1 634**	**2 083**
Total unrealised gains recognised directly in balance sheet through equity instead of the income statement#	**–**	**191**	**191**
Capital requirement‡	**86**	**587**	**673**

* *The decline in carrying value of investments from 2013 to 2014 is mainly due to the change in accounting treatment of the employee liability insurance cell captive.*

** *Financial, banking and insurance entities that meet Basel III classification criteria are subject to risk weighting at 250%, whilst listed and unlisted investments are subject to 300% and 400% risk weighting respectively. This is additional disclosure from June 2014. Comparative information will be provided from June 2015.*

\# *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 the SARB transitional minimum requirement of 10% of RWA (excluding the bank-specific individual capital requirement) and includes capital on investments in financial entities. These investments are included as other assets in the RWA table in the capital section.*

	2013		
R million	**Publicly quoted investments**	**Privately held**	**Total**
Carrying value of investments*	1 565	1 701	3 266
Latent revaluation gains not recognised in the balance sheet**	–	16	16
Fair value#	1 565	1 717	3 282
Total unrealised gains recognised directly in balance sheet through equity instead of the income statement**	–	–	–
Capital requirement†	446	590	1 036

* *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 the SARB transitional minimum requirement of 9.5% of RWA (excluding the bank-specific individual capital requirement), and includes capital on investments in financial entities. These investments are included as other assets in the RWA table in the capital section.*

FOREIGN EXCHANGE AND TRANSLATION RISK IN THE BANKING BOOK

INTRODUCTION AND OBJECTIVES

Foreign exchange risk arises from on- and off-balance sheet positions whose valuation in rand is subject to currency movements. Key activities giving rise to these positions are foreign currency placements, lending and investing activities, raising of foreign currency funding, and 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 Bank's risk appetite and to ensure governance and oversight.

Translation risk is the risk to the rand-based 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 Bank does not currently 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 executed by RMB Global Markets. Foreign currency funding, foreign assets as well as foreign currency exposure, liquidity and term mismatch are managed by Group Treasury.

Market risk, foreign exposure and mismatch limits are approved by the board and the primary governance body is the RCC committee. Trading risk and the NOFP are overseen by the market and investment risk committee and mismatch risk is governed through Group and international ALCCO processes. In addition to the committee structures, business units charged with front-line management of these risks have deployed risk managers who assess and report this risk on an ongoing basis.

ASSESSMENT AND MANAGEMENT

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 Bank's NOFP position is within the regulatory limit of USD619 million, with the actual exposure at a net negative USD77 million. Senior management implemented various levels of internal prudential limits, taking into account fluctuating exchange rates and the Group's capital position. These limits fall below the regulatory limit but are 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, responsible for managing the Bank's position within 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 were run, apart from translation risk in strategic foreign investments. Mismatches were contained well within regulatory limits at all times. The macro foreign asset exposure of the Bank remained below both regulatory and board limits and there is significant headroom for expansion into foreign assets.

FUNDING AND LIQUIDITY RISK

INTRODUCTION AND OBJECTIVES

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

Given the liquidity risk introduced by its business activities, the Bank's objective is to optimise its funding profile within structural and regulatory constraints to enable franchises to operate in an efficient and sustainable manner.

Compliance with the Basel III liquidity coverage ratio (LCR) influences the Bank's funding strategy, in particular as it seeks to restore the correct risk-adjusted pricing of deposits. The Bank is actively building its deposit franchise through innovative and competitive products and pricing, while also improving the risk profile of its institutional funding.

At 30 June 2014, the Bank exceeded the 60% minimum LCR requirement (effective 1 January 2015), per the *pro forma* LCR issued by the BCBS and inclusive of the SARB communicated national discretion items.

The Bank has maintained a robust liquidity position during the year under review, holding sufficient levels of available liquidity relative to the Bank's appetite and prevailing market conditions. At 30 June 2014, FRB's available sources of liquidity per the BCBS LCR amounted to R93 billion, with an additional R22 billion of management liquidity available.

ORGANISATIONAL STRUCTURE AND GOVERNANCE

Liquidity risk management is governed by the liquidity risk management framework, which provides relevant standards in accordance with regulatory requirements and international best practice. As a subframework of the BPRMF, the liquidity risk management framework is approved by the board and sets out consistent and comprehensive standards, principles, policies and procedures to be implemented throughout the Bank 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 Group ALCCO. Group ALCCO's primary responsibility is the assessment, control and management of both liquidity and interest rate risk for the Bank and its international branches as well as the subsidiaries in FREMA, either directly or indirectly, through providing guidance, management and oversight to the asset and liability management functions and ALCCOs in these entities.

Group Treasury is mandated to manage the funding and liquidity risk of the Bank. Group Treasury is responsible for:

- recommending, implementing and reviewing the liquidity risk appetite, strategy and risk management processes of the Bank; and
- managing and maintaining prudential liquidity limits across all entities in the Bank.

Governance is provided by an independent risk team responsible for ensuring that the liquidity risk management framework is implemented appropriately.

The Bank's liquidity position, exposures and auxiliary information are reported weekly to the funding and liquidity portfolio management committee and monthly to the funding executive committee. In addition, management aspects of the liquidity position are reported daily to Group Treasury. The liquidity risk management team provides regular reports to Group ALCCO.

Foreign entities

Foreign branches are part of the Bank, while subsidiaries are managed on a standalone basis with no implicit or explicit support. All subsidiaries are managed within in-country capital base and liquidity resources with focus on developing deposit franchises.

Foreign branches have in-country treasury functions responsible for the day-to-day management of these entities' funding and liquidity risk. Group Treasury provides:

- overall funding and liquidity risk management frameworks and mandates;
- dedicated resources to assist with technical expertise in asset/liability management and fundraising activities; and
- alignment to international best practice and latest regulatory developments.

From a liquidity risk perspective, international businesses report into international ALCCO (a subcommittee of Group ALCCO), which meets quarterly to review and discuss region-specific liquidity and interest rate risk issues. Individual ALCCOs are held locally monthly and include representation from Group Treasury.

FirstRand has been granted a renewed dispensation by the Financial Services Authority (FSA) for a waiver on a Whole-firm Liquidity Modification application basis where the FSA considers local risk reporting and compliance of the parent bank sufficient to waive FSA requirements for FirstRand Bank (London branch). FSA reporting commenced in January 2011. As part of the liquidity risk management framework for London branch, the branch has access to the Bank of England's discount window facility for approved collateral.

FUNDING MANAGEMENT

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 have higher liquidity risk than deposits raised through the deposit franchise. Recent observations suggest that South African corporates and the public sector are also making use of financial intermediaries that provide bulking and maturity transformation services with their cyclical cash surpluses. Limited yield incentivisation and corporate liquidity needs mean that South African banks are funding seekers. 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:

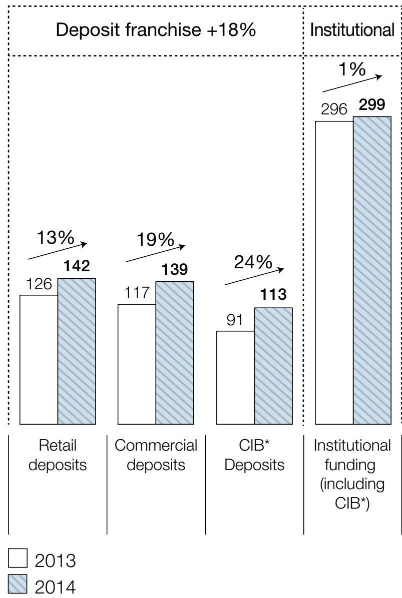
- the closed rand system where all rand transactions are cleared and settled in South Africa through registered banks and clearing institutions domiciled in South Africa;
- the concentration of customer current accounts with the four largest banks;
- the prudential exchange control framework in place in South Africa; and
- the low dependency of South African banks on foreign currency funding.

During the year under review there has been increased liquidity demand by banks as a consequence of the money supply constraints introduced by LCR. In light of the structural features discussed above, focus is currently placed on achieving a risk-adjusted diversified funding profile which also complies with Basel III requirements.

The Bank manages its funding structure by source, counterparty type, product, currency and market. The deposit franchise represents the most efficient source of funding and comprised 63% of domestic funding liabilities at 30 June 2014. During the year under review, the Bank continued to focus on growing its deposit franchise across all segments with increasing emphasis on savings products and term savings. Progress has been made in developing suitable products to attract a greater proportion of clients' available liquidity with improved risk-adjusted pricing. To fund operations, the Bank accesses the domestic money markets daily and has, during the course of the year, accessed both domestic and foreign capital markets. The Bank has frequently issued various capital and funding instruments within the domestic capital markets on an auction and reverse enquiry basis with strong support from investors.

The graph below provides a segmental analysis of the Bank's funding base and illustrates the success of its deposit franchise focus.

Bank's funding by segment
R billion



* *RMB corporate and investment bank.*

Funds transfer pricing

The Bank operates a funds transfer pricing framework which incorporates liquidity cost and benefits as well as regulatory friction costs into product pricing and performance measurement for all on- and off-balance sheet activities. Franchises are incentivised to:

- preserve and enhance funding stability;
- ensure that asset pricing is aligned to liquidity risk;
- reward liabilities in accordance with behaviour of characteristics and maturity; and
- manage contingencies with respect to potential funding drawdowns.

Funding measurement and activity

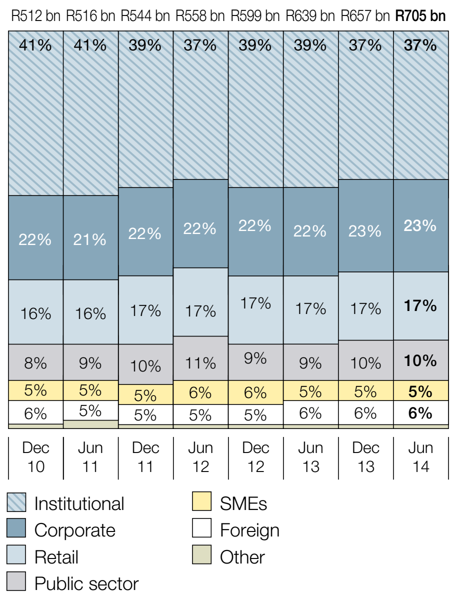
The Bank, FirstRand's wholly-owned subsidiary and debt issuer, generates a larger proportion of its funding from the deposit franchise in comparison to the South African aggregate, however, its funding profile also reflects the structural features described above. The table on the following page provides an analysis of the Bank's funding sources.

The Bank's funding sources*

% of funding liabilities	Total	Short-term	Medium-term	Long-term
	As at 30 June 2014			
Institutional funding	**37.0**	**12.2**	**8.2**	**16.6**
Deposit franchise	**63.0**	**47.8**	**6.5**	**8.7**
Corporate	**22.7**	**19.5**	**1.4**	**1.8**
Retail	**17.0**	**12.7**	**2.9**	**1.4**
SMEs	**5.2**	**4.6**	**0.4**	**0.2**
Governments and parastatals	**9.6**	**7.9**	**1.2**	**0.5**
Foreign	**6.1**	**3.0**	**0.4**	**2.7**
Other	**2.4**	**0.1**	**0.2**	**2.1**
Total	**100.0**	**60.0**	**14.7**	**25.3**

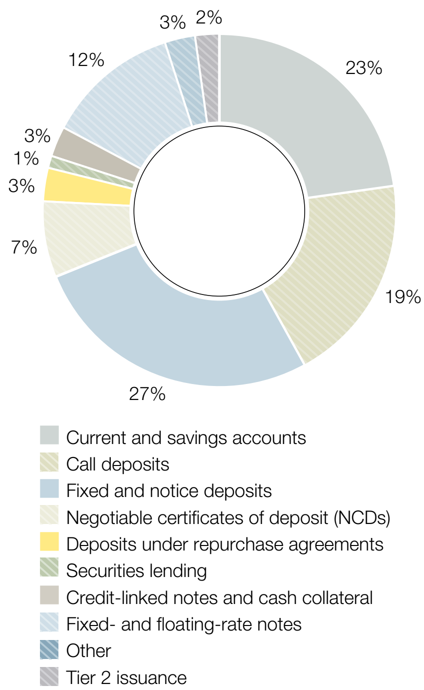
* *Reflects solo supervision, i.e. FRB excluding foreign branches.*

The Bank's funding analysis by source



The following chart illustrates the Bank's funding instruments by instrument type including senior debt and securitisation.

Bank's funding analysis by instrument type

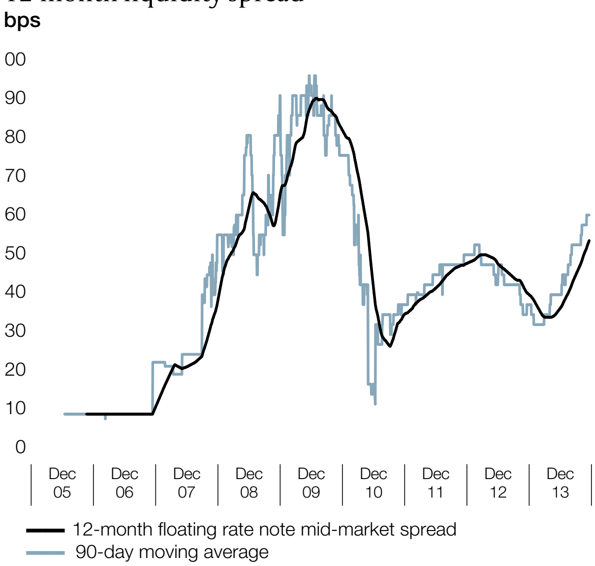


The Bank's aim is to fund the balance sheet in the most efficient manner, taking into account the liquidity risk management framework, as well as regulatory and rating agency requirements.

To ensure maximum efficiency and flexibility in accessing funding opportunities, a range of debt programmes has been established. The Bank's strategy for domestic vanilla public issuance is to create actively-traded benchmarks, which facilitate secondary market liquidity in both domestic and offshore markets. The value of this strategy is that it assists in identifying cost-effective funding opportunities while ensuring a good understanding of market liquidity.

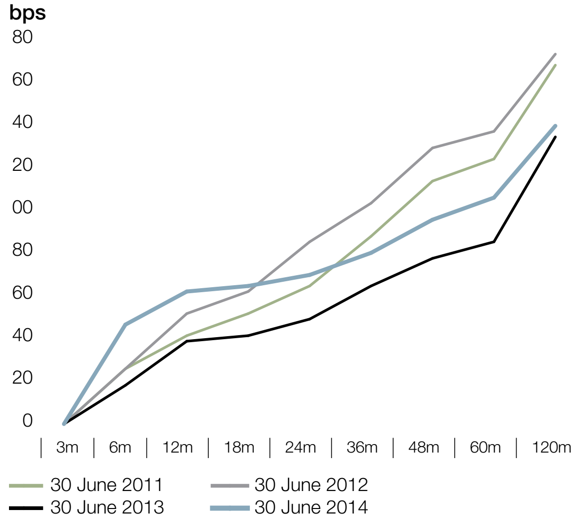
The following graph is a representation of the market cost of liquidity, which is measured as the spread paid on NCDs relative to the prevailing swap curve for that tenor. The liquidity spread graph is based on the most actively-issued money market instrument by banks, namely 12-month NCDs. During the year under review, spreads initially reduced to a low point in October 2013, after which they started to increase slowly through to December 2013. Between January and June 2014, spreads increased considerably, as illustrated in the graph below. This appears to be a result of banks competing for longer term funding, while savings flows are not increasing.

12-month liquidity spread



The following graph shows that long-term funding spreads are elevated from a historical perspective. On the basis of the Bank's improved risk profile, higher capital adequacy and greater predictability of earnings, the credit risk component of the funding spreads should be lower. Long-term funding spreads, therefore, still appear to be reflecting a high liquidity premium. The Bank is consistently able to raise funds in the capital markets in line with its funding curve, which it views as an important test as the Bank's asset origination is linked to its funding curve.

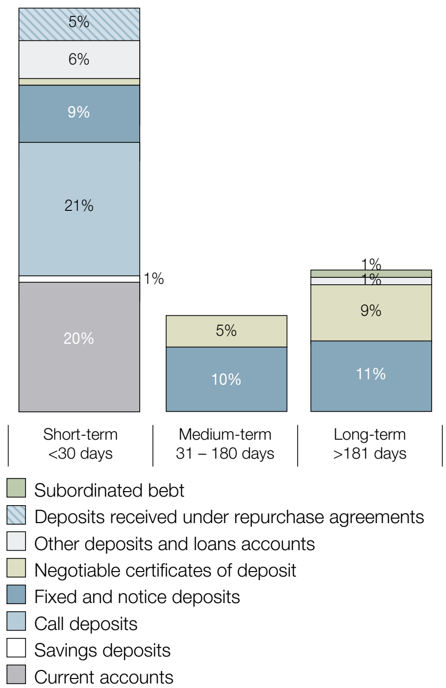
Long-term funding spreads



As a result of the Bank's focus on growing its deposit franchise and transactional banking franchise, a significant proportion of funds are contractually short-dated. As these deposits are anchored to clients' service requirements and given the balance granularity created by individual clients' independent activity, the resultant liquidity risk profile is important.

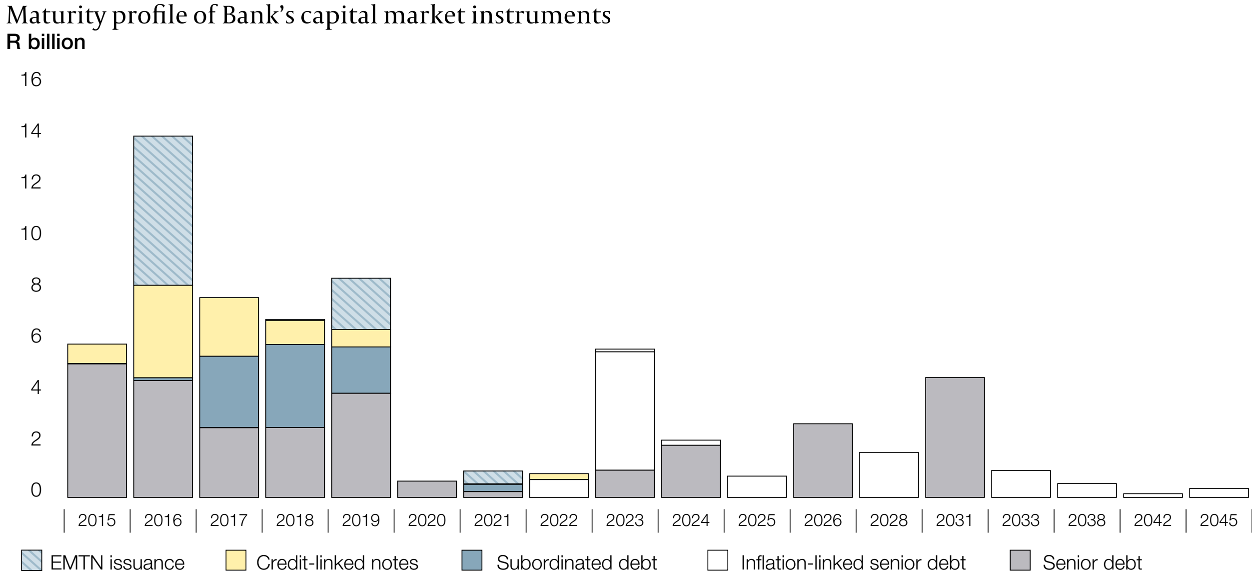
The following charts illustrate a breakdown of the Bank's funding liabilities by instrument type and term.

Bank's funding liabilities by instrument type and term at 30 June 2014



The maturity profile of all issued capital markets instruments is shown below. The Bank does not have concentration risk in any one year and seeks to efficiently issue across the curve with consideration of investor demand.

Maturity profile of Bank's capital market instruments



Funding structure of foreign operations

In line with the Group's focus on growing deposit franchises, the foreign operations are categorised in terms of their stage of development from greenfields to mature subsidiaries and are characterised from a funding perspective as follows:

- mature deposit franchises – all assets are largely funded in-country. The pricing of funding is determined via in-country funds transfer pricing, which is already in place;
- growing deposit franchises – assets are first funded in-country at attendant funds transfer pricing rates. Any excess over and above the in-country capacity would be funded by the Bank's USD funding platforms. This is a temporary arrangement which allows these entities time to develop adequate in-country deposit bases; and
- no deposit franchises – all activities are funded by the Bank's USD funding platforms.

Group support

Any funding provided by the Group is constrained by the appetite set independently by the credit risk management committee or the board. In arriving at limits, the credit risk management committee considers the operating jurisdiction and any sovereign risk limits that should apply, but is indifferent between liquidity and funding facilities. Group Treasury, therefore, has to ensure that any resources availed to foreign entities are priced appropriately.

FOREIGN CURRENCY BALANCE SHEET

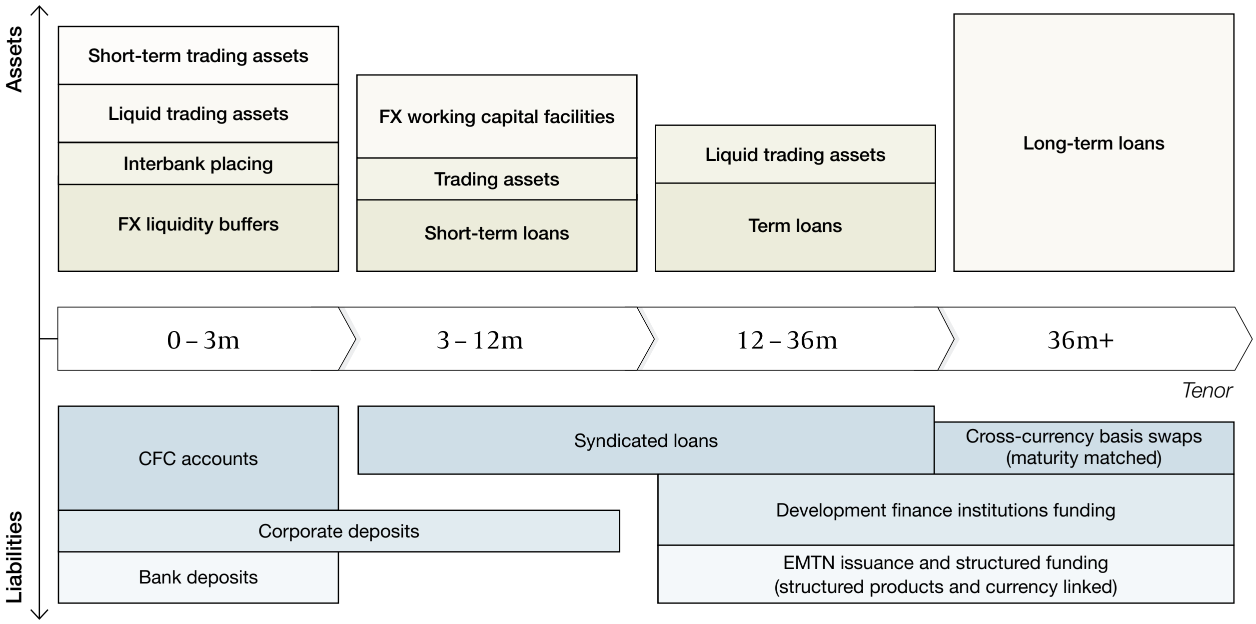
Given the Bank's objective to grow its franchise in the rest of Africa, India and the corridors, and given the size of MotoNovo, the active management of foreign currency liquidity risk continues to be a strategic focus. The Bank seeks to avoid exposing itself to undue liquidity risk within the risk appetite approved by the board and risk committee. The SARB via *Exchange Control Circular 9 of 2011* introduced macro-prudential limits applicable to authorised dealers. The Bank utilises its own foreign currency measurement balance sheet measures based on economic risk and has set internal limits below those which are allowed by the limits macro-prudential framework.

FirstRand's expansion strategy means that its foreign currency activities specifically lending and trade finance, have increased. It is, therefore, important to have a sound framework for the assessment and management of foreign currency external debt, given the inherent vulnerabilities and liquidity risks associated with cross-border financing. This limit includes the Bank's exposure to branches, foreign currency assets and guarantees.

Philosophy on foreign currency external debt

A key determinant in an institution's ability to fund and refinance in currencies other than its domestic currency is the sovereign risk and associated external financing requirement. The framework for the management of external debt takes into account sources of sovereign risk and foreign currency funding capacity. In order to achieve this, the Bank considers risks arising from unsustainable debt path, liquidity, exchange rate and macroeconomic crises. To determine South Africa's foreign currency funding capacity, the Bank considers the external debt of all South African entities (private and public sector, financial institutions) as these entities all utilise the South African system's capacity – confidence and export receipts.

Graphical representation of the foreign currency balance sheet



LIQUIDITY RISK MANAGEMENT

The Bank acknowledges liquidity risk is a consequential risk that may be caused by other risks. This was demonstrated by the reduction in liquidity in many international markets as a consequence of the recent credit crisis. The Bank is, therefore, focused on continuously monitoring and analysing the potential impact of other risks and events on its funding and liquidity position and aims to ensure that business activities preserve and improve funding stability. This will enable the Bank to operate through periods of stress when access to funding is constrained.

The Bank recognises two 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 its normal course of business, financial position or reputation; and
- **market liquidity risk** is the risk that market disruptions or lack of market liquidity will cause a bank to be unable (or able, but with difficulty) to trade in specific markets without affecting market prices significantly.

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 to provide collateral for loans to cover any unforeseen cash shortfall that may arise.

The Bank's approach to liquidity risk management distinguishes between structural, daily and contingency liquidity risk management 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 table.

Liquidity risk management approaches

Structural liquidity risk	Daily liquidity risk	Contingency liquidity risk
Managing the risk that structural, long-term on- and off-balance sheet exposures cannot be funded timeously or at reasonable cost.	Ensuring that intraday and day-to-day anticipated and unforeseen payment obligations can be met by maintaining a sustainable balance between liquidity inflows and outflows.	Maintaining a number of contingency funding sources to draw upon in times of economic stress.
• liquidity risk tolerance; • liquidity strategy; • ensuring substantial diversification over different funding sources; • assessing the impact of future funding and liquidity needs taking into account expected liquidity shortfalls or excesses; • setting the approach to managing liquidity in different currencies and from one country to another; • ensuring adequate liquidity ratios; • ensuring an appropriate structural liquidity gap; and • maintaining a funds transfer pricing methodology and process.	• managing intraday liquidity positions; • managing daily payment queue; • monitoring net funding requirements; • forecasting cash flows; • performing 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.

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 Bank.

Liquidity contingency planning

Frequent volatility in funding markets and the fact that financial institutions can and have experienced liquidity problems even during benign economic conditions highlight the importance of quality liquidity risk and contingency management processes.

The Bank's ability to meet all of its daily funding obligations and emergency liquidity needs is of paramount importance and, in order to ensure that this is always adequately managed, the Bank maintains a liquidity contingency plan.

The objective of liquidity contingency planning is to achieve and maintain funding levels in a manner that allows the Bank to emerge from a potential funding crisis with its reputation intact and maintain its 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 liquidity contingency plan 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 events (idiosyncratic) which may result in the loss of funding sources.

It is reviewed annually and tested regularly via a Group-wide or liquidity stress simulation exercise to ensure the document remains up to date, relevant and familiar to all key personnel within the Bank that have a role to play should it ever experience an extreme liquidity stress event.

FirstRand's recovery plan

The Bank has submitted its first recovery plan to the SARB, which will be an annual requirement. The Group recovery plan is an extension of the liquidity contingency plan inclusive of all other risk-contributing factors that influence capital adequacy, liquidity and operational processes. FirstRand is currently engaged with the industry and regulators on the recovery and resolution regime development for South Africa, with further detail regarding the resolution and recovery regime included in the *regulatory update* section.

REGULATORY UPDATE

Basel III

Post the financial crisis, the BCBS instituted a framework for sound and prudent liquidity management. The liquidity reforms seek to address two aspects of liquidity risk:

- the LCR addresses short-term liquidity risk and cash management; and
- the Net Stable Funding Ratio (NSFR) addresses the structural liquidity risk of the balance sheet.

In January 2013, the BCBS released an amendment to the LCR and finalised LCR requirements and implementation dates.

The BCBS released an update on the NSFR in January 2014, proposing a better alignment between the LCR and NSFR. The Bank believes that the calibration and alignment has improved the NSFR, however, some concerns remain with respect to the treatment of secured funding transactions, such as repos and the application of the calibration to derivative transactions. The Group will continue to participate in the consultative process on the NSFR.

Liquidity coverage ratio

The LCR has been fully adopted by the SARB with the inclusion of a committed liquidity facility, and will be phased in from 2015 to 2019. The minimum LCR requirement will be 60% at 1 January 2015, with 10% incremental step ups each year to 100% on 1 January 2019.

In addition to level 1 assets, eligible collateral will include levels 2A and 2B with qualifying criteria and ratings requirements referenced to national scale ratings for liquidity risk in that local currency.

Liquidity coverage ratio disclosure requirements

In March 2014 the BCBS published *Liquidity coverage ratio disclosure standards* proposing consistent and transparent disclosure of banks' liquidity positions as measured by the Basel III regulations. The objective of the document is to reduce market uncertainty surrounding bank liquidity positions.

Disclosure is effective from the first reporting date after 1 January 2015 and will form part of Pillar 3 quarterly disclosures. It's the Group's intention to comply with these requirements from 2015 onwards.

The LCR disclosure standards require banks to provide in a standardised template:

- available sources of liquidity by level of liquidity;
- cash outflows attributed by customer category type and relationship; and
- cash inflows attributed by source.

Committed liquidity facility

On 2 August 2013, the SARB released *Guidance Note 6 of 2013* which outlines the provision of a committed liquidity facility to assist banks in meeting the LCR. The guidance note confirms that the maximum facility size would initially be set at 40% of high-quality liquid assets. Banks would, therefore, be required to meet the 60% requirement through adjustment to their balance sheets. It is envisaged that, as capital markets develop and the liquid asset shortage is addressed, the SARB will reduce the size of the committed liquidity facility.

The committed liquidity facility remains broadly as defined in *Guidance Note 5 of 2012* but with revisions to acceptable collateral. The SARB has, however, provided a detailed operational notice on the committed liquidity facility as an addendum to *Guidance Note 6 of 2013.*

Eligible collateral for the committed liquidity facility includes but is not limited to:

- listed debt securities (minimum A- national scale credit rating);
- listed equities on the main board of the JSE;
- notes of self-securitised eligible residential mortgages; and
- selection of on-balance sheet ring-fenced assets.

In order to include the committed liquidity facility in banks' available liquidity resources, a considerable amount of work is first required to appropriately structure and prepare the bank's assets to access this facility. The collateral requirements include structuring features, eligibility criteria and haircuts designed to protect all counterparties. The committed liquidity facility has provided more clarity on the nature of liquidity transactions under stress and is a step towards reducing systemic risk in the banking sector. The Bank is in the process of applying to the SARB for a committed liquidity facility.

FirstRand is in the process of LCR implementation and expects to comply with the phase-in requirements.

Net Stable Funding Ratio

The latest consultative paper of the BCBS reflects the NSFR as a more structural balance sheet ratio and no longer a one-year stressed balance sheet ratio. The BCBS maintains the principle that a stable funding profile in relation to the composition of a bank's assets and off-balance sheet items promotes a more resilient banking sector. The ratio calculates the amount of available stable funding relative to the amount of required stable funding. The ratio has to at least equal 100%. It is anticipated that the ratio will become a requirement on 1 January 2018, once the calibration has been finalised.

Recovery and resolution regime

Financial Stability Board member countries are required to have recovery and resolution plans in place for all systemically significant financial institutions as per paper *Key Attributes of Effective Resolution Regimes.* The SARB has adopted this requirement and has, as the first phase, required South African domestically significant banking institutions to develop their own recovery plans.

Improving the stability of the banking system by strengthening banks' ability to manage themselves through a potentially severe stress situation is of national importance. Guidance issued by the Financial Stability Board and the SARB has been incorporated into the Group's comprehensive recovery plan.

Recovery planning

The purpose of the recovery plan is to document how the board and management of FirstRand including its franchises and key subsidiary, FirstRand Bank will recover from a stress event/ scenario so severe that it threatened the Bank's commercial viability. The recovery plan:

- analyses the potential for severe stress at the Bank to cause material disruption to the South African financial system;
- identifies the type of stress event/s that would be necessary to trigger its activation;
- analyses how the Bank might potentially be affected by the event/s;
- lists a menu of potential recovery actions available to the Board and management to counteract the event/s; and
- assesses how the Bank might recover from the event/s as a result of those actions.

The plan forces the Bank to perform a severe self-assessment exercise to determine if there are potentially any idiosyncratic vulnerabilities that it may be exposed to, and then to reconcile these exposures to their own risk appetite and strategy. Strategies to optimise balance sheet structure and preserve the bank's critical functions to support recovery from a severe stress event with the least negative impact are being considered. This process enables the banks to better understand what functions are critical for its customers and for the financial system as well as which assets are most marketable to facilitate recovery. Where inefficiencies are identified, these can be amended to make the bank more streamlined, adaptable and resilient to stress.

Resolution plan

To date the SARB has focused on bedding down the recovery Plans for the South African banks, but it is expected that the SARB is likely to issue guidance related to resolution planning for the banks before the end of 2014. These resolution plans will allow the SARB to pre-plan for an event from which the Bank was unable to recover. It is envisaged that based on global best practice, the resolution plan would be owned and managed by the SARB. This would, however, require individual banks to submit a significant amount of data to the SARB.

LIQUIDITY POSITION

The table below provides details on the sources of liquidity by Basel LCR definition and management assessment.

Bank's composition of liquid assets

	As at 30 June 2014			
		After Basel III haircut		
R billion	**High quality liquid assets**	**Level 1**	**Level 2**	**Management buffer after haircuts**
Cash and deposits with central banks	**21**	**–**	**–**	**21**
Government bonds and bills*	**68**	**68**	**–**	**66**
Corporate bonds	**4**	**–**	**3**	**3**
Other liquid assets	**–**	**–**	**–**	**22**
Total	**93**	**68**	**3**	**112**

* *SARB specified haircuts for management buffers.*

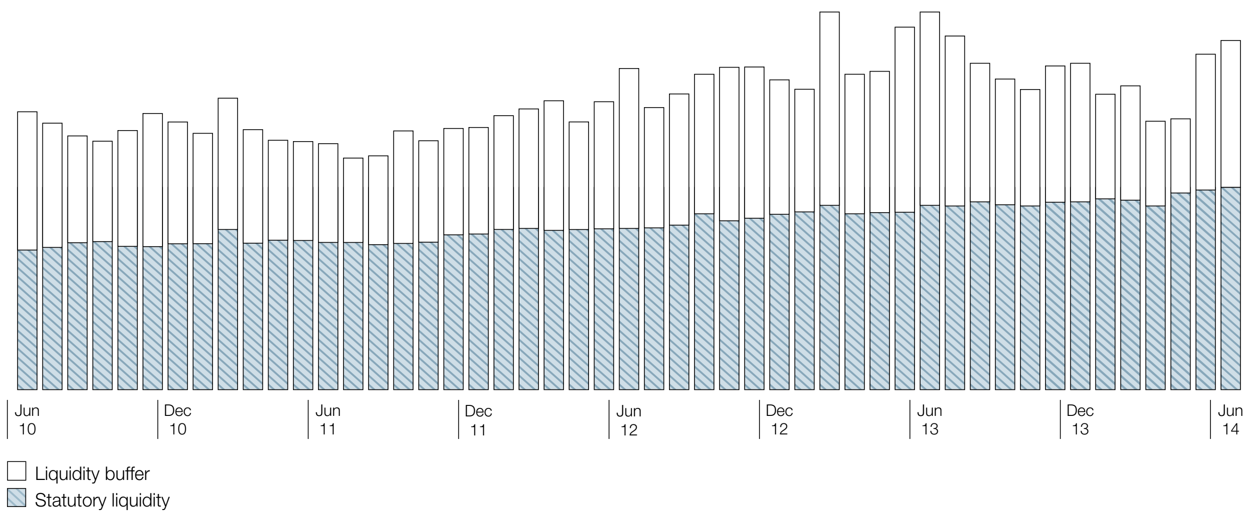
Liquidity buffers are actively managed via high quality, highly-liquid assets that are available as protection against unexpected events or market disruptions. The quantum and composition of the available sources of liquidity are defined by the behavioural funding liquidity at risk and the market liquidity depth of available liquidity resources. In addition, adaptive overlays to the liquidity requirements are derived from stress testing and scenario analysis of the cash inflows and outflows related to business franchise activity.

Funding from institutional clients is the largest contributor to the Bank's net cash outflows as measured under the LCR at nearly 40%, and reflects the South African market structure. Other significant contributors to cash outflows are corporate funding and off-balance sheet facilities granted to clients, specifically those related to corporate clients. The Bank has strategies in place to increase funding sourced through its deposit franchise and reducing reliance on institutional funding, as well as to offer utilised facilities more effectively.

The graph below presents a historical view of statutory liquid assets. The Bank has sought to hold buffers in excess of regulatory minimums based on its own risk assessment and operational liquidity requirements, these are also reflected in the chart below.

Bank's liquidity buffer and statutory liquidity requirements*

R million

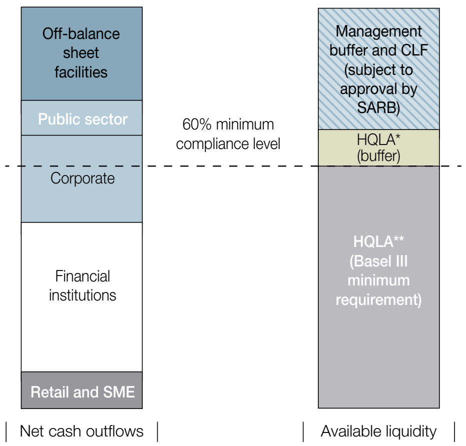


* *Reflects solo supervision, FRB excluding foreign branches.*

The graph below gives an indication of the Bank's LCR position as at 30 June 2014 and demonstrates the Bank's compliance with the 60% minimum requirement.

Bank's LCR

%



* *High-quality liquid assets.*

LIQUIDITY RISK PROFILE

Undiscounted cash flow

The following tables present the undiscounted cash flows of liabilities and includes all cash outflows related to principal amounts as well as future payments. These balances will not agree with the balance sheet for the following reasons:

- balances are contractual, undiscounted amounts whereas the balance sheet is prepared using discounted amounts;
- the table include 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* (audited)

	2014			
		Term to maturity		
R million	**Carrying amount**	**Call – 3 months**	**4 – 12 months**	**> 12 months**
Liabilities				
Deposits and current accounts	**748 669**	**489 442**	**107 367**	**151 860**
Short trading positions	**5 397**	**5 397**	**–**	**–**
Derivative financial instruments	**41 813**	**39 040**	**795**	**1 978**
Creditors and accruals	**10 382**	**9 521**	**307**	**554**
Tier 2 liabilities	**16 219**	**1 818**	**–**	**14 401**
Other liabilities	**5 074**	**267**	**556**	**4 251**
Financial and other guarantees	**37 231**	**35 932**	**756**	**543**
Operating lease commitments	**1 886**	**207**	**536**	**1 143**
Facilities not drawn	**73 409**	**72 881**	**508**	**20**

* *Liquidity risk cash flows for Bank Ltd Group disclosed in note 44 in notes to the consolidated annual financial statements.*

R million	2013*			
		Term to maturity		
	Carrying amount	Call – 3 months	4 – 12 months	> 12 months
Liabilities				
Deposits and current accounts	668 124	449 721	92 214	126 189
Short trading positions	2 923	2 923	–	–
Derivative financial instruments	53 098	51 217	507	1 374
Creditors and accruals	8 921	8 253	319	349
Tier 2 liabilities	10 632	139	526	9 967
Other liabilities	1 170	58	316	795
Financial and other guarantees	36 760	34 135	1 855	770
Operating lease commitments	2 018	211	506	1 301
Facilities not drawn	74 054	54 464	4 348	15 243

* *Liquidity risk cash flows for Bank Ltd Group disclosed in note 44 in notes to the consolidated annual financial statements.*

Contractual discounted cash flow analysis

The following tables represent the contractual discounted cash flows of assets, liabilities and equity for the Bank. 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 due to short-term institutional funds representing 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 tables, the Bank carries out an adjusted liquidity mismatch analysis, which estimates the size of the asset and liability mismatch under normal business conditions. This analysis is also used to manage this mismatch on an ongoing basis.

Contractual discounted cash flow analysis for the Bank – maturity analysis of assets and liabilities on the present value of expected payment* (audited)

	2014			
		Term to maturity		
R million	Carrying amount	Call – 3 months	4 – 12 months	> 12 months
Total assets	**851 209**	**299 386**	**76 973**	**474 850**
Total equity and liabilities	**851 209**	**560 252**	**106 058**	**184 899**
Net liquidity gap	**–**	**(260 866)**	**(29 085)**	**289 951**
Cumulative liquidity gap	**–**	**(260 866)**	**(289 951)**	**–**

	2013			
		Term to maturity		
R million	Carrying amount	Call – 3 months	4 – 12 months	> 12 months
Total assets	779 575	287 632	88 668	403 275
Total equity and liabilities	779 575	528 136	89 622	161 817
Net liquidity gap	–	(240 504)	(954)	241 458
Cumulative liquidity gap	–	(240 504)	(241 458)	–

* *Contractual discounted cash flow analysis disclosed in note 44 in the notes to the consolidated annual financial statements.*

As illustrated in the table above, the negative contractual liquidity short-term gap increased slightly in the short end on a cumulative basis. This is aligned to the funding strategy to grow the deposit franchise via transactional deposit accounts. Management continues to align stress funding buffers both locally and offshore, taking into account prevailing economic and market conditions.

OPERATIONAL RISK

INTRODUCTION AND OBJECTIVES

The Bank believes that effective management of operational risk is key to the achievement of its business strategy. Accordingly, there is ongoing evaluation and enhancement of existing frameworks, policies, methodologies, processes, standards, systems and infrastructure to ensure that the operational risk management practices are practical and in line with regulatory developments and emerging best practices.

The focus for the year ahead remains on building an effective and forward-looking operational risk management programme, encompassing, amongst other things, the management and oversight of IT, infrastructure and information risks, internal and external fraud, litigation, business disruption and process risk. The key operational risk strategic objectives are:

- embedding the use of automated risk tool outputs for an integrated view of the operational risk profile;
- embedding and refining operational risk appetite limits at various levels in the Bank;
- ongoing enhancement of the maturity of AMA components and methodologies;
- facilitating greater use of risk information and analysis outcomes in risk management and strategic decision making;
- continuing improvements to the control environment;
- assessing operational risk-related regulatory developments and putting in place necessary actions for compliance;
- maintaining the AMA status; and
- implementing a new AMA capital modelling software and updating the AMA capital modelling methodology.

Year under review

The year under review was characterised by a number of initiatives aimed at addressing key operational risk themes identified as part of the risk identification and assessment process and improving operational risk maturity. The progress on these initiatives is tracked and reported at Group level through the risk governance process.

The principal operational risks currently facing the Bank are:

- commercial and violent crime (including internal fraud) as economic growth slows;
- information security risk (risk of loss or theft of information), given the growing sophistication of cyberattacks globally; and
- execution, delivery and process management risk (the risk of process weaknesses and control deficiencies) as the business continues to grow and evolve.

Process automation projects have been initiated to reduce manual processes and thereby mitigate associated risks and improve efficiencies.

The Bank's operational risk management and measurement tools have been successfully automated onto a single platform (risk management system) facilitating easy access to risk information and an integrated view of the business's operational risk profile based on the risk tool outputs. An exercise to improve the quality of risk tool data was undertaken prior to migration of all the risk tools onto the single risk management system. Enhancements were implemented on the risk management system to manage risk data quality on an ongoing basis and to improve efficiency in the internal validation of the risk tools.

The process-based risk and control self-assessment (PRCIA) methodology that aims to assess risk and controls on an end-to-end process basis has been implemented for all high-risk areas across the Bank. Rollout of PRCIA is underway for offshore operations and new and medium/low risk areas. Further work is ongoing to refine PRCIA implementation coverage. A review of KRIs was conducted across the Bank to improve the quality and value of KRIs tracked.

Operational risk appetite setting enables the Group and its franchises to measure and monitor operational risk profiles against approved operational risk appetite levels, and to set the boundaries for operational risk within which business decisions can be made. Operational risk appetite at Group and franchise level was reviewed during the year. Further enhancements to operational risk appetite are ongoing.

Cybercrime was an area of focus during the year, as it is perceived to be the dominant future threat in the financial services sector globally. Risk mitigation strategies to combat cybercrime are being reviewed to ensure that controls implemented are adequate and effective.

The Bank upgraded power supply, management equipment and infrastructure for key facilities. A third redundant data centre is being implemented to improve the Bank'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 Bank. The Group's IT and related frameworks are being reviewed to ensure alignment with changing business models and the technology landscape.

Information, whether the Bank'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 Bank 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.

The refinement of information governance structures, processes and the improvement of data quality and records management practices was undertaken during he year. Information governance committees have been established in all franchises and information governance now forms an integral part of the overall risk management framework of the Group.

Looking ahead, the Bank will continue to focus on improving 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 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, a subcommittee of the RCC committee. The operational risk committee is responsible for monitoring implementation of the operational risk management framework and oversight over the management of operational risk across the Bank.

The operational risk management framework 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, standards and processes have been established. Fraud and physical security, business resilience, legal, information governance and information technology have dedicated specialist teams who provide oversight that 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 OF OPERATIONAL RISK

Advanced measurement approach (AMA)

FirstRand applies AMA for the Bank's domestic operations. 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. 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 Bank'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 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. 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 Bank 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 the Regulations. No risk-based information is used in these capital calculations or allocation. Business practices continuously evolve and the operational risk control environment is, therefore, constantly changing. 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 drives certain types of operational risk.

ASSESSMENT AND MANAGEMENT

Operational risk assessment and management tools

The Bank obtains assurance that the principles and standards in the operational risk management framework 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) is the risk and control assessment per product/service based on key business processes.	- used across the Bank 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 Bank; - internal loss data reporting and analyses occur at all levels with specific focus on the root cause and process analysis and corrective action; and - external loss databases are used to learn from the loss experience of other organisations and as an input to the risk scenario process.	- 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.

As process-based risk and control identification and assessments are rolled out across the Bank, these will replace risk control self-assessments to ensure a comprehensive assessment of risks and controls across end-to-end business processes.

FirstRand uses an integrated and reputable operational risk system which 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 events resulting in small losses are expected as part of business operations (for example, 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 Bank strives to minimise these and contain frequency and severity within risk appetite levels.

Operational risk management processes

A number of key risks exist for which specialised teams, frameworks, policies and processes have been established and integrated into the broader operational risk management and governance processes as described below for the major operational risks.

Business resilience management

Business resilience management focuses on ensuring that the Bank'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 operational risk committee, has oversight of business resilience management.

Business resilience practices are documented in the Bank's business resilience policy and supporting standards, which are approved at the operational risk committee. The policy, a subframework of the operational risk management framework, 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 for the results to be reported to the business resilience steering committee.

The Bank 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 operational risk management framework, addresses 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 legislation is a major element of legal risk, RRM manages this aspect. 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 ensure that comprehensive, sound operational risk governance practices and solutions are adopted in respect of legal risk management, which represents best practice and aligns to the Bank's overall risk management programme. Key legal processes and control measures were implemented to support business in assessing and addressing legal risks. The legal risk committee, a subcommittee of the operational risk committee, 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 of these functions 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 Bank's IT risk management framework, information governance framework, acceptable use of information resources policy, information security policy and other supporting policies provide the basis for the management of IT risk, information security and data quality within the Bank.

The IT risk management framework defines the objectives of IT risk management and processes that are to be embedded, managed and monitored across the Bank for effective management of IT risk.

The information governance framework stipulates key requirements with respect to the management of information across the Bank to ensure that FirstRand data, information and records are maintained at a level of integrity and quality sufficient to ensure regulatory compliance and effective operation of business.

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 operational risk management framework. The Bank 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 FNB CRO with a Group mandate.

The Bank 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.

External fraud losses related to commercial and violent crime maintained similar or decreasing trends as improvement in controls were introduced. These include deployment of chip cards, improvement in user authentication processes and enhancements to detection capabilities at a transaction level. Employee (internal) fraud threats remain a primary concern given the risk of collusion with syndicates, and employee knowledge of controls. Additional tools and resources will continue to be invested against the growing threat of cybercrime. There is an increased focus on operational processes for fraud to align views on potential money laundering threats with anti-money laundering regulations.

Risk insurance

The Bank has a structured insurance risk financing programme in place, which has been developed over many years, to protect the Bank 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 insurance cover is reviewed and benchmarked annually.

The Bank's insurance-buying philosophy is to self-insure as much 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 Bank, 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 Bank 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 in its business activities. The compliance culture also embraces broader standards of integrity and ethical conduct which concern 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 Bank. This culminates in the maintenance of an effective and efficient regulatory risk management framework with sufficient operational capacity to promote and oversee compliance with legislative and best practice requirements. In order to achieve the Bank'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.

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 authorities. It is, therefore, important that the Bank ensures compliance with laws and regulations applicable to its operations. These include, among others, 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 Bank functions and various regulatory authorities.

The year under review

Banking legislation

Subsequent to the implementation of Regulations, which became effective on 1 January 2013, the Banks Act, 1990 was also amended through the Banks Amendment Act, 2013, which came into effect on 10 December 2013. The said amendments serve to amend, among others, banking legislation in line with BCBS requirements. 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 current 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. The Bank will continue to foster close interaction and cooperation with regulators and other stakeholders in this regard.

The Group's ethics framework

The Group's ethics office is part of RRM and is responsible for an ethics framework. 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 training on whistle-blowing, conflict of interest 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. These developments specifically pertain to treating customers fairly in the context of the proposed twin peaks model of financial regulation in South Africa. Further enhancements to the Group's responsible competitive practice programme are expected to mitigate related risks.

Anti-money laundering and combating terrorist financing (AML/CFT) measures

Banking groups in South Africa have to ensure compliance with national and international regulations and counter-measures to combat money laundering and terrorist financing as prescribed and/or recommended by the Financial Intelligence Centre Act (FICA), 2001, the Financial Action Task Force (FATF) and the BCBS. The BCBS guidelines issued in January 2014 describe how banks should manage AML/CFT risks within overall risk management programmes. The BCBS supports the adoption and implementation of the FATF standards and the Group's objective remains to ensure compliance with these requirements. In terms of a recent consultation paper issued by the Financial Intelligence Centre, FICA will, going forward, be amended in order to align more closely with revised FATF recommendations such as that applicable to the risk-based approach.

Protection of Personal Information Act, 2013 (PoPI)

PoPI was signed into law in December 2013, with the effective date of compliance to be proclaimed. PoPI is applicable to all personal information held by the Group in respect of employees, customers and suppliers. The Bank continues to devote substantial 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, in line with PoPI requirements.

Carbon disclosure project (CDP)

FirstRand participates in the annual carbon disclosure project (CDP) where the top 100 listed companies are invited to disclose their performance and leadership initiatives in carbon management. In 2013, in the South African JSE top 100 sample, FirstRand was one of the top eight companies in the South African Performance Leadership Index, continuing a trend of leadership that it has established in the last few years.

The Group is committed to the measurement and management of FirstRand's ecological footprint. This pro-active approach will position the Group to meet the expected carbon reporting requirements which come into effect in 2016. The Group's commitment to good corporate citizenship and environmental sustainability aligns with the overall climate change policy and strategy of South Africa.

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 in making informed judgements on whether the Bank is managing its regulatory and compliance risks effectively, the head of RRM has overall responsibility for coordinating the management of the Bank's regulatory risk. This includes 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 operating franchise has a dedicated compliance officer responsible for implementing and monitoring compliance policies and procedures related to the relevant franchise.

FirstRand has a formal social and ethics committee, which exercises 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 compliance processes.

Public policy and regulatory affairs office

The Group's public policy and regulatory affairs office 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. This 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 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.

This office reports directly to the Group CEO and indirectly, through designated subcommittees, to the board and maintains close working relationships with RRM, ERM and the business units where technical expertise resides.

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 the FSB's Principles for Sound Compensation Practices. In accordance with the requirements of regulation 43 of the revised Regulations, full disclosure of the Group's compensation policies, practices and performance are included in the *remuneration committee* report that forms part of the Group's annual integrated report and is published on FirstRand's website, www.firstrand.co.za.

accounting policies, annual financial statements and notes

ACCOUNTING POLICIES

1 INTRODUCTION

The Bank adopts the following accounting policies in preparing its financial statements.

In the current year the Bank has applied a number of new and revised IFRS issued by the International Accounting Standards Board (IASB) that are mandatorily effective for accounting periods beginning on or after 1 January 2013. Except for the changes to accounting policies required by these new and revised IFRS as described in accounting policy 2, these policies have been consistently applied to all years presented.

2 BASIS OF PRESENTATION

The Bank's financial statements have been prepared in accordance with IFRS.

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

In the consolidated financial statements, subsidiary undertakings (which are companies that FirstRand Bank Limited, directly or indirectly, has an interest of more than half of the voting rights or has power to exercise control over the operations) have been consolidated. The consolidated financial statements are available on pages 368 to 558 of this report.

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

The following new and revised IFRS have been applied for the first time in the current financial year:

- The accounting requirements relating to defined benefit post-employment plans set out in *IAS 19 Employee Benefits* as amended in June 2011. 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 standard also contains revisions to the calculation of the amount included in profit or loss in respect of the return on plan assets and enhanced disclosure requirements for defined benefit plans. Refer to accounting policy 22 on defined benefit post-employment plans and accounting policy 30 for the impact of the change in accounting policy.
- A package of five standards on consolidation, joint arrangements, associates and disclosures was issued. These are *IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities, IAS 27 Separate Financial Statements (IAS 27R) and IAS 28 Investments in Associates and Joint Ventures* (IAS 28R). Subsequent to the issue of these standards, amendments to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify the transitional provisions for the first time application of the standards. In the current financial year, the Bank applied the requirements of the new and revised standards, together with the amendments regarding the transitional guidance. Additional details are set out below:
  - IAS 27R replaces *IAS 27 Separate and Consolidated Financial Statements*. The accounting and disclosure requirements for consolidated financial statements have been removed from IAS 27 as a result of the issues of IFRS 10 and IFRS 12, which establish new consolidation and disclosure requirements. IAS 27R contains the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates in separate financial statements. The majority of the requirements relating to separate financial statements were carried forward from the previous version of the standard and the amendments did not have a significant impact on the Bank.
  - IAS 28R replaces *IAS 28 Investments in Associates* as a result of the issue of IFRS 11 and IFRS 12. IAS 28R 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. IAS 28R also incorporates the guidance contained in *SIC 13 – Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. The disclosure requirements relating to these investments are now contained in IFRS 12. The amendments do not impact the amounts reported in the Bank's financial statements as equity accounting is not applied in the separate financial statements.
  - IFRS 10 establishes one approach for determining consolidation of all entities based on concepts of power, variability of returns and their linkage. The application of control will be applied irrespective of the nature of the investee. The Bank has control over an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The 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 Consolidation – Special Purpose Entities*. The implementation of IFRS 10 will impact the Bank's assessment of which entities it controls. Refer to accounting policy 30 for the impact of the adoption on the Bank's financial statements.
  - IFRS 11 supersedes *IAS 31 Joint Ventures* and aims to improve the accounting principles that are applicable to all joint arrangements. The standard distinguishes between two types of joint arrangements namely, joint operations

and joint ventures. IFRS 11 places more focus on investors' rights and obligations than on the legal structure of the arrangement and hence accounts for the investors interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint venturer has rights to the net assets of the arrangement and hence equity accounts for its interest. Refer to accounting policy 5 for joint arrangements and accounting policy 30 for the impact of the adoption on the Bank's financial statements.

– IFRS 12 aims to provide consistent disclosure requirements for all forms of interests in other entities, including joint arrangements, associates and consolidated or unconsolidated structured entities. IFRS 12 requires disclosure of information that will enable users to evaluate the nature of the risks associated with the interest and effect of the interest on the financial position, performance and cash flows of the reporting entity.

- *IFRS 13 Fair Value Measurement* was issued to eliminate inconsistencies in the guidance on how to measure fair value and disclosure requirements that exist under the different IFRS that require or permit fair value measurement. The revised measurement requirements did not have a significant impact on the net asset value of the Bank for the current financial year. The revised disclosure requirements of IFRS 13 have been incorporated in the notes to the annual financial statements for the year ended 30 June 2014. The requirements of IFRS 13 are applicable on a prospective basis and in terms of the transitional provisions no comparatives are required for the new disclosures. Therefore, no prior year amounts have been restated as a result of the adoption of IFRS 13 and comparative information has not been provided in the disclosures.
- The amendments to *IFRS 7 Financial Instruments: Disclosure* require entities to provide additional disclosures relating to recognised financial assets and financial liabilities that are set-off in accordance with paragraph 42 of *IAS 32 Financial Instruments: Presentation*. The additional disclosures include information about the gross amounts subject to rights of set-off, amounts set off in accordance with the accounting standards, and the related net credit exposure as well as information about the rights under enforceable master netting and similar arrangements. This amendment addresses disclosure in the annual financial statements only and does not affect the amount of offsetting applied to financial assets and financial liabilities in the Bank's statement of financial position.
- *IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine* 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 Bank's operations and has no impact on the Bank.
- Certain amendments were issued to *IFRS 1 First-time Adoption of International Financial Reporting Standards* during March 2012. The amendment, dealing with loans received from governments at 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 Accounting for Government Grants and Disclosure of Government Assistance*. The Bank is not a first-time adopter and this amendment has no impact on the Bank nor has it resulted in the restatement of prior year numbers.
- As part of its *Annual Improvements Project*, the IASB made amendments to a number of accounting standards. The annual improvements for the 2009 – 2011 cycle issued in May 2012 were adopted in the current financial year. These amendments did not have a significant impact on the Bank's results nor have they resulted in the restatement of prior year numbers.

The Bank has voluntarily changed the manner in which it presents interest expense that is incurred to fund the Bank's activities that earn fair value income, by reclassifying to fair value income. This change in presentation has had no impact on the net asset value or profit of the Bank and only affects classification on the income statement. The impact on previously reported results is set out in accounting policy 30.

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

- financial assets and financial 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 or loss; and
- employee benefit liabilities, valued using the projected unit credit method.

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

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

3 SUBSIDIARY COMPANIES

Subsidiaries are all companies and structured entities in which the Bank is exposed, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. When assessing whether control exists the Bank considers all existing substantive rights that result in the current ability to direct relevant activities. Investments in subsidiary companies are recognised at cost less impairment losses.

4 ASSOCIATES

Associates are entities over which the Bank has significant influence but does not control or jointly control. The Bank is presumed to have significant influence where it has power over between 20% and 50% of the voting rights.

Investments in associates 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 IFRS 5.

The Bank recognises its interest in associates at cost less impairments.

5 JOINT ARRANGEMENTS

Joint arrangements are arrangements over which the Bank has joint control in terms of a contractual agreement with the other parties to the arrangement. Joint control exists only when decisions about the relevant activities of the arrangement require the unanimous consent of the parties sharing control.

A joint arrangement may either be a joint operation or a joint venture depending on the rights and obligations of the parties to an arrangement and the classification is based on the substance at inception. A joint operation is when the Bank and the other contracting parties have rights to the assets and assume responsibility for the liabilities of that arrangement. A joint venture is when the Bank and other contracting party parties have rights to the net assets of the arrangement.

Investments in 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 IFRS 5.

The Bank recognises its interest in joint ventures at cost less impairments.

6 INTEREST INCOME AND EXPENSE

The Bank recognises interest income and expense in profit or loss for instruments measured at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability 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 Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees 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 on instruments designated at fair value through profit or loss are included in fair value income except to the extent that the interest relates to:

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

From an operational perspective, the Bank suspends the accrual of contractual interest on non-performing advances, subject to certain curing assumptions. However, in terms of IAS 39, interest income on impaired advances is recognised at 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.

7 FAIR VALUE GAINS AND LOSSES

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

8 NET FEE AND COMMISSION INCOME

8.1 Fee and commission income

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

Certain fees and transaction costs that form an integral part of the effective interest rate of available-for-sale and amortised cost financial instruments are capitalised and recognised as part of the effective interest rate of the financial instrument over the expected life of the financial instruments 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 for 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 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 bills and promissory notes endorsed is credited to profit or loss over the lives of the relevant instruments on a time apportionment basis.

8.2 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.

9 DIVIDEND INCOME

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

10 FOREIGN CURRENCY TRANSLATION

10.1 Functional and presentation currency

The financial statements are presented in South African rand (R), which is the functional and presentation currency of the Bank.

10.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using 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 fair value gains or losses in non-interest income.

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 debt 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 fair value are recognised in other comprehensive income.

Foreign exchange gains or losses on monetary items measured at amortised cost are recognised in profit or loss as part of foreign exchange differences within non-interest income.

10.3 Foreign operations

The results and financial position of all the Bank's foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency of the Bank 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 the 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.

Exchange differences arising from the transaction 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 Bank'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 Bank re-attributes the proportionate share of the cumulative exchange differences in other comprehensive income to the non-controlling interests of the foreign operation.

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.

11 BORROWING COSTS

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

12 TAXATION

12.1 Indirect tax

Indirect tax is disclosed separately from income tax in the income statement. Indirect tax includes other taxes paid to central and local governments, including value added and securities transfer tax.

12.2 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 Bank operates.

13 RECOGNITION OF ASSETS

13.1 Assets

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

13.2 Contingent assets

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

13.3 Managed funds and trust activities

Certain divisions within the Bank engage in trust or other fiduciary activities that result in the managing of assets on behalf of clients. The Bank excludes these assets and liabilities from the statement of financial position as these are not assets and liabilities of the Bank but of the client.

However, fee income earned and fee expenses incurred by the Bank relating to these activities are recognised in fee and commission income in the period to which the service relates.

14 LIABILITIES, PROVISIONS AND CONTINGENT LIABILITIES

14.1 Liabilities and provisions

The Bank recognises liabilities, including provisions, when:

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

Where there are a number of similar obligations, the likelihood that an outflow will be required 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.

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Bank 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.

14.2 Contingent liabilities

The Bank 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 Bank; 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 the obligation; or
  - the amount of the obligation cannot be measured with sufficient reliability.

15 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.

16 FINANCIAL INSTRUMENTS

16.1 General

Financial instruments carried on the statement of financial position include all assets and liabilities, including derivatives but exclude investments in associates and joint ventures, commodities, property and equipment, assets and liabilities of insurance operations, deferred tax, tax payable, intangible assets, post-employment liabilities, provisions and certain non-current assets. The Bank recognises a financial asset or a financial liability on its statement of financial position when it becomes a party to the contractual provisions of the instrument.

The Bank classifies its financial assets in the following categories:

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

Financial liabilities are classified in the following categories:

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

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

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

Available-for-sale financial assets and financial instruments at fair value through profit or loss are subsequently 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 Bank recognises purchases and sales of financial instruments that require delivery within the time frame established by regulation or market convention (regular way purchases and sales) at settlement date, which is the date the asset is delivered or received.

16.1.1 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 for 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 financial liabilities are designated on initial recognition as at fair value through profit or 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 associated gains and losses 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 financial liabilities designated at fair value through profit or loss under (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 through profit or loss to eliminate the accounting mismatch between these assets and the underlying derivatives used to manage the risk arising from 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 being recognised at fair value.

Financial instruments designated under (ii) include certain private equity and other investment securities.

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 gains or losses in the period in which they arise.

16.1.2 Loans and receivables

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

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

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

16.1.3 Held-to-maturity investments

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

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

16.1.4 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 Bank 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 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 investing 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 or loss, are classified as available-for-sale.

16.1.5 Classification of financial liabilities, equity instruments and compound financial instruments

The Bank 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 Bank after the deduction of liabilities.

Compound instruments are those financial instruments that have components of both financial liabilities and equity. At initial recognition the compound financial instruments are split into their separate components and accounted for as financial liabilities or equity as appropriate. The Bank separately measures and recognises the fair value of the debt component of an issued convertible bond as a financial liability, with the residual value 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 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.

16.1.6 Measurement of financial liabilities

Financial liabilities are measured at amortised cost, except for certain liabilities that are designated as at fair value through profit or loss. Interest expense is recognised in profit or loss over the period of the borrowing using the effective interest method. Refer to accounting policies 6 and 7 for the accounting treatment applied to interest expense and fair value gains or losses respectively.

The Bank calculates interest on the liability component of compound financial instruments based on the market rate for a similar non-convertible instrument at the inception thereof.

16.2 Offsetting of financial instruments

The Bank offsets financial assets and financial 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.

16.3 Embedded derivatives

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

- risks and characteristics are not closely related to those of the host contract;
- the definition of a derivative is met; and
- the 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.

16.4 Derecognition

The Bank derecognises a financial asset when:

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

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

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

The Bank derecognises a financial liability, or part of a financial liability, when it is extinguished, i.e. when the obligation is discharged or cancelled or expired. A substantial modification 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 Bank purchases its own debt, the debt is derecognised from the statement of financial position and any difference between the carrying amount of the liability and the consideration paid is included in fair value income.

16.5 Sale and repurchase agreements and securities lending

The 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 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 IAS 39. The difference between the purchase and resale price is in substance interest and recognised in accordance with the Bank's policy for net interest income.

Securities lent to counterparties under securities lending arrangements are retained as trading and investment securities. Any deposits arising from cash 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 IAS 39.

The Bank does not recognise securities borrowed in the financial statements, unless they are on sold to third parties, in which case the obligation to return these securities is recognised as a financial liability at fair value with any gains or losses included in fair value income.

16.6 Impairments of financial assets

16.6.1 General

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

16.6.2 Assets carried at amortised cost

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets are impaired. A financial asset or a group of financial assets are 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 Bank about the following events:

- significant financial difficulty of the issuer or debtor;
- a breach of contract, such as a default or delinquency in payments;
- it becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be allocated to the individual financial assets in the group, including:
  - adverse changes in the payment status of issuers or debtors in the group; or
  - national or local economic conditions that correlate with defaults on the assets in the group.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and performs a collective assessment for impairment. 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 Bank 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 Bank's grading process that considers asset type, industry, geographical location, collateral type, past due status and other relevant factors. Those characteristics are relevant to the estimation of future cash flows for groups of such financial assets by being indicative of the debtors' ability to pay all amounts due in accordance with 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 reflect and are directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are regularly reviewed by the Bank to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowance account. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in profit or loss.

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 Bank granted a concession where the original terms and conditions of the facility were amended and the counterparty is within the new terms of the advance. Advances are only classified as renegotiated if the terms of the renegotiated contract have not yet expired and remain classified as such until the terms of the renegotiated contract expire. Where the advances are reclassified as neither past due nor impaired, the adherence to the new terms and conditions is closely monitored. Renegotiated advances excludes 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 performing 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 Bank recognises repossessed assets as part of accounts receivable in the statement of financial position.

16.6.3 Available-for-sale financial assets

The Bank 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 an impairment exists. The difference between the acquisition cost and the current fair value less any previous impairment losses recognised in profit or loss is removed from other comprehensive income and recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

16.7 Derivative financial instruments and hedging

The Bank initially recognises derivative financial instruments, including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options (both written and purchased) and other derivative financial instruments, in the 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 gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Bank designates certain derivatives as either:

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

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

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

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

16.7.1 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 interest accrued or paid relating to interest rate swaps and the hedged items are reflected in interest income or interest expense. Effective changes in fair value of currency futures are reflected in non-interest income. Other gains or losses, including the ineffective portion of all fair value hedges, 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.

16.7.2 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 gains or losses in non-interest income in profit or loss.

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 and 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 financial 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 financial liabilities is recognised in non-interest income as fair value gain or loss.

17 COMMODITIES

When the Bank acquires commodities and 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 gains or losses.

Where the Bank 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 and 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 measured at fair value through profit or loss.

18 PROPERTY AND EQUIPMENT

The Bank 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 Bank and the cost of the item can be reliably measured. 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 Bank leases under an operating lease in order to prepare the property for its intended use and from which the Bank 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 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 immediately written down 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.

19 LEASES

19.1 The Bank is the lessee

19.1.1 Finance leases

The Bank classifies leases as finance leases where it assumes substantially all the risks and rewards of ownership. Finance leases are capitalised as assets at the fair value of the leased asset at the inception of the lease, or, if lower, at the estimated present value of the underlying lease payments. The Bank allocates each lease payment between the liability and finance charges to achieve a constant rate on the 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 Bank will take ownership of the assets, in which case the assets are depreciated over the shorter of the useful life of the asset or the lease period, on a basis consistent with similar owned property and equipment.

19.1.2 Operating leases

The Bank classifies leases as operating leases if the lessor effectively retains the risks and rewards of ownership of the leased asset. The Bank 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 Bank recognises as an expense any penalty payment to the lessor for early termination of an operating lease in the period in which termination takes place.

19.2 The Bank is the lessor

19.2.1 Finance leases

The Bank recognises as advances, assets sold under a finance lease at the present value of the lease payments receivable. 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 Bank includes assets held under operating lease as a separate category of property and equipment. The Bank 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 Bank regards instalment credit agreements as financing transactions and includes the total rentals and instalments receivable, less unearned finance charges, in advances.

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

20 INTANGIBLE ASSETS

20.1 Goodwill

Goodwill that arises in a business combination transaction and goodwill previously recognised by a business acquired by the Bank is included as part of the Bank's intangible assets. IFRS 3 defines a business as an integrated set of activities and assets that are capable of being conducted and managed for the purposes of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants. The Bank measures goodwill that arises on the acquisition of a business as the excess of any consideration transferred over the Bank's share of the fair value of the net assets of the acquired business.

20.2 Computer software development costs

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

The Bank carries capitalised software assets at cost less 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 Bank expenses the costs incurred on internally generated intangible assets, such as trademarks, patents and similar rights and assets, to profit or loss in the period in which the costs are incurred. The costs incurred on the development of separately identifiable internally generated intangible assets, are capitalised by the Bank if:

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

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

The Bank carries capitalised trademarks, patents and similar assets at cost less accumulated amortisation and any impairment. It amortises these assets at a rate applicable to the expected useful life of the asset.

20.4 Impairment of intangible assets

Management reviews the carrying value of intangible assets whenever objective evidence of impairment exists. An impairment loss is immediately recognised in profit or loss as part of operating expenses when the carrying value is greater than the recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use.

20.5 Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, 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 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. The Bank 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 Bank 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 Bank 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 financial assets and derivatives designated as hedging instruments in effective cash flow hedges, which are recognised directly in other comprehensive income, is also recognised directly to 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 Bank will offset only if it 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 Bank operates defined benefit and defined contribution schemes, the assets of which are held in separate trustee administered funds. A defined contribution plan is one under which the Bank pays a fixed contribution and has no legal or constructive obligation to pay further contributions. All post-employment plans that do not meet the definition of a defined contribution plan are defined benefit plans.

For defined benefit plans the Bank recognises the contributions as an expense, included in staff costs, when the employees have rendered the service entitling them to the contributions. Prepaid contributions are recognised as an asset to the extent that a cash refund or reduction in the future payments is available.

The defined benefit plans are funded by contributions from employees and the Bank, taking into account the recommendations of independent qualified actuaries. 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. Where the value is a net asset the amount recognised is limited to the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of 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 payments required to settle the obligation resulting from employee service in current and prior periods. The discount rate used is the rate of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. In the absence of a deep and liquid bond market the rates on government bonds are used.

The fair value of the plan assets is calculated using the Bank's accounting policies and estimates and assumptions for similar assets. Where the plan assets include qualifying insurance policies that exactly match the amount and timing of some or all of the benefits under the plan the fair value is deemed to be the present value of the related obligation. If the qualifying insurance policy has a limit of indemnity the fair value of the insurance policy is limited to that amount.

The following items are included in profit or loss as part of staff costs:

- current service costs calculated on the projected unit credit method;
- past service costs relating to plan amendments made in the current period;
- gains or losses on curtailments that took place in the current period; and
- net interest income calculated by applying the discount rate at the beginning of the period to the net asset or liability.

All other remeasurements in respect of the obligation and the plan assets, including actuarial gains or losses are recognised in other comprehensive income. The remeasurements recognised in other comprehensive income will not be reclassified to profit or loss.

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

22.2 Termination benefits

The Bank 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 Bank has a present obligation at the earlier of when the Bank can no longer withdraw the offer of the termination benefit and when the Bank recognises any related restructuring costs.

22.3 Leave pay provision

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

22.4 Bonuses

The Bank recognises a liability and an expense for management and staff bonuses when it is probable that the economic benefits will be paid and the amount can be reliably measured. The expense is included in staff costs.

23 SHARE CAPITAL

23.1 Share issue costs

Instruments issued by the Bank 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 is 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 Distributions of non-cash assets to owners

The Bank measures the liability to distribute the non-cash assets as a dividend to owners at the fair value of the asset to be distributed. The carrying amount of the dividend payable is remeasured at the end of each reporting period and 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 Bank purchases its own equity share capital, the consideration paid, including any directly attributable incremental costs, is deducted from total shareholders' equity as treasury shares until they are reissued or sold. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental costs, is included in shareholders' equity.

24 SEGMENT REPORTING

An operating segment is a component of the Bank that engages in business activities from which the Bank may earn revenue and incur expenses. An operating segment is also a component of the Bank whose operating results are regularly reviewed by the chief operating decision maker in allocating resources, assessing its performance and for which discrete financial information is available. The CEO of the Bank has been identified as the Bank's chief operating decision maker. The Bank 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 segment revenue, absolute profit or loss for the period or total assets are 10% or more of all the segments revenue, profit or loss or total assets, are reported separately.

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

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

25 SHARE-BASED PAYMENT TRANSACTIONS

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

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

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

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

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

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

25.1 Equity settled share-based compensation plans

The Bank expenses the fair value of the employee services received in exchange for the grant of 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 services received is calculated with reference to the fair value of the options on grant date.

The fair value of the options is determined excluding non-market vesting conditions. These vesting conditions are included in the assumptions of the number of options expected to vest. At each balance sheet date, the Bank revises its estimate of the number of options expected to vest. The Bank recognises the impact of the revision of original estimates, if any, in profit or loss, with a corresponding adjustment to 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 Bank 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 Bank 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 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 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 Bank 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 Bank comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes from the rest of the Bank.

28 CUSTOMER LOYALTY PROGRAMMES

The Bank operates a customer loyalty programme in terms of which it undertakes to provide goods and services to certain customers. The reward credits are accounted for as a separately identifiable component of the fee and commission income transactions. 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 incurred.

29 SERVICE CONCESSION ARRANGEMENTS

Service concession arrangements are recognised if the Bank acts as an operator in the provision of public services. Where the Bank has a contractual right to recover the amount receivable in respect of the arrangements from the government organisation, the amount receivable is classified as a financial asset and is accounted for in terms of the Bank's accounting policy for financial assets. Alternatively, where the Bank is entitled to collect monies for usage from the public, the Bank recognises an intangible asset. The intangible asset is measured in accordance with the Bank's accounting 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.

30 RESTATEMENT OF PRIOR YEAR NUMBERS

30.1 Description of restatements

IFRS 10; IFRS 11; IFRS 12; IAS 27R and IAS 28R

Under IFRS 10 there is one approach for determining consolidation of all entities based on concepts of power; variability of returns and their linkage. The application of control will be applied irrespective of the nature of the investee. The Bank has control over an investee when the Bank is exposed, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

IFRS 11 places more focus on the investors' rights and obligations than on the structure of the arrangement when determining whether a joint arrangement exists.

IFRS 12 is a comprehensive standard on disclosure requirements for all forms of interests in other entities, including unconsolidated structured entities. The standard impacts disclosure only and has no impact on recognition and measurement.

The adoption of IFRS 10 and 11 resulted in the following:

- The reclassification of a number of entities between associates and joint ventures. As it has always been the Bank's policy to account for joint ventures at cost less impairment, the reclassification did not result in a change in measurement;
- An investment security previously classified as available-for-sale is now considered to be an associate, with the investment being classified as an advance.
- First and third party insurance cell captives do not meet the definition of asset silos in terms of IFRS 10 and as such do not qualify for consolidation. The insurance policies in the Bank's first party cells insure the risk arising from the Bank's defined benefit plans. As such those insurance contracts are now considered to be plan assets in terms of IAS 19 and are accounted for as such. The excess profit in the cell captive is recognised as a financial asset in accounts receivable.

IAS 19

Amendments to IAS 19 require that all actuarial gains and losses in respect of defined benefit post-employment plans are no longer deferred in terms of the corridor but recognised in other comprehensive income. In addition the standard no longer requires the expected return on plan assets to be recognised in profit or loss, rather a net interest income/expense be recognised on the net asset or liability. All other re-measurements relating to plan assets are also recognised in other comprehensive income.

Interest expense on fair value activities

The Bank has elected to present interest expense incurred on liabilities that fund the activities that generate fair value income as fair value income.

The change in presentation has had no impact on the net profit of the Bank only on the classification of items in the income statement.

30 RESTATEMENT OF PRIOR YEAR NUMBERS continued

30.2 Restated income statement for the year ended 30 June 2013

R million	As previously reported	IFRS 10 and 11	IAS 19	Interest expense	Restated
Interest and similar income	39 654	(23)	–	–	39 631
Interest expense and similar charges	(24 188)	1	–	6 239	(17 948)
Net interest income before impairment of advances	15 466	(22)	–	6 239	21 683
Impairment of advances	(4 441)	–	–	–	(4 441)
Net interest income after impairment of advances	11 025	(22)	–	6 239	17 242
Non-interest income	30 346	16	–	(6 239)	24 123
Income from operations	41 371	(6)	–	–	41 365
Operating expenses	(26 928)	240	15	–	(26 673)
Income before tax	14 443	234	15	–	14 692
Indirect tax	(579)	–	–	–	(579)
Profit before tax	13 864	234	15	–	14 113
Income tax expense	(3 071)	(64)	–	–	(3 135)
Profit for the year	10 793	170	15	–	10 978
Attributable to:					
Ordinary equityholders	10 597	170	15	–	10 782
NCNR preference shareholders	196	–	–	–	196
Profit for the year	10 793	170	15	–	10 978

30 RESTATEMENT OF PRIOR YEAR NUMBERS continued

30.2 Restated statement of comprehensive income for the year ended 30 June 2013

R million	As previously reported	IFRS 10 and 11	IAS 19	Interest expense	Restated
Profit for the year	10 793	170	15	–	10 978
Items that may subsequently be reclassified to profit or loss:					
Cash flow hedges	853	–	–	–	853
Gains arising during the year	417	–	–	–	417
Reclassification adjustments for amounts included in profit or loss	768	–	–	–	768
Deferred income tax	(332)	–	–	–	(332)
Available-for-sale financial assets	(117)	–	–	–	(117)
Losses arising during the year	(134)	–	–	–	(134)
Reclassification adjustments for amounts included in profit or loss	(32)	–	–	–	(32)
Deferred income tax	49	–	–	–	49
Exchange differences on translating foreign operations	240	–	–	–	240
Gains arising during the year	240	–	–	–	240
Items that may not subsequently be reclassified to profit or loss:					
Remeasurements on the defined benefit post-employment plans	–	–	22	–	22
Gains arising during the year	–	–	30	–	30
Deferred income tax	–	–	(8)	–	(8)
Other comprehensive income for the year	976	–	22	–	998
Total comprehensive income for the year	11 769	170	37	–	11 976
Attributable to:					
Ordinary equityholders	11 573	170	37	–	11 780
NCNR preference shareholders	196	–	–	–	196
Total comprehensive income for the year	11 769	170	37	–	11 976

30 RESTATEMENT OF PRIOR YEAR NUMBERS continued

30.2 Restated statement of financial position as at 30 June 2013

R million	As previously reported	IFRS 10 and 11	IAS 19	Restated
ASSETS				
Cash and cash equivalents	42 296	–	–	42 296
Derivative financial instruments	51 755	–	–	51 755
Commodities	6 016	–	–	6 016
Accounts receivable	4 564	10	–	4 574
Current tax asset	144	(4)	–	140
Advances	548 226	355	–	548 581
Amounts due by holding company and fellow subsidiary companies	20 882	(254)	–	20 628
Investment securities and other investments	95 025	(64)	–	94 961
Investment in subsidiary companies	5	–	–	5
Investments in associates	44	–	–	44
Property and equipment	10 421	–	–	10 421
Intangible assets	154	–	–	154
Post-employment benefit asset	2 995	(2 995)	–	–
Total assets	782 527	(2 952)	–	779 575
EQUITY AND LIABILITIES				
Liabilities				
Short trading positions	2 923	–	–	2 923
Derivative financial instruments	52 940	–	–	52 940
Creditors and accruals	8 935	(15)	–	8 920
Deposits	629 842	30	–	629 872
Provisions	246	–	–	246
Employee liabilities	9 239	(2 545)	308	7 002
Other liabilities	1 062	–	–	1 062
Amounts due to holding company and fellow subsidiary companies	14 586	(58)	–	14 528
Deferred income tax liability	250	(200)	–	50
Tier 2 liabilities	7 625	–	–	7 625
Total liabilities	727 648	(2 788)	308	725 168
Equity				
Ordinary shares	4	–	–	4
Share premium	15 304	–	–	15 304
Reserves	36 571	(164)	(308)	36 099
Capital and reserves attributable to ordinary equityholders	51 879	(164)	(308)	51 407
NCNR preference shares	3 000	–	–	3 000
Total equity	54 879	(164)	(308)	54 407
Total equity and liabilities	782 527	(2 952)	–	779 575

30 RESTATEMENT OF PRIOR YEAR NUMBERS continued

30.3 Restated statement of financial position as at 30 June 2012

R million	As previously reported	IFRS 10 and 11	IAS 19	Restated
ASSETS				
Cash and cash equivalents	31 557	–	–	31 557
Derivative financial instruments	52 392	–	–	52 392
Commodities	5 108	–	–	5 108
Accounts receivable	3 301	13	–	3 314
Current tax asset	253	(3)	–	250
Advances	482 745	368	–	483 113
Amounts due by holding company and fellow subsidiary companies	23 307	(196)	–	23 111
Investment securities and other investments	78 809	(86)	–	78 723
Investment in subsidiary companies	–	–	–	*
Investments in associates	243	(78)	–	165
Property and equipment	8 882	–	–	8 882
Intangible assets	336		–	336
Post-employment benefit asset	2 986	(2 986)	–	–
Non-current assets and disposal groups held for sale	215	–	–	215
Total assets	690 134	(2 968)	–	687 166
EQUITY AND LIABILITIES				
Liabilities				
Short trading positions	4 019	–	–	4 019
Derivative financial instruments	53 666	–	–	53 666
Creditors and accruals	6 473	(32)	–	6 441
Deposits	545 796	26	–	545 822
Provisions	234	–	–	234
Employee liabilities	8 480	(2 610)	654	6 524
Other liabilities	922	–	–	922
Amounts due to holding company and fellow subsidiary companies	13 341	(56)	–	13 285
Deferred income tax liability	769	(271)	–	498
Tier 2 liabilities	7 437	–	–	7 437
Total liabilities	641 137	(2 943)	654	638 848
Equity				
Ordinary shares	4	–	–	4
Share premium	15 304	–	–	15 304
Reserves	30 689	(25)	(654)	30 010
Capital and reserves attributable to ordinary equityholders	45 997	(25)	(654)	45 318
NCNR preference shares	3 000	–	–	3 000
Total equity	48 997	(25)	(654)	48 318
Total equity and liabilities	690 134	(2 968)	–	687 166

INCOME STATEMENT

for the year ended 30 June

R million	Notes	2014	2013*
Interest and similar income	1.1	**44 757**	39 631
Interest expense and similar charges	1.2	**(19 558)**	(17 948)
Net interest income before impairment of advances		**25 199**	21 683
Impairment of advances	11	**(4 827)**	(4 441)
Net interest income after impairment of advances		**20 372**	17 242
Non-interest income	2	**28 622**	24 123
Income from operations		**48 994**	41 365
Operating expenses	3	**(31 076)**	(26 673)
Income before tax		**17 918**	14 692
Indirect tax	4.1	**(796)**	(579)
Profit before tax		**17 122**	14 113
Income tax expense	4.2	**(4 375)**	(3 135)
Profit for the year		**12 747**	10 978
Attributable to:			
Ordinary equityholders		**12 555**	10 782
NCNR preference shareholders		**192**	196
Profit for the year		**12 747**	10 978

* *Refer to restatement of prior year numbers on pages 208 to 212.*

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 30 June

R million	2014	2013*
Profit for the year	**12 747**	10 978
Items that may subsequently be reclassified to profit or loss		
Cash flow hedges	**361**	853
(Losses)/gains arising during the year	**(111)**	417
Reclassification adjustments for amounts included in profit or loss	**613**	768
Deferred income tax	**(141)**	(332)
Available-for-sale financial assets	**(149)**	(117)
Losses arising during the year	**(149)**	(134)
Reclassification adjustments for amounts included in profit or loss	**(67)**	(32)
Deferred income tax	**67**	49
Exchange differences on translating foreign operations	**193**	240
Gains arising during the year	**193**	240
Items that may not subsequently be reclassified to profit or loss		
Remeasurements on defined benefit post-employment plans	**(207)**	22
(Losses)/gains arising during the year	**(287)**	30
Deferred income tax	**80**	(8)
Other comprehensive income for the year	**198**	998
Total comprehensive income for the year	**12 945**	11 976
Attributable to:		
Ordinary equityholders	**12 753**	11 780
NCNR preference shareholders	**192**	196
Total comprehensive income for the year	**12 945**	11 976

* *Refer to restatement of prior year numbers on pages 208 to 212.*

STATEMENT OF FINANCIAL POSITION
as at 30 June

R million	Notes	2014	2013*	2012*
ASSETS				
Cash and cash equivalents	6	**51 788**	42 296	31 557
Derivative financial instruments	7	**38 633**	51 755	52 392
Commodities	8	**7 904**	6 016	5 108
Accounts receivable	9	**4 131**	4 574	3 314
Current tax asset		**–**	140	250
Advances	10	**622 112**	548 581	483 113
Amounts due by holding company and fellow subsidiary companies	12	**26 005**	20 628	23 111
Investment securities and other investments	13	**88 783**	94 961	78 723
Investments in subsidiary companies	14	**–**	5	–
Investments in associates	15	**–**	44	165
Property and equipment	16	**11 369**	10 421	8 882
Intangible assets	17	**84**	154	336
Deferred income tax asset	19	**400**	–	–
Non-current assets and disposal groups held for sale		**–**	–	215
Total assets		**851 209**	779 575	687 166
EQUITY AND LIABILITIES				
Liabilities				
Short trading positions	20	**5 398**	2 923	4 019
Derivative financial instruments	7	**41 628**	52 940	53 666
Creditors and accruals	21	**10 380**	8 920	6 441
Current tax liability		**53**	–	–
Deposits	22	**693 176**	629 872	545 822
Provisions	23	**386**	246	234
Employee liabilities	18	**8 080**	7 002	6 524
Other liabilities	24	**4 268**	1 062	922
Amounts due to holding company and fellow subsidiary companies	12	**12 292**	14 528	13 285
Deferred income tax liability	19	**–**	50	498
Tier 2 liabilities	25	**11 484**	7 625	7 437
Total liabilities		**787 145**	725 168	638 848
Equity				
Ordinary shares	26	**4**	4	4
Share premium	26	**15 304**	15 304	15 304
Reserves		**45 756**	36 099	30 010
Capital and reserves attributable to ordinary equityholders		**61 064**	51 407	45 318
NCNR preference shares	26	**3 000**	3 000	3 000
Total equity		**64 064**	54 407	48 318
Total equity and liabilities		**851 209**	779 575	687 166

* *Refer to restatement of prior year numbers on pages 208 to 212.*

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**	**Defined benefit post-employment reserve**	**Cash flow hedge reserve**
Balance as at 1 July 2012		4	15 304	**15 308**	–	(753)
Restatements		–	–	**–**	(581)	–
Restated balance as at 1 July 2012		4	15 304	**15 308**	(581)	(753)
Movement in other reserves		–	–	**–**	–	–
Ordinary dividends		–	–	**–**	–	–
Preference dividends		–	–	**–**	–	–
Total comprehensive income for the year		–	–	**–**	22	853
Balance as at 30 June 2013		4	15 304	**15 308**	(559)	100
Movement in other reserves		–	–	**–**	–	–
Equity transactions with fellow subsidiaries		–	–	**–**	–	–
Ordinary dividends		–	–	**–**	–	–
Preference dividends		–	–	**–**	–	–
Total comprehensive income for the year		–	–	**–**	(207)	361
Balance as at 30 June 2014		4	15 304	**15 308**	(766)	461

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	Total equity
420	696	(247)	1 345	29 228	**30 689**	**3 000**	**48 997**
–	–	–	–	(98)	**(679)**	**–**	**(679)**
420	696	(247)	1 345	29 130	**30 010**	**3 000**	**48 318**
19	–	–	–	–	**19**	**–**	**19**
–	–	–	–	(5 710)	**(5 710)**	**–**	**(5 710)**
–	–	–	–	–	**–**	**(196)**	**(196)**
–	(117)	240	–	10 782	**11 780**	**196**	**11 976**
439	579	(7)	1 345	34 202	**36 099**	**3 000**	**54 407**
26	–	–	–	–	**26**	**–**	**26**
–	–	–	–	1 167	**1 167**	**–**	**1 167**
–	–	–	–	(4 289)	**(4 289)**	**–**	**(4 289)**
–	–	–	–	–	**–**	**(192)**	**(192)**
–	(149)	193	–	12 555	**12 753**	**192**	**12 945**
465	430	186	1 345	43 635	**45 756**	**3 000**	**64 064**

STATEMENT OF CASH FLOWS
for the year ended 30 June

R million	Notes	2014	2013
Cash flows from operating activities			
Cash receipts from customers	28.2	**67 634**	57 370
Cash paid to customers, suppliers and employees	28.3	**(41 379)**	(36 185)
Dividends received		**1 982**	3 146
Dividends paid	28.4	**(4 481)**	(5 906)
Cash generated from operating activities	28.1	**23 756**	18 425
Increase in income-earning assets	28.5	**(66 796)**	(81 513)
Increase in deposits and other liabilities	28.6	**53 558**	81 128
Taxation paid	28.7	**(5 342)**	(4 432)
Net cash generated from operating activities		**5 176**	13 608
Cash flows from investing activities			
Acquisition of investments in associates	15	**–**	(349)
Proceeds on disposal of investments in associates	15	**–**	550
Acquisition of investments in subsidiaries	14	**–**	(5)
Acquisition of property and equipment		**(3 318)**	(3 644)
Proceeds on disposal of property and equipment		**683**	431
Acquisition of intangible assets		**(105)**	(171)
Proceeds on disposal of intangible assets		**7**	3
Net cash outflow from investing activities		**(2 733)**	(3 185)
Cash flows from financing activities			
Proceeds from other liabilities		**3 180**	97
Proceeds from Tier 2 liabilities		**3 859**	188
Net cash inflow from financing activities		**7 039**	285
Net increase in cash and cash equivalents		**9 482**	10 708
Cash and cash equivalents at the beginning of the year		**42 296**	31 557
Effect of exchange rate changes on cash and cash equivalents		**10**	31
Cash and cash equivalents at the end of the year	6	**51 788**	42 296

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June

1 ANALYSIS OF INTEREST INCOME AND INTEREST EXPENSE

1.1 Interest and similar income

	2014				
R million	**Fair value**	**Amortised cost**	**Hedging instruments**	**Non-financial instruments**	**Total**
Advances	**–**	**40 004**	**–**	**–**	**40 004**
Cash and cash equivalents	**–**	**885**	**–**	**–**	**885**
Investment securities and other investments	**2 325**	**–**	**–**	**–**	**2 325**
Unwinding of discounted present value on NPLs	**–**	**129**	**–**	**–**	**129**
Amounts due by holding company and fellow subsidiary companies	**389**	**680**	**–**	**–**	**1 069**
Other	**–**	**9**	**327**	**9**	**345**
Interest and similar income	**2 714**	**41 707**	**327**	**9**	**44 757**

	2013				
R million	**Fair value**	**Amortised cost**	**Hedging instruments**	**Non-financial instruments**	**Total**
Advances	–	35 204	–	–	35 204
Cash and cash equivalents	–	879	–	–	879
Investment securities and other investments	2 055	–	–	–	2 055
Unwinding of discounted present value on NPLs	–	157	–	–	157
Amounts due by holding company and fellow subsidiary companies	254	482	–	–	736
Other	–	–	586	14	600
Interest and similar income	2 309	36 722	586	14	39 631

1 ANALYSIS OF INTEREST INCOME AND INTEREST EXPENSE continued

1.2 Interest expense and similar charges

	2014				
R million	**Fair value**	**Amortised cost**	**Hedging instruments**	**Non-financial instruments**	**Total**
Current accounts	**–**	**(2 684)**	**–**	**–**	**(2 684)**
Savings deposits	**–**	**(83)**	**–**	**–**	**(83)**
Call deposits	**–**	**(4 783)**	**–**	**–**	**(4 783)**
Fixed and notice deposits	**(397)**	**(6 827)**	**–**	**–**	**(7 224)**
Negotiable certificates of deposit	**(116)**	**(2 134)**	**–**	**–**	**(2 250)**
Repurchase agreements	**–**	**(431)**	**–**	**–**	**(431)**
Securities lending	**–**	**(363)**	**–**	**–**	**(363)**
Cash collateral and credit linked notes	**–**	**(406)**	**–**	**–**	**(406)**
Fixed and floating rate notes	**(136)**	**(5 563)**	**–**	**–**	**(5 699)**
Tier 2 liabilities	**(72)**	**(612)**	**–**	**–**	**(684)**
Amounts due to holding company and fellow subsidiaries	**(24)**	**(443)**	**–**	**–**	**(467)**
Other	**(24)**	**(531)**	**(940)**	**(1)**	**(1 496)**
Gross interest expense and similar charges	**(769)**	**(24 860)**	**(940)**	**(1)**	**(26 570)**
Less: Interest reallocated to fair value income*	**–**	**7 012**	**–**	**–**	**7 012**
Interest expense and similar charges	**(769)**	**(17 848)**	**(940)**	**(1)**	**(19 558)**

	2013				
R million	**Fair value**	**Amortised cost**	**Hedging instruments**	**Non-financial instruments**	**Total**
Current accounts	–	(2 008)	–	–	(2 008)
Savings deposits	–	(58)	–	–	(58)
Call deposits	–	(4 883)	–	–	(4 883)
Fixed and notice deposits	(381)	(7 808)	–	–	(8 189)
Negotiable certificates of deposit	(98)	(1 953)	–	–	(2 051)
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)
Tier 2 liabilities	(71)	(547)	–	–	(618)
Amounts due to holding company and fellow subsidiaries	(153)	(387)	–	–	(540)
Other	(11)	(65)	(1 354)	(21)	(1 451)
Gross interest expense and similar charges	(919)	(21 893)	(1 354)	(21)	(24 187)
Less: Interest reallocated to fair value income*	–	6 239	–	–	6 239
Interest expense and similar charges	(919)	(15 654)	(1 354)	(21)	(17 948)

* *Interest expense reallocated to fair value income relates to interest paid on liabilities that fund the Bank's fair value activities. In line with the Bank'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	2014	2013
Fee and commission income	**21 970**	20 213
– Instruments at amortised cost	**18 021**	15 749
– Instruments at fair value	**189**	159
– Non-financial instruments	**3 760**	4 305
Fee and commission expenses	**(3 158)**	(2 785)
Net fee and commission income*	**18 812**	17 428
Fair value gains or losses		
Held for trading	**2 629**	1 582
Designated at fair value through profit or loss	**2 171**	2 591
Other	**5**	(16)
Fair value gains or losses**	**4 805**	4 157
Gains less losses from investing activities		
Designated at fair value through profit or loss	**951**	36
Available-for-sale	**92**	42
Other	**(98)**	(73)
Gains less losses from investing activities#	**945**	5
Other non-interest income	**4 060**	2 533
Total non-interest income	**28 622**	24 123

* *As part of the process of implementing new and amended IFRS the classification of certain amounts within non-interest income was reconsidered. Amendments were made to the classifications to provide classifications that are more in line with the nature of the revenue-generating activities, particularly as it relates to the income derived from the Bank's insurance and investing activities relating to cell captives and other insurance profit share arrangements. The comparatives have been restated.*

** *Interest expense reallocated to fair value income relates to interest paid on liabilities that fund the Bank's fair value activities. In line with the Bank's accounting policies, this interest expense is reallocated to fair value income to appropriately reflect the nature of the income earned.*

\# *Certain investments initially acquired to generate fair value income have become part of the Bank's longer term investment strategy and the income from these amounts has been reclassified from fair value income to investment income. The comparatives have been restated.*

2 NON-INTEREST INCOME continued

R million	2014	2013
Fee and commission income		
Banking fee and commission income	**18 568**	17 020
– Card commissions	**3 149**	2 618
– Cash deposit fees	**1 664**	1 623
– Commitment fees	**672**	679
– Commissions: bills, drafts and cheques	**657**	471
– Exchange commissions	**870**	757
– Brokerage income	**68**	44
– Bank charges	**11 488**	10 828
Knowledge-based fee and commission income	**1 137**	1 054
Non-banking fee and commission income*	**1 301**	1 246
Insurance-related income, including commission	**964**	893
Fee and commission income	**21 970**	20 213
Fee and commission expenses		
Transaction processing fees	**(839)**	(766)
Commission paid	**(254)**	(242)
Customer loyalty programmes	**(735)**	(626)
Cash sorting, handling and transportation charges	**(526)**	(498)
Card and cheque book related	**(218)**	(204)
ATM commissions paid	**(26)**	(22)
Other	**(560)**	(427)
Fee and commission expenses	**(3 158)**	(2 785)
Net fee and commission income**	**18 812**	17 428
Fair value gains or losses[#,†]	**4 805**	4 157

* *Non-banking fee and commission income earned relates to fees and commissions for rendering services to clients other than those related to the banking operations. This includes income from trust and fiduciary services.*

** *As part of the process of implementing new and amended IFRS the classification of certain amounts within non-interest income was reconsidered. Amendments were made to the classifications to provide classifications that are more in line with the nature of the revenue-generating activities, particularly as it relates to the income derived from the Bank's insurance and investing activities relating to cell captives and other insurance profit share arrangements. The comparatives have been restated.*

[#] *Included in fair value gains or losses is dividend income of R 1 956 million (2013: R 3 136 million).*

[†] *Interest expense reallocated to fair value income relates to interest paid on liabilities that fund the Bank's fair value activities. In line with the Bank'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 continued

R million	Notes	2014	2013
Gains less losses from investing activities*			
(Loss)/gain on investment securities and other investments		**(7)**	35
Reclassification from other comprehensive income on the derecognition/sale of available-for-sale-assets		**67**	32
Preference share dividends		**18**	–
Other dividends received		**8**	7
Gain on disposal of investments in associates	15.2	**13**	27
Other gains/(losses) from investing activities		**846**	(96)
Gains less losses from investing activities		**945**	5
Other non-interest income			
Loss on disposal of property and equipment		**(20)**	(56)
Recoveries from holding company and fellow subsidiary companies		**2 695**	1 598
Other income		**1 385**	991
Other non-interest income		**4 060**	2 533
Total non-interest income		**28 622**	24 123

* *Certain investments initially acquired to generate fair value income have become part of the Bank's longer term investment strategy and the income from these amounts has been reclassified from fair value income to investment income. The comparatives have been restated.*

3 OPERATING EXPENSES

R million	Notes	2014	2013
Auditors' remuneration			
Audit fees	23	**(143)**	(132)
Fees for other services		**(46)**	(42)
Prior year underprovision		**(1)**	(11)
Auditors' remuneration		**(190)**	(185)
Operating lease charges			
Property		**(888)**	(849)
Equipment		**(120)**	(99)
Motor vehicles		**(15)**	(12)
Operating lease charges		**(1 023)**	(960)
Staff costs			
Salaries, wages and allowances		**(10 374)**	(9 144)
Contributions to employee benefit funds		**(1 584)**	(1 397)
– Defined contribution schemes		**(1 501)**	(1 322)
– Defined benefit schemes	18.2	**(83)**	(75)
Social security levies		**(232)**	(147)
Share-based payments	27	**(2 335)**	(1 532)
Movement in staff-related provisions	18.1	**(3 487)**	(2 709)
Other		**(289)**	(259)
Staff costs		**(18 301)**	(15 188)
Other operating costs			
Amortisation of intangible assets	17	**(54)**	(94)
Depreciation of property and equipment	16	**(1 673)**	(1 627)
Impairments incurred		**(131)**	(272)
– Property and equipment	16	**(4)**	(4)
– Intangible assets	17	**(114)**	(256)
– Other		**(13)**	(12)
Insurance		**(206)**	(209)
Advertising and marketing		**(1 020)**	(957)
Maintenance		**(662)**	(751)
Property		**(678)**	(687)
Computer		**(1 407)**	(1 088)
Stationery		**(160)**	(138)
Telecommunications		**(289)**	(293)
Other operating expenditure		**(3 341)**	(2 526)
Professional fees		**(1 156)**	(967)
Expenses paid to holding company and fellow subsidiary companies	37	**(785)**	(731)
Other operating costs		**(11 562)**	(10 340)
Total operating expenses		**(31 076)**	(26 673)

3 OPERATING EXPENSES continued

Directors emoluments

	2014			2013		
	Services as directors			Services as directors		
R thousand	FSR	Group	Total 2014	FSR	Group	Total 2013
Non-executive directors						
LL Dippenaar (chairman)	**3 833**	**158**	**3 991**	3 402	206	3 608
VW Bartlett[1]	**855**	**254**	**1 109**	884	631	1 515
JJH Bester[1]	**1 504**	**2 235**	**3 739**	1 330	2 266	3 596
MS Bomela	**754**	**79**	**833**	607	76	683
P Cooper (alternate – appointed July 2013)	**293**	**30**	**323**	–	–	–
L Crouse	**911**	**74**	**985**	843	50	893
JJ Durand	**581**	**50**	**631**	485	50	535
PM Goss[1]	**742**	**199**	**941**	677	122	799
NN Gwagwa[1]	**582**	**91**	**673**	541	50	591
G Gelink	**915**	**117**	**1 032**	502	–	502
PK Harris	**455**	**50**	**505**	426	50	476
WR Jardine[1]	**553**	**61**	**614**	582	62	644
EG Mantenge-Sebesho[1]	**679**	**353**	**1 032**	639	303	942
AT Nzimande	**645**	**91**	**736**	600	50	650
D Premnarayen[2,3]	**910**	**122**	**1 032**	852	99	951
KB Schoeman	**535**	**61**	**596**	483	62	545
T Store[1] (retired May 2013)	**–**	**–**	**–**	1 014	267	1 281
BJ van der Ross[1]	**669**	**755**	**1 424**	711	402	1 113
JH van Greuning[1,4]	**1 251**	**3 965**	**5 216**	1 183	2 782	3 965
Total non-executive directors	**16 667**	**8 745**	**25 412**	15 761	7 528	23 289

1. *Independent non-executive director.*
2. *Non-executive director.*
3. *Foreign-domiciled director paid in USD. 2014 amount was $99 416 (2013: $107 575).*
4. *Foreign-domiciled director paid in USD. 2014 amount was $502 476 (2013: $448 516).*

3 OPERATING EXPENSES continued

Prescribed officers' emoluments

R thousand	2008	2009	2010	2011	2012	2013	2014
SE Nxasana[1]							
Cash package paid during the year	4 065	4 427	5 101	6 220	6 614	7 037	**7 522**
Retirement contributions paid during the year	555	617	617	616	786	834	**891**
Other allowances[2]	–	–	93	97	81	68	**75**
Subtotal	4 620	5 044	5 811	6 933	7 481	7 939	**8 488**
Performance related in respect of the year[3]	8 100	4 860	5 820	8 190	9 600	11 460	**10 000**
Portion of performance related deferred in share awards[4]	–	–	5 180	4 460	5 400	6 640	**11 000**
Subtotal	8 100	4 860	11 000	12 650	15 000	18 100	**21 000**
Total	12 720	9 904	16 811	19 583	22 481	26 039	**29 488**
JP Burger[1]							
Cash package paid during the year	3 756	4 258	4 699	5 503	5 776	6 103	**6 591**
Retirement contributions paid during the year	610	692	698	679	866	915	**981**
Other allowances[2]	–	–	62	74	118	156	**98**
Subtotal	4 366	4 950	5 459	6 256	6 760	7 174	**7 670**
Performance related in respect of the year[3]	7 650	4 590	5 520	7 470	8 760	10 440	**9 000**
Portion of performance related deferred in share awards[4]	–	–	4 480	3 980	4 840	5 960	**10 000**
Subtotal	7 650	4 590	10 000	11 450	13 600	16 400	**19 000**
Total	12 016	9 540	15 459	17 706	20 360	23 574	**26 670**
A Pullinger							
Cash package paid during the year	1 281	1 286	1 571	1 743	1 981	2 037	**2 174**
Retirement contributions paid during the year	213	333	298	330	339	407	**556**
Other allowances[2]	–	–	100	110	99	122	**13**
Subtotal	1 494	1 619	1 969	2 183	2 419	2 566	**2 743**
Performance related in respect of the year[3]	18 000	1 050	11 280	13 416	11 400	13 200	**15 000**
Portion of performance related deferred in share awards[4]	–	–	6 520	7 944	6 600	7 800	**9 000**
Subtotal	18 000	1 050	17 800	21 360	18 000	21 000	**24 000**
Total	19 494	2 669	19 769	23 543	20 419	23 566	**26 743**

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.

1. *These prescribed officers in terms of the Companies Act 71 of 2008 are also executive directors. FirstRand defines its prescribed officers as members of Group strategic executive committee: Group CEO, Group deputy CEO, financial director, and the CEOs of the Group's operating franchises (FNB, RMB and WesBank).*
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 27 in the annual financial statements.*

3 OPERATING EXPENSES continued

Prescribed officers' emoluments continued

R thousand	2008	2009	2010	2011	2012	2013	2014
Retiring prescribed officers (effective 31 December 2013)							
M Jordaan[5]							
Cash package paid during the year	3 286	3 606	3 898	4 283	4 604	4 917	**2 615**
Retirement contributions paid during the year	692	760	692	760	816	945	**2 003**
Other allowances[2]	–	–	133	144	149	46	**24**
Subtotal	3 978	4 366	4 723	5 187	5 569	5 908	**4 642**
Performance related in respect of the year[3]	8 950	6 265	5 400	6 360	7 512	10 320	**–**
Portion of performance related deferred in share awards[4]	–	–	2 600	3 240	4 008	5 880	**–**
Subtotal	8 950	6 265	8 000	9 600	11 520	16 200	**–**
Total	12 928	10 631	12 723	14 787	17 089	22 108	**4 642**
B Riley[5]							
Cash package paid during the year	1 697	2 177	2 315	2 572	2 746	2 887	**1 536**
Retirement contributions paid during the year	218	275	268	297	270	432	**229**
Other allowances[2]	–	–	100	106	163	52	**27**
Subtotal	1 915	2 452	2 683	2 975	3 179	3 371	**1 792**
Performance related in respect of the year[3]	2 762	1 700	3 000	4 200	5 400	6 000	**–**
Portion of performance related deferred in share awards[4]	–	–	1 000	1 800	2 600	3 000	**–**
Subtotal	2 762	1 700	4 000	6 000	8 000	9 000	**–**
Total	**4 677**	**4 152**	**6 683**	**8 975**	**11 179**	**12 371**	1 792
New prescribed officers (effective 1 October 2013)							
H Kellan[1,6]							
Cash package paid during the year							**4 046**
Retirement contributions paid during the year							**362**
Other allowances[2]							**98**
Subtotal							**4 506**
Performance related in respect of the year[3]							**4 416**
Portion of performance related deferred in share awards[4]							**1 944**
Subtotal							**6 360**
Total							**10 866**

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.

1. *These prescribed officers in terms of the Companies Act 71 of 2008 are also executive directors. FirstRand defines its prescribed officers as members of Group strategic executive committee: Group CEO, Group deputy CEO, financial director, and the CEOs of the Group's operating franchises (FNB, RMB and WesBank).*
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 27 in the annual financial statements.*
5. *Prescribed officer retired 31 December 2013.*
6. *Prescribed officer appointed 1 October 2013. Emoluments include earnings in prior role from 1 July 2013 to 30 September 2013.*

3 OPERATING EXPENSES continued

Prescribed officers' emoluments continued

R thousand	2014
New prescribed officers (effective 1 October 2013)	
J Celliers[6]	
Cash package paid during the year	**4 901**
Retirement contributions paid during the year	**490**
Other allowances[2]	**122**
Subtotal	**5 513**
Performance related in respect of the year[3]	**5 400**
Portion of performance related deferred in share awards[4]	**2 600**
Subtotal	**8 000**
Total	**13 513**
C De Kock[6]	
Cash package paid during the year	**2 778**
Retirement contributions paid during the year	**266**
Other allowances[2]	**71**
Subtotal	**3 115**
Performance related in respect of the year[3]	**4 200**
Portion of performance related deferred in share awards[4]	**1 800**
Subtotal	**6 000**
Total	**9 115**

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.

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 27 in the annual financial statements.

6. Prescribed officer appointed 1 October 2013. Emoluments include earnings in prior role from 1 July 2013 to 30 September 2013.

Co-investment scheme

R thousand	2014	2013
JP Burger	**6 222**	649
M Jordaan	**3 111**	324
SE Nxasana	**1 376**	143
A Pullinger	**8 255**	853

4 INDIRECT TAX AND INCOME TAX EXPENSE

	R million	2014	2013
4.1	**Indirect tax**		
	Value added tax (net)	**(796)**	(579)
	Total indirect tax	**(796)**	(579)
4.2	**Income tax expense**		
	South African income tax		
	Current	**(4 819)**	(3 866)
	– Current year	**(4 936)**	(3 377)
	– Prior year adjustment	**117**	(489)
	Deferred income tax	**445**	678
	– Current year	**380**	323
	– Prior year adjustment	**65**	355
	Total South African income tax	**(4 374)**	(3 188)
	Secondary tax on companies		
	Capital gains tax	**–**	69
	– Current year	**–**	–
	– Deferred income tax	**–**	69
	Tax rate adjustment	**–**	(8)
	Total capital gains tax	**–**	61
	Customer tax adjustment account	**(1)**	(8)
	Total income tax expense	**(4 375)**	(3 135)

%	2014	2013
Tax rate reconciliation		
Standard rate of income tax	**28.0**	28.0
Total tax has been affected by:		
Non-taxable income	**(4.4)**	(7.6)
Prior year adjustments	**(1.1)**	0.9
Effect of income at capital gains tax rate	**–**	(0.4)
Other non-deductible items	**3.1**	1.3
Effective rate of tax*	**25.6**	22.2

* *The change in the effective tax rate is due to a change in income mix, with strong growth in NII and standard rate NIR.*

5 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 191 to 212 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.

		2014			
R million	**Notes**	**Held for trading**	**Designated at fair value through profit or loss**	**Held-to-maturity**	**Loans and receivables**
ASSETS					
Cash and cash equivalents	6	**–**	**–**	**–**	**51 788**
Derivative financial instruments	7	**37 615**	**–**	**–**	**–**
Commodities	8	**–**	**–**	**–**	**–**
Accounts receivable	9	**–**	**–**	**–**	**2 851**
Current tax asset		**–**	**–**	**–**	**–**
Advances	10	**–**	**177 851**	**30**	**444 209**
Amounts due by holding company and fellow subsidiary companies	12	**305**	**–**	**–**	**25 700**
Investment securities and other investments	13	**24 806**	**39 146**	**–**	**505**
Investment in subsidiary companies		**–**	**–**	**–**	**–**
Investment in associates		**–**	**–**	**–**	**–**
Property and equipment	16	**–**	**–**	**–**	**–**
Intangible assets	17	**–**	**–**	**–**	**–**
Deferred income tax asset	19	**–**	**–**	**–**	**–**
Total assets		**62 726**	**216 997**	**30**	**525 053**
Fair value of assets held or placed on behalf of customers in a fiduciary capacity					
LIABILITIES					
Short trading positions	20	**5 398**	**–**	**–**	**–**
Derivative financial instruments	7	**41 228**	**–**	**–**	**–**
Creditors and accruals	21	**–**	**–**	**–**	**–**
Current tax liability		**–**	**–**	**–**	**–**
Deposits	22	**–**	**83 181**	**–**	**–**
Provisions	23	**–**	**–**	**–**	**–**
Employee liabilities	18	**–**	**–**	**–**	**–**
Other liabilities	24	**–**	**3 287**	**–**	**–**
Amounts due by holding company and fellow subsidiary companies	12	**226**	**–**	**–**	**–**
Deferred income tax liability	19	**–**	**–**	**–**	**–**
Tier 2 liabilities	25	**–**	**1 030**	**–**	**–**
Total liabilities		**46 852**	**87 498**	**–**	**–**

The *risk and capital management report* contains further information about the risk associated with various financial assets and financial liabilities recognised in the statement of financial position.

Refer to note 32 for information about changes in the Bank's own credit risk and the impact on the financial liabilities of the Bank.

Refer to note 34 for additional information relating to the fair value of financial assets and financial liabilities carried at fair value.

2014						
Available-for-sale financial assets	Financial liabilities at amortised cost	Derivatives designated as hedging instruments	Non-financial instruments	Total carrying value	Current	Non-current
–	–	–	–	51 788	51 788	–
–	–	1 018	–	38 633	36 766	1 867
–	–	–	7 904	7 904	7 904	–
–	–	–	1 280	4 131	3 767	364
–	–	–	–	–	–	–
22	–	–	–	622 112	207 521	414 591
–	–	–	–	26 005	15 954	10 051
24 326	–	–	–	88 783	52 659	36 124
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	11 369	11 369	–	11 369
–	–	–	84	84	–	84
–	–	–	400	400	–	400
24 348	–	1 018	21 037	851 209	376 359	474 850
				61 783		
–	–	–	–	5 398	5 398	–
–	–	400	–	41 628	39 598	2 030
–	4 655	–	5 725	10 380	9 826	554
–	–	–	53	53	–	53
–	609 995	–	–	693 176	591 743	101 433
–	–	–	386	386	314	72
–	–	–	8 080	8 080	5 640	2 440
–	981	–	–	4 268	802	3 466
–	12 066	–	–	12 292	11 200	1 092
–	–	–	–	–	–	–
–	10 454	–	–	11 484	1 790	9 694
–	638 151	400	14 244	787 145	666 311	120 834

5 ANALYSIS OF ASSETS AND LIABILITIES continued

R million	Notes	2013 Held for trading	Designated at fair value through profit or loss	Held-to-maturity	Loans and receivables
ASSETS					
Cash and cash equivalents	6	–	–	–	42 296
Derivative financial instruments	7	50 893	–	–	–
Commodities	8	–	–	–	–
Accounts receivable	9	–	–	–	2 852
Current tax asset		–	–	–	–
Advances	10	–	152 526	42	395 941
Amounts due by holding company and fellow subsidiary companies	12	516	–	–	20 112
Investment securities and other investments	13	28 285	49 560	–	415
Investments in subsidiary companies	14	–	–	–	–
Investments in associates	15	–	–	–	–
Property and equipment	16	–	–	–	–
Intangible assets	17	–	–	–	–
Deferred income tax asset	19	–	–	–	–
Total assets		79 694	202 086	42	461 616
Fair value of assets held or placed on behalf of customers in a fiduciary capacity					
LIABILITIES					
Short trading positions	20	2 923	–	–	–
Derivative financial instruments	7	52 124	–	–	–
Creditors and accruals	21	–	–	–	–
Current tax liability		–	–	–	–
Deposits	22	–	83 107	–	–
Provisions	23	–	–	–	–
Employee liabilities	18	–	–	–	–
Other liabilities	24	–	171	–	–
Amounts due by holding company and fellow subsidiary companies	12	255	–	–	–
Deferred income tax liability	19	–	–	–	–
Tier 2 liabilities	25	–	1 049	–	–
Total liabilities		55 302	84 327	–	–

2013						
Available-for-sale financial assets	**Financial liabilities at amortised cost**	**Derivatives designated as hedging instruments**	**Non-financial instruments**	**Total carrying value**	**Current**	**Non-current**
–	–	–	–	42 296	42 296	–
–	–	862	–	51 755	50 193	1 562
–	–	–	6 016	6 016	6 016	–
–	–	–	1 722	4 574	4 443	131
–	–	–	140	140	–	140
72	–	–	–	548 581	189 163	359 418
–	–	–	–	20 628	10 476	10 152
16 701	–	–	–	94 961	73 713	21 248
–	–	–	5	5	–	5
–	–	–	44	44	–	44
–	–	–	10 421	10 421	–	10 421
–	–	–	154	154	–	154
–	–	–	–	–	–	–
16 773	–	862	18 502	779 575	376 300	403 275
				57 133		
–	–	–	–	2 923	2 923	–
–	–	816	–	52 940	51 313	1 627
–	3 971	–	4 949	8 920	8 571	349
–	–	–	–	–	–	–
–	546 765	–	–	629 872	535 750	94 122
–	–	–	246	246	195	51
–	–	–	7 002	7 002	4 808	2 194
–	891	–	–	1 062	325	737
–	14 273	–	–	14 528	13 873	655
–	–	–	50	50	–	50
–	6 576	–	–	7 625	–	7 625
–	572 476	816	12 247	725 168	617 758	107 410

6 CASH AND CASH EQUIVALENTS

R million	2014	2013
Coins and bank notes	**5 018**	5 058
Money at call and short notice	**30 636**	22 882
Balances with central banks	**16 134**	14 356
Cash and cash equivalents	**51 788**	42 296
Mandatory reserve balances included above	**16 040**	14 322

Banks are required to deposit a minimum average balance, calculated monthly, with the central bank, which is not available for use in the Bank's day-to-day operations. These deposits bear little or no interest.

Money at short notice constitutes amounts withdrawable in 32 days or less.

7 DERIVATIVE FINANCIAL INSTRUMENTS

Use of derivatives

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

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

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

The Bank's detailed risk management strategy, including the use of hedging instruments in risk management, is set out in the *risk and capital management report* of the annual report.

Trading derivatives

Most of the Bank's derivative transactions relate to sales activities. Sales activities include the structuring and marketing of derivative products to customers to enable them to take on, transfer, modify or reduce current or expected risks.

Hedging instruments

Fair value hedges

The Bank's fair value hedges consist principally of commodity futures used to hedge the price risk associated with physical commodity positions and interest rate swaps used to hedge the fair value risk associated with changes in interest rates.

The following amounts were recognised in profit or loss for the year:

R million	2014	2013
Gains/(losses) for the year arising from the change in fair value of fair value hedges		
On hedging instruments	**(229)**	(25)
On hedged items attributable to the hedged risk	**233**	21
Total	**4**	(4)

7 DERIVATIVE FINANCIAL INSTRUMENTS continued

Cash flow hedges

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

The Bank hedges this risk using separate portfolios. These portfolios are managed under separate mandates, which take into account the underlying risk inherent in each portfolio.

The Bank uses the following derivatives as hedging instruments:

- forward rate agreements are negotiated interest rate futures that call for cash settlement at a future date for the difference between the contractual and market rates of interest, based on a notional principal amount.
- interest rate swaps are commitments to exchange one set of cash flows for another, resulting in the economic exchange of interest rates (for example fixed rate for floating rate). No exchange of principal takes place.

During the year the hedging relationships were highly effective and the Bank deferred the lesser of changes in fair value on the hedging instruments and changes in fair value on the hedged items. As the changes on the hedging instruments were higher than the changes on the hedged items, hedge ineffectiveness was recognised in profit or loss.

R million	2014	2013
Hedge ineffectiveness recognised in profit or loss (net of tax)	**43**	(44)

The cash flows (gross of tax) on the underlying hedged items are expected to impact profit or loss as follows:

	2014		2013	
R million	**Assets**	**Liabilities**	**Assets**	**Liabilities**
0 – 3 months	**49**	**16**	87	(28)
4 – 12 months	**195**	**(142)**	432	(98)
1 – 5 years	**(1)**	**(759)**	139	(684)
Over 5 years	**5**	**(35)**	2	(37)
Total	**248**	**(920)**	660	(847)

The cash flows (gross of tax) on the hedging instruments are expected to be released to profit or loss as follows:

	2014		2013	
R million	**Assets**	**Liabilities**	**Assets**	**Liabilities**
0 – 3 months	**(30)**	**40**	(56)	83
4 – 12 months	**(127)**	**216**	(77)	468
1 – 5 years	**(733)**	**9**	(685)	164
Over 5 years	**(20)**	**5**	(38)	2
Total	**(910)**	**270**	(856)	717

7 DERIVATIVE FINANCIAL INSTRUMENTS continued

	2014			
	Assets		Liabilities	
R million	**Notional**	**Fair value**	**Notional**	**Fair value**
Qualifying for hedge accounting				
Cash flow hedges				
Interest rate derivatives	83 888	852	49 786	306
– Forward rate agreements	27 405	5	5 805	5
– Swaps	56 483	847	43 981	301
Total cash flow hedges	83 888	852	49 786	306
Fair value hedges				
Interest rate derivatives	14 086	166	12 492	94
– Swaps	14 086	166	12 492	94
Commodity derivatives	1 769	–	–	–
– Futures	1 769	–	–	–
Total fair value hedges	15 855	166	12 492	94
Total qualifying for hedge accounting	99 743	1 018	62 278	400
Not qualifying for hedge accounting				
Held for trading				
Currency derivatives	303 501	6 254	295 760	8 553
– Forward rate agreements	–	–	–	–
– Swaps	261 785	4 572	257 456	7 123
– Options	19 073	1 144	18 568	754
– Futures	22 643	538	19 736	676
Interest rate derivatives	8 324 679	29 026	7 997 023	29 472
– Forward rate agreements	6 153 870	3 918	6 017 726	3 910
– Swaps	1 743 283	24 652	1 765 866	24 887
– Options	422 878	428	207 986	660
– Futures	4 648	28	5 445	15
Equity derivatives	56 142	1 908	49 881	2 925
– Swaps	3 442	1 023	–	–
– Options	25 314	500	40 339	2 446
– Futures	27 386	385	9 542	479
Commodity derivatives	18 996	344	6 692	221
– Swaps	2 835	154	5 065	147
– Options	415	18	486	18
– Futures	15 746	172	1 141	56
Credit derivatives	3 488	83	5 853	57
Total held for trading	8 706 806	37 615	8 355 209	41 228
Total not qualifying for hedge accounting	8 706 806	37 615	8 355 209	41 228
Total	8 806 549	38 633	8 417 487	41 628

7 DERIVATIVE FINANCIAL INSTRUMENTS continued

	2014					
	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	**–**	**–**	**83 888**	**852**	**83 888**	**852**
– Interest rate derivatives	–	–	83 888	852	83 888	852
Fair value hedges	**1 769**	**–**	**14 086**	**166**	**15 855**	**166**
– Interest rate derivatives	–	–	14 086	166	14 086	166
– Commodity derivatives	1 769	–	–	–	1 769	–
Not qualifying for hedge accounting						
Held for trading	**22 895**	**15**	**8 683 911**	**37 600**	**8 706 806**	**37 615**
– Currency derivatives	1 993	–	301 508	6 254	303 501	6 254
– Interest rate derivatives	2 118	–	8 322 561	29 026	8 324 679	29 026
– Equity derivatives	4 518	–	51 624	1 908	56 142	1 908
– Commodity derivatives	14 266	15	4 730	329	18 996	344
– Credit derivatives	–	–	3 488	83	3 488	83
Total	**24 664**	**15**	**8 781 885**	**38 618**	**8 806 549**	**38 633**

	2014					
	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	**–**	**–**	**49 786**	**306**	**49 786**	**306**
– Interest rate derivatives	–	–	49 786	306	49 786	306
Fair value hedges	**–**	**–**	**12 492**	**94**	**12 492**	**94**
– Interest rate derivatives	–	–	12 492	94	12 492	94
Not qualifying for hedge accounting						
Held for trading	**3 709**	**5**	**8 351 500**	**41 223**	**8 355 209**	**41 228**
– Currency derivatives	22	5	295 738	8 548	295 760	8 553
– Interest rate derivatives	3 580	–	7 993 443	29 472	7 997 023	29 472
– Equity derivatives	–	–	49 881	2 925	49 881	2 925
– Commodity derivatives	107	–	6 585	221	6 692	221
– Credit derivatives	–	–	5 853	57	5 853	57
Total	**3 709**	**5**	**8 413 778**	**41 623**	**8 417 487**	**41 628**

7 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
Not qualifying for hedge accounting				
Held for trading				
Currency derivatives	242 262	11 749	320 514	13 604
– Forward rate agreements	27	–	19	1
– Swaps	190 568	8 344	212 542	9 471
– Options	17 450	972	23 141	1 069
– Futures	34 217	2 433	84 812	3 063
Interest rate derivatives	6 350 840	35 342	6 244 940	35 689
– Forward rate agreements	4 226 596	4 344	4 137 098	4 200
– Swaps	1 763 511	30 197	1 728 727	30 506
– Options	352 052	696	367 204	958
– Futures	8 681	105	11 911	25
Equity derivatives	38 131	2 356	18 178	2 450
– Swaps	3 206	1 623	–	–
– Options	13 772	196	11 138	2 247
– Futures	21 153	537	7 040	203
Commodity derivatives	24 768	1 366	28 994	242
– Swaps	4 402	725	1 277	114
– Options	416	41	745	44
– Futures	19 950	600	26 972	84
Credit derivatives	2 265	80	5 879	139
Total held for trading	6 658 266	50 893	6 618 505	52 124
Total not qualifying for hedge accounting	6 658 266	50 893	6 618 505	52 124
Total	6 724 768	51 755	6 716 411	52 940

7 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	–
Not qualifying for hedge accounting						
Held for trading	31 221	129	6 627 045	50 764	6 658 266	50 893
– Currency derivatives	2 775	1	239 487	11 748	242 262	11 749
– Interest rate derivatives	6 759	–	6 344 081	35 342	6 350 840	35 342
– Equity derivatives	4 834	–	33 297	2 356	38 131	2 356
– Commodity derivatives	16 853	128	7 915	1 238	24 768	1 366
– Credit derivatives	–	–	2 265	80	2 265	80
Total	33 367	129	6 691 401	51 626	6 724 768	51 755

	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
Not qualifying for hedge accounting						
Held for trading	84 904	3	6 533 601	52 121	6 618 505	52 124
– Currency derivatives	48 200	–	272 314	13 604	320 514	13 604
– Interest rate derivatives	11 164	3	6 233 776	35 686	6 244 940	35 689
– Equity derivatives	–	–	18 178	2 450	18 178	2 450
– Commodity derivatives	25 540	–	3 454	242	28 994	242
– Credit derivatives	–	–	5 879	139	5 879	139
Total	84 904	3	6 631 507	52 937	6 716 411	52 940

Refer to note 37 for information on related party derivatives.

8 COMMODITIES

R million	2014	2013
Agricultural commodities	**2 077**	1 729
Gold	**5 827**	4 287
Total commodities	**7 904**	6 016

Certain commodities are subject to option agreements whereby the counterparty may acquire the commodity at a future date. The price risk in these commodities is fully hedged through a short position and if the party exercises the option the net profit earned on the transaction will be an interest margin.

9 ACCOUNTS RECEIVABLE

R million	2014	2013
Items in transit	**1 963**	1 881
Interest and commission accrued	**49**	49
Prepayments	**598**	549
Other accounts receivable	**1 521**	2 095
Total accounts receivable	**4 131**	4 574
Analysis of accounts receivable		
Financial	**2 851**	2 852
Non-financial	**1 280**	1 722
Total accounts receivable	**4 131**	4 574

9 ACCOUNTS RECEIVABLE continued

The credit quality of the financial instruments included in accounts receivable is provided in the table below.

	2014						
			Past due but not impaired				
R million	**Neither past due nor impaired**	**Re-negotiated but current**	**1 – 30 days**	**31 – 60 days**	**61 – 90 days**	**Impaired**	**Total**
Items in transit	**1 900**	**–**	**38**	**–**	**–**	**–**	**1 938**
Interest and commission accrued	**49**	**–**	**–**	**–**	**–**	**–**	**49**
Other accounts receivable	**761**	**–**	**74**	**16**	**13**	**–**	**864**
Total financial accounts receivable	**2 710**	**–**	**112**	**16**	**13**	**–**	**2 851**

	2013						
			Past due but not impaired				
R million	**Neither past due nor impaired**	**Re-negotiated but current**	**1 – 30 days**	**31 – 60 days**	**61 – 90 days**	**Impaired**	**Total**
Items in transit	1 164	–	–	–	–	–	1 164
Interest and commission accrued	49	–	–	–	–	–	49
Other accounts receivable	1 576	–	26	3	4	30	1 639
Total financial accounts receivable	2 789	–	26	3	4	30	2 852

10 ADVANCES

R million	Notes	2014 Designated at fair value through profit or loss	Held-to-maturity	Loans and receivables	Available for-sale	Total
Notional value of advances		177 851	36	455 264	22	633 173
Contractual interest suspended		–	(5)	(1 517)	–	(1 522)
Gross value of advances		177 851	31	453 747	22	631 651
Sector analysis						
Agriculture		417	–	19 906	22	20 345
Banks		4 014	–	4 338	–	8 352
Financial institutions		54 778	–	20 014	–	74 792
Building and property development		21 641	–	7 900	–	29 541
Government, Land Bank and public authorities		11 392	–	2 534	–	13 926
Individuals		307	31	326 930	–	327 268
Manufacturing and commerce		37 196	–	38 007	–	75 203
Mining		15 945	–	4 209	–	20 154
Transport and communication		11 706	–	6 192	–	17 898
Other services		20 455	–	23 717	–	44 172
Gross advances		177 851	31	453 747	22	631 651
Impairment of advances	11	–	(1)	(9 538)	–	(9 539)
Net advances		177 851	30	444 209	22	622 112
Category analysis						
Overdrafts and cash management accounts		–	–	48 574	–	48 574
Term loans		1 031	–	21 523	22	22 576
Card loans		–	–	17 032	–	17 032
Instalment sales and hire purchase agreements		–	–	128 051	–	128 051
Lease payments receivable		–	–	7 262	–	7 262
Property finance		302	31	184 149	–	184 482
– Home loans		–	31	170 518	–	170 549
– Commercial property finance		302	–	13 631	–	13 933
Personal loans		–	–	24 443	–	24 443
Preference share agreements		25 149	–	406	–	25 555
Assets under agreement to resell		31 390	–	1 363	–	32 753
Investment bank term loans		119 555	–	–	–	119 555
Long-term loans to associates		–	–	130	–	130
Other		424	–	20 814	–	21 238
Gross value of advances		177 851	31	453 747	22	631 651
Impairment of advances	11	–	(1)	(9 538)	–	(9 539)
Net advances		177 851	30	444 209	22	622 112

10 ADVANCES continued

R million	Notes	2014 Designated at fair value through profit or loss	Held-to-maturity	Loans and receivables	Available-for-sale	Total
Geographic analysis (based on credit risk)						
South Africa		156 435	31	430 511	22	586 999
Other Africa		15 282	–	3 910	–	19 192
United Kingdom		3 944	–	14 850	–	18 794
Other		2 190	–	4 476	–	6 666
– Europe		864	–	3 374	–	4 238
– North America		504	–	210	–	714
– South America		–	–	–	–	–
– Australasia		–	–	2	–	2
– Asia		822	–	890	–	1 712
Gross value of advances		177 851	31	453 747	22	631 651
Impairment of advances	11	–	(1)	(9 538)	–	(9 539)
Net advances		177 851	30	444 209	22	622 112

10 ADVANCES continued

		2013				
R million	**Notes**	**Designated at fair value through profit or loss**	**Held-to-maturity**	**Loans and receivables**	**Available-for-sale**	**Total**
Notional value of advances		152 526	48	406 414	72	559 060
Contractual interest suspended		–	(4)	(1 763)	–	(1 767)
Gross value of advances		152 526	44	404 651	72	557 293
Sector analysis						
Agriculture		574	–	17 849	72	18 495
Banks		4 274	–	2 707	–	6 981
Financial institutions		48 165	–	17 340	–	65 505
Building and property development		23 076	–	5 961	–	29 037
Government, Land Bank and public authorities		14 712	–	1 234	–	15 946
Individuals		130	43	296 595	–	296 768
Manufacturing and commerce		24 131	–	38 363	–	62 494
Mining		13 796	–	6 044	–	19 840
Transport and communication		9 198	–	4 686	–	13 884
Other services		14 470	–	13 873	–	28 343
Gross value of advances		152 526	43	404 652	72	557 293
Impairment of advances	11	–	(1)	(8 711)	–	(8 712)
Net advances		152 526	42	395 941	72	548 581
Category analysis						
Overdrafts and cash management accounts		–	–	39 634	–	39 634
Term loans		1 631	–	18 834	72	20 537
Card loans		–	–	13 741	–	13 741
Instalment sales and hire purchase agreements		–	–	107 762	–	107 762
Lease payments receivable		–	–	8 852	–	8 852
Property finance		2 583	43	174 561	–	177 187
– Home loans		–	43	162 735	–	162 778
– Commercial property finance		2 583	–	11 826	–	14 409
Personal loans		–	–	21 836	–	21 836
Preference share agreements		21 380	–	392	–	21 772
Assets under agreement to resell		38 828	–	1 674	–	40 502
Investment bank term loans		87 526	–	–	–	87 526
Long-term loans to associates		–	–	101	–	101
Other		578	–	17 265	–	17 843
Gross value of advances		152 526	43	404 652	72	557 293
Impairment of advance	11	–	(1)	(8 711)	–	(8 712)
Net advances		152 526	42	395 941	72	548 581

10 ADVANCES continued

		2013				
R million	**Notes**	**Designated at fair value through profit or loss**	**Held-to-maturity**	**Loans and receivables**	**Available-for-sale**	**Total**
Geographic analysis (based on credit risk)						
South Africa		141 900	43	388 285	72	530 300
Other Africa		7 270	–	3 588	–	10 858
United Kingdom		1 216	–	9 142	–	10 358
Other		2 140	–	3 637	–	5 777
– Europe		582	–	2 773	–	3 355
– North America		346	–	48	–	394
– South America		89	–	–	–	89
– Australasia		497	–	1	–	498
– Asia		626	–	815	–	1 441
Gross value of advances		152 526	43	404 652	72	557 293
Impairment of advances	11	–	(1)	(8 711)	–	(8 712)
Net advances		152 526	42	395 941	72	548 581

10 ADVANCES continued

R million	Within 1 year	Between 1 and 5 years	More than 5 years	Total
2014				
Analysis of instalment sales and lease payments receivable				
Lease payments receivable	**2 193**	**5 222**	**411**	**7 826**
Suspensive sale instalments receivable	**40 450**	**113 804**	**9 105**	**163 359**
Subtotal	**42 643**	**119 026**	**9 516**	**171 185**
Less: unearned finance charges	**(8 576)**	**(25 035)**	**(2 174)**	**(35 785)**
Total gross instalment sales and lease payments receivable	**34 067**	**93 991**	**7 342**	**135 400**
Less: interest in suspense				**(87)**
Total net instalment sales and lease payments receivable				**135 313**
2013				
Analysis of instalment sales and lease payments receivable				
Lease payments receivable	2 576	6 355	475	9 406
Suspensive sale instalments receivable	36 338	90 474	6 719	133 531
Subtotal	38 914	96 829	7 194	142 937
Less: unearned finance charges	(7 135)	(17 666)	(1 399)	(26 200)
Total gross instalment sales and lease payments receivable	31 779	79 163	5 795	116 737
Less: interest in suspense				(123)
Total net instalment sales and lease payments receivable				116 614

Under the terms of the lease agreements, no contingent rentals are payable. The agreements relate to motor vehicles and equipment. The accumulated allowance for uncollectable minimum lease payments receivable included in the allowance for impairments at the reporting date is R84 million (2013: R162 million).

Advances relating to synthetic securitisations

Fresco II was a synthetic securitisation transaction amounting to R5 billion (2013: R5 billion) of the Bank's corporate advances. In terms of the transaction, the Bank transferred the credit risk up to the value of the reference portfolio to Fresco II, a bankruptcy remote special purpose entity. The securitisation matured on 2 August 2013.

10 ADVANCES continued

Credit risk mitigation

Collateral is an important mitigant of credit risk. Refer to the *risk and capital management report* for the Bank'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	2014	2013
FNB retail	**6 910**	6 321
FNB commercial	**482**	455
Total FNB	**7 392**	6 776
RMB investment banking	**1 054**	1 420
RMB corporate banking	**26**	24
Total RMB	**1 080**	1 444
WesBank	**1 959**	1 695
FCC	**30**	2
Total	**10 461**	9 917

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 provisioning purposes, no financial effect was calculated.

It is the Bank'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, more detailed reviews and valuations of collateral are performed, which, therefore, yields a more accurate financial effect.

11 IMPAIRMENT OF ADVANCES

Significant loans and advances are monitored by the credit committee and impaired according to the Bank's impairment policy when an indication of impairment is observed.

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

- decreases in the estimated amount of collateral held against the loans and advances;
- breaches of loan covenants and conditions;
- the time period of overdue contractual payments;
- actuarial credit models;
- loss of employment or death of the borrower; and
- the probability of liquidation of the customer.

Where objective evidence of impairment exists, impairment testing is performed based on LGD, PD and EAD.

	2014			
	FNB		RMB	
R million	Retail	Commercial	Investment banking	Corporate banking
Analysis of movement in impairment of advances per class of advance				
Opening balance	4 390	1 007	156	232
Amounts written off	(3 304)	(195)	–	(3)
Acquisitions of business	–	–	–	–
Transfers from/(to) other divisions	2	10	–	(10)
Reclassifications	–	–	–	–
Exchange rate difference	–	6	3	–
Unwinding of discounted present value on non-performing loans	(109)	(8)	–	–
Net new impairments created*	2 953	362	72	32
Closing balance	**3 932**	**1 182**	**231**	**251**
Increase in impairment*	(2 953)	(362)	(72)	(32)
Recoveries of bad debts previously written off	1 104	30	–	1
Impairment loss recognised in profit or loss	**(1 849)**	**(332)**	**(72)**	**(31)**

* *Refer to the risk management framework and governance structure report in the following categories for more details: Credit risk – under the impairment of financial assets and NPLs section. Operational risk – under the boundary events section.*

2014				
WesBank	Other	Total impairment	Specific impairment	Portfolio impairment
2 127	800	8 712	5 228	3 484
(2 045)	–	(5 547)	(5 547)	–
43	–	43	22	21
(66)	64	–	–	–
–	–	–	(4)	4
6	1	16	9	7
(11)	–	(128)	(128)	–
2 541	483	6 443	5 415	1 028
2 595	1 348	9 539	4 995	4 544
(2 541)	(483)	(6 443)	(5 415)	(1 028)
481	–	1 616	1 616	–
(2 060)	(483)	(4 827)	(3 799)	(1 028)

11 IMPAIRMENT OF ADVANCES continued

	2013			
	FNB		RMB	
R million	**Retail**	**Commercial**	**Investment banking**	**Corporate banking**
Analysis of movement in impairment of advances per class of advance				
Opening balance	4 149	884	160	210
Amounts written off	(2 864)	(199)	(25)	(33)
Transfers from/(to) other divisions	2	(2)	1	–
Reclassifications	–	–	–	–
Exchange rate difference	–	2	1	–
Unwinding of discounted present value on NPLs	(124)	(13)	–	–
Net new impairments created	3 227	335	19	55
Closing balance	4 390	1 007	156	232
Increase in impairment	(3 227)	(335)	(19)	(55)
Recoveries of bad debts previously written off	682	18	–	12
Impairment loss recognised in profit or loss	(2 545)	(317)	(19)	(43)

2013				
WesBank	Other	Total impairment	Specific impairment	Portfolio impairment
2 018	800	8 221	5 119	3 102
(1 796)	–	(4 917)	(4 917)	–
(49)	48	–	–	–
–	–	–	146	(146)
5	–	8	5	3
(20)	–	(157)	(157)	–
1 969	(48)	5 557	5 032	525
2 127	800	8 712	5 228	3 484
(1 969)	48	(5 557)	(5 032)	(525)
404	–	1 116	1 116	–
(1 565)	48	(4 441)	(3 916)	(525)

11 IMPAIRMENT OF ADVANCES continued

	2014		
R million	**Total value net of interest in suspense**	**Security held and expected recoveries**	**Specific impairment**
Non-performing loans by sector			
Agriculture	**174**	**126**	**48**
Financial institutions	**167**	**47**	**120**
Building and property development	**2 080**	**1 775**	**305**
Government, Land Bank and public authorities	**53**	**19**	**34**
Individuals	**11 323**	**7 623**	**3 700**
Manufacturing and commerce	**469**	**155**	**314**
Mining	**52**	**14**	**38**
Transport and communication	**65**	**26**	**39**
Other	**601**	**204**	**397**
Total non-performing loans	**14 984**	**9 989**	**4 995**
Non-performing loans by category			
Overdrafts and cash management accounts	**940**	**263**	**677**
Term loans	**270**	**127**	**143**
Card loans	**385**	**113**	**272**
Instalment sales and hire purchase agreements	**3 488**	**2 187**	**1 301**
Lease payments receivable	**183**	**107**	**76**
Property finance	**6 147**	**4 776**	**1 371**
– Home loans	**5 629**	**4 506**	**1 123**
– Commercial property finance	**518**	**270**	**248**
Personal loans	**1 475**	**497**	**978**
Investment bank term loans	**1 635**	**1 635**	**–**
Other	**461**	**284**	**177**
Total non-performing loans	**14 984**	**9 989**	**4 995**

11 IMPAIRMENT OF ADVANCES continued

	2014		
R million	**Total value net of interest in suspense**	**Security held and expected recoveries**	**Specific impairment**
Non-performing loans by class			
FNB retail	**7 256**	**4 906**	**2 350**
FNB commercial	**1 321**	**526**	**795**
Total FNB	**8 577**	**5 432**	**3 145**
RMB investment banking	**1 740**	**1 690**	**50**
RMB corporate banking	**6**	**–**	**6**
Total RMB	**1 746**	**1 690**	**56**
WesBank	**4 661**	**2 867**	**1 794**
Total non-performing loans	**14 984**	**9 989**	**4 995**
Non-performing loans by geographical area			
South Africa	**14 886**	**9 983**	**4 903**
Other Africa	**–**	**–**	**–**
United Kingdom	**37**	**6**	**31**
South America	**–**	**–**	**–**
Asia	**61**	**–**	**61**
Total non-performing loans	**14 984**	**9 989**	**4 995**

11 IMPAIRMENT OF ADVANCES continued

	2013		
R million	**Total value net of interest in suspense**	**Security held and expected recoveries**	**Specific impairment**
Non-performing loans by sector			
Agriculture	603	500	103
Financial institutions	244	150	94
Building and property development	2 488	2 116	372
Government, Land Bank and public authorities	13	13	–
Individuals	11 540	7 550	3 990
Manufacturing and commerce	580	276	304
Mining	95	60	35
Transport and communication	115	55	60
Other	447	177	270
Total non-performing loans	16 125	10 897	5 228
Non-performing loans by category			
Overdrafts and cash management accounts	923	269	654
Term loans	231	115	116
Card loans	318	88	230
Instalment sales and hire purchase agreements	2 972	1 801	1 171
Lease payments receivable	382	225	157
Property finance	7 526	5 746	1 780
– Home loans	6 925	5 419	1 506
– Commercial property finance	601	327	274
Personal loans	1 479	363	1 116
Investment bank term loans	2 290	2 290	–
Other	4	–	4
Total non-performing loans	16 125	10 897	5 228

11 IMPAIRMENT OF ADVANCES continued

	2013		
R million	**Total value net of interest in suspense**	**Security held and expected recoveries**	**Specific impairment**
Non-performing loans by class			
FNB retail	8 615	5 754	2 861
FNB commercial	1 429	647	782
Total FNB	10 044	6 401	3 643
RMB investment banking	2 296	2 290	6
RMB corporate banking	9	–	9
Total RMB	2 305	2 290	15
WesBank	3 776	2 206	1 570
Total non-performing loans	16 125	10 897	5 228
Non-performing loans by geographical area			
South Africa	15 708	10 541	5 167
Other Africa	1	–	1
United Kingdom	29	7	22
North America	34	34	–
South America	315	315	–
Asia	38	–	38
Total non-performing loans	16 125	10 897	5 228

12 AMOUNTS DUE (TO)/BY HOLDING COMPANY AND FELLOW SUBSIDIARY COMPANIES

R million	2014	2013
Amounts due to holding company	**(133)**	(766)
Amounts due to fellow subsidiary companies	**(12 159)**	(13 762)
Amounts due to holding company and fellow subsidiary companies	**(12 292)**	(14 528)
Amounts due by holding company	**–**	–
Amounts due by fellow subsidiary companies	**26 005**	20 628
Amounts due by holding company and fellow subsidiary companies	**26 005**	20 628
Net amounts due by holding company and fellow subsidiary companies	**13 713**	6 100

These loans have no fixed terms of repayment and carry varying rates of interest. Loans to fellow subsidiary companies amounting to R236 million (2013: R189 million) are subject to subordination agreements until such a time that their assets, fairly valued, exceed their liabilities.

Included in the above amounts are the following:

	Amounts due by fellow subsidiary companies		Amounts due to fellow subsidiary companies	
R million	**Notional**	**Fair value**	**Notional**	**Fair value**
2014				
Derivative instruments	**28 411**	**305**	**(14 821)**	**(226)**
2013				
Derivative instruments	37 185	516	(25 353)	(255)

13 INVESTMENT SECURITIES AND OTHER INVESTMENTS

R million	2014				
	Held for trading	**Designated at fair value through profit or loss**	**Loans and receivables**	**Available-for-sale**	**Total**
Negotiable certificates of deposit	**–**	**–**	**–**	**749**	**749**
Treasury bills	**1 075**	**15 791**	**–**	**1 024**	**17 890**
Other government and government guaranteed stock	**20 207**	**2 173**	**–**	**20 213**	**42 593**
Other dated securities	**3 454**	**11 899**	**505**	**1 778**	**17 636**
Other undated securities	**67**	**–**	**–**	**–**	**67**
Equities	**3**	**9 283**	**–**	**561**	**9 847**
Other	**–**	**–**	**–**	**1**	**1**
Total investment securities and other investments	**24 806**	**39 146**	**505**	**24 326**	**88 783**

R million	2013				
	Held for trading	**Designated at fair value through profit or loss**	**Loans and receivables**	**Available-for-sale**	**Total**
Negotiable certificates of deposit	1 547	–	–	762	2 309
Treasury bills	1 624	29 928	–	799	32 351
Other government and government guaranteed stock	21 708	1 940	–	14 628	38 276
Other dated securities	3 391	10 990	415	–	14 796
Other undated securities	15	–	–	–	15
Equities	–	6 702	–	510	7 212
Other	–	–	–	2	2
Total investment securities and other investments	28 285	49 560	415	16 701	94 961

R36 504 million (2013: R33 866 million) of the financial instruments form part of the Bank's liquid asset portfolio in terms of the SARB and other foreign banking regulators' requirements.

13 INVESTMENT SECURITIES AND OTHER INVESTMENTS continued

Analysis of investment securities and other investments

R million	2014	2013
Listed	**58 988**	58 763
– Equities	**1 412**	1 040
– Debt	**57 576**	57 723
Unlisted	**29 795**	36 198
– Equities	**8 435**	6 172
– Debt	**21 360**	30 026
Total	**88 783**	94 961

Information regarding investment securities and other investments is kept at the Bank's registered offices. This information is open for inspection in terms of the provisions of section 26 of the Companies Act 71 of 2008.

14 INVESTMENTS IN SUBSIDIARY COMPANIES

FirstRand Bank Limited is the entity through which the bulk of FirstRand Group's banking operations are conducted. This entity has branches in India and London and significant representative offices in Angola, Nigeria and Kenya. Investments held by the Bank are listed in the table below.

2014	Nature of business	Principal place of business	Ownership %	Voting rights %	Investment in subsidiary (rand)
FRB Representacoes E Participacoes LTDA	**Financial services**	**Sao Paulo, Brazil**	**100**	**100**	**383 669**
Other	**Various**	**Various**	**Various**	**Various**	**100**
Total investments in subsidiary companies at cost					**383 769**

2013	Nature of business	Principal place of business	Ownership %	Voting rights %	Investment in subsidiary (rand)
FRB Representacoes E Participacoes LTDA	Financial services	Sao Paulo, Brazil	100	100	383 669
Brait Raptor Hedge Fund*	Financial services		72	72	5 000 000
Other	Various	Various	Various	Various	100
Total investments in subsidiary companies at cost					5 383 769

* *Relates to units held in the hedge fund in the form of seed capital and not shares. This fund was disposed of in the current year.*

14 INVESTMENTS IN SUBSIDIARY COMPANIES continued

14.1 Acquisition of subsidiaries and businesses

FirstAuto Proprietary Limited (FirstAuto) provides fleet management services including fuel, oil and toll card facilities and motor vehicle managed maintenance facilities to customers. On 1 October 2013 the Bank acquired all the assets and liabilities of FirstAuto from FRIHL. The assets and liabilities acquired have been divisionalised within the Bank. The primary reason for this was to achieve operational and funding efficiencies as FirstAuto's business is aligned to that of WesBank (a division of FirstRand Bank Limited). The acquisition was accounted for in line with the FirstRand Group's accounting policy for common control transactions. The Bank recognised the assets and liabilities at the consolidated carrying values on the acquisition date. The assets and liabilities were not restated to fair value. No additional goodwill is recognised for common control transactions, but the difference between the consideration and the net carrying value of the assets is accounted for directly in equity. The consideration transferred was equal to the consolidated carrying value and no amounts were recognised in equity. As part of the transaction, assets of R1 582 million (including goodwill of R104 million) and liabilities of R1 472 million were acquired.

	2014	
R million	**Total**	**FirstAuto**
Cash flow information		
Discharged by cash consideration	**(110)**	(110)
Less: cash and cash equivalents acquired	**110**	110
Net cash in/outflow on acquisition of subsidiaries	**–**	–

15 INVESTMENTS IN ASSOCIATES

R million	2014	2013
Unlisted investments		
Investments at cost less amounts written off	–	44
Total investments in associates	–	44

15.1 Acquisition of associates

	2014	2013		
	Total*	**Total**	**Capricorn Fund Managers**	**Truffle Asset Manage-ment**
Acquisition date			30/11/12	30/09/12
Interest acquired (%)			21	44
Total consideration transferred (R million)	–	15	10	5
– Cash	–	15	10	5
– Non-cash	–	–	–	–

* *There were no associates acquired during the current year.*

Capricorn Fund Managers

During the prior year the Bank invested seed capital of R10 million in Capricorn Fund Managers. As a result, the Bank owned 21% of the fund.

Truffle Asset Management

During the prior year the Bank invested seed capital of R5 million in Truffle Asset Management. As a result, the Bank owned 44% of the fund.

15 INVESTMENTS IN ASSOCIATES continued

15.2 Disposal of associates

	2014			
	Total	**Capricorn Fund Managers**	**Truffle Asset Management**	**Weston Atlas Funds**
Disposal date		**30/11/13**	**30/11/13**	**31/05/14**
Interest disposed of (%)		**21**	**44**	**33**
Total consideration received (R million)	**57**	**10**	**6**	**41**
– Cash	**–**	**–**	**–**	**–**
– Non-cash	**57**	**10**	**6**	**41**
Less: carrying value of the associate on disposal date	**(44)**	**(10)**	**(5)**	**(29)**
Gain on disposal of associates	**13**	**–**	**1**	**12**

	2013			
	Total	**New Seasons Investments**	**Sutter Gold**	**Other insignificant disposals****
Disposal date		18/12/12	03/09/12	
Interest disposed of (%)		29	50	
Total consideration received (R million)	245	26	186	33
– Cash	239	26	186	27
– Non-cash	6	–	–	6
Less: carrying value of the associate on disposal date	(214)	(19)	(164)	(31)
Gain on disposal of associates*	31	7	22	2

* *Excludes loss on the disposal of investment in Mvelaphanda Group.*

** *In addition to the above disposals, the Bank disposed of a number of individually insignificant associates during the prior year.*

Capricorn Fund Managers and Truffle Asset Management

These amounts represent seed capital invested into funds managed by third party fund managers. The investments were disposed of in the current year for R10 million and R6 million respectively.

Western Atlas Funds

The Weston Capital Partners Fund II Limited (the fund) has ceased trading and is in the process of liquidation. The underlying assets of the fund were sold and the proceeds have been distributed to investors. These distributions are in effect a return of capital and the Bank (through its division, RMB) no longer holds an investment in the fund. The distributions received from the fund exceeded the carrying value of the investment and a gain of R12 million was recognised on the transaction.

15 INVESTMENTS IN ASSOCIATES continued

15.2 Disposal of associates continued

Weston Atlas Funds

The Weston Capital Partners Fund II Limited (the Fund) has ceased trading and is in the process of liquidation. The underlying assets of the fund were sold and the proceeds distributed to investors. These distributions are in effect a return of capital and the Bank (through its division, RMB) no longer holds an investment in the fund. The distributions received from the fund exceeded the carrying value of the investment and a gain of R12 million was recognised in gains less losses from investing activities.

New Seasons Investments

During the prior year, the Bank disposed of its 29% interest in New Seasons investments to New Seasons Investment Holdings Limited for a consideration of R26 million.

Sutter Gold

During the prior year, the Bank disposed of its 50% interest in Sutter Gold to RMB Investments and Advisory Proprietary Limited for a consideration of R186 million.

Mvelaphanda Group Limited

During the prior year, the Bank 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 R4 million.

16 PROPERTY AND EQUIPMENT

The useful life of each asset is assessed individually. The table below provides information on the benchmarks used when assessing the useful lives of the individual assets.

Leasehold premises	Shorter of estimated life or period of lease
Freehold property and property held under finance lease	
– Buildings and structures	50 years
– Mechanical and electrical	20 years
– Components	20 years
– Sundries	3 – 5 years
Computer equipment	3 – 5 years
Furniture and fittings	3 – 10 years
Motor vehicles	5 years
Office equipment	3 – 6 years

	2014			2013		
R million	**Cost**	**Accumulated depreciation and impairments**	**Carrying amount**	**Cost**	**Accumulated depreciation and impairments**	**Carrying amount**
Property*	**8 821**	**(2 003)**	**6 818**	8 509	(2 086)	6 423
Freehold property	**5 730**	**(928)**	**4 802**	5 251	(696)	4 555
Leasehold premises	**3 091**	**(1 075)**	**2 016**	3 258	(1 390)	1 868
Equipment*	**9 432**	**(4 881)**	**4 551**	9 005	(5 007)	3 998
Computer equipment	**4 983**	**(3 008)**	**1 975**	4 855	(3 296)	1 559
Furniture and fittings	**1 334**	**(688)**	**646**	1 301	(702)	599
Motor vehicles	**2 125**	**(561)**	**1 564**	1 924	(410)	1 514
Office equipment	**990**	**(624)**	**366**	925	(599)	326
Total property and equipment	**18 253**	**(6 884)**	**11 369**	17 514	(7 093)	10 421

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

16 PROPERTY AND EQUIPMENT continued

R million	Property: Freehold property	Property: Leasehold premises
Carrying amount at 1 July 2012	3 698	2 018
Acquisitions	1 137	168
Disposals	(70)	(65)
Exchange rate difference	–	7
Depreciation charge for the year	(210)	(261)
Impairments recognised*	–	–
Other	–	1
Carrying amount at 30 June 2013	**4 555**	**1 868**
Acquisitions	**522**	**406**
Disposals	**(31)**	**(41)**
Exchange rate difference	**–**	**3**
Depreciation charge for the year	**(244)**	**(219)**
Impairments recognised*	**–**	**(1)**
Other	**–**	**–**
Carrying amount at 30 June 2014	**4 802**	**2 016**

* *During the current year certain fleet vehicles were repossessed early in the life of the relevant finance contracts and were, therefore, impaired by R3 million to their recoverable amount. During the prior year, office equipment with a carrying value that exceeded the recoverable amount by R4 million was identified. An impairment for this amount was, therefore, recognised.*

There were no reversals of previously recognised impairments in the current or prior years.

Information regarding land and buildings is kept at the Bank's registered offices. This information is open for inspection in terms of section 26 of the Companies Act 71 of 2008.

	Equipment					
	Computer equipment	Furniture and fittings	Motor vehicles	Office equipment	Capitalised leased assets	Total
	1 410	658	794	303	1	8 882
	823	100	1 266	150	–	3 644
	(49)	(12)	(286)	(4)	–	(486)
	3	–	–	1	–	11
	(628)	(144)	(260)	(124)	–	(1 627)
	–	(4)	–	–	–	(4)
	–	1	–	–	(1)	1
	1 559	**599**	**1 514**	**326**	**–**	**10 421**
	1 125	**205**	**910**	**150**	**–**	**3 318**
	(97)	**(13)**	**(518)**	**(3)**	**–**	**(703)**
	4	**1**	**–**	**1**	**–**	**9**
	(617)	**(145)**	**(340)**	**(108)**	**–**	**(1 673)**
	–	**–**	**(3)**	**–**	**–**	**(4)**
	1	**(1)**	**1**	**–**	**–**	**1**
	1 975	**646**	**1 564**	**366**	**–**	**11 369**

17 INTANGIBLE ASSETS

The useful life of each intangible asset is individually assessed. 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

	2014			2013		
R million	**Cost**	**Accumulated amortisation and impairments**	**Carrying amount**	**Cost**	**Accumulated amortisation and impairments**	**Carrying amount**
Goodwill						
Opening balance	**–**	**–**	**–**	–	–	–
Acquisition of business*	**104**	**–**	**104**	–	–	–
Impairments recognised	**–**	**(104)**	**(104)**	–	–	–
Closing balance	**104**	**(104)**	**–**	–	–	–
Software and development costs						
Opening balance	**949**	**(805)**	**144**	824	(510)	314
Acquisitions	**1**	**–**	**1**	171	–	171
Disposals	**(19)**	**12**	**(7)**	(47)	44	(3)
Exchange rate difference	**1**	**(1)**	**–**	1	(1)	–
Amortisation for the year	**–**	**(54)**	**(54)**	–	(90)	(90)
Impairments recognised**	**–**	**–**	**–**	–	(248)	(248)
Closing balance	**932**	**(848)**	**84**	949	(805)	144
Trademarks						
Opening balance	**59**	**(59)**	**–**	50	(50)	–
Exchange rate difference	**11**	**(11)**	**–**	9	(9)	–
Closing balance	**70**	**(70)**	**–**	59	(59)	–

* *The Bank acquired the business of FirstAuto from FRIHL during the current financial year. The transaction was accounted for as a business combination under common control and the Bank acquired the goodwill that was recognised on the original business combination.*

** *During the prior 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 its current state without major modifications or alterations. The software was written down to its recoverable amount.*

There were no reversals of previously recognised impairments in the current or prior years.

17 INTANGIBLE ASSETS continued

	2014			2013		
R million	**Cost**	**Accumulated amortisation and impairments**	**Carrying amount**	**Cost**	**Accumulated amortisation and impairments**	**Carrying amount**
Other						
Opening balance	**92**	**(82)**	**10**	102	(80)	22
Disposals	**–**	**–**	**–**	(14)	14	–
Exchange rate difference	**4**	**(4)**	**–**	4	(4)	–
Amortisation for the year	**–**	**–**	**–**	–	(4)	(4)
Impairments recognised*	**–**	**(10)**	**(10)**	–	(8)	(8)
Closing balance	**96**	**(96)**	**–**	92	(82)	10
Total intangible assets						
Goodwill	**104**	**(104)**	**–**	–	–	–
Software and development costs	**932**	**(848)**	**84**	949	(805)	144
Trademarks	**70**	**(70)**	**–**	59	(59)	–
Other	**96**	**(96)**	**–**	92	(82)	10
Total intangible assets	**1 202**	**(1 118)**	**84**	1 100	(946)	154

* *During the current year a customer book ceased to generate income and was impaired by R10 million to its recoverable amount. The amount of R8 million recognised in the prior year relates to insurance books that were impaired because their revenue trends were lower than the revenue trends inherent at acquisition.*

17 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 Bank level.

The CGU to which the goodwill balance as at 30 June relates to:

R million	2014	2013
WesBank	–	–

Impairments during 2014

During the current financial year, the full goodwill balance of R104 million relating to the business of FirstAuto was impaired. The recoverable amount was determined as being the value in use. The business is based in South Africa and the impairment is recognised in the WesBank segment.

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 its 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. Future cash flows are based on financial budgets approved by management covering one-year period. Cash flows beyond one year are extrapolated using the estimated growth rate for the CGU. 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 the CGU.

	Discount rates*		Growth rates	
%	2014	2013	2014	2013
WesBank	15	–	3	–

* *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. WesBank determines the recoverable amount as the fair value less costs to sell and not 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 CGU would not result in its recoverable amounts exceeding the carrying values. The recoverable amounts of this CGU is 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.

18 EMPLOYEE LIABILITIES AND RELATED ASSETS

R million	Notes	2014	2013
Staff-related provision	18.1	**4 882**	3 894
Cash settled share-based payment liability*		**2 549**	2 701
Defined benefit post-employment liability	18.2	**649**	407
Defined contribution post-employment liability	18.3	**–**	–
Total employee liabilities		**8 080**	7 002
Net amount due to employees		**8 080**	7 002

* *Included in the cash settled share-based payment liability is an amount of R nil (2013: R207 million) that relates to options already vested but not yet exercised by staff.*

Refer to note 27 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 participants in the BEE schemes will receive. Further details of this scheme and the vesting conditions related to the scheme are provided in note 27.

R million	Notes	2014	2013
Opening balance		**3 894**	3 215
Acquisitions of business		**7**	–
Exchange rate differences		**28**	20
Charge to profit or loss	3	**3 487**	2 709
– Additional provisions created		**3 506**	2 709
– Unused provisions reversed		**(19)**	–
Utilised		**(2 534)**	(2 050)
Closing balance		**4 882**	3 894

18 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

18.2 Defined benefit post-employment liability

Nature of benefits

The Bank operates two defined benefit plans in South Africa; a plan that provides post-employment medical benefits and a pension plan. The pension plan provides retired employees with annuity income after their service. The medical scheme provides retired employees with medical benefits after their service. In terms of these plans, the Bank is liable to the employees for specific payments on retirement and for any deficit in the provision of these benefits from the plan assets. The liabilities and assets of these pension plans are reflected as a net asset or liability in the statement of financial position. For the pension plan, a separate fund (the fund) has been established. The fund has assets that are used solely to pay pension benefits. For current pensioners the fund pays a pension to the members, and dependants' pension to the spouse and eligible children payable on death of the member.

On retirement of current defined contribution active members, the plan provides a pension that can be purchased with the member's share. The pension so purchased is determined based on the purchasing member's demographic details (age, sex, age of spouse), the pension structure (guarantee period, spouse's reversion, pension increase target) and the economic assumptions at time of purchase (inflation-linked bond yields available). There are also a small number of active members whose benefits are calculated on a defined benefit basis as prescribed in the rules of the plan. Benefits on withdrawal and retrenchment are determined in terms of the prevailing legislation and are equivalent to the value of the actuarial reserve held in the fund. The liability in respect of contributing defined contribution members is equal to the member's share of the fund, which is determined as the accumulation of the member's contributions and employer's contributions (net of deduction for fund expenses and cost of death benefits) as well as any amounts transferred into the fund by the member, increased with the net investment returns earned (positive or negative) on the member's assets.

In terms of the medical scheme, the Bank is liable for any deficit in the provision of the benefits from the plan assets. In terms of the small number of defined benefit contributing members in the plan, the Bank is liable for any deficit in the value of accrued benefits exceeding the assets in the fund earmarked for these liabilities. In terms of the existing pensioners in the pension plan, the trustees are responsible for setting the pension increase policy and granting of pension increases subject to the assets of the fund supporting such increases. Should the pension account in the fund be in a deficit to the extent that current pensions in payment cannot be maintained, the Bank is liable to maintain the nominal value of pensions in payment.

The fund also provides death and withdrawal benefits. The 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).

The employer's post-employment medical 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.

Regulatory framework

The plans are governed by local regulations and practice in South Africa. The pension plan is regulated by the Financial Services Board and the medical plan by the Registrar of Council for Medical Schemes.

18 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

18.2 Defined benefit post-employment liability continued

Governance of the plans

Responsibility for governance of the plans – including investment decisions and contribution schedules – lies jointly with the Bank and the board of trustees. The board of trustees must be composed of representatives of the Bank and plan participants in accordance with the plans' regulations. The board consists of four representatives of the Bank and four representatives of the plan participants in accordance with the plans' regulations. The trustees serve on the boards for five years and may be re-elected for a number of terms. An external auditor performs an audit of the fund on an annual basis and such annual financial statements are submitted to the Regulator of Pension Funds (i.e. to the Financial Services Board). A full actuarial valuation of the pension fund submission to the Financial Services Board is performed every three years, with the last valuation being in 2014. Annual interim actuarial valuations are performed for the trustees and IAS 19 purposes.

Governance of the post-employment medical aid subsidy policy lies with the Bank. The Bank has established a committee that regularly meets to discuss and review the management and the subsidy. The committee also considers administration, data management issues and analysis of demographic and economic risks inherent in the subsidy policy.

Funding policy

Funding levels are monitored on an annual basis and the current agreed contribution rate in respect of the defined benefit pension fund is 21% of pensionable salaries (in excess of the minimum recommended contribution rate set by the fund actuary). The Bank considers the recommended contribution rate as advised by the fund actuary with each actuarial valuation.

In addition, the trustees of the fund target a funding position on the pensioner liabilities that exceeds the value of the best estimate actuarial liability. The funding position is also considered in relation to a solvency reserve basis, which makes allowance for the discontinuance cost of outsourcing the pensions.

The last statutory actuarial valuation of the fund (in 30 June 2014), reflected all categories of liabilities were at least 100% funded.

Asset-liability matching strategies

The Bank ensures that the investment positions are managed within an asset-liability matching (ALM) framework that has been developed to achieve long-term investments that are in line with the obligations under the schemes. Within this framework, the Bank's ALM objective is to match assets to the pension obligations by investing in long-term fixed interest securities with maturities that match the benefit payments as they fall due. The Bank actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the pension obligations. Investments are well diversified so that the failure of any single investment will not have a material impact on the overall level of assets.

The trustees of the Fund have adopted an investment strategy in respect of the pension liabilities that largely follows a 70% exposure in fixed interest instruments to immunise the interest rate and inflation risk, and 30% exposure to local growth assets. The fixed interest instruments consists mainly of long dated South African government issued inflation linked bonds, while the growth assets are allocated to selected local asset managers. The trustees receive monthly reports on the funding level of the pension liabilities and an in-depth attribution analysis in respect of changes in the pension funding level.

18 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

18.2 Defined benefit post-employment liability continued

The trustees of the fund aim to apportion an appropriate level of balanced portfolio, conservative portfolio, inflation linked and money market assets to match the maturing defined benefit active member liabilities. It should be noted that this is an approximate matching strategy as elements such as salary inflation and decrement rates cannot be matched. This is, however, an insignificant liability compared to the liability of the fund.

Risks associated with the plans

Through its defined benefit pension plans and post-employment medical plans, the Bank is exposed to a number of risks, the most significant of which are detailed below:

Asset volatility: Assets are held in order to provide a return to back the plans' obligations, therefore, any volatility in the value of these assets would create a deficit.

Inflation risk: The plans' benefit obligations are linked to inflation and higher inflation will lead to higher liabilities. Consumer price inflation and health care cost inflation form part of the financial assumptions used in the valuation.

Life expectancy: The plans' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plans' liabilities.

Demographic movements: The plans' liabilities are determined based on a number of best estimate assumptions on demographic movements of participants, including withdrawal and early retirement rates. This is especially relevant to the post-employment medical aid subsidy liabilities. Should less eligible employees withdraw and/or should more eligible employees retire early than assumed, the liabilities could be understated.

The financial implications to the Bank in the event of a deficit in the pension plan have been discussed in the nature of the benefits section above.

18 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

18.2 Defined benefit post-employment liability continued

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

	2014			2013		
R million	**Pension**	**Medical**	**Total**	**Pension**	**Medical**	**Total**
Post-employment benefit fund liability						
Present value of funded obligation	**9 369**	**3 030**	**12 399**	8 976	2 791	11 767
Fair value of plan assets	**(9 725)**	**(2 381)**	**(12 106)**	(8 886)	(2 474)	(11 360)
Total employee liability/(asset)	**(356)**	**649**	**293**	90	317	407
Limitation imposed by IAS 19 asset ceiling	**356**	**–**	**356**	–	–	–
Total post-employment liability	**–**	**649**	**649**	90	317	407
The amounts recognised in the income statement are as follows:						
Current service cost	**3**	**43**	**46**	3	44	47
Net interest	**8**	**29**	**37**	17	11	28
Total included in staff costs (note 3)	**11**	**72**	**83**	20	55	75
Movement in post-employment benefit fund liability						
Present value at the beginning of the year	**90**	**317**	**407**	365	108	473
Current service cost	**3**	**43**	**46**	3	44	47
Interest expense	**8**	**29**	**37**	17	11	28
Remeasurements:						
Recognised in OCI	**(98)**	**385**	**287**	(291)	261	(30)
– Actuarial losses from changes in demographic assumptions	**12**	**–**	**12**	1	–	1
– Actuarial losses from changes in financial assumptions	**175**	**78**	**253**	61	–	61
– Other remeasurements	**(285)**	**307**	**22**	(353)	261	(92)
Benefits paid	**–**	**(125)**	**(125)**	–	(107)	(107)
Employer contributions	**(2)**	**–**	**(2)**	(3)	–	(3)
Employee contributions	**(1)**	**–**	**(1)**	(1)	–	(1)
Closing balance	**–**	**649**	**649**	90	317	407

18 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

18.2 Defined benefit post-employment liability continued

	2014			2013		
R million	**Pension**	**Medical**	**Total**	**Pension**	**Medical**	**Total**
Movement in the fair value of plan assets is as follows:						
Opening balance	**8 886**	**2 474**	**11 360**	8 478	2 539	11 017
Interest income	**745**	**207**	**952**	966	219	1 185
Remeasurements:						
Recognised in OCI						
– Return on plan assets excluding interest income	**641**	**(300)**	**341**	–	(284)	(284)
Employer contributions	**2**	**–**	**2**	2	–	2
Employee contributions	**1**	**–**	**1**	1	–	1
Benefits paid and settlements	**(550)**	**–**	**(550)**	(561)	–	(561)
Closing balance	**9 725**	**2 381**	**12 106**	8 886	2 474	11 360
Actual return on plan assets:	**16%**	**–**		11%	–	
Reconciliation of limitation imposed by IAS 19 asset ceiling						
Opening balance	**–**	**–**	**–**	–	–	–
Change in the asset ceiling, excluding amounts included in interest	**356**	**–**	**356**	–	–	–
Closing balance	**356**	**–**	**356**	–	–	–
Plan assets comprise the following:						
Equity securities: listed	**2 163**	**–**	**2 163**	1 561	–	1 561
Total equity securities	**2 163**	**–**	**2 163**	1 561	–	1 561
Cash and cash equivalents	**331**	**–**	**331**	208	–	208
Debt instruments	**7 231**	**–**	**7 231**	7 117	–	7 117
– Government bonds	**6 175**	**–**	**6 175**	5 800	–	5 800
– Money market	**609**	**–**	**609**	765	–	765
– Corporate bonds	**95**	**–**	**95**	109	–	109
– Other	**352**	**–**	**352**	443	–	443
Other dated instruments	**–**	**2 381**	**2 381**	–	2 474	2 474
Total plan assets	**9 725**	**2 381**	**12 106**	8 886	2 474	11 360
Included in plan assets were the following:						
FirstRand Limited ordinary shares with fair value of	**1**	**–**	**1**	–	–	–
Buildings occupied by the Group with fair value of	**62**	**–**	**62**	56	–	56
Total	**63**	**–**	**63**	56	–	56

18 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

18.2 Defined benefit post-employment liability continued

Each sensitivity analysis is based on changing one assumption while keeping all other remaining assumptions constant. In practice, this is unlikely to occur and changes in some of the assumptions may be correlated. The sensitivity analysis has been calculated in terms of the projected unit credit method and illustrates how the value of the liability would change in response to certain changes in actuarial assumptions.

	2014		2013	
	Pension	**Medical**	**Pension**	**Medical**
The principal actuarial assumptions used for accounting purposes were:				
Expected rates of salary increases (%)	**8.3**	**–**	8.0	–
Long-term increase in health cost (%)	**–**	**8.3**	–	7.5
The effects of a 1% movement in the assumed health cost rate were as follows:				
Increase of 1%				
– Effect on the aggregate of the current service cost and interest cost (R million)	**–**	**55.4**	–	51.1
– Effect on the defined benefit obligation (R million)	**–**	**470.6**	–	460.5
Decrease of 1%				
– Effect on the aggregate of the current service cost and interest cost (R million)	**–**	**44.6**	–	40.5
– Effect on the defined benefit obligation (R million)	**–**	**382.7**	–	371.2
The effects of a 1% movement in the expected rates of salary increases were as follows:				
Increase of 1%				
– Effect on the defined benefit obligation (R million)	**8.9**		12.0	
– Effect on the aggregate of the current service cost and interest cost (R million)	**3.0**		2.3	
Decrease of 1%				
– Effect on the defined benefit obligation (R million)	**7.9**		4.5	
– Effect on the aggregate of the current service cost and interest cost (R million)	**1.0**		1.8	
The effects of a change in the average life expectancy of a pensioner retiring at age 65				
Increase in life expectancy by 10 years				
– Effect on the defined benefit obligation (R million)	**347.8**	**109.5**	333.9	102.1
– Effect on the aggregate of the current service cost and interest cost (R million)	**17.0**	**11.7**	14.9	10.3
Decrease in life expectancy by 10 years				
– Effect on the defined benefit obligation (R million)	**329.1**	**108.1**	297.1	101.0
– Effect on the aggregate of the current service cost and interest cost (R million)	**14.4**	**11.5**	13.3	10.2

18 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

18.2 Defined benefit post-employment liability continued

	2014		2013	
	Pension	**Medical**	**Pension**	**Medical**
Estimated contributions expected to be paid to the plan in the next annual period (R million)	**3**	**49**	4	49
Net increase in rate used to value pensions allowing for pension increases (%)	**1.7**	**0.9**	1.8	1.1
The weighted average duration of the defined benefit obligation (years)	**11.1**	**17.9**	11.1	17.1

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous year.

The expected maturity analysis of undiscounted pension and post-employment medical benefits is as follows:

R million	**Within 1 year**	**Between 1 – 5 years**	**More than 5 years**	**Total**
Pension benefits	**651**	**2 437**	**8 073**	**11 161**
Post-employment medical benefits	**125**	**627**	**27 500**	**28 252**
Total as 30 June 2014	**776**	**3 064**	**35 573**	**39 413**

The interest income is determined using a discount rate with reference to high quality corporate bonds.

	2014		2013	
Mortality rate	**Active members**	**Pensioners**	**Active members**	**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	**SA85-90**	**–**	SA85-90	–
Retired	**PA(90)-2**	**PA(90)-2**	PA(90)-2	PA(90)-2

SA85-90 refers to standard actuarial mortality tables for active members on a defined benefit plan where the chance of dying before normal retirement is expressed at each age for each gender.

PA(90)-2 refers to standard actuarial mortality tables for current and prospective pensioners on a defined benefit plan where the chance of dying after early or normal retirement is expressed at each age for each gender.

18 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

18.2 Defined benefit post-employment liability continued

	2014		2013	
Mortality rate	**Pension**	**Medical**	**Pension**	**Medical**
The average life expectancy in years of a pensioner retiring at age 65 on the reporting date is as follows:				
Male	**17**	**17**	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

	2014	**2013**
Defined benefit obligation amounts owing to:		
Pension:		
Active members	**43**	47
Pensioners	**6 393**	6 475
Deferred plan participants	**279**	286
Total	**6 715**	6 808
Benefits vested at the end of the reporting period (R million)	**9 369**	8 977
Amounts attributable to future salary increases (R million)	**125**	117
Other benefits (R million)	**9 244**	8 860
Defined benefit obligation amounts owing to:		
Medical:		
Active members	**5 486**	5 824
Pensioners	**5 064**	4 962
Total	**10 550**	10 786
Benefits vested at the end of the reporting period (R million)	**1 881**	1 803
Benefits accrued but not vested at the end of the reporting period (R million)	**1 149**	987
Conditional benefits (R million)	**1 149**	987
Amounts attributable to future salary increases (R million)	**1 881**	1 803

18 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

18.3 Defined contribution post-employment liability

R million	2014	2013
Post-employment defined contribution plan		
– Present value of obligation	**14 709**	12 892
– Present value of assets	**(14 709)**	(12 892)
Net defined contribution liability	**–**	–

The defined contribution scheme allows active members to purchase a pension from the defined benefit plan on retirement. The purchase price for the pension is determined based on the purchasing member's demographic details, the pension structure and economic assumptions at time of purchase. Should a member elect to purchase a pension, the Bank becomes exposed to longevity and other actuarial risks. However, because of the way the purchase is priced, the employer is not exposed to any asset return risk prior to the election of this option. On the date of the purchase the defined benefit liability and the plan assets will increase for the purchase amount and thereafter the accounting treatment applicable to defined benefit plans will be applied to the purchased pension.

19 DEFERRED INCOME TAX

The movement on the deferred income tax account is as follows:

R million	2014	2013
Deferred income tax asset		
Opening balance	**–**	–
Charge to profit or loss	**400**	–
Total deferred income tax asset	**400**	–
Deferred income tax liability		
Opening balance	**(50)**	(498)
Release to profit or loss	**44**	747
Tax rate adjustment	**–**	(8)
Deferred income tax on amounts charged directly to other comprehensive income	**6**	(283)
Other	**–**	(8)
Total deferred income tax liability	**–**	(50)
Net deferred income tax	**400**	(50)

Deferred income tax assets and liabilities and deferred income tax (charged)/released to profit or loss are attributable to the following items:

	2014				
R million	**Opening balance**	**Tax (charge)/ release**	**Tax rate adjustment**	**Other**	**Closing balance**
Deferred income tax asset					
Other	**–**	**400**	**–**	**–**	**400**
Total deferred income tax asset	**–**	**400**	**–**	**–**	**400**
Deferred income tax liability					
Provision for loan impairment	**569**	**205**	**–**	**–**	**774**
Provision for post-employment benefits*	**114**	**(12)**	**–**	**80**	**182**
Other provisions	**958**	**(119)**	**–**	**–**	**839**
Cash flow hedge*	**(39)**	**–**	**–**	**(141)**	**(180)**
Instalment credit assets	**(1 223)**	**344**	**–**	**–**	**(879)**
Accruals	**(183)**	**61**	**–**	**–**	**(122)**
Available-for-sale securities*	**(201)**	**(1)**	**–**	**67**	**(135)**
Capital gains tax	**69**	**19**	**–**	**–**	**88**
Other	**(114)**	**(453)**	**–**	**–**	**(567)**
Total deferred income tax liability	**(50)**	**44**	**–**	**6**	**–**
Net deferred income tax	**(50)**	**444**	**–**	**6**	**400**

* *Amounts reported under the other column have been charged directly to other comprehensive income.*

19 DEFERRED INCOME TAX continued

	2013				
R million	**Opening balance**	**Tax (charge)/ release**	**Tax rate adjustment**	**Other**	**Closing balance**
Deferred income tax asset					
Other	–	–	–	–	–
Total deferred income tax asset	–	–	–	–	–
Deferred income tax liability					
Provision for loan impairment	578	(9)	–	–	569
Provision for post-employment benefits*	132	(10)	–	(8)	114
Other provisions	586	372	–	–	958
Cash flow hedge*	293	–	–	(332)	(39)
Instalment credit assets	(1 546)	323	–	–	(1 223)
Accruals	(169)	(14)	–	–	(183)
Available-for-sale securities*	(250)	–	–	49	(201)
Capital gains tax	–	69	–	–	69
Other	(122)	16	(8)	–	(114)
Total deferred income tax liability	(498)	747	(8)	(291)	(50)
Net deferred income tax	(498)	747	(8)	(291)	(50)

* *Amounts reported under the other column have been charged directly to other comprehensive income.*

20 SHORT TRADING POSITIONS

R million	**2014**	**2013**
Government and government guaranteed stock	**5 367**	2 908
Other dated securities	**31**	15
Total short trading positions	**5 398**	2 923
Analysed as follows:		
Listed	**5 398**	2 923
Total short trading positions	**5 398**	2 923

21 CREDITORS AND ACCRUALS

R million	**2014**	**2013**
Accrued interest	**53**	51
Accounts payable and accrued liabilities	**9 100**	7 858
Deferred income	**947**	793
Operating lease liability arising from straight lining of lease payments	**81**	87
Payments received in advance	**199**	131
Total creditors and accruals	**10 380**	8 920

22 DEPOSITS

R million	2014 Designated at fair value through profit or loss	2014 At amortised cost	2014 Total
Category analysis			
Current accounts	**–**	**155 128**	**155 128**
Savings accounts	**–**	**5 958**	**5 958**
Call deposits	**133**	**130 680**	**130 813**
Fixed and notice deposits	**51 104**	**138 232**	**189 336**
Negotiable certificates of deposit	**3 062**	**49 578**	**52 640**
Repurchase agreements*	**16 953**	**4 749**	**21 702**
Securities lending	**–**	**6 303**	**6 303**
Credit-linked notes and cash collateral	**9 379**	**12 370**	**21 749**
Fixed and floating rate notes	**2 268**	**86 233**	**88 501**
Other	**282**	**20 764**	**21 046**
Total deposits	**83 181**	**609 995**	**693 176**

R million	2013 Designated at fair value through profit or loss	2013 At amortised cost	2013 Total
Category analysis			
Current accounts	–	126 508	126 508
Savings accounts	–	4 673	4 673
Call deposits	1 211	122 874	124 085
Fixed and notice deposits	40 079	159 948	200 027
Negotiable certificates of deposit	1 729	26 448	28 177
Repurchases agreements*	28 265	3 094	31 359
Securities lending	–	6 414	6 414
Credit-linked notes and cash collateral	7 627	17 441	25 068
Fixed and floating rate notes	3 986	61 078	65 064
Other	210	18 287	18 497
Total deposits	83 107	546 765	629 872

* *The Bank repurchased R21.7 billion (2013: R31.4 billion) of notes issued into the market during the year. These notes have been pledged as security in terms of a repurchase transaction to an external counterparty.*

22 DEPOSITS continued

	2014		
R million	**Designated at fair value through profit or loss**	**At amortised cost**	**Total**
Sector analysis			
Sovereigns, including central banks	**508**	**47 228**	**47 736**
Public sector entities	**2 011**	**30 325**	**32 336**
Local authorities	**758**	**8 989**	**9 747**
Banks	**17 283**	**23 760**	**41 043**
Securities firms	**566**	**11 302**	**11 868**
Corporate customers	**52 303**	**287 986**	**340 289**
Retail customers	**8 799**	**199 987**	**208 786**
Other	**953**	**418**	**1 371**
Total deposits	**83 181**	**609 995**	**693 176**
Geographical analysis			
South Africa	**66 180**	**577 499**	**643 679**
Other Africa	**4 735**	**5 322**	**10 057**
UK	**5 310**	**4 207**	**9 517**
Other	**6 956**	**22 967**	**29 923**
Total deposits	**83 181**	**609 995**	**693 176**

	2013		
R million	**Designated at fair value through profit or loss**	**At amortised cost**	**Total**
Sector analysis			
Sovereigns, including central banks	1 588	36 497	38 085
Public sector entities	2 171	34 230	36 401
Local authorities	241	9 245	9 486
Banks	25 478	33 486	58 964
Securities firms	626	10 584	11 210
Corporate customers	46 523	242 770	289 293
Retail customers	5 486	179 952	185 438
Other	994	1	995
Total deposits	83 107	546 765	629 872
Geographical analysis			
South Africa	68 345	517 463	585 808
Other Africa	3 106	5 552	8 658
UK	7 729	3 896	11 625
Other	3 927	19 854	23 781
Total deposits	83 107	546 765	629 872

23 PROVISIONS

R million	Notes	2014	2013
Audit fees			
Opening balance		**51**	24
Charge to profit or loss	3	**143**	132
– Additional provisions created		**143**	195
– Unused provisions reversed		**–**	(63)
Utilised		**(151)**	(105)
Closing balance		**43**	51
Other*			
Opening balance		**195**	210
Exchange rate difference		**3**	2
Charge to profit or loss		**262**	41
– Additional provisions created		**275**	59
– Unused provisions reversed		**(13)**	(18)
Utilised		**(117)**	(58)
Closing balance		**343**	195
Total provisions		**386**	246

* *Other provisions include provisions for litigation and claims.*

24 OTHER LIABILITIES

R million	2014	2013
Funding liabilities*	**4 268**	1 062
Total other liabilities	**4 268**	1 062

* *Funding liabilities include liabilities not directly related to banking activities, including preference shares not qualifying as Tier 2 capital.*

25 TIER 2 LIABILITIES

R million	2014	2013
Fixed rate bonds*	**4 582**	4 464
Floating rate bonds**	**6 902**	3 161
Total tier 2 liabilities	**11 484**	7 625

* *The fixed rate bonds mature between 15 September 2014 and 2 June 2021 and bear interest at between 8.5% and 12%.*

** *The floating rate bonds mature between 10 June 2016 and 2 June 2021 and the interest rate varies between 70 bps and 300 bps above the three-month JIBAR rate and 415 bps over LIBOR rate. The subordinated bonds issued during the current financial year mature between 9 April 2019 and 2 June 2021 and the interest rate varies between 225 bps and 239 bps above the three-month JIBAR rate and 415 bps above six-month LIBOR rate. In terms of the bank regulations, these subordinated bonds would at the discretion of the Registrar either be written down or converted into the most subordinated form of equity upon the occurrence of a trigger event, being the point at which the Bank is considered to be non-viable.*

26 SHARE CAPITAL AND SHARE PREMIUM

26.1 Share capital and share premium classified as equity

R million	2014	2013
Ordinary shares		
Authorised		
2 000 000 shares with a par value of R2 per share	**4**	4
Issued – fully paid up		
1 866 835 (2013: 1 866 835) ordinary shares with a par value of R2 per share	**4**	4
All issued share capital is fully paid up		
Ordinary share premium	**15 304**	15 304
Total issued ordinary share capital and share premium	**15 308**	15 308
NCNR preference shares		
Authorised		
100 million NCNR preference shares with a par value of R0.01 per share	**1**	1
Issued – fully paid up		
3 million (2013: 3 million) NCNR preference shares with par value of R0.01 per share to FirstRand Limited.	*****	*
The NCNR preference shares were issued at varying interest rates which are linked to the prime lending rate as determined by the Bank.		
NCNR preference share premium	**3 000**	3 000
Total issued NCNR preference share capital and share premium	**3 000**	3 000
Total issued share capital and share premium	**18 308**	18 308

* *Denotes amounts less than R500 000.*

26.2 Share capital and share premium classified as liabilities

R million	2014	2013
Preference shares classified as financial liabilities have been included in deposits (note 22) or other liabilities (note 24) as appropriate. The table below provides details of these preference shares:		
Redeemable preference shares		
Authorised		
5 billion redeemable preference shares with a par value of R0.0001 per share	**1**	1
Issued – fully paid up		
32 670 (2013: 1 670) redeemable preference shares with a par value of R0.0001 per share	*****	*
Redeemable preference share premium	**3 267**	167
Redeemable class R preference shares		
Authorised		
50 000 redeemable preference shares with a par value of R0.0001 per share	*****	*
Issued – fully paid up		
9 812 (2013: 8 905) redeemable preference shares with a par value of R0.0001 per share	*****	*
Redeemable R class share premium	**981**	891

* *Denotes amounts less than R500 000.*

1 100 (2013: 1 635) class R redeemable preference shares were issued and 193 shares were redeemed during the year (2013: nil shares). These preference shares yield dividends at 66.67% of FNB prime lending rate from time-to-time and are redeemable after three years and one day of issue.

26 SHARE CAPITAL AND SHARE PREMIUM continued

26.2 Share capital and share premium classified as liabilities continued

	Number of ordinary shares	Number of NCNR preference shares	Number of redeemable preference shares	Number of redeemable class R preference shares
Reconciliation of shares issued				
Shares at 1 July 2012	1 866 835	3 000 000	1 905	7 270
(Redeemed)/issued during the year	–	–	(235)	1 635
Shares at 30 June 2013	1 866 835	3 000 000	1 670	8 905
Issued during the year	**–**	**–**	**31 000**	**907**
Shares at 30 June 2014	**1 866 835**	**3 000 000**	**32 670**	**9 812**

For detail on capital management of the Bank please refer to the *risk and capital management* section of the annual report.

The unissued ordinary shares are under the control of the directors until the next annual general meeting.

27 REMUNERATION SCHEMES

R million	Notes	2014	2013
The charge to profit or loss for share-based payments is as follows:			
FirstRand black employee scheme		**25**	16
FirstRand black non-executive directors scheme		**1**	1
FirstRand share appreciation rights scheme		**269**	284
Conditional share plan		**2 040**	1 229
Forfeitable share plan		**–**	2
Amount included in profit or loss	3	**2 335**	1 532

The purpose of these schemes is to appropriately attract, incentivise and retain managers within the Bank.

27 REMUNERATION SCHEMES continued

The FirstRand share schemes are equity settled schemes, except for the FirstRand share appreciation rights scheme and conditional share plan which are cash settled.

Description of schemes and vesting conditions:

Scheme	IFRS 2 treatment	Description	Vesting conditions
FirstRand black employee scheme	Equity settled	This scheme was set up specifically for the benefit of the black employees. The issue of participation rights in the scheme was made on the following dates – 20 July 2005, 1 November 2006, 3 December 2007 and 14 May 2010.	The rights granted under this scheme will vest during December 2014.
FirstRand black non-executive directors scheme	Equity settled	This scheme was set up specifically for the benefit of the black non-executive directors and those executive directors who were non-executive prior to becoming executives of the FirstRand Group.	The rights granted under this scheme will vest 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 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 vested during the financial year ending 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 290. The majority of the shares vested in November 2013 with the remaining balance to vest on 1 October 2014.
Conditional share plan	Cash settled	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 set annually by the Group's remuneration committee. These corporate performance targets are set out on page 290.

27 REMUNERATION SCHEMES continued

Description of schemes and vesting conditions:

Scheme	IFRS 2 treatment	Description	Vesting conditions
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 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 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 are included in note 37.	The arrangement encourages executives to remain in the employ of the FirstRand Limited Group companies in excess of three years, as the value of the underlying investments are expected to realise over a longer time frame.

27 REMUNERATION SCHEMES continued

Valuation methodologies:

Scheme	Valuation methodology	
FirstRand black employee scheme	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 scheme	Black Scholes option pricing model	The FirstRand black non-executive directors trust is valued on the same methodology as used for the FirstRand black employee trust, except that a zero percentage weighted average forfeiture rate was used due to the fact that there are only 9 participants (2013: 9 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 option pricing model with a zero strike price. The scheme 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. The scheme is cash settled and will thus 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. 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.		Not applicable
Management's estimates of future dividends.	- volatility is the expected volatility over the period of the plan. 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.
		The weighted average forfeiture rate used is based on historical forfeiture data over all schemes cognisant of whether the shares are in or out the money and the vesting date.
		No forfeiture rate is used due to the short duration of the scheme.

27 REMUNERATION SCHEMES continued

Corporate performance targets

The FirstRand Limited Group remuneration committee sets the 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, conditional share plan and 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 are not entitled to any dividends on their long-term incentives (LTI) allocations during the performance period, nor do these accrue to them during the performance period.

The criteria for the schemes are as follows:

Expired schemes

2007 (CPTs not met) – FirstRand's normalised earnings per share (EPS) must grow at a rate per annum which equals or exceeds consumer price index (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, the committee may sanction partial vesting of the appreciation right, which is calculated pro rata to the performance which exceeds CPIX.

2008 (CPTs met) – FirstRand's normalised EPS must grow at a rate per annum which equals or exceeds CPIX, measured on a cumulative basis from base year end 30 June 2008, to enable 100% vesting. In addition FirstRand's net income after cost of capital (NIACC) must be positive over the five-year performance period.

2009 (CPTs met) – FirstRand's normalised EPS must grow at a rate per annum which equals or exceeds CPIX, measured on a cumulative basis from base year end 30 June 2009, to enable 100% vesting. In addition, FirstRand's NIACC must be positive over the three-year performance period.

2010 (CPTs met) – FirstRand's normalised EPS growth must equal or exceed South African nominal GDP (defined as South African GDP plus CPIX) plus 4%, measured on a cumulative basis, from base year end 30 June 2010, to enable 100% vesting. In addition NIACC must be positive over the three-year performance period.

Currently open

2011 (vests in 2014) – FirstRand's normalised EPS growth must equal or exceed South African nominal GDP 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, the committee may sanction a partial vesting of conditional shares, which is calculated *pro rata* to the performance which exceeds nominal GDP.

2012 (vests in 2015) – FirstRand Limited 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.

2013 (vests in 2016) – FirstRand Limited 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.

2014 (vests in 2017) – FirstRand Limited must achieve growth in normalised EPS which equals or exceeds South African nominal GDP plus 2% growth on a cumulative basis over the life of the conditional award, from base year end 30 June 2014 to the financial year end immediately preceding the vesting date. In addition NIACC must be positive over the three-year performance period.

27 REMUNERATION SCHEMES continued

Corporate performance targets continued

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

	FirstRand black employee scheme	FirstRand black non-executive directors scheme	FirstRand share appreciation rights scheme	Conditional share plan
2014				
Range of exercise prices (rand)	**12.05 – 24.60**	**12.28 – 17.60**	**12.98 – 12.98**	**–**
Expected volatility (%)	**24 – 29**	**23 – 33**	**25**	**25**
Expected option life (years)	**5 – 10**	**10**	**5**	**3 – 4**
Expected risk free rate (%)	**6.91 – 9.90**	**7**	**4.82 – 5.21**	**4.82 – 7.07**
Expected dividend yield (%)	**3.5**	**3.5**	**–**	**–**
Expected dividend growth (%)	**–**	**–**	**–**	**–**
2013				
Range of exercise prices (rand)	12.05 – 24.60	12.28 – 17.60	7.85 – 12.98	–
Expected volatility (%)	24 – 29	23 – 33	25	25
Expected option life (years)	5 – 10	10	5	3 – 4
Expected risk free rate (%)	6.91 – 9.90	6.91	4.82 – 5.21	4.82 – 7.07
Expected dividend yield (%)	3.5	3.5	3.5	–
Expected dividend growth (%)	–	–	–	–

27 REMUNERATION SCHEMES continued

	2014				
Options and share awards outstanding	**FirstRand share appreciation rights scheme (FSR shares)**	**FirstRand black employee scheme (FSR shares)#**	**FirstRand black non-executive directors scheme (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)	**37.9**	**102.6**	**8.5**	**117.4**	**–**
Granted at prices ranging between (cents)	**785 – 1 298**	**1 205 – 2 460**	**1 228 – 1 760**	**–**	**–**
Weighted average (cents)	**1 048**	**1 651**	**1 291**	**–**	**–**
Number of options and share awards granted during the year (millions)	**–**	**–**	**–**	**39.8**	**–**
Fair value per share on grant date	**–**	**–**	**–**	*****	**–**
Number of options and share awards transferred (within the Group) during the year (millions)**	**0.1**	**–**	**–**	**(2.8)**	**–**
Granted at prices ranging between (cents)	**1 048 – 1 048**	**–**	**–**	**–**	**–**
Weighted average (cents)	**1 048**	**–**	**–**	**–**	**–**
Number of options and share awards exercised/released during the year (millions)	**(37.6)**	**–**	**–**	**(44.3)**	**–**
Market value range at date of exercise/release (cents)	**2 440 – 3 866**	**–**	**–**	**2 825 – 4 074**	**–**
Weighted average (cents)	**3 518**	**–**	**–**	**3 346**	**–**
Number of options and share awards cancelled/lapsed during the year (millions)	**(0.3)**	**3.1**	**–**	**(4.7)**	**–**
Granted at prices ranging between (cents)	**1 014 – 1 048**	**1 228 – 2 234**	**–**	**–**	**–**
Weighted average (cents)	**1 046**	**1 182**	**–**	**–**	**–**
Number of options and share awards in force at the end of the year (millions)	**0.1**	**105.7**	**8.5**	**105.4**	**–**
Granted at prices ranging between (cents)	**1 298 – 1 298**	**1 205 – 2 460**	**1 228 – 1 760**	**–**	**–**
Weighted average (cents)	**1 298**	**1 637**	**1 291**	**–**	**–**

* *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.*
** *These relate to options and share awards for employees transferred between legal entities within the FirstRand Limited Group.*
# *As the scheme gets closer to the vesting date more accurate information is available about the final level of forfeitures expected.*

27 REMUNERATION SCHEMES continued

	2013				
Options and share awards outstanding	**FirstRand share appreciation rights scheme (FSR shares)**	**FirstRand black employee scheme (FSR shares)**	**FirstRand black non-executive directors scheme (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)	102.2	105.6	8.5	130.1	0.6
Granted at prices ranging between (cents)	785 – 1 700	1 205 – 2 460	1 228 – 1 760	–	–
Weighted average (cents)	1 297	1 655	1 291	–	–
Number of options and share awards granted during the year (millions)	–	–	–	37.3	–
Fair value per share on grant date	–	–	–	*	–
Number of options and share awards exercised/released during the year (millions)**	0.4	–	–	0.1	–
Market value range at date of exercise/release (cents)	1 700 – 1 700	–	–	–	–
Weighted average (cents)	1 700	–	–	–	–
Number of options and share awards exercised/released during the year (millions)	(23.9)	–	–	(45.3)	(0.6)
Market value range at date of exercise/release (cents)	785 – 3 285	–	–	2 550 – 3 219	2 753 – 2 753
Weighted average (cents)	2 854	–	–	2 570	2 753
Number of options and share awards cancelled/lapsed during the year (millions)	(40.8)	(3.0)	–	(4.8)	–
Granted at prices ranging between (cents)	1 048 – 1 700	1 228 – 2 334	–	–	–
Weighted average (cents)	1 676	1 813	–	–	–
Number of options and share awards in force at the end of the year (millions)	37.9	102.6	8.5	117.4	–
Granted at prices ranging between (cents)	785 – 1 298	1 205 – 2 460	1 228 – 1 760	–	–
Weighted average (cents)	1 048	1 651	1 291	–	–

* *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.*
** *These relate to options and share awards for employees transferred between legal entities within the FirstRand Limited Group.*

27 REMUNERATION SCHEMES continued

	2014					
	FirstRand share appreciation rights scheme (FSR shares)			**FirstRand black non-executive directors scheme (FSR shares)**		
Options and share awards outstanding	**Range of exercise prices (rand)***	**Weighted average remaining life (years)**	**Out-standing options (millions)**	**Range of exercise prices (rand)***	**Weighted average remaining life (years)**	**Out-standing options (millions)**
	10.48 – 14.46	0.3	0.1	12.05 – 14.00	0.5	7.5
				16.57 – 19.89	0.5	1.0
			0.1			8.5
Total options and share awards – in the money (R million)			0.1			8.5
Total options – out of the money (R million)			–			–
Total options and share awards (R million)			0.1			8.5
Value of company loans to share option trust at the beginning of the year (R million)			–			–
Value of company loans to share option trust at the end of the year (R million)			–			–
Number of participants			1			9

* *Some share appreciation rights are subject to other vesting conditions that are highly unlikely to be achieved.*

** *The employees are awarded the shares, there is therefore no strike price associated with the awards made under the conditional or forfeitable share plan.*

2014				
FirstRand black employee scheme			**Conditional share plan (FSR shares)****	
Range of exercise prices (rand)	**Weighted average remaining life (years)**	**Out-standing options (millions)**	**Weighted average remaining life (years)**	**Out-standing options (millions)**
12.05 – 14.00	0.5	51.9	0.3	39.4
14.01 – 16.56	0.5	1.1	1.3	35.0
16.57 – 19.89	0.5	35.9	2.3	30.8
19.90 – 24.60	0.5	16.8	2.8	0.2
			–	–
		105.7		105.4
		105.7		105.4
		–		–
		105.7		105.4
		–		–
		–		–
		11 296		2 444

27 REMUNERATION SCHEMES continued

	2013					
	FirstRand share scheme (FSR shares)			FirstRand black non-executive directors scheme (FSR shares)		
Options and share awards outstanding	**Range of exercise prices (rand)***	**Weighted average remaining life (years)**	**Outstanding options (millions)**	**Range of exercise prices (rand)***	**Weighted average remaining life (years)**	**Outstanding options (millions)**
	7.85 – 10.47	0.4	37.8	12.05 – 14.00	1.5	7.5
	10.48 – 14.46	1.3	0.1	16.57 – 19.89	1.5	1.0
			37.9			8.5
Total options and share awards – in the money (R million)			37.9			8.5
Total options – out of the money (R million)			–			–
Total options and share awards (R million)			–			8.5
Value of company loans to share option trust at the beginning of the year (R million)			–			–
Value of company loans to share option trust at the end of the year (R million)			–			–
Number of participants			1 066			9

* *Some share appreciation rights are subject to other vesting conditions that are highly unlikely to be achieved.*
** *Denotes amounts of less than R500 000.*
\# *The employees are awarded the shares, there is therefore no strike price associated with the awards made under the conditional or forfeitable share plan.*

2013							
	FirstRand black employee scheme			**Conditional share plan (FSR shares)#**		**Forfeitable share plan (FSR shares)#**	
	Range of exercise prices (rand)	**Weighted average remaining life (years)**	**Outstanding options (millions)**	**Weighted average remaining life (years)**	**Outstanding options (millions)**	**Weighted average remaining life (years)**	**Outstanding options (millions)**
	12.05 – 14.00	1.5	48.5	0.3	43.6	–	–
	14.01 – 16.56	1.5	1.1	1.3	42.7	–	–
	16.57 – 19.89	1.5	36.6	2.3	30.4	–	–
	19.90 – 24.60	1.5	16.4	2.9	0.4	–	–
				4.0	0.3	–	–
			102.6		117.4		–
			102.6		117.4		–
			–		–		**
			102.6		117.4		–
			–		–		–
			–		–		–
			10 970		2 253		–

28 CASH FLOW INFORMATION

	R million	2014	2013
28.1	**Reconciliation of operating profit before income tax to cash generated from operating activities**		
	Operating profit before tax	**17 918**	14 692
	Adjusted for:		
	Depreciation, amortisation and impairment charges	**1 858**	1 993
	Impairment of advances	**4 827**	4 441
	Movement in provisions and employee liabilities	**3 892**	2 882
	Loss on disposal of property and equipment	**20**	56
	Loss/(gain) on disposal of investments securities and other investments	**7**	(35)
	Gain on disposal of investments in associates	**(13)**	(27)
	Deferred expenses and income	**(472)**	(489)
	Share-based payment expense	**2 335**	1 532
	Net fair value gains on financial assets through profit or loss	**(2 851)**	(2 066)
	Accruals	**298**	750
	Present value adjustments	**(129)**	(157)
	Dividends paid	**(4 481)**	(5 906)
	Losses on foreign currency translation reserve	**1**	22
	Reclassification from other comprehensive income in respect of available-for-sale assets and cash flow hedges	**546**	737
	Net cash generated from operating activities	**23 756**	18 425
28.2	**Cash receipts from customers**		
	Interest income	**43 829**	38 383
	Fee and commission income	**18 765**	17 374
	Trading and other income	**5 040**	1 613
	Cash receipts from customers	**67 634**	57 370
28.3	**Cash paid to customers, suppliers and employees**		
	Interest expense	**(18 590)**	(16 542)
	Other operating expenses	**(22 789)**	(19 643)
	Cash paid to customers, suppliers and employees	**(41 379)**	(36 185)
28.4	**Total dividends paid**		
	Charged to retained earnings	**(4 481)**	(5 906)
	Total dividends paid	**(4 481)**	(5 906)
28.5	**Increase in income-earning assets**		
	Liquid assets and trading securities	**9 058**	(13 399)
	Advances	**(75 854)**	(68 114)
	Increase in income-earning assets	**(66 796)**	(81 513)

28 CASH FLOW INFORMATION continued

R million	2014	2013
28.6 Increase in deposits and other liabilities		
Deposits	**62 643**	82 494
Employee liabilities	**(5 032)**	(3 840)
Creditors (net of debtors)	**1 536**	667
Other	**(5 589)**	1 807
Increase in deposits and other liabilities	**53 558**	81 128
28.7 Total taxation paid		
Indirect tax paid	**(716)**	(676)
Tax refundable at beginning of the year	**140**	250
Charge to profit or loss	**(4 375)**	(3 135)
Tax refundable at year end	**53**	(140)
Deferred income tax charged to profit and loss	**(445)**	(739)
Other*	**1**	8
Total taxation paid	**(5 342)**	(4 432)

* *Other includes acquisitions/disposals of subsidiaries and customer tax adjustments.*

29 CONTINGENCIES AND COMMITMENTS

R million	2014	2013
Guarantees*	**30 895**	28 515
Letters of credit	**7 075**	8 928
Total contingencies	**37 970**	37 443
Irrevocable commitments	**73 659**	74 054
Committed capital expenditure	**3 015**	2 971
Operating lease commitments	**1 901**	2 052
Other	**146**	129
Total contingencies and commitments	**116 691**	116 649
Other contingencies		
The Bank is exposed to various actual or potential claims.		
Legal proceedings		
There are a number of legal or potential claims against the Bank, the outcome of which cannot at present be foreseen. These claims are not regarded as material either on an individual or a total basis. Provision is made for all liabilities expected to materialise.	**218**	60
Commitments		
Commitments in respect of capital expenditure and long-term investments approved by directors comprise the following:		
– Capital commitments contracted for at the reporting date but not yet incurred: Property and equipment and intangible assets	**694**	1 166
– Capital commitments not yet contracted for at reporting date but approved by the directors: Property and equipment and intangible assets	**2 320**	1 805

* *Guarantees consist predominantly of endorsements and performance guarantees. Guarantees reported above include guarantees of R705 million (2013: R658 million) granted to other FirstRand Group companies.*

Funds to meet these commitments will be provided from the Bank's resources.

29 CONTINGENCIES AND COMMITMENTS continued

Group commitments under operating leases where the Bank is the lessee

The Bank's significant operating leases relate 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 have fixed monthly payments, often including a contingent rental based on a percentage contribution of the monthly operating costs of the premises. Escalation clauses are based on market related rates and vary between 8% and 12%.

The leases are usually for a period of one to five years. The leases are non-cancellable and certain of the leases have an option to renew for a further leasing period at the end of the original lease term.

Restrictions are more an exception than the norm and usually relate to the restricted use of the asset for the business purposes specified in the lease contract.

	2014			
R million	**Within 1 year**	**Between 1 and 5 years**	**More than 5 years**	**Total**
Office premises	**635**	**1 107**	**–**	**1 742**
Equipment and motor vehicles	**119**	**40**	**–**	**159**
Total operating lease commitments	**754**	**1 147**	**–**	**1 901**

	2013			
R million	**Within 1 year**	**Between 1 and 5 years**	**More than 5 years**	**Total**
Office premises	651	1 208	2	1 861
Equipment and motor vehicles	91	100	–	191
Total operating lease commitments	742	1 308	2	2 052

29 CONTINGENCIES AND COMMITMENTS continued

Future minimum lease payments receivable under operating leases where the Bank is the lessor

The Bank owns various assets that are leased to third parties under non-cancellable operating leases as part of the Bank's revenue generating operations. The operating leases have various lease terms ranging from three to fifteen years.

The minimum future lease payments under non-cancellable operating leases on assets where the Bank is the lessor:

	2014			
R million	**Within 1 year**	**Between 1 and 5 years**	**More than 5 years**	**Total**
Property	**18**	**21**	**–**	**39**
Motor vehicles	**521**	**746**	**–**	**1 267**
Total receivable under non-cancellable operating leases	**539**	**767**	**–**	**1 306**

	2013			
R million	**Within 1 year**	**Between 1 and 5 years**	**More than 5 years**	**Total**
Property	33	102	–	135
Motor vehicles	517	697	–	1 214
Total receivable under non-cancellable operating leases	550	799	–	1 349

30 COLLATERAL PLEDGED AND HELD

30.1 Collateral pledged

The following liabilities have been secured by the Bank pledging either its own or borrowed financial assets, except for the short positions which are covered by borrowed securities only:

R million	2014	2013
Short trading positions	**5 397**	2 923
Creditors and accruals	**–**	128
Total deposits	**28 487**	37 775
– Deposits under repurchase agreements	**21 704**	31 359
– Deposits in securities lending transactions*	**6 303**	6 414
– Other secured deposits	**480**	2
Amounts due to holding company and fellow subsidiary companies	**292**	2
Other	**989**	931
Total	**35 165**	41 759

* *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 Bank pledges assets under the following terms and conditions:

- mandatory reserve deposits are held with the central bank in accordance with statutory requirements. These deposits are not available to finance the Bank's day-to-day operations.
- assets are pledged as collateral under repurchase agreements with other banks and for security deposits relating to local futures and options.
- collateral in the form of cash and other investment securities is pledged when the Bank borrows equity securities from third parties. These transactions are conducted under the terms and conditions that are usual and customary to standard securities lending arrangements.
- all other pledges are conducted under terms which are usual and customary to lending arrangements.

Assets pledged to secure the above liabilities consist of the following:

R million	2014	2013
Cash and cash equivalents	**877**	949
Advances	**2**	153
Investment securities and other investments – held under repurchase agreements	**11 132**	16 229
Investment securities and other investments – other	**483**	92
Total assets pledged	**12 494**	17 423

30 COLLATERAL PLEDGED AND HELD continued

30.2 Collateral held

Collateral the Bank holds that it has the ability to sell or repledge in the absence of default by the owner of the collateral:

	2014		2013	
R million	**Fair value**	**Fair value of collateral sold or repledged**	**Fair value**	**Fair value of collateral sold or repledged**
Cash and cash equivalents	**6 641**	**–**	10 846	–
Investment securities and other investments – held under reverse repurchase agreements	**32 752**	**16 467**	40 501	18 136
Investment securities and other investments – other	**6 596**	**6 596**	6 971	6 763
Total collateral pledged	**45 989**	**23 063**	58 318	24 899

When the Bank takes possession of collateral that is not cash or not readily convertible into cash, the Bank determines a minimum sale amount (pre-set sale amount) and auctions the asset for the pre-set sale amount.

Where the Bank is unable to obtain the pre-set sale amount in an auction, the Bank will continue to hold the asset while actively marketing it to ensure an appropriate value is obtained.

The table below sets out the reconciliation of collateral taken possession of and recognised on the statement of financial position:

R million	**2014 Property**
Opening balance	**154**
Disposals	**(44)**
Closing balance	**110**

R million	**2013 Property**
Opening balance	100
Additions	207
Disposals	(153)
Closing balance	154

31 LOANS AND RECEIVABLES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

Certain instruments designated at fair value also meet the definition of loans and receivables in terms of IAS 39. The table below contains details on the change in credit risk attributable to these instruments:

	2014					
			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	**177 851**	**2 263**	**3**	**(17)**	**414**	**(2 343)**
Included in investment securities and other investments	**17 340**	**–**	**–**	**–**	**(31)**	**(81)**
Total	**195 191**	**2 263**	**3**	**(17)**	**383**	**(2 424)**

	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	152 526	1 563	(221)	(580)	(965)	(2 740)
Included in investment securities and other investments	23 955	–	–	–	(50)	(50)
Total	176 481	1 563	(221)	(580)	(1 015)	(2 790)

* *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 Bank's credit spread pricing matrix) and the fair value of the advances based on the most recent credit spreads where there has been a change in the credit of the counterparty. The Bank uses its own annual credit review process to determine if there has been a change in the credit rating of the counterparty via an annual process to review the credit rating and LGD of the respective counterparties.

- Investment securities and other investments

  The change in fair value for investments designated at fair value through profit or loss is calculated by stripping out the movements that result from a change in market factors that give rise to market risk.

  The change in fair value due to credit risk is then calculated as the balancing figure, after deducting the movement due to market risk from the total movement in fair value.

32 FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

The following financial liabilities have been designated at fair value through profit or loss:

	2014			
			Change in fair value due to credit risk	
R million	Fair value	Contractually payable at maturity	Current period	Cumulative
Deposits	**83 181**	**83 072**	**–**	**–**
Other liabilities	**3 287**	**3 267**	**–**	**–**
Tier 2 liabilities	**1 030**	**1 054**	**(8)**	**9**
Total	**87 498**	**87 393**	**(8)**	**9**

	2013			
			Change in fair value due to credit risk	
R million	Fair value	Contractually payable at maturity	Current period	Cumulative
Deposits	83 107	90 784	–	–
Other liabilities	171	167	–	–
Tier 2 liabilities	1 049	1 045	6	18
Total	84 327	91 996	6	18

The current and cumulative change in fair value that is attributable to credit risk of financial liabilities designated at fair value through profit or loss is determined with reference to changes in the mark-to-market yields of own issued bonds.

33 TRANSFERS AND DERECOGNITION OF FINANCIAL ASSETS

In the normal course of business the Bank enters into transactions in terms of which it transfers financial assets directly to third parties or to structured entities. Financial assets are transferred when the Bank 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 Bank 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 Bank. The majority of transferred financial assets of the Bank 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 33.1 below.
- Partial derecognition occurs when the Bank 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 Bank's continuing involvement. This excludes the full derecognition of part of a larger financial asset as detailed below. Disclosures relating to these transferred financial assets that are partially derecognised are included under point 33.1 below.
- Full derecognition occurs when the Bank 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 Bank derecognises the entire transferred financial asset. The transfer may however result in the Bank obtaining a new asset or assuming a new liability that continues to expose the Bank 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 Bank 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 Bank is still exposed are included under point 33.2 below.

33.1 Transferred financial assets that are not derecognised in their entirety

Repurchase agreements

The Bank enters into repurchase agreements in terms of which it 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 Bank 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 Bank (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 Bank remains exposed to all the underlying risks on the investment securities. The risks include counterparty, interest rate, currency, prepayment and other price risks.

Investment securities and other investments of the Bank with a carrying amount of R11 132 million (2013: R16 229 million) have been transferred in terms of repurchase transactions. Associated liabilities with a carrying amount of R10 509 million (2013: R16 146 million) have been recognised for cash received from counterparties and have been included in deposits.

33 TRANSFERS AND DERECOGNITION OF FINANCIAL ASSETS continued

33.1 Transferred financial assets that are not derecognised in their entirety continued

Securities lending transactions

The Bank enters into securities lending transactions in terms of which the Bank lends investment securities that it owns to parties external to the Bank and to fellow subsidiary companies in exchange for cash collateral. The cash collateral is provided by the counterparty as security for the return of the shares. The investment securities that are lent continue to be recognised in full as the Bank retains substantially all the risks and rewards of ownership of these investment securities and the derecognition criteria are not met. A financial liability (deposit) is recognised for the cash collateral received from the counterparty. The Bank's only recourse in respect to the return of the investment securities it has lent is to the cash collateral held and, as such, the Bank generally requires cash collateral in excess of the fair value of the investment securities lent. The Bank 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 and prior year, the Bank did not enter into any securities lending transactions in terms of which it lent securities recognised on its statement of financial position.

Other transfers

The Bank enters into other transactions in terms of which it sells advances to conduits of the FirstRand Group but retains substantially all the risks and rewards of ownership related to the transferred advances. The transferred advances continue to be recognised in full by the Bank (advances) and a financial liability (deposits) is recognised for the cash received. The Bank remains exposed to all the underlying risks on the advances. The risks include counterparty, interest rate, currency, prepayment and other price risks.

Advances of the Bank with a carrying amount of R5 billion (2013: R nil) have been transferred in terms of conduit transactions. Associated liabilities of R5 billion (2013: R nil) have been recognised for cash received and have been included in deposits.

33.2 Transferred financial assets that are derecognised

Securitisation transactions

Traditional securitisation transactions arranged by the Bank result in the full derecognition of the securitised financial assets. In a traditional securitisation transaction, financial assets or interests in a pool of financial assets are sold to a structured entity, which then issues liabilities to third party investors, for example, variable rate notes. As the Bank has assumed an obligation to pay over all the cash flows from the advances to the structured entity, the Bank's exposure to the variability in the amounts and timing of the cash flows of the transferred advances is no longer significant. The Bank has, therefore, transferred substantially all of the risks and rewards of ownership of the advances to the structured entity and the advances are derecognised in their entirety. The Bank may however acquire other financial assets and liabilities that continue to expose the Bank to the returns on the underlying advances, e.g. the Bank may be required to take up some of the notes issued by the structured entity that it is unable to issue into the market or enter into an interest rate swap with the securitisation structured entity. The Bank may also continue to be exposed to the underlying advances through clean-up calls in terms of which the Bank has the option but not the obligation to repurchase the remaining derecognised advances at fair value once the value of the advances falls below a specified level.

The following bankruptcy remote structured entities have been created to facilitate a traditional securitisation transaction related to WesBank retail instalment sale advances:

- Nitro 4 facilitated a securitisation transaction amounting to R4 billion of WesBank retail instalment sale advances and was established in August 2011.
- Turbo Finance 2 facilitated a securitisation transaction amounting to GBP 314 million of retail instalment sale advances in the UK relating to the Bank's MotoNovo finance division and was established in January 2012.
- Turbo Finance 3 facilitated a securitisation transaction amounting to GBP 326 million of retail instalment sale advances in the UK relating to the Bank's MotoNovo finance division and was established in September 2012.
- Turbo Finance 4 facilitated a securitisation transaction amounting to GBP 374 million of retail instalment sale advances in the UK relating to the Bank's MotoNovo finance division and was established in November 2013.

In the prior year, the Turbo Finance securitisation transaction was wound up and the notes were called or settled.

33 TRANSFERS AND DERECOGNITION OF FINANCIAL ASSETS continued

33.2 Transferred financial assets that are derecognised continued

Securitisation transactions continued

As a result of its continuing involvement in the derecognised assets, the Bank is exposed to the following risks:

- indirect credit risk as a result of any notes held by the Bank;
- liquidity and funding risk on any potential repurchase of the transferred assets in terms of a clean-up call or SARB-approved asset repurchase;
- operational risk related to the servicing of the transferred assets; and
- interest rate or other risk through derivatives held with the structured entities.

The Bank manages these risks as follows:

- through appropriate capitalisation;
- by ensuring adequate liquidity facilities are available to fund these transactions;
- through strict internal controls and continual monitoring; and
- through the application of hedging measures where appropriate/required.

The triggers associated with the Bank's obligation to provide financial support or to repurchase the transferred financial assets include:

- any breach of the contractual representations and warranties relating to the derecognised assets;
- special permission obtained from the SARB to repurchase the transferred assets (if relevant); and
- in the case of clean-up calls, once the value of the transferred assets falls below a certain point (such as 10% of the value at issue).

Other structured transactions

Other transactions may, depending on the individual arrangement, result in the derecognition of financial assets and the separate recognition of assets or liabilities for any rights or obligations created or retained in the transfer. These transactions could result in the Bank having continuing involvement in the derecognised financial assets in the form of guarantees, servicing agreements, clean-up calls, investments held, credit enhancement or liquidity facilities and derivatives such as interest rate swaps, total return swaps, written put options or purchased call options.

As a result of its continuing involvement in the derecognised assets, and dependant on the type of continuing risk arising from the specific transaction, the Bank may be exposed to any of the following risks:

- operational risk related to the servicing of the transferred asset for any servicing agreements in place between the Bank and the transferee;
- interest rate, currency risk or any other risk arising from derivatives held with the transferee where the value of the derivative is linked to the value of the transferred financial asset; and
- investment risk related to any investments held by the Bank where the value of the investment references or is linked to the value of the transferred financial asset.

The Bank manages these risks as follows:

- through strict internal controls and continual monitoring; and
- through the application of hedging measures where appropriate/required.

Where the Bank is required to bear losses in terms of these transactions, this will only ever be after all other parties involved, i.e. the lowest ranking.

Where the Bank does have a contractual obligation to provide financial support or to repurchase the transferred financial asset in terms of these transactions, the triggers associated with this obligation are specific to the terms of the relevant transaction and can include contractual breach or a decline in the value of the transferred financial asset.

33 TRANSFERS AND DERECOGNITION OF FINANCIAL ASSETS continued

33.2 Transferred financial assets that are derecognised continued

The table below sets out the financial information about the continuing involvement in transferred financial assets which have been derecognised in their entirety:

	2014				
Type of continuing involvement R million	**Carrying amount of continuing involvement recognised in the statement of financial position**		**Fair value of continuing involvement**		**Maximum exposure to loss***
	Assets	**Liabilities**	**Assets**	**Liabilities**	
Traditional securitisation transactions					
Derivative financial instruments	**2**	**10**	**2**	**10**	**2 243**
Investment securities and other investments	**1 967**	**–**	**1 967**	**–**	**1 967**
Other structured transactions					
Investment securities and other investments	**1 881**	**–**	**1 881**	**–**	**1 881**
Total	**3 850**	**10**	**3 850**	**10**	**6 091**

	2013				
Type of continuing involvement R million	**Carrying amount of continuing involvement recognised in the statement of financial position**		**Fair value of continuing involvement**		**Maximum exposure to loss***
	Assets	**Liabilities**	**Assets**	**Liabilities**	
Traditional securitisation transactions					
Derivative financial instruments	11	–	11	–	1 384
Investment securities and other investments	180	–	180	–	180
Other structured transactions					
Investment securities and other investments	1 146	–	1 146	–	1 146
Total	1 337	–	1 337	–	2 710

* *The maximum exposure to loss from continuing involvement in derecognised financial assets is the total loss that the Bank would suffer in a worst case scenario such as if the underlying derecognised financial asset were to lose all of its value. This includes any off-balance sheet commitments or contingencies related to the derecognised financial asset. The maximum exposure to loss from continuing involvement through clean-up calls, included in derivatives, is determined as the agreed upon amount the Bank would have to pay to repurchase a financial asset that has no value. The maximum exposure to loss from continuing involvement through derivatives is determined as any payments the Bank is obliged to make in terms of the derivative contract (such as interest payments) that is based on the value of the underlying transferred financial assets. The maximum exposure to loss from continuing involvement through notes issued by the SPE and held by the Bank is determined as the value of the notes recognised as an investment by the Bank.*

33 TRANSFERS AND DERECOGNITION OF FINANCIAL ASSETS continued

33.2 Transferred financial assets that are derecognised continued

The table below sets out the profit or loss impact of transfers of financial assets which are derecognised in full:

	2014		
		Income recognised from continuing involvement	
Type of continuing involvement R million	**Gain at date of transfer**	**For the current period**	**Cumulative**
Traditional securitisation transactions	**1 557**	**53**	**294**
Other structured transactions	**–**	**29**	**31**
Total	**1 557**	**82**	**325**

The table below sets out the undiscounted cash flows that would or may be required to repurchase the derecognised financial assets or other amounts payable to the transferee in respect of the transferred financial assets as at 30 June 2014. It also sets out the maturity analysis of these undiscounted cash flows.

	2014					
Type of continuing involvement R million	**Total undiscoun-ted cash outflows**	**Call**	**1 to 3 months**	**4 to 12 months**	**1 to 5 years**	**Over 5 years**
Traditional securitisation transactions	**10 067**	**13**	**41**	**540**	**9 470**	**3**
Total	**10 067**	**13**	**41**	**540**	**9 470**	**3**

2013		
	Income recognised from continuing involvement	
Gain at date of transfer	For the current period	Cumulative
875	82	240
–	3	7
875	85	247

2013					
Total undiscounted cash outflows	Call	1 to 3 months	4 to 12 months	1 to 5 years	Over 5 years
7 021	28	25	497	6 456	15
7 021	28	25	497	6 456	15

34 FAIR VALUE MEASUREMENTS

34.1 Valuation methodology

In terms of IFRS, the Bank is required to or elects to measure certain assets and liabilities at fair value. The Bank has established control frameworks and processes at a franchise level to independently validate its valuation techniques and inputs used to determine its fair value measurements. At a franchise level technical teams are responsible for the selection, implementation and any changes to the valuation techniques used to determine fair value measurements. Valuation committees comprising representatives from key management have been established within each franchise and at an overall Bank level are responsible for overseeing the valuation control process and considering the appropriateness of the valuation techniques applied in fair value measurement. The valuation models and methodologies are subject to independent review and approval at a franchise level by the required technical teams, valuation committees, relevant risk committees and external auditors annually or more frequently if considered appropriate.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, i.e. an exit price. Fair value is therefore a market based measurement and when measuring fair value the Bank uses the assumptions that market participants would use when pricing an asset or liability under current market conditions, including assumptions about risk. 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.

Fair value measurements are determined by the Bank on both a recurring and non-recurring basis.

Recurring fair value measurements

Recurring fair value measurements are for assets and liabilities that IFRS requires or permits to be recognised at fair value and are recognised in the statement of financial position at reporting date. This includes financial assets, financial liabilities and non-financial assets, including commodities, which the Bank measures at fair value at the end of each reporting period.

Financial instruments

When determining the fair value of a financial instrument, with a bid or ask price (for example, in a dealer market), the Bank uses the price within the bid-ask spread that is most representative of fair value in the circumstances. Although not a requirement, the Bank uses the bid price for financial assets or the ask/offer price for financial liabilities where this best represents fair value.

When determining the fair value of a financial liability or the Bank's own equity instruments the quoted price for the transfer of an identical or similar liability or own equity instrument is used. Where this is not available and an identical item is held by another party as an asset, the fair value of the liability or own equity instrument is measured using the quoted price in an active market of the identical item, if that price is available, or using observable inputs (such as the quoted price in an inactive market for the identical item) or using another valuation technique.

Where the Bank has any financial liability with a demand feature, such as demand deposits, the fair value is not less than the amount payable on demand, discounted from the first date that the amount could be required to be repaid where the time value of money is significant.

Non-financial assets

When determining the fair value of a non-financial asset, a market participant's ability to generate economic benefits by using the assets in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use, is taken into account. This includes the use of the asset that is physically possible, legally permissible and financially feasible. In determining the fair value of the Bank's commodities, the highest and best use of the assets was their current use.

Non-recurring fair value measurements

Non-recurring fair value measurements are those triggered by particular circumstances and include the classification of assets and liabilities as non-current assets or disposal groups held for sale under IFRS 5, where fair value less costs to sell is the recoverable amount; IFRS 3 business combinations where assets and liabilities are measured at fair value at acquisition date; and IAS 36 impairments of assets where fair value less costs to sell is the recoverable amount. These fair value measurements determined on a case by case basis as they occur within each reporting period.

34 FAIR VALUE MEASUREMENTS continued

34.1 Valuation methodology continued

Other fair value measurements

Other fair value measurements include assets and liabilities not measured at fair value but for which fair value disclosures are required under another IFRS, e.g. financial instruments at amortised cost. The fair value for these items is determined by using observable quoted market prices where these are available, such as market prices quoted on BESA, or in accordance with generally acceptable pricing models, such as a discounted cash flow analysis. Except for the amounts included under point 34.4 below, for all other financial instruments at amortised cost the carrying value is equal to or a reasonable approximation of the fair value.

34.2 Fair value hierarchy and measurements

The Bank classifies assets and liabilities measured at fair value using a fair value hierarchy that reflects whether observable or unobservable inputs are used in determining the fair value of the item. If this information is not available, fair value is measured using another valuation technique that maximises the use of relevant observable inputs and minimises the use of unobservable inputs. The valuation techniques employed by the Bank include, *inter alia*, quoted prices for similar assets or liabilities in an active market, quoted prices for the same asset or liability in an inactive market, adjusted prices from recent arm's length transactions, option-pricing models and discounted cash flow techniques.

Where a valuation model is applied and the Bank cannot mark-to-market, it applies a mark-to-model approach, subject to valuation adjustments. Mark-to-model is defined as any valuation which has to be benchmarked, extrapolated or otherwise calculated from a market input. The Bank will consider the following in assessing whether a mark-to-model valuation is appropriate:

- as far as possible, market inputs are sourced in line with market prices;
- generally accepted valuation methodologies are consistently used for particular products unless deemed inappropriate by the relevant governance forums;
- where a model has been developed in-house, it is based on appropriate assumptions, which have been assessed and challenged by suitably qualified parties independent of the development process;
- formal change control procedures are in place;
- awareness of the weaknesses of the models used and appropriate reflection in the valuation output;
- the model is subject to periodic review to determine the accuracy of its performance; and
- valuation adjustments are only made when appropriate, e.g. to cover the uncertainty of the model valuation.

Valuations based on observable inputs include:

Level 1

Fair value is determined using unadjusted quoted prices in active markets for identical assets or liabilities where this is readily available and the price represents actual and regularly occurring market transactions. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis. This category includes listed bonds and equity, exchange-traded derivatives, exchange-traded commodities and short trading positions.

Level 2

Fair value is determined using inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly such as quoted prices for similar items in an active market or for an identical item in an inactive market, or valuation models using observable inputs or inputs derived from observable market data. This category includes loans and advances to customers, equities listed in an inactive market, certain debt instruments, over the counter derivatives or exchange-traded derivatives where a market price is not available, deposits, other liabilities, Tier 2 liabilities and commodities which are not exchange-traded.

Level 3

Fair value is determined using a valuation technique and significant inputs that are not based on observable market data (i.e. unobservable inputs) such as an entity's own assumptions about what market participants would assume in pricing assets and liabilities. The assumptions applied by the Bank are set out in the table below. This category includes specific loans and advances to customers, over the counter derivatives such as equity options, investments in debt instruments, and deposits such as credit linked notes.

34 FAIR VALUE MEASUREMENTS continued

34.2 Fair value hierarchy and measurements continued

The table below sets out the valuation techniques applied by the Bank for recurring fair value measurements of assets and liabilities categorised as level 2 and level 3 in the fair value hierarchy:

Instrument	Fair value hierarchy level	Valuation technique	Description of valuation technique and main assumptions	Observable inputs	Significant unobservable inputs of level 3 items
Derivative financial instruments					
Option contracts	Level 2 and level 3	Option pricing model	The Black Scholes model is used.	Strike price of the option, market related discount rate, forward rate and cap and floor volatility.	Volatilities
Futures contracts	Level 2	Discounted cash flows	The future 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.	Market interest rates and curves	Not applicable
Swaps	Level 2	Discounted cash flows	The future cash flows are projected using a forward curve and then discounted using a market related discount curve over the contractual period. The reset date of each swaplet is determined in terms of legal documents pertaining to the swap.	Market interest rates and curves	Not applicable
Forward rate agreements	Level 2	Discounted cash flows	The future cash flows are projected using a forward curve and then discounted using a market related discount curve over the contractual period. The reset date is determined in terms of legal documents.	Market interest rates and curves	Not applicable
Forward contracts	Level 2	Discounted cash flows	The future cash flows are projected using a forward curve and then discounted using a market related discount curve over the contractual period. Projected cash flows are obtained by subtracting the strike price of the forward contract from the market projected forward value.	Market interest rates and curves	Not applicable

34 FAIR VALUE MEASUREMENTS continued

34.2 Fair value hierarchy and measurements continued

Instrument	Fair value hierarchy level	Valuation technique	Description of valuation technique and main assumptions	Observable inputs	Significant unobservable inputs of level 3 items
Derivative financial instruments continued					
Credit derivatives	Level 2 and level 3	Discounted cash flows	The future cash flows are discounted using a market related interest rate. Where prices are obtainable from the market, individual credit spreads are used.	Market interest rates and curves	Credit inputs
Commodity derivatives	Level 2	Discounted cash flows	Commodity linked instruments are measured by taking into account the price, the location differential, grade differential, silo differential and the discount factor of the most liquidly-traded futures linked to the commodity.	Futures prices	Not applicable
Equity derivatives	Level 2 and level 3	Industry standard models	The models calculate fair value based on input parameters such as stock prices, dividends, volatilities, interest rates, equity repo curves and, for multi-asset products, correlations. Unobservable model inputs are determined by reference to liquid market instruments and applying extrapolation techniques to match the appropriate risk profile.	Market interest rates and curves	Volatilities
Loans and advances to customers					
Investment banking book*	Level 3	Discounted cash flows	The future cash flows are discounted using a market related interest rate. To calculate the fair value of credit the Bank uses a valuation methodology based on the credit spread matrix, which considers loss given default, tenor and the internal credit committee rating criteria. The fair value measurement includes the original credit spread and is repriced when there is a change in rating of the counterparty. A decline in credit rating would result in an increase in the spread above the base rate for discounting purposes and consequently a reduction of the fair value of the advance. Similarly an increase in credit rating would result in a decrease in the spread below the base rate and an increase of the fair value of the advance.	Market interest rates and curves	Credit inputs
Other loans and advances	Level 2 and level 3	Discounted cash flows	The future cash flows are discounted using a market related interest rate adjusted for credit inputs over the contractual period.	Market interest rates and curves	Credit inputs

* *The Bank has elected to designate the investment banking book of advances at fair value through profit or loss. Credit risk is not observable and has a significant impact on the fair value measurement of these advances and, as such, these advances are classified as level 3 on the fair value hierarchy.*

34 FAIR VALUE MEASUREMENTS continued

34.2 Fair value hierarchy and measurements continued

Instrument	Fair value hierarchy level	Valuation technique	Description of valuation technique and main assumptions	Observable inputs	Significant unobservable inputs of level 3 items
Investment securities and other investments					
Equities/ bonds listed in an inactive market	Level 2	Discounted cash flows	For listed equities and bonds, the listed price is used where the market is active, i.e. level 1. However, if the market is not active and the listed price is not representative of fair value, these are classified as level 2 and a valuation technique is used, e.g. the discounted cash flow is used for listed bonds. This will be based on risk parameters of comparable securities and the potential pricing difference in spread and/or price terms with the traded comparable is considered. The future cash flows are discounted using a market related interest rate.	Market interest rates and curves	Not applicable
Unlisted bonds	Level 2 and level 3	Discounted cash flows	Unlisted bonds are valued similarly to advances measured at fair value. The future cash flows are discounted using a market related interest rate adjusted for credit inputs over the contractual period.	Market interest rates and curves	Credit inputs
Unlisted equities	Level 2 and level 3	Price earnings (P/E) model	For unlisted equities, the earnings included in the model are derived from a combination of historical and budgeted earnings depending on the specific circumstances of the entity whose equity is being valued. The P/E multiple is derived from current market observations taking into account an appropriate discount for unlisted companies. The valuation of these instruments may be corroborated by a discounted cash flow valuation or by the observation of other market transactions that have taken place.	Market transactions	Growth rates and P/E ratios
Negotiable certificates of deposit	Level 2	Discounted cash flows	The 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.	Market interest rates and curves	Not applicable
Treasury bills	Level 2	BESA bond pricing model	The BESA bond pricing model uses the BESA mark to market bond yield.	Market interest rates and curves	Not applicable

34 FAIR VALUE MEASUREMENTS continued

34.2 Fair value hierarchy and measurements continued

Instrument	Fair value hierarchy level	Valuation technique	Description of valuation technique and main assumptions	Observable inputs	Significant unobservable inputs of level 3 items
Investment securities and other investments continued					
Call and non-term deposits	Level 2	None – the undiscounted amount is used	The undiscounted amount of the deposit is the fair value due to the short term nature of the instruments. These deposits are financial liabilities with a demand feature and the fair value is not less than the amount payable on demand, i.e. the undiscounted amount of the deposit.	None – the undiscounted amount approximates fair value and no valuation is performed	Not applicable
Deposits that represent collateral on credit linked notes	Level 3	Discounted cash flows	These deposits represent the collateral leg of credit linked notes. The forward curve adjusted for liquidity premiums and business unit margins. The valuation methodology does not take early withdrawals and other behavioural aspects into account.	Market interest rates and curves	Credit inputs on related advance
Other deposits	Level 2 and level 3	Discounted cash flows	The forward curve adjusted for liquidity premiums and business unit margins. The valuation methodology does not take early withdrawals and other behavioural aspects into account.	Market interest rates and curves	Credit inputs
Other liabilities and Tier 2 liabilities	Level 2	Discounted cash flows	The future cash flows are discounted using a market related interest rate.	Market interest rates and curves	Not applicable
Financial assets and liabilities not measured at fair value but for which fair value is disclosed	Level 2 and level 3	Discounted cash flows	The future cash flows are discounted using a market related interest rate and curves adjusted for credit inputs.	Market interest rates and curves	Credit inputs

34 FAIR VALUE MEASUREMENTS continued

34.2 Fair value hierarchy and measurements continued

For non-recurring fair value measurements the fair value hierarchy classification and valuation technique applied in determining fair value will depend on the underlying asset or liability being measured. Where the underlying assets or liabilities are those for which recurring fair value measurements are required as listed in the table above, the technique applied and the inputs into the models would be in line with those as set out in the table. Where the underlying assets or liabilities are not items for which recurring fair value measurements are required, e.g. property and equipment or intangible assets. The fair value will be determined per transaction and details will be provided in the relevant notes, i.e. note 14 for IFRS 3 transactions. In the current year there were no such transactions for which IFRS 13 disclosures were required.

During the current reporting period there were no changes in the valuation techniques used by the Bank.

The following table presents the recurring and non-recurring fair value measurements and fair value hierarchy of assets and liabilities of the Bank which are recognised at fair value.

	2014			
R million	**Level 1**	**Level 2**	**Level 3**	**Total fair value**
Assets				
Recurring fair value measurements				
Derivative financial instruments	**22**	**38 610**	**1**	**38 633**
Advances*	**–**	**31 809**	**146 064**	**177 873**
Investment securities and other investments	**49 299**	**33 461**	**5 518**	**88 278**
Commodities	**7 904**	**–**	**–**	**7 904**
Amounts due by holding company and fellow subsidiaries	**–**	**305**	**–**	**305**
Total assets measured at fair value	**57 225**	**104 185**	**151 583**	**312 993**
Liabilities				
Recurring fair value measurements				
Short trading positions	**5 397**	**–**	**–**	**5 397**
Derivative financial instruments	**25**	**41 598**	**5**	**41 628**
Deposits	**125**	**82 104**	**952**	**83 181**
Other liabilities	**–**	**3 287**	**–**	**3 287**
Amounts due to holding company and fellow subsidiaries	**–**	**226**	**–**	**226**
Tier 2 liabilities	**–**	**1 030**	**–**	**1 030**
Total liabilities measured at fair value	**5 547**	**128 245**	**957**	**134 749**

* *Although the fair value of credit is not significant year-on-year it may become significant in future. For this reason, together with the fact that the majority of South African counterparties do not have actively traded or have observable credit spreads, the Bank 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, loans and advances to customers are classified as level 2 of the fair value hierarchy.*

34 FAIR VALUE MEASUREMENTS continued

34.2 Fair value hierarchy and measurements continued

	2013			
R million	**Level 1**	**Level 2**	**Level 3**	**Total fair value**
Assets				
Recurring fair value measurements				
Derivative financial instruments	180	51 574	1	51 755
Advances*	–	40 267	112 331	152 598
Investment securities and other investments	52 322	37 393	4 831	94 546
Amounts due by holding company and fellow subsidiaries	–	516	–	516
Total assets measured at fair value	52 502	129 750	117 163	299 415
Liabilities				
Recurring fair value measurements				
Short trading positions	2 923	–	–	2 923
Derivative financial instruments	75	52 865	–	52 940
Deposits	–	81 805	1 302	83 107
Other liabilities	–	171	–	171
Amounts due to holding company and fellow subsidiaries	–	255	–	255
Tier 2 liabilities	–	1 049	–	1 049
Total liabilities measured at fair value	2 998	136 145	1 302	140 445

* *Although the fair value of credit is not significant year-on-year it may become significant in future. For this reason, together with the fact that the majority of South African counterparties do not have actively traded or have observable credit spreads, the Bank 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, loans and advances to customers are classified as level 2 of the fair value hierarchy.*

There were no transfers of assets or liabilities between level 1 and level 2 during the current or prior reporting period.

34 FAIR VALUE MEASUREMENTS continued

34.3 Additional disclosures for level 3 instruments

34.3.1 Changes in level 3 instruments with recurring fair value measurements

The following tables show a reconciliation of the opening and closing balances for fair value assets and liabilities classified as level 3 in terms of the fair value hierarchy, for which recurring fair value measurement is required.

	2014		
R million	**Fair value on 30 June 2013**	**Gains/ losses recognised in profit or loss**	**Gains/losses recognised in other comprehen-sive income**
Assets			
Derivative financial instruments	**1**	**–**	**–**
Advances	**112 331**	**3 139**	**–**
Investment securities and other investments	**4 831**	**317**	**55**
Total financial assets measured at fair value in level 3	**117 163**	**3 456**	**55**
Liabilities			
Derivative financial instruments	**–**	**4**	**–**
Deposits	**1 302**	**–**	**–**
Total financial liabilities measured at fair value in level 3	**1 302**	**4**	**–**

Note: Decreases in level 3 assets and liabilities are included in brackets. Decreases in the value of assets may be as a result of losses, sales and settlements or the disposal of subsidiaries. Decreases in the value of liabilities may be as a result of gains, settlements or the disposal of subsidiaries.

During the current reporting period investment securities to the value of R187 million were transferred into level 3 out of level 2. The transfer occurred as a result of certain of the significant inputs becoming unobservable owing to a change in the counterparty's capital structure.

2014					
Purchases, sales, issues and settlements	Acquisitions/ disposals of subsidiaries	Transfers into level 3	Transfers out of level 3	Exchange rate difference	Fair value on 30 June 2014
–	–	–	–	–	1
30 179	–	–	–	415	146 064
122	–	187	–	6	5 518
30 301	–	187	–	421	151 583
1	–	–	–	–	5
(371)	–	–	–	21	952
(370)	–	–	–	21	957

34 FAIR VALUE MEASUREMENTS continued

34.3 Additional disclosures for level 3 instruments continued

34.3.1 Changes in level 3 instruments with recurring fair value measurements continued

	2013		
R million	**Fair value on 30 June 2012**	**Gains/ losses recognised in profit or loss**	**Gains/losses recognised in other comprehen-sive income**
Assets			
Derivative financial instruments	95	3	–
Advances	97 645	2 055	–
Investment securities and other investments	4 201	(845)	84
Total financial assets measured at fair value in level 3	101 941	1 213	84
Liabilities			
Derivative financial instruments	147	72	–
Deposits	3 030	(228)	–
Total financial liabilities measured at fair value in level 3	3 177	(156)	–

Note: Decreases in level 3 assets and liabilities are included in brackets. Decreases in the value of assets may be a result of losses, sales and settlements or the disposal of subsidiaries. Decreases in the value of liabilities may be a result of gains, settlements or the disposal of subsidiaries.

Derivative financial liabilities to the value of R201 million were transferred out of level 3 and into level 2 in the previous reporting period 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	Transfers out of level 3	Exchange rate difference	Fair value on 30 June 2013
(97)	–	–	–	–	1
11 981	–	–	–	650	112 331
1 364	(3)	–	–	30	4 831
13 248	(3)	–	–	680	117 163
(18)	–	–	(201)	–	–
(1 606)	–	–	–	106	1 302
(1 624)	–	–	(201)	106	1 302

34 FAIR VALUE MEASUREMENTS continued

34.3 Additional disclosures for level 3 instruments continued

34.3.2 Unrealised gains or losses on level 3 instruments with recurring fair value measurements

The Bank classifies assets or liabilities 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 assets or liabilities 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 table below presents the total gains/(losses) relating to fair value remeasurement of assets and liabilities classified in level 3 that are still held at reporting date. With the exception of interest on funding instruments and available-for-sale financial assets, all of the gains or losses are recognised in non-interest income.

	2014		
R million	**Gains/losses recognised in the income statement**	**Gains/losses recognised in other comprehensive income**	**Total gains/losses**
Assets			
Advances*	**2 889**	**–**	**2 889**
Investment securities and other investments	**290**	**51**	**341**
Total	**3 179**	**51**	**3 230**
Liabilities			
Derivative financial instruments	**4**	**–**	**4**
Deposits	**(2)**	**–**	**(2)**
Other liabilities	**–**	**–**	**–**
Total	**2**	**–**	**2**

* *Mainly accrued interest on fair value loans and advances and movements in interest rates that have been hedged.*

Note: Decreases in level 3 assets and liabilities are included in brackets. Decreases in the value of assets may be a result of losses, sales and settlements or the disposal of subsidiaries. Decreases in the value of liabilities may be a result of gains, settlements or the disposal of subsidiaries.

34 FAIR VALUE MEASUREMENTS continued

34.3 Additional disclosures for level 3 instruments continued

34.3.2 Unrealised gains or losses on level 3 instruments with recurring fair value measurements continued

	2013		
R million	**Gains/losses recognised in the income statement**	**Gains/losses recognised in other comprehensive income**	**Total gains/losses**
Assets			
Advances*	2 356	–	2 356
Investment securities and other investments	152	84	236
Total	2 508	84	2 592
Liabilities			
Derivative financial instruments	–	–	–
Deposits	131	–	131
Other liabilities			
Total	131	–	131

* *Mainly accrued interest on fair value loans and advances and movements in interest rates that have been hedged.*

Note: Decreases in level 3 assets and liabilities are included in brackets. Decreases in the value of assets may be a result of losses, sales and settlements or the disposal of subsidiaries. Decreases in the value of liabilities may be a result of gains, settlements or disposal of subsidiaries.

34 FAIR VALUE MEASUREMENTS continued

34.3 Additional disclosures for level 3 instruments continued

34.3.3 Effect of changes in significant unobservable assumptions of level 3 instruments to reasonably possible alternatives

As described under point 34.3.2, the fair value of assets and liabilities that are classified in level 3 of the fair value hierarchy is determined using valuation techniques that make use of significant inputs that are not based on observable market data. The inputs into these valuation techniques are derived from all available information and management's judgement. While management believes that these fair values are appropriate they could be sensitive to changes in the assumptions used to derive the inputs. The table below illustrates the sensitivity of the significant inputs when they are changed to reasonably possible alternative inputs:

	2014	
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 assets measured at fair value in level 3		
Liabilities		
Derivative financial instruments	**Volatilities**	**Volatilities are increased and decreased by 10%**
Deposits	**Credit risk of the cash collateral leg of credit linked notes**	**Credit migration matrix****
Total liabilities measured at fair value in level 3		

* *The credit migration matrix is used as part of the Bank's credit risk management process for the advances measured at fair value through profit or loss. The matrix is a simulation model that contains a matrix of probabilities for downgrading or upgrading to another rating bucket. The migration matrix is based on actual observed rating migrations from S&P over the long term and is based on the fair value in the 75th percentile.*

** *The deposits included in level 3 of the hierarchy represent the collateral leg of credit linked notes. The most significant unobservable input in determining the fair value of the credit linked notes is the credit risk component. The sensitivity to credit risk has been assessed in the same way as for advances using the credit migration matrix with the deposit representing the cash collateral component thereof.*

	2014			2013		
	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**
	1 146 064	**1 147 016**	**1 146 478**	1 112 331	1 113 254	1 111 679
	5 518	**6 086**	**4 957**	4 831	5 411	4 173
	151 583	**153 103**	**151 436**	117 163	118 666	115 853
	5	**5**	**5**	–	–	–
	952	**857**	**1 048**	1 302	1 172	1 433
	957	**862**	**1 053**	1 302	1 172	1 433

34 FAIR VALUE MEASUREMENTS continued

34.4 Other fair value measurements

The following represents the fair values of financial instruments not carried at fair value on the statement of financial position but for which fair value is required to be disclosed:

	2014					2013	
R million	**Carrying amount**	**Fair value**	**Level 1**	**Level 2**	**Level 3**	**Carrying amount**	**Fair value**
Assets							
Advances	**444 239**	**446 233**	**–**	**60 101**	**386 132**	395 983	390 616
Investment securities and other investments	**505**	**505**	**–**	**505**	**–**	415	415
Total assets at amortised cost	**444 744**	**446 738**	**–**	**60 606**	**386 132**	396 398	391 031
Liabilities							
Deposits	**609 995**	**611 136**	**18 029**	**592 152**	**955**	546 765	548 202
Other liabilities	**981**	**975**	**–**	**975**	**–**	891	889
Tier 2 liabilities	**10 454**	**10 705**	**–**	**10 705**	**–**	6 576	6 693
Total liabilities at amortised cost	**621 430**	**622 816**	**18 029**	**603 832**	**955**	554 232	555 784

For all other financial instruments the carrying value is equal to or a reasonable approximation of the fair value.

34 FAIR VALUE MEASUREMENTS continued

34.5 Day 1 profit or loss

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price (i.e. the entry or exit price) 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. Day 1 profit or loss arises on the initial recognition of a financial instrument when the fair value of the 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. The day 1 profits or losses arising as a result of the difference between the two values should only be recognised over the life of the instrument as a result of changes that would also be considered by market participants.

The following table represents the aggregate difference between transaction price and fair value based on a valuation technique yet to be recognised in profit or loss:

R million	2014	2013
Balance at 1 July	**16**	21
Day 1 profits or losses not recognised on financial instruments initially recognised in the current reporting period	**–**	–
Amount recognised in profit or loss as a result of changes which would be observable by market participants	**(5)**	(5)
Balance at 30 June	**11**	16

35 FINANCIAL INSTRUMENTS SUBJECT TO OFFSETTING, MASTER NETTING ARRANGEMENTS AND SIMILAR AGREEMENTS

In accordance with IAS 32 the Bank offsets financial assets and financial liabilities and presents the net amount in the statement of financial position only if there is both a legally enforceable right to offset and there is an intention to settle the amounts on a net basis or to realise the asset and settle the liability simultaneously. Financial assets and financial liabilities subject to master netting arrangements (MNA) or similar agreements are not offset, if the right of set-off under these agreements is only enforceable in the event of default, insolvency and bankruptcy.

The tables below include information about financial assets and financial liabilities that are:

- offset and the net amount presented in the Bank's statement of financial position in accordance with the requirements of IAS 32; and
- subject to enforceable master netting arrangements or similar agreements where the amounts have not been offset because one or both of the requirements of IAS 32 are not met or the amounts relate to financial collateral (cash or non-cash) that mitigates credit risk.

	2014		
	Financial instruments subject to offsetting agreements, MNA and similar agreements		
		Amounts where offsetting is applied	
R million	**Gross amount**	**Amounts set-off**	**Net amount reported in the statement of financial position***
Assets			
Derivatives	**42 795**	**7 989**	**34 806**
Reverse repurchase, securities borrowing and similar arrangements	**42 761**	**13 908**	**28 853**
Other advances	**2 164**	**2 164**	**–**
Intercompany assets	**5 663**	**532**	**5 131**
Total	**93 383**	**24 593**	**68 790**
Liabilities			
Derivatives	**44 886**	**7 989**	**36 897**
Repurchase securities lending and similar arrangements	**34 121**	**13 909**	**20 212**
Other deposits	**2 471**	**2 163**	**308**
Intercompany liabilities	**837**	**532**	**305**
Total	**82 315**	**24 593**	**57 722**

* *The net amount reported on the statement of financial position represents the net amount of financial assets and financial liabilities where offsetting has been applied in terms of IAS 32 and financial instruments that are subject to MNA and similar agreements but no offsetting has been applied.*

** *The financial collateral is limited to the net statement of financial position exposure in line with the requirements of IFRS 7 and excludes the effect of any over-collateralisation. The amount of collateral included in the table for IFRS 7 disclosure purposes has been determined at a business unit level. If these limits were determined on a Bank-wide level, the amount of collateral included in this table could increase.*

The total amount reported on the statement of financial position is the sum of the net amount and the amount of financial instruments not subject to set-off or MNA.

2014					
	Financial instruments subject to offsetting agreements, MNA and similar agreements				
	Amounts where offsetting is not applied				
	Financial instruments subject to MNA and similar agreements	Financial collateral**	Net amount	Financial instruments not subject to set-off or MNA	Total statement of financial position#
	28 519	1 883	4 404	3 827	38 633
	202	28 651	–	3 900	32 753
	–	–	–	589 837	589 837
	71	–	5 060	20 874	26 005
	28 792	30 534	9 464	618 438	687 228
	28 519	239	8 139	4 731	41 628
	202	20 010	–	7 793	28 005
	–	–	308	664 863	665 171
	71	–	234	11 987	12 292
	28 792	20 249	8 681	689 374	747 096

35 FINANCIAL INSTRUMENTS SUBJECT TO OFFSETTING, MASTER NETTING ARRANGEMENTS AND SIMILAR AGREEMENTS continued

	2013		
	Financial instruments subject to offsetting agreements, MNA and similar agreements		
		Amounts where offsetting is applied	
R million	**Gross amount**	**Amounts set-off**	**Net amount reported in the statement of financial position***
Assets			
Derivatives	56 011	8 167	47 844
Reverse repurchase, securities borrowing and similar arrangements	46 379	10 098	36 281
Other advances	2 861	2 861	–
Intercompany assets	12 439	8 061	4 378
Total	117 690	29 187	88 503
Liabilities			
Derivatives	57 672	8 167	49 505
Repurchase securities lending and similar arrangements	40 311	10 098	30 213
Other deposits	3 294	2 861	433
Intercompany liabilities	8 286	8 061	225
Total	109 563	29 187	80 376

* *The net amount reported on the statement of financial position represents the net amount of financial assets and financial liabilities where offsetting has been applied in terms of IAS 32 and financial instruments that are subject to MNA and similar agreements but no offsetting has been applied.*

** *The financial collateral is limited to the net statement of financial position exposure in line with the requirements of IFRS 7 and excludes the effect of any over-collateralisation. The amount of collateral included in the table for IFRS 7 disclosure purposes has been determined at a business unit level. If these limits were determined on a Bank-wide level, the amount of collateral included in this table could increase.*

The total amount reported on the statement of financial position is the sum of the net amount and the amount of financial instruments not subject to set-off or MNA.

2013				
Financial instruments subject to offsetting agreements, MNA and similar agreements				
Amounts where offsetting is not applied				
Financial instruments subject to MNA and similar agreements	Financial collateral**	Net amount	Financial instruments not subject to set-off or MNA	Total statement of financial position#
39 541	2 860	5 443	3 911	51 755
1 179	35 102	–	4 221	40 502
–	–	–	508 078	508 078
146	–	4 232	16 250	20 628
40 866	37 962	9 675	532 460	620 963
39 541	726	9 238	3 435	52 940
1 179	29 034	–	7 560	37 773
–	–	433	591 666	592 099
146	–	79	14 303	14 528
40 866	29 760	9 750	616 964	697 340

35 FINANCIAL INSTRUMENTS SUBJECT TO OFFSETTING, MASTER NETTING ARRANGEMENTS AND SIMILAR AGREEMENTS continued

Details of the offsetting and collateral arrangements

Derivative assets and liabilities

The Bank's derivative transactions that are not transacted on an exchange are entered into under International Derivatives Swaps and Dealers Association (ISDA) MNA. Generally, under such agreements the amounts owed by each counterparty that are due on a single day in respect of all transactions outstanding in the same currency under the agreement are aggregated into a single net amount being payable by one party to the other. In certain circumstances, e.g. when a credit event such as default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is due or payable in settlement of all transactions (close-out netting).

The Bank only offsets derivative financial assets and financial liabilities with a counterparty under ISDA agreements where the amounts are due on a single day and in the same currency. The Bank's intention to settle these transactions on a net basis is evidenced by a past practice of settling similar transactions on a net basis. The remaining financial assets and financial liabilities (where amounts are not due on a single day and in the same currency) transacted under an ISDA agreement do not meet the IAS 32 requirements for offsetting. This is because they create a right of set-off that is only enforceable in the event of default, insolvency or bankruptcy of the Bank or the counterparties. However, these amounts are included in the table above under the financial instruments subject to MNA and similar agreements column.

Financial collateral (mostly cash) is also obtained, often daily, for the net exposure between counterparties to mitigate credit risk.

Repurchase, reverse repurchase and securities borrowing and lending transactions

The Bank's repurchase, reverse repurchase and securities borrowing and lending transactions are covered by master agreements with netting terms similar to those of the ISDA MNA. These financial assets and financial liabilities with the same counterparty are only set-off in the statement of financial position if they are due on a single day, denominated in the same currency and the Bank has the intention to settle these amounts on a net basis.

The Bank receives and accepts collateral for these transactions in the form of cash and other investments and investment securities.

Other advances and deposits

The advances and deposits that are offset relate to transactions where the Group has a legally enforceable right to offset the amounts and the Bank has the intention to settle the net amount.

Intercompany assets and liabilities

Intercompany assets and liabilities consist of derivative assets and liabilities that are offset based on the same criteria applicable to external derivatives.

36 SEGMENT INFORMATION

36.1 Reportable segments

Set out below is information about the reportable segments of the Bank, details of the various products and services provided by the franchises, their major customers and the basis of preparation of segment information.

FNB

FNB represents the Bank's retail and commercial activities in South Africa. 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, cell phone and internet). FNB's primary segments are retail and commercial.

FNB Africa

FNB Africa comprises a support division acting as strategic enabler, facilitator and coordination for expansion in the rest of Africa.

RMB

RMB is the corporate and investment bank and offers advisory, financing, trading, corporate banking and principal investing solutions. RMB's business units include global markets, investment banking, and corporate banking.

WesBank

WesBank represents the Bank's activities in vehicle and asset finance in the retail, commercial and corporate segments operating primarily through alliances and JVs with leading motor manufacturers, suppliers and dealer groups where it has built up strong point-of-sale presence in South Africa. WesBank also has a vehicle finance business in the UK, MotoNovo.

FCC (FirstRand Corporate Centre)

FCC represents key group-wide functions, including Group Treasury (capital, liquidity and financial resource management), Group Finance, Group Tax, Enterprise Risk Management, Regulatory Risk Management and Group Internal Audit. FCC has a custodianship mandate which includes managing relationships on behalf of the Group with key external stakeholders (e.g. shareholders, debt holders, regulators) and the ownership of key Group strategic frameworks (e.g. performance measurement, risk/reward). Its objective is to ensure the Group delivers on its commitments to stakeholders.

Major customers

In terms of IFRS 8, a customer is regarded as a major customer if the revenue from transactions with this customer exceeds 10% or more of the entity's revenue. The Bank has no major customer as defined and is, therefore, not reliant on the revenue from one or more major customers.

36 SEGMENT INFORMATION continued

36.1 Reportable segments continued

Basis of preparation of segment information

The segmental analysis is based on the information reported to management for the respective segments. The information is based on IFRS with the exception of certain adjustments made to segment results in order to eliminate the effect of non-taxable income and other segment specific items that impact certain key ratios reviewed by the chief operating decision maker when assessing the operating segments' performance.

In order to ensure that the total segment results, assets and liabilities agree to the amounts reported in terms of IFRS, the above mentioned amounts are adjusted in the IFRS adjustments column.

Below is a description of the normalised adjustments made to IFRS earnings when preparing the normalised results.

Cash settled share-based payments and the economic hedge

The Bank entered into a TRS with external parties in order to economically hedge itself against the exposure to changes in the FirstRand share price associated with the Bank's share option schemes.

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

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.

When calculating normalised results, the Bank 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 Bank's results. This reflects the economic substance of the hedge and associated IFRS 2 impact for the Bank.

In addition, the portion of the share-based payment expense which relates to the remeasurement of the liability arising from changes in the share price is reclassified from operating expenses into NIR in accordance with the economics of the transaction. The share-based payment expense included in operating expenses is equal to the grant date fair value of the awards given.

Economic interest rate hedges

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

36 SEGMENT INFORMATION continued

36.1 Reportable segments continued

Fair value annuity income – lending

The Bank accounts for the majority of its wholesale advances book in 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 Bank 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.

IAS 19 remeasurement of plan assets

In terms of the revised IAS 19, interest income is recognised on plan assets and set-off against staff costs in the income statement. All other remeasurements of plan assets are recognised in other comprehensive income. In instances where the plan asset is a qualifying insurance policy, which has a limit of indemnity, the fair value of the plan asset is limited to that limit of indemnity. The limit of indemnity continually reduces as payments are made in terms of insurance policy. After the recognition of interest income on the plan asset, any further adjustment required to revalue the plan asset to the limit of indemnity is recognised in other comprehensive income. Therefore, to the extent that interest income on plan assets results in an increase in the fair value of the plan asset above the limit of indemnity, a downward fair value measurement is recognised in other comprehensive income. Economically, the value of the plan asset has simply reduced with claims paid. Normalised results are adjusted to reflect this by increasing staff costs for the value of the interest on the plan assets and increasing other comprehensive income.

Headline earnings adjustments

All adjustments that are required by *Circular 2/2013 Headline Earnings* in calculating headline earnings are included in normalised results on a line-by-line basis based on the nature of the adjustment. These adjustments include the write back of impairment losses recognised on intangible assets and goodwill.

36 SEGMENT INFORMATION continued

36.2 Geographic segments

Refer to the reportable segment information for a description of the divisions.

Segment	Countries included	Divisions included
South Africa	South Africa	FNB RMB WesBank FCC (including Group Treasury)
United Kingdom	England	FNB RMB WesBank
Asia	India	FNB RMB
Other	Middle East (U.A.E) Mauritius Brazil	FNB RMB

36 SEGMENT INFORMATION continued

36.2 Geographic segments continued

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.

	2014	2013
GBP	**18.17**	15.22
EUR	**14.55**	13.04
USD	**10.63**	10.01
AUD	**10.02**	9.17
BRL	**4.83**	4.50
INR	**0.18**	0.17

36 SEGMENT INFORMATION continued

36.3 Reportable segments continued

	2014	
R million	**FNB**	**FNB Africa**
Net interest income before impairment of advances	15 040	(6)
Impairment of advances	(2 151)	(30)
Net interest income after impairment of advances	12 889	(36)
Non-interest income	15 536	337
Net income from operations	28 425	301
Operating expenses	(17 382)	(424)
Income before tax	11 043	(123)
Indirect tax	(488)	(1)
Profit before tax	10 555	(124)
Income tax expense	(2 954)	35
Profit for the year	7 601	(89)
The income statement includes:		
Depreciation	(1 185)	–
Amortisation	(22)	–
Impairment charges	(27)	–
The statement of financial position includes:		
Investments in associates	–	–
Total assets	270 662	104
Total liabilities	260 243	229

Geographical segments

	2014				
R million	**South Africa**	**United Kingdom**	**Asia**	**Other**	**Total**
Net interest income after impairment of advances	20 342	54	(24)	–	20 372
Non-interest income	27 232	1 316	74	–	28 622
Total assets	821 862	26 858	2 489	–	851 209
Non-current assets*	11 379	46	28	–	11 453
Total liabilities	758 283	26 941	1 921	–	787 145

* *Excludes financial instruments, deferred income tax assets, post-employment benefit assets and rights arising under insurance contracts.*

	2014					
	RMB					
	Investment banking	Corporate banking	WesBank	FCC (including Group Treasury)	Consoli-dation and IFRS adjustments	Total
	587	708	6 764	2 069	37	25 199
	(72)	(31)	(2 060)	(34)	(449)	(4 827)
	515	677	4 704	2 035	(412)	20 372
	7 838	1 086	3 002	1 948	(1 125)	28 622
	8 353	1 763	7 706	3 983	(1 537)	48 994
	(3 930)	(1 273)	(4 668)	(3 735)	336	(31 076)
	4 423	490	3 038	248	(1 201)	17 918
	(57)	(25)	(253)	28	–	(796)
	4 366	465	2 785	276	(1 201)	17 122
	(1 223)	(130)	(780)	(77)	754	(4 375)
	3 143	335	2 005	199	(447)	12 747
	(65)	(5)	(375)	(43)	–	(1 673)
	(5)	–	(25)	(1)	(1)	(54)
	(1)	–	(3)	3	(103)	(131)
	–	–	–	–	–	–
	319 688	6 825	156 743	99 879	(2 692)	851 209
	315 450	6 303	155 058	52 103	(2 241)	787 145

Reconciliation of profit for the year to normalised earnings

R million	2014
Profit for the year (per above)	12 747
NCNR preference shareholders	(192)
Attributable earnings to ordinary equity holders	12 555
Headline earnings adjustments	(68)
Headline earnings to ordinary equityholders	12 623
TRS adjustment	(198)
IAS 19 adjustment	(104)
Normalised earnings	12 321

36 SEGMENT INFORMATION continued

36.3 Reportable segments continued

R million	2013 FNB	FNB Africa
Net interest income before impairment of advances	13 152	(7)
Impairment of advances	(2 862)	–
Net interest income after impairment of advances	10 290	(7)
Non-interest income	14 370	303
Net income from operations	24 660	296
Operating expenses	(15 539)	(358)
Income before tax	9 121	(62)
Indirect tax	(388)	(1)
Profit before tax	8 733	(63)
Income tax expense	(2 452)	18
Profit for the year	6 281	(45)
The income statement includes:		
Depreciation	(1 144)	–
Amortisation	(61)	–
Impairment charges	(22)	–
The statement of financial position includes:		
Investments in associates	–	–
Total assets	248 515	123
Total liabilities	239 741	186

Geographical segments

	2013				
R million	**South Africa**	**United Kingdom**	**Asia**	**Other**	**Total**
Net interest income after impairment of advances	17 041	183	18	–	17 242
Non-interest income	23 324	726	72	1	24 123
Total assets	762 876	14 493	2 206	–	779 575
Non-current assets*	10 700	31	27	–	10 758
Total liabilities	708 243	15 201	1 723	1	725 168

* *Excludes financial instruments, deferred income tax assets, post-employment benefit assets and rights arising under insurance contracts.*

2013					
RMB					
Investment banking	Corporate banking	WesBank	FCC (including Group Treasury)	Consoli-dation and IFRS adjustments	Total
473	603	6 303	1 155	4	21 683
(19)	(43)	(1 565)	48	–	(4 441)
454	560	4 738	1 203	4	17 242
7 293	1 039	2 038	963	(1 883)	24 123
7 747	1 599	6 776	2 166	(1 879)	41 365
(3 506)	(1 323)	(3 789)	(2 725)	567	(26 673)
4 241	276	2 987	(559)	(1 312)	14 692
(49)	(32)	(219)	110	–	(579)
4 192	244	2 768	(449)	(1 312)	14 113
(1 174)	(69)	(775)	126	1 191	(3 135)
3 018	175	1 993	(323)	(121)	10 978
(62)	(33)	(297)	(89)	(2)	(1 627)
(13)	–	(15)	(5)	–	(94)
(2)	(248)	–	–	–	(272)
44	–	–	–	–	44
296 530	5 106	134 869	95 724	(1 292)	779 575
294 020	4 801	132 765	54 918	(1 263)	725 168

Reconciliation of profit for the year to normalised earnings

R million	2013
Profit for the year (per above)	10 978
NCNR preference shareholders	(196)
Attributable earnings to ordinary equity holders	10 782
Headline earnings adjustments	85
Headline earnings to ordinary equityholders	10 867
TRS adjustment	85
IAS 19 adjustment	(110)
Normalised earnings	10 842

37 RELATED PARTIES

The Bank defines related parties as:

(i) the parent company;
(ii) subsidiaries and fellow subsidiaries;
(iii) associate companies;
(iv) joint ventures;
(v) associates and joint ventures of the parent company and fellow subsidiaries;
(vi) groups that have significant influence over the parent. If an investor has significant influence over the parent, it is a related party not only of the parent but also of the subsidiaries, including the Bank. If an investor that has significant influence over the parent has subsidiaries, those subsidiaries are also related to the Bank;
(vii) post-employment benefit funds (pension funds);
(viii) key management personnel, being the FirstRand Limited board of directors, the Bank's board of directors and the Bank's executive committee;
(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 ultimate parent of the Bank is FirstRand Limited, incorporated in South Africa.

37.1 Subsidiaries

Details of interests in subsidiaries are disclosed in note 14.

Refer below for details of transactions with subsidiaries and fellow subsidiaries.

The Bank acquired two advances from FirstRand Finance Company, a wholly-owned subsidiary of FRIHL. The Bank and FRIHL are both wholly-owned subsidiaries of FirstRand Limited. This resulted in the recognition of a capital contribution directly in equity by the Bank on recognition of these advances.

37.2 Associates

Details of investments in associates are disclosed in note 15.

During the year the Bank, in the ordinary course of business, entered into various transactions with associates on the same terms as those arranged with third parties.

37 RELATED PARTIES continued

37.3 Details of transactions with relevant related parties appear below

	2014					
R million	**Parent**	**Entities that have significant influence over the parent and their subsidiaries**	**Fellow subsidiaries**	**Own associates**	**Associates of the parent and fellow subsidiaries**	**Joint ventures of the parent and fellow subsidiaries**
Advances						
Opening balance	**–**	**1 237**	**–**	**100**	**1 020**	**3 375**
Disposals of associates and joint ventures	**–**	**–**	**–**	**–**	**(213)**	**–**
Advanced during the year	**–**	**310**	**–**	**25**	**3 363**	**1 825**
Repayments during the year	**–**	**(161)**	**–**	**–**	**(753)**	**(86)**
Interest income	**–**	**–**	**–**	**6**	**30**	**217**
Fair value movements during the year	**–**	**102**	**–**	**–**	**127**	**74**
Provision for impairment loss	**–**	**–**	**–**	**(98)**	**–**	**(30)**
Closing balance	**–**	**1 488**	**–**	**33**	**3 574**	**5 375**
Accounts receivable						
Opening balance	**–**	**–**	**–**	**–**	**174**	**37**
Accrued during the year	**–**	**–**	**–**	**–**	**476**	**55**
Repayments during the year	**–**	**–**	**–**	**–**	**(403)**	**(56)**
Closing balance	**–**	**–**	**–**	**–**	**247**	**36**
Amounts due by holding company and fellow subsidiary companies						
Opening balance	**–**	**–**	**20 628**	**–**	**–**	**–**
Issued during the year	**–**	**–**	**5 377**	**–**	**–**	**–**
Closing balance	**–**	**–**	**26 005**	**–**	**–**	**–**
Derivative assets						
Notional amount	**–**	**5**	**–**	**–**	**3 173**	**20 152**
Fair value	**–**	**–**	**–**	**–**	**47**	**82**
Guarantees received	**–**	**–**	**–**	**–**	**4**	**–**

37 RELATED PARTIES continued

37.3 Details of transactions with relevant related parties appear below

	2014					
R million	**Parent**	**Entities that have significant influence over the parent and their subsidiaries**	**Fellow subsidiaries**	**Own associates**	**Associates of the parent and fellow subsidiaries**	**Joint ventures of the parent and fellow subsidiaries**
Deposits						
Opening balance	**–**	**3**	**–**	**–**	**122**	**60**
Disposals of associates and joint ventures	**–**	**–**	**–**	**–**	**(4)**	**–**
Received during the year	**–**	**–**	**–**	**–**	**470**	**3**
Redeemed during the year	**–**	**–**	**–**	**–**	**(235)**	**(48)**
Interest expense	**–**	**–**	**–**	**–**	**5**	**–**
Closing balance	**–**	**3**	**–**	**–**	**358**	**15**
Accounts payable						
Opening balance	**–**	**–**	**–**	**–**	**41**	**50**
Accrued during the year	**–**	**–**	**–**	**–**	**443**	
Repayments during the year	**–**	**–**	**–**	**–**	**(438)**	**(18)**
Closing balance	**–**	**–**	**–**	**–**	**46**	**32**
Amounts due to holding company and fellow subsidiary companies						
Opening balance	**766**	**–**	**13 762**	**–**	**–**	**–**
Repayments during the year	**(633)**	**–**	**(1 603)**	**–**	**–**	**–**
Closing balance	**133**	**–**	**12 159**	**–**	**–**	**–**
Derivative liabilities						
Notional amount	**–**	**1**	**–**	**–**	**–**	**–**
Interest received	**–**	**–**	**1 069**	**6**	**28**	**216**
Interest paid	**–**	**–**	**467**	**–**	**1**	**52**
Non-interest income	**–**	**19**	**2 695**	**10**	**202**	**1 168**
Operating expenditure (note 3)	**–**	**–**	**785**	**–**	**536**	**57**
Dividends (paid)/received	**(4 289)**	**83**	**–**	**–**	**–**	**7**

37 RELATED PARTIES continued

37.3 Details of transactions with relevant related parties appear below

	2013					
R million	**Parent**	**Entities that have significant influence over the parent and their subsidiaries**	**Fellow subsidiaries**	**Own associates**	**Associates of the parent and fellow subsidiaries**	**Joint ventures of the parent and fellow subsidiaries**
Advances						
Opening balance	–	1 311	–	86	775	513
Disposals of associates and joint ventures	–	–	–	–	(211)	–
Advanced during the year	–	–	–	–	913	5 204
Repayments during the year	–	(161)	–	–	(541)	(2 500)
Interest income	–	–	–	14	46	94
Fair value movements during the year	–	87	–	–	38	31
Provision for impairment loss	–	–	–	–	–	33
Closing balance	–	1 237	–	100	1 020	3 375
Accounts receivable						
Opening balance	–	–	–	–	131	63
Disposals of associates and joint ventures	–	–	–	–	(117)	–
Accrued during the year	–	–	–	–	310	116
Repayments during the year	–	–	–	–	(150)	(142)
Closing balance	–	–	–	–	174	37
Amounts due by holding company and fellow subsidiary companies						
Opening balance	–	–	23 111	–	–	–
Issued during the year	–	–	–	–	–	–
Repayments during the year	–	–	(2 483)	–	–	–
Closing balance	–	–	20 628	–	–	–
Derivative assets						
Notional amount	–	11	–	–	667	14 507
Fair value	–	–	–	–	19	79
Guarantees received	–	–	–	–	–	60

37 RELATED PARTIES continued

37.3 Details of transactions with relevant related parties appear below

	2013					
R million	**Parent**	**Entities that have significant influence over the parent and their subsidiaries**	**Fellow subsidiaries**	**Own associates**	**Associates of the parent and fellow subsidiaries**	**Joint ventures of the parent and fellow subsidiaries**
Deposits						
Opening balance	–	43	–	22	302	449
(Disposals) of associates and joint ventures	–	–	–	–	(83)	–
Received during the year	–	–	–	10	1 403	28
Repayments during the year	–	(40)	–	(32)	(1 506)	(417)
Interest expense	–	–	–	–	6	–
Closing balance	–	3	–	–	122	60
Accounts payable						
Opening balance	–	–	–	–	31	19
Accrued during the year	–	–	–	–	442	219
Repayments during the year	–	–	–	–	(432)	(188)
Closing balance	–	–	–	–	41	50
Amounts due to holding company and fellow subsidiary companies						
Opening balance	247	–	13 038	–	–	–
Issued during the year	519	–	724	–	–	–
Repayments during the year	–	–	–	–	–	–
Closing balance	766	–	13 762	–	–	–
Derivative liabilities						
Notional amount	–	27	–	–	1	–
Interest received	–	–	736	14	13	132
Interest paid	–	–	540	–	7	94
Non-interest income	–	92	1 598	–	466	1 286
Operating expenditure (note 3)	–	–	731	–	437	11
Dividends (paid)/received	(5 710)	–	–	–	–	–

37 RELATED PARTIES continued

37.4 Key management personnel

R million	2014	2013
Total advances		
Opening balance	**48**	37
Advanced during the year	**225**	251
Repayments during the year	**(169)**	(244)
Interest earned	**3**	4
Closing balance	**107**	48
The amounts advanced to key management personnel consists of mortgages, instalment finance agreements, credit cards and other loans.		
Total deposits		
Opening balance	**129**	211
Net withdrawals	**(32)**	(89)
Net interest and service cost	**4**	7
Closing balance	**101**	129
The amounts deposited by key management personnel are held in cheque and current accounts, savings accounts and other term accounts.		
Investments under the co-investment scheme		
Opening balance	**25**	23
Withdrawals	**(2)**	–
Net investment return credited	**19**	2
Closing balance	**42**	25
Other fees		
Financial consulting fees and commissions	**4**	4
Key management compensation*		
Salaries and other short-term benefits	**197**	203
Share-based payments	**398**	225
Total compensation	**595**	428
* *Deferred compensation is included in the above and is payable in FirstRand Limited shares in October 2013/2014.*	**279**	38

A list of the board of directors of the Bank is on page 4 of the annual report.

Details of key management compensation are provided in note 3.

37.5 Post-employment benefit fund

Details of transactions between the Bank and the Bank's post-employment benefit plan are listed below:

	2014	2013
Dividend income	**9**	2
Deposits and current accounts held with the Bank	**367**	309
Interest expenses	**16**	13

38 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In preparing the financial statements, the Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Unless stated otherwise, the judgements applied by management in applying the accounting policies are consistent with the prior year.

38.1 Credit impairment losses on loans and advances

The Bank continuously assesses its credit portfolios for impairment. In determining whether an impairment loss should be recognised in the income statement, the Bank makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans.

(a) Performing loans

The impairment provision of the performing portfolio is split into two parts:

i. The first part consists of the portion of the performing portfolio where an incurred impairment event is inherent in a portfolio of performing advances but has not specifically been identified. An incurred but not reported (IBNR) provision is calculated on this subsegment of the portfolio, based on historical analysis of loss ratios, roll rates from performing status into non-performing status and similar risk indicators over an estimated loss emergence period.

   Estimates of roll rates, loss ratios and similar risk indicators are based on analysis of internal and, where appropriate, external data. Estimates of the loss emergence period are made in the context of the nature and frequency of credit assessments performed, availability and frequency of updated data regarding customer creditworthiness and similar factors. Loss emergence periods differ from portfolio to portfolio, but typically range from 1 to 12 months.

ii. The second part consists of the portfolio specific impairment (PSI) to reflect the decrease in estimated future cash flows for the subsegment of the performing portfolio where there is objective evidence of impairment. The decrease in future cash flows is primarily estimated based on analysis of historical loss and recovery rates for comparable subsegments of the portfolio.

   The assessment of whether objective evidence of impairment exists requires judgement and depends on the class of the financial asset. In the retail portfolios, the account status, namely arrears versus non-arrears status, is taken as a primary indicator of an impairment event. In the commercial portfolios other indicators such as the existence of high risk accounts, based on internally assigned risk ratings and management judgement are used, while the wholesale portfolio assessment (including RMB investment banking and RMB corporate banking) includes a judgemental review of individual industries for objective signs of distress.

38 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES continued

38.1 Credit impairment losses on loans and advances continued

(b) Non-performing loans

Retail loans are individually impaired if three or more instalments are due and unpaid, 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 commercial and wholesale loans) for assets with similar credit risk characteristics. The methodology and assumptions used for estimating 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 11 for a detailed analysis of the impairment of advances and the carrying amounts of the specific and portfolio provisions.

38.2 Impairment of available-for-sale equity instruments

The Bank 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 Bank evaluates factors such as, *inter alia*, the normal volatility in share prices, evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

38.3 Income taxes

The Bank is subject to direct tax in a number of jurisdictions. There may be transactions and calculations for which the ultimate tax determination has an element of uncertainty during the ordinary course of business. The Bank recognises liabilities based on objective estimates of the amount of tax that may be due. Where the final tax determination is different from the amounts that were initially recorded, the difference will impact the income tax and deferred income tax provisions in the period in which such determination is made.

Refer to note 4 and 19 for more information regarding the income tax expense and deferred income tax charges, assets and liabilities.

38.4 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 CGU is the higher of the value in use 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 17. Refer to note 34 for details on how the Bank determines fair value.

38 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES continued

38.5 Employee benefit liabilities

The cost of the benefits and the present value of the defined benefit pension funds and post-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 Bank determines the appropriate discount rate at the end of each year, which represents the interest rate that should be used to determine the present value of the expected cash outflows required to settle the pension and post-employment medical obligations. In determining the appropriate discount rate, the Bank considers the interest rate on high quality corporate bonds and government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. The expected salary and pension increase rates are based on inflation rates, adjusted for salary scales and country specific conditions. The inflation rate used is a rate within the government's monetary policy target for inflation and is calculated as the difference between the yields on portfolios of fixed interest government bonds and a portfolio of index linked bonds of a similar term.

Additional information is provided in note 18.

38.6 Securitisations and structured entities

The Bank sponsors the formation of structured entities primarily for the purpose of allowing clients to hold investments, asset securitisation transactions and buying and selling credit protection.

For more information regarding the Bank's synthetic and traditional securitisations and the respective carrying amounts refer to note 10.

38.7 Associates

The Bank is presumed to have significant influence over an investee if it owns more than 20% of the voting rights and does not have control or joint control.

Significant influence may also arise from rights other than voting rights. These rights include, but are not limited to, the ability to appoint key management personnel and participation in the decision making processes of the investee.

The Bank considers both the rights that it has as well as currently exercisable rights that other investors have when assessing whether it has the practical ability to significantly influence the relevant activities of the investee.

38 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES continued

38.8 Joint arrangements

The Bank has joint control over an arrangement when the contractual agreements that establish the arrangement require unanimous consent of all parties sharing control for decisions that relate to directing the relevant activities of the arrangement. The Bank considers all contractual provisions, explicit and implicit, when assessing whether joint control over the arrangement exists. An example of an implicit provision indicating joint control may be where an entity is established with two 50% shareholders and a 51% majority is required for decisions that relate to the relevant activities of the entity. In that case, although unanimous consent may not explicitly be mentioned in the contracts, it is implicit that both shareholders must agree on decisions that relate to the relevant activities of the entity and joint control implicitly exists in the contract.

The Bank distinguishes protective rights afforded to debt financiers or non-controlling shareholders from the requirement for unanimous consent by looking at the substance of the contractual agreements. The contractual agreements that establish a joint arrangement may contain clauses which provide for the manner in which disputes are handled and arbitration dealt with. These clauses are designed to protect the parties sharing control in the event that unanimous consent cannot be reached and do not prevent an arrangement from being jointly controlled.

The Bank classifies joint arrangements as either joint operations or joint ventures based on the substance of the arrangement and the Bank‘s rights and obligations arising from the joint arrangement. When the Bank has rights to the assets and assumes responsibility for the liabilities relating to the arrangement the Bank classifies the arrangement as a joint operation. When the Bank has rights to the net assets of the arrangement it is classified as a joint venture.

If the joint arrangement is not structured through a separate legal entity, it is classified as a joint operation. When the joint arrangement is structured through a separate legal entity it is classified as a joint venture if the separate legal entity acquires assets and incurs liabilities in its own name. If the Bank has ownership rights in respect of assets acquired by the separate legal entity or has the obligation to settle the liabilities of the separate legal entity in its own name, then it is classified as a joint operation.

38.9 Revenue recognition

Management needs to apply judgement to determine whether the Bank acts as a principal or agent in certain revenue-generating transactions. If the Bank acts as an agent, the gross economic benefits include amounts collected on behalf of the principal and do not result in increases in the equity of the Bank. The amount collected on behalf of the principal is not recognised as revenue, instead the Bank recognises the fee or commission that it earns while acting as an agent as non-interest income.

An entity is acting as a principal when it has exposure to significant risks and rewards associated with selling the goods or providing the services. The Bank considers the following as indicators when assessing whether the Bank is acting as a principal in a transaction:

- the Bank has the primary responsibility of providing the goods or services;
- the Bank carries the inventory risk;
- the Bank has the ability to establish the price, either directly or indirectly; and
- the Bank bears the customer’s credit risk.

39 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The Bank will comply with the following new standards and interpretations from the stated effective date.

		Effective date
IAS 16 (amended)	**Property, Plant and Equipment – Depreciation Method** IAS 16 was amended to clarify that a depreciation method that is based on revenue generated by an activity is not an appropriate method. This is because such a method reflects the pattern of the generation of economic benefits that arise from the operation of the business of which an asset is part, rather than the pattern of consumption of an asset's expected future economic benefits. The amendment is not expected to have an impact on the Bank as the Bank does not apply a revenue-based depreciation approach.	Annual periods commencing on or after 1 January 2016
IAS 16 (amended)	**Property, Plant and Equipment – Bearer Plants** The amendment changes the financial reporting for bearer plants and indicates that bearer plants should be accounted for in the same way as property, plant and equipment because their operations are similar to that of manufacturing. Consequently, the amendment includes bearer plants within the scope of IAS 16, instead of IAS 41. The produce growing on bearer plants will remain within the scope of IAS 41. The amendment falls outside the scope of the Bank's operations and will have no impact on the Bank.	Annual periods commencing on or after 1 January 2016
IAS 19 (amended)	**Employee Benefits** IAS 19 was amended to clarify the requirements relating to how contributions from employees or third parties that are linked to service should be attributed to periods of service. The amendment permits contributions that are independent of the number of years of service to be recognised as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to periods of service. Other contributions by employees or third parties that are not linked to service should be attributed to periods of service using the plan's contribution formula or on a straight-line basis. The amendments have been assessed and are not expected to have a significant impact on the Bank.	Annual periods commencing on or after 1 July 2014
IAS 27 (amended)	**Separate Financial Statements** 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 Bank does not meet the definition of an investment entity and the exemption is not available to the Bank and will have no impact on its results.	Annual periods commencing on or after 1 January 2014

39 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE continued

		Effective date
IAS 32 (amended)	**Financial Instruments: Presentation** The amendments to IAS 32 clarify 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 will not have an impact on the net asset value or results of the Bank. The Bank has performed a preliminary assessment of the potential impact of the amendments and the results indicate that the effect is unlikely to result in significant changes in presentation for the Bank.	Annual periods commencing on or after 1 January 2014
IAS 36 (amended)	**Impairment of Assets** IAS 36 was amended to reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed and clarifies the disclosures required. It also introduces an explicit requirement to disclose the discount rate used in determining impairment or impairment reversals where the recoverable amount calculated 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 Bank's results but may result in additional disclosure.	Annual periods commencing on or after 1 January 2014
IAS 38 (amended)	**Intangible Assets** IAS 38 is amended to introduce a rebuttable presumption that a revenue-based amortisation method for intangible assets is inappropriate for the same reasons as in IAS 16. There are limited circumstances when the presumption can be overcome. The amendment is not expected to have an impact on the Bank as it does not apply a revenue-based amortisation approach.	Annual periods commencing on or after 1 January 2016
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 hedging derivative 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 a change in laws or regulations or the introduction of laws or regulations. The amendments have been assessed and are not expected to have a significant impact on the Bank.	Annual periods commencing on or after 1 January 2014

39 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE continued

		Effective date
IAS 41 (amended)	**Agriculture** The amendment changes the financial reporting for bearer plants and indicates that bearer plants should be accounted for in the same way as property, plant and equipment because their operation is similar to that of manufacturing. Consequently, the amendment includes these within the scope of IAS 16, instead of IAS 41. The produce growing on bearer plants will remain within the scope of IAS 41. The amendment falls outside the scope of the Bank's operations and will have no impact.	Annual periods commencing on or after 1 January 2016
IFRS 9	**Financial Instruments** IFRS 9 was issued in its entirety for the first time on 24 July 2014. The final version of the standard incorporates amendments to the classification and measurement guidance as well as accounting requirements for impairment of financial assets measured at amortised cost. These elements of the final standard are discussed in detail below: - The classification and measurement of financial instruments under IFRS 9 is based on both the business model and the rationale for holding the instruments as well as the contractual characteristics of the instruments. - Impairments in terms of IFRS 9 will be determined based on an expected loss model that considers the significant changes to the assets' credit risk and the expected loss that will arise in the event of default. - IFRS 9 allows financial liabilities not held for trading to be measured at either amortised cost or fair value. If fair value is elected then changes in the fair value as a result of changes in own credit risk should be recognised in other comprehensive income. - The hedge accounting requirements under IFRS 9 are closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures. Hedge effectiveness will now be proved based on management's risk management objectives rather than the 80% – 125% band that was previously stipulated. IFRS 9 also allows for rebalancing of the hedge and the deferral of costs of hedging. The Bank has initiated a process to determine the impact of the standard on the statement of financial position and performance. Until the process has been completed, the Bank is unable to quantify the expected impact.	Annual periods commencing on or after 1 January 2018

39 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE continued

		Effective date
IFRS 10 (amended)	**Consolidated Financial Statements** 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 Bank does not meet the definition of an investment entity and the exemption is not available to the Bank and will have no impact on the results.	Annual periods commencing on or after 1 January 2014
IFRS 11 (amended)	**Joint Arrangements** The IASB has issued an amendment to IFRS 11 to provide guidance on the accounting for acquisitions of interests in joint operations that constitute a business. The amendment indicates that the acquirer of an interest in a joint operation, in which the activity constitutes a business in terms of IFRS 3, is required to apply all the principles on business combinations accounting in IFRS 3. The amendment is not expected to have an impact on the Bank as it does not have any interests in joint operations.	Annual periods commencing on or after 1 January 2016
IFRS 12 (amended)	**Disclosure of Interest in Other Entities** 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, the nature of the relationship and certain transactions between the investment entity and its subsidiaries. The Bank does not meet the definition of an investment entity and as the exemption is not available to the Bank, it will have no impact on the results.	Annual periods commencing on or after 1 January 2014
IFRS 14	**Regulatory Deferral Accounts** IFRS 14 permits an entity which is a first-time adopter of IFRS to continue to account, with some limited changes, for regulatory deferral account balances in accordance with its previous GAAP, both on initial adoption of IFRS and in subsequent financial statements. The standard falls outside the scope of the Bank's operations and will have no impact on the results.	Annual periods commencing on or after 1 January 2016

39 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE continued

		Effective date
IFRS 15	**Revenue** IFRS 15 provides a single, principle-based model to be applied to all contracts with customers. The core principle of IFRS 15 is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard will also provide guidance for transactions that were not previously comprehensively addressed and improve guidance for multiple-element arrangements. The standard also introduces enhanced disclosures about revenue. The Bank is in the process of assessing the impact that IFRS 15 will have on the financial statements. Until the process has been completed, the Bank is unable to determine the significance of the impact.	Annual periods commencing on or after 1 January 2017
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 Bank's operations and will have no impact on the results.	Annual periods commencing on or after 1 January 2014
Annual Improvements	**Improvements to IFRS** The IASB issued the Annual Improvements 2010 – 2012 Cycle and the Annual Improvements 2011 – 2013 Cycle in December 2013, as its latest set of annual improvements to various accounting standards. The collection of amendments to IFRS is in response to six issues addressed during the 2010-2012 cycle and four issues addressed during the 2011 – 2013 cycle. The annual improvement project's aim is to clarify and improve accounting standards. The improvements include terminology and editorial changes which have a minimal effect on recognition and measurement. The amendments have been assessed and are not expected to have a significant impact on the Bank.	Annual periods commencing on or after 1 July 2014

40 TRANSACTIONS INVOLVING THE LEGAL FORM OF A LEASE

The Bank entered into an arrangement with the counterparty for the refurbishment of moveable assets, which are for the exclusive use of the counterparty. The duration of the arrangement is for 14 years and will conclude in May 2016. The transactions are a series of back-to-back leases, which, although the transactions are structured as leases, are in substance a financing arrangement. The arrangement also provides for a final balloon payment, which will be serviced through sinking fund deposits ceded to the Bank into which the counterparty is making payments and earning interest.

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 R0.4 million (2013: R2 million).

Fees received are recognised annually in non-interest income.

41 SUBSEQUENT EVENTS

No matter that is material to the financial affairs of the Bank occurred between the reporting date and the date of the approval of these annual financial statements.

FirstRand Bank consolidated annual financial statements

DIRECTORS' RESPONSIBILITY STATEMENT

TO THE SHAREHOLDER OF FIRSTRAND BANK LIMITED

The directors of FirstRand Bank Limited are responsible for the preparation of the consolidated 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 annual financial statements in accordance with International Financial Reporting Standards (IFRS) and for keeping adequate accounting records in accordance with the Bank Ltd Group's system of internal control. As such, the consolidated annual financial statements include amounts based on judgements and estimates made by management.

In preparing the consolidated 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. The financial statements incorporate full and responsible disclosure in line with the Bank Ltd Group's philosophy on corporate governance.

The directors are responsible for the Bank Ltd 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 Bank Ltd Group is on identifying, assessing, managing and monitoring all known forms of risk across the Bank Ltd 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 annual financial statements in accordance with IFRS and maintaining accountability for the Bank Ltd 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 Bank Ltd 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 annual financial statements fairly present the state of affairs of the Bank Ltd Group at the end of the financial year and the net income and cash flows for the year. Jaco van Wyk, CA(SA), supervised the preparation of the financial statements for the year.

The directors have reviewed the Bank Ltd Group's budget and flow of funds forecast and considered the Bank Ltd Group's ability to continue as a going concern in 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 light of the current financial position and profitable trading history, the directors are satisfied that the Bank Ltd 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 consolidated annual financial statements.

It is the responsibility of the Bank Ltd Group's independent external auditors, Deloitte & Touche and PricewaterhouseCoopers Inc., to report on the fair presentation of the consolidated annual financial statements. These consolidated 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 365.

The consolidated annual financial statements of the Bank Ltd Group, which appear on pages 367 to 558 and specified sections of the *risk management note* were approved by the board of directors on 8 September, 2014 and are signed on its behalf by:

SE Nxasana
Chief executive officer

HS Kellan
Financial director

Sandton

8 September 2014

AUDIT COMMITTEE REPORT

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

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

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

On behalf of the audit committee.

JH van Greuning
Chairman, audit committee

Sandton

8 September 2014

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDER OF FIRSTRAND BANK LIMITED

We have audited the consolidated annual financial statements of FirstRand Bank Limited, set out on pages 368 to 558 which comprise the consolidated statement of financial position as at 30 June 2014, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement 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 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 consolidated 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 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 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 financial statements fairly present, all material respects, the consolidated financial position of FirstRand Bank Limited as at 30 June 2014, and its consolidated financial performance and its consolidated 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 financial statements for the year ended 30 June 2014, 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 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 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: Francois Prinsloo

Sandton

8 September 2014

COMPANY SECRETARY'S CERTIFICATION

DECLARATION BY THE COMPANY SECRETARY IN RESPECT OF SECTION 88(2)(e) OF THE COMPANIES ACT

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

C Low
Company secretary

Sandton

8 September 2014

DIRECTORS' REPORT

NATURE OF BUSINESS

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

SHARE CAPITAL

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

Details of FirstRand Bank Limited's share capital are presented in note 25 of the financial statements.

DIVIDENDS

Ordinary cash dividends of R4 289 million were paid during the 2014 financial year (2013: R5 710 million).

Dividends of R192 million were paid on NCNR preference shares (2013: R196 million).

OWNERSHIP OF FIRSTRAND BANK LIMITED

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

PROFIT AFTER TAX

Profit after tax amounted to R12 750 million (2013: R10 927 million).

CONSOLIDATED FINANCIAL REPORTS

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

LONG-TERM INCENTIVE SCHEMES

Details of the long-term incentive schemes established for the benefit of employees of the Bank by FirstRand Limited can be found in note 27 of the financial statements.

ACCOUNTING POLICIES

1 INTRODUCTION

The Bank Ltd Group adopts the following accounting policies in preparing its financial statements.

In the current year the Bank Ltd Group has applied a number of new and revised IFRS issued by the International Accounting Standards Board (IASB) that are mandatorily effective for accounting periods beginning on or after 1 January 2013. Except for the changes to accounting policies required by these new and revised IFRS as described in accounting policy 2, these policies have been consistently applied to all years presented.

2 BASIS OF PRESENTATION

The Bank Ltd Group's financial statements have been prepared in accordance with IFRS. The following new and revised IFRS have been applied for the first time in the current financial year:

- The accounting requirements relating to defined benefit post-employment plans set out in *IAS 19 Employee Benefits* as amended in June 2011. 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 standard also contains revisions to the calculation of the amount included in profit or loss in respect of the return on plan assets and enhanced disclosure requirements for defined benefit plans. Refer to accounting policy 23.1 for the accounting policy on defined benefit post-employment plans and accounting policy 31 for the impact of the change in accounting policy.
- A package of five standards on consolidation, joint arrangements, associates and disclosures was issued. These comprise *IFRS 10 Consolidated Financial Statements (IFRS 10), IFRS 11 Joint Arrangements (IFRS 11), IFRS 12 Disclosure of Interests in Other Entities (IFRS 12), IAS 27 Separate Financial Statements (IAS 27R) and IAS 28 Investments in Associates and Joint Ventures (IAS 28R)*. Subsequent to the issue of these standards, amendments to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify the transitional provisions for the first-time application of the standards. In the current financial year, the Bank Ltd Group applied the requirements of the new and revised standards, together with the amendments regarding the transitional guidance. Additional details are set out below:
  - IAS 27R replaces *IAS 27 Separate and Consolidated 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 requirements. IAS 27R contains the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates in separate financial statements. These amendments are only applicable to separate financial statements and therefore do not have an impact on the Bank Ltd Group's consolidated financial statements.
  - IAS 28R replaces *IAS 28 Investments in Associates* as a result of the issue of IFRS 11 and IFRS 12. IAS 28R 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. IAS 28R also incorporates the guidance contained in *SIC 13 – Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. The disclosure requirements relating to these investments are now contained in IFRS 12. The Bank Ltd Group has always applied the equity accounting principles in IAS 28 to both investments in associates and joint ventures. The amendments do not impact the amounts reported in the Bank Ltd Group's consolidated financial statements.
  - IFRS 10 establishes one approach for determining consolidation of all entities based on concepts of power, variability of returns and their linkage. The application of control will be applied irrespective of the nature of the investee. The Bank Ltd Group has control over an investee when the Bank Ltd Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The 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 Consolidation – Special Purpose Entities*. Refer to accounting policy 31 for the impact of adoption on the Bank Ltd Group's financial statements and to accounting policy 3 for the Bank Ltd Group's consolidation accounting policy.
  - IFRS 11 supersedes *IAS 31 Joint Ventures* and aims to improve the accounting principles that are applicable to all joint arrangements. The standard distinguishes between two types of joint arrangements, namely joint operations and joint ventures. IFRS 11 places more focus on investors' rights and obligations than on the legal structure of the arrangement when determining whether a joint arrangement exists and how it should be classified. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for the investors' interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint venturer has rights to the net assets of the arrangement and hence equity accounts for the investors interest. Refer to accounting policy 5 for the Bank Ltd Group's accounting policy for joint arrangements and accounting policy 31 for the impact of adoption on the Bank Ltd Group's financial statements.

– IFRS 12 aims to provide consistent disclosure requirements for all forms of interests in other entities, including joint arrangements, associates and consolidated or unconsolidated structured entities. IFRS 12 requires disclosure of information that will enable users to evaluate the nature of the risks associated with the interest and effect of the interest on the financial position, performance and cash flows of the reporting entity. This standard addresses disclosure in the annual financial statements and does not affect recognition and measurement.

- *IFRS 13 Fair Value Measurement* was issued to eliminate inconsistencies in the guidance on how to measure fair value and disclosure requirements that exist under the different IFRS that require or permit fair value measurement. The revised measurement requirements did not have a significant impact on the net asset value of the Bank Ltd Group for the current financial year. The revised disclosure requirements of IFRS 13 have been incorporated in the notes to the annual financial statements for the year ended 30 June 2014. The requirements of IFRS 13 are applicable on a prospective basis and in terms of the transitional provisions no comparatives are required for the new disclosures. Therefore, no prior year amounts have been restated as a result of the adoption of IFRS 13 and comparative information has not been provided in the disclosures.
- The amendments to *IFRS 7 Financial Instruments: Disclosures* requires entities to provide additional disclosures relating to recognised financial assets and financial liabilities that are set-off in accordance with paragraph 42 of *IAS 32 Financial Instruments: Presentation*. The additional disclosures include information about the gross amounts subject to rights of set-off, amounts set off in accordance with the accounting standards and the related net credit exposure as well as information about the rights under enforceable master netting and similar arrangements. This amendment addresses disclosure in the annual financial statements only and does not affect the amount of offsetting applied to financial assets and financial liabilities in the Bank Ltd Group's statement of financial position.
- *IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine* 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 Bank Ltd Group's operations and has no impact on the Bank Ltd Group.
- Certain amendments were issued to *IFRS 1 First-time Adoption of International Financial Reporting Standards* during March 2012. 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 when accounting for these loans on transition. It provides the same relief to first-time adopters as is granted to existing preparers of IFRS financial statements when applying *IAS 20 Accounting for Government Grants and Disclosure of Government Assistance*. The Bank Ltd Group is not a first-time adopter and this amendment has no impact on the Bank Ltd Group nor has it resulted in the restatement of prior year numbers.
- As part of its *Annual Improvements Project*, the IASB has made amendments to a number of accounting standards. The annual improvements for the 2009 – 2011 cycle issued in May 2012 were adopted in the current financial year. These amendments did not have a significant impact on the Bank Ltd Group's results nor have they resulted in the restatement of prior year numbers.

The Bank Ltd Group has voluntarily changed the manner in which it presents interest that is incurred to fund the Bank Ltd Group's activities that earn fair value income, by reclassifying it to fair value income. This change in the presentation has had no impact in the net asset value or profit of the Bank Ltd Group and only affects classification on the income statement. The impact on previously reported results is set out in accounting policy 31.

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

- financial assets and financial 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 or loss; and
- employee benefit liabilities, valued using the projected unit credit method.

The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank Ltd Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are outlined in note 40.

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 and structured entities over which the Bank has control. The Bank has control over an investee when the Bank is exposed, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

When assessing whether control exists the Bank considers all existing substantive rights that result in the current ability to direct relevant activities. Subsidiaries are consolidated from the date on which the Bank acquires effective control. Consolidation is discontinued from the date that control over the subsidiary is lost.

The Bank Ltd Group will consolidate a structured entity when the substance of the relationship between the Bank Ltd Group and the structured entity indicates that the Bank Ltd Group controls the structured entity.

Intercompany transactions, balances and unrealised gains on transactions between Bank Ltd 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 Bank Ltd Group.

3.2 Business Combinations

The Bank Ltd Group uses the acquisition method of accounting to account for business combinations. A business is defined as an integrated set of activities and assets that are capable of being conducted and managed for the purposes of providing a return. It is presumed that a business exists if goodwill is present in the acquired set of assets and activities. Evidence to the contrary would be needed to overcome this presumption.

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 Bank Ltd 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 Bank Ltd 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 Bank Ltd 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 immediately recognised 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 Bank Ltd Group's equity. Non-controlling interests may initially be measured at either fair value or 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 Bank Ltd Group will apply the measurement choice 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 of the subsidiary since the acquisition date.

Non-controlling interests are treated as equity participants of the subsidiary company. The Bank Ltd Group treats all acquisitions and disposals of its non-controlling interests in subsidiary companies, which do not result in a loss of control, as transactions with equityholders. 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 Bank Ltd Group.

4 ASSOCIATES

Associates are entities over which the Bank Ltd Group has significant influence but does not control or jointly control. The Bank Ltd Group is presumed to have significant influence where it has power over between 20% and 50% of the voting rights.

The Bank Ltd Group includes the results of associates in its consolidated financial statements using the equity accounting method from the date of acquisition. Refer to accounting policy 6 for details on the application of the equity accounting method.

Equity accounting is discontinued from the date that the Bank Ltd Group ceases to have significant influence over the associate or from the date that the investment is classified as a non-current asset held for sale in accordance with IFRS 5.

Investments in associates acquired and held exclusively with the view to dispose of in the near future (within 12 months) are not accounted for using the equity accounting method, but are measured at fair value less cost to sell in terms of IFRS 5.

5 JOINT ARRANGEMENTS

Joint arrangements are arrangements over which the Bank Ltd Group has joint control in terms of a contractual agreement with the other parties to the arrangement. Joint control exists only when decisions about the relevant activities of the arrangement require the unanimous consent of the parties sharing control.

A joint arrangement may either be a joint operation or a joint venture depending on the rights and obligations of the parties to an arrangement and classification is based on the substance at inception. A joint operation is when the Bank Ltd Group and the other contracting parties have rights to the assets and assume responsibility for the liabilities of that arrangement. A joint venture is when the Bank Ltd Group and other contracting parties have rights to the net assets of the arrangement.

The Bank Ltd Group includes in its statement of financial position all assets and liabilities that arise from its interest in joint operations. The Bank Ltd Group's profit or loss includes all revenues and expenses arising from the interest in joint operations. These assets, liabilities, revenue and expenses are accounted for in accordance with the IFRS applicable to the particular assets, liabilities, revenue and expenses.

The Bank Ltd Group accounts for its investments in joint ventures using the equity accounting method from the date that joint control is obtained. Refer to accounting policy 6, for details on the application of the equity accounting method.

Equity accounting is discontinued from the date that the Bank Ltd Group ceases to have joint control over the joint venture or from the date that the investment is classified as a non-current asset held for sale in accordance with IFRS 5. Investments that are classified as held for sale are measured at fair value less costs to sell in accordance with IFRS 5.

Investments in 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 Bank Ltd Group recognises its interest in joint ventures at cost less impairments.

6 EQUITY ACCOUNTING

When equity accounting is applied to an investment in an associate or joint venture the investment is initially recognised at cost. The carrying amount is subsequently increased or decreased to recognise the Bank Ltd Group's share of the profit or loss from the investee after the date of acquisition. Goodwill on the acquisition of associates and joint ventures is included in the equity-accounted carrying amount.

Earnings attributable to ordinary shareholders include the Bank Ltd Group's share of earnings of associates and joint ventures. Other comprehensive income includes the Bank Ltd 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. Changes in the Bank Ltd Group's share of the net asset value that are not recorded in the investee's other comprehensive income are recorded directly in equity. These amounts are recycled to profit or loss when the investment ceases to be equity accounted.

The most recent audited annual financial statements of associates and joint ventures are used by the Bank Ltd Group in applying the equity method of accounting. These are not always drawn up to the same date as the financial statements of the Bank Ltd Group. Where the reporting date of the investee is different from that of the Bank Ltd Group, the Bank Ltd Group uses the most recently available financial statements of the investee as well as reviews the investee's management accounts for material transactions during the in-between period. In instances where significant events occurred between the last reporting date of an investee and the reporting date of the Bank Ltd Group, the effect of such events are adjusted for. The Bank Ltd Group has applied this principle consistently since adopting the equity accounting method for associates and joint ventures.

Certain loans and other long-term interests in associates and joint ventures are considered to be in substance part of the net investment in the entity when settlement is neither planned nor likely to occur in the foreseeable future. Such items may include preference shares and long-term receivables or loans but do not include trade receivables or any long-term loans for which adequate collateral exists. These loans and other long-term interests in associates and joint ventures are included in advances on the face of the statement of financial position. However, the value of such loans is included in the carrying amount of the investee for purposes of determining the share of losses of the investee attributable to the Bank Ltd Group and for impairment testing purposes.

At each reporting period the Bank Ltd Group assesses whether there is any objective evidence of impairment as described in *IAS 39 Financial Instruments: Recognition and Measurement* in relation to an investment in an associate. If such evidence of impairment exists, the entire carrying amount of the investment, including the goodwill and other long-term interests, is tested for impairment in terms of *IAS 36 Impairment of Assets*. Any resulting impairment losses are recognised as part of the share of profits or losses from associates or joint ventures.

When equity accounting is discontinued the Bank Ltd Group measures any investment it has retained in the entity at fair value and recognises the resulting gain or loss in gains less losses from investing activities. The gain or loss is measured as the difference between the fair value of the retained investment and the carrying amount of the original investment at the date on which equity accounting is discontinued. After discontinuing equity accounting, the Bank Ltd Group accounts for any retained investment in the entity in accordance with the relevant IFRS as appropriate.

The Bank Ltd Group does not account for any further losses of the associate 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 investee.

The Bank Ltd Group resumes equity accounting only after its share of the profits equals the share of losses not recognised. The Bank Ltd Group increases the carrying amount of investments with its share of the associate and joint venture's income when equity accounting is resumed.

Unrealised gains on transactions between the Bank Ltd Group and its associates or joint ventures are eliminated to the extent of the Bank Ltd Group's interest in the entity. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of the investee have been changed where necessary to ensure consistency with the policies adopted by the Bank Ltd Group.

7 INTEREST INCOME AND EXPENSE

The Bank Ltd 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 a 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 Bank Ltd 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 on instruments designated at fair value through profit or loss are included in fair value income except to the extent that the interest relates to:

- the Bank Ltd Group's funding operations;
- items to which hedge accounting is applied; and
- interest on intercompany balances.

From an operational perspective, the Bank Ltd Group suspends the accrual of contractual interest on non-performing advances, subject to certain curing assumptions. However, in terms of IAS 39, interest income on impaired advances is recognised at 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.

8 FAIR VALUE GAINS AND LOSSES

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

9 NET FEE AND COMMISSION INCOME

9.1 Fee and commission income

The Bank Ltd 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 for 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 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 bills and promissory notes endorsed is credited to profit or loss over the lives of the relevant instruments on a time apportionment basis.

9.2 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.

10 DIVIDEND INCOME

The Bank Ltd Group recognises dividend income when the Bank Ltd 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.

11 FOREIGN CURRENCY TRANSLATION

11.1 Functional and presentation currency

The financial statements are presented in South African rand (R), which is the functional and presentation currency of the holding company of the Bank Ltd Group.

11.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using 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 fair value gains or losses in non-interest income.

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 debt 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 fair value are recognised in other comprehensive income.

Foreign exchange gains or losses on monetary items measured at amortised cost are recognised in profit or loss as part of foreign exchange differences, within non-interest income.

11.3 Foreign operations

The results and financial position of all the Bank Ltd Group's foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency of the Bank Ltd 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 Bank Ltd 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 Bank Ltd Group reattributes the proportionate share of the cumulative exchange differences recognised in other comprehensive income to 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.

12 BORROWING COSTS

The Bank Ltd 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.

13 TAXATION

13.1 Indirect tax

Indirect tax is disclosed separately from income tax in the income statement. Indirect tax includes other taxes paid to central and local governments, including value added and securities transfer tax.

13.2 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 Bank Ltd Group operates.

14 RECOGNITION OF ASSETS

14.1 Assets

The Bank Ltd 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.

14.2 Contingent assets

The Bank Ltd Group discloses a contingent asset where, as a result of past events, it is highly likely that economic benefits will flow to the Bank Ltd Group, 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 control of the entity.

14.3 Managed funds and trust activities

Certain divisions within the Bank Ltd Group engage in trust or other fiduciary activities that result in the managing of assets on behalf of clients. The Bank Ltd Group excludes these assets and liabilities from the statement of financial position as these are not assets and liabilities of the Bank Ltd Group but of the client.

Fee income earned and fee expenses incurred by the Bank Ltd Group relating to these activities are, however, recognised in fee and commission income in the period to which the service relates.

15 LIABILITIES, PROVISIONS AND CONTINGENT LIABILITIES

15.1 Liabilities and provisions

The Bank Ltd 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.

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Bank Ltd 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.

15.2 Contingent liabilities

The Bank Ltd 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.

16 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.

17 FINANCIAL INSTRUMENTS

17.1 General

Financial instruments carried on the statement of financial position include all assets and liabilities, including derivatives but exclude investments in associates, commodities, property and equipment, deferred income tax, tax payable, intangible assets, post-employment liabilities, provisions and certain non-current assets. The Bank Ltd Group recognises financial assets and financial liabilities on its statement of financial position when it becomes a party to the contractual provisions of the instrument.

The Bank Ltd 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 Bank Ltd 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.

17.1.1 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 financial liabilities are designated on initial recognition as at fair value through profit or 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 associated gains and losses 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 financial liabilities designated at fair value through profit or loss under (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 through profit or loss to eliminate the accounting mismatch between these assets and the underlying derivatives used to manage the risk arising from 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 recognised at fair value.

Financial instruments designated under (ii) include certain private equity and other investment securities.

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 gains or losses in the period in which they arise.

17.1.2 Loans and receivables

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

- those that the Bank Ltd Group intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;
- those that the Bank Ltd 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 Bank Ltd Group has not designated such loans and receivables in any of the other financial asset categories.

17.1.3 Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank Ltd Group's management has the positive intention and ability to hold to maturity. If the Bank Ltd Group sells more than an insignificant amount of held-to-maturity investments, the entire category is considered to be tainted in terms of IAS 39 and would have to be reclassified to available-for-sale.

The Bank Ltd Group measures held-to-maturity investments at amortised cost using the effective interest method, less any impairment.

17.1.4 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 Bank Ltd 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 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 investing 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 or loss, are classified as available-for-sale.

17.1.5 Classification of financial liabilities, equity instruments and compound financial instruments

The Bank Ltd 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 Bank Ltd Group after the deduction of liabilities.

Compound instruments are those financial instruments that have components of both financial liabilities and equity. At initial recognition the compound financial instruments are split into its separate components and accounted for as financial liabilities or equity as appropriate. The Bank Ltd Group separately measures and recognises the fair value of the debt component of an issued convertible bond as a financial liability, with the residual value allocated to equity.

The initial fair value of the liability component is recognised at the fair value of a similar non-convertible instrument. The equity component is initially recognised 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.

17.1.6 Measurement of financial liabilities

Financial liabilities are measured at amortised cost, except for certain liabilities that are designated as at fair value through profit or loss. Interest expense is recognised in profit or loss over the period of the borrowing using the effective interest method. Refer to accounting policies 7 and 8 for the accounting treatment applied to interest expense and fair value gains or losses respectively.

The Bank Ltd Group calculates interest on the liability component of compound financial instruments based on the market rate for a similar non-convertible instrument at the inception thereof.

17.2 Offsetting of financial instruments

The Bank Ltd Group offsets financial assets and financial liabilities and represents the net amount 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.

17.3 Embedded derivatives

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

- risks and characteristics are not closely related to those of the host contract;
- the definition of a derivative is met; and
- the 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.

17.4 Derecognition

The Bank Ltd Group derecognises a financial asset when:

- the contractual rights to the asset expires; or
- there is a transfer of the contractual rights to receive the cash flows of the financial asset and substantially all of the risks and rewards related to the ownership of the financial asset are transferred; or
- the Bank Ltd 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 Bank Ltd Group retains substantially all the risks and rewards of ownership of the financial asset, the Bank Ltd Group continues to recognise the financial asset in its entirety and recognises a financial liability for the consideration received.

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

- if the Bank Ltd 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 Bank Ltd Group has retained control, it continues to recognise the financial asset to the extent of its continuing involvement in the financial asset.

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

17.5 Sale and repurchase agreements and securities lending

The 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 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 IAS 39. The difference between the purchase and resale price is in substance interest and recognised in accordance with the Bank Ltd Group's policy for net 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 IAS 39.

The Bank Ltd Group does not recognise securities borrowed in the consolidated financial statements, unless on sold to third parties, in which case the obligation to return these securities is recognised as a financial liability at fair value with any gains or losses included in fair value income.

17.6 Impairments of financial assets

17.6.1 General

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

17.6.2 Assets carried at amortised cost

The Bank Ltd Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets are 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 Bank Ltd 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;
- it becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be allocated to the individual financial assets in the group, including:
  - adverse changes in the payment status of issuers or debtors in the group; or
  - national or local economic conditions that correlate with defaults on the assets in the group.

The Bank Ltd 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 Bank Ltd 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 Bank Ltd 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 Bank Ltd 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 in accordance with 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 reflect and are directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are regularly reviewed by the Bank Ltd 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 Bank Ltd 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 excludes 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 performing 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 Bank Ltd Group recognises repossessed assets as part of accounts receivable in the statement of financial position.

17.6.3 Available-for-sale financial assets

The Bank Ltd 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 an impairment exists. The difference between the acquisition cost and the current fair value less any previous impairment losses recognised in profit or loss is removed from other comprehensive income and recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

17.7 Derivative financial instruments and hedging

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

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

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

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

The Bank Ltd Group documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions at the inception of the transaction. The Bank Ltd 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.

17.7.1 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 interest accrued or paid relating to interest rate swaps and hedged items are reflected in interest income or interest expense. Effective changes in fair value of currency futures are reflected in non-interest income. Other gains or losses, including the ineffective portion of all fair value hedges, are recorded as fair value gains or losses 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.

17.7.2 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 gains or losses in non-interest income in profit or loss.

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 and losses previously deferred in other comprehensive income are reclassified from other comprehensive income and included in the initial measurement of the non-financial asset or liability.

For financial assets and financial 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 financial liabilities is recognised in non-interest income as fair value gains or losses.

18 COMMODITIES

When the Bank Ltd Group acquires commodities and 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 gains or losses.

Where the Bank Ltd 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 and 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 measured at fair value through profit or loss.

19 PROPERTY AND EQUIPMENT

The Bank Ltd 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 Bank Ltd Group and the cost of the item can be reliably measured. 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 Bank Ltd Group leases under an operating lease in order to prepare the property for its intended use and from which the Bank Ltd 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 balance sheet date. Assets 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 immediately written down 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.

20 LEASES

20.1 The Bank Ltd Group is the lessee

20.1.1 Finance leases

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

Finance leases are capitalised as assets at the fair value of the leased asset at the inception of the lease, or, if lower, at the estimated present value of the underlying lease payments. The Bank Ltd 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 Bank Ltd 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.

20.1.2 Operating leases

The Bank Ltd Group classifies leases as operating leases if the lessor effectively retains the risks and rewards of ownership of the leased asset. The Bank Ltd Group 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 Bank Ltd 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.

20.2 The Bank Ltd Group is the lessor

20.2.1 Finance leases

The Bank Ltd Group recognises as advances, assets sold under a finance lease at the present value of the lease payments receivable. 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.

20.2.2 Operating leases

The Bank Ltd Group includes assets held under operating lease as a separate category of property and equipment. The Bank Ltd Group 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.

20.3 Instalment credit agreements

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

The Bank Ltd 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.

21 INTANGIBLE ASSETS

21.1 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 Bank Ltd Group's share of the fair value of the identifiable net assets of the acquired business, subsidiary, associate or joint venture at the date of acquisition. Goodwill on the acquisition of businesses and subsidiaries is included in intangible assets. Goodwill on acquisitions of associates and joint ventures is included in the carrying amount of the investment.

21.2 Computer software development costs

The Bank Ltd 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 Bank Ltd Group exceeding the costs incurred for more than one financial period, the Bank Ltd Group capitalises such costs and recognises an intangible asset.

The Bank Ltd 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.

21.3 Other intangible assets

The Bank Ltd Group expenses the costs incurred on internally generated intangible assets, such as trademarks, patents and similar rights and assets, to profit or loss in the period in which the costs are incurred. The costs incurred on the development of separately identifiable internally generated intangible assets, are capitalised by the Bank Ltd Group if:

- the Bank Ltd 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 Bank Ltd Group's intention to complete the intangible asset and use or sell it;
- the Bank Ltd 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 Bank Ltd 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 Bank Ltd 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.

21.4 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 Bank Ltd 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 Bank Ltd Group recognises a settlement gain or loss respectively.

21.5 Impairment of intangible assets

Management reviews the carrying value of intangible assets whenever objective evidence of impairment exists. An impairment loss is immediately recognised in profit or loss as part of operating expenses when the carrying value is greater 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.

21.6 Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use. 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.

22 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 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.

The Bank Ltd 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-retirement benefits and tax losses carried forward. The Bank Ltd 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 Bank Ltd 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 financial assets and derivatives designated as hedging instruments in effective cash flow hedges, which are recognised directly in other comprehensive income, is also recognised directly to 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 Bank Ltd Group will offset only if it 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.

23 EMPLOYEE BENEFITS

23.1 Post-employment benefits

The Bank Ltd Group operates defined benefit and defined contribution schemes, the assets of which are held in separate trustee administered funds. A defined contribution plan is one under which the Bank Ltd Group pays a fixed contribution and has no legal or constructive obligation to pay further contributions. All post-employment plans that do not meet the definition of a defined contribution plan are defined benefit plans.

For defined contribution plans the Bank Ltd Group recognises the contributions as an expense, included in staff costs, when the employees have rendered the service entitling them to the contributions. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

The defined benefit plans are funded by contributions from employees and the relevant Bank Ltd Group companies, taking into account the recommendations of independent qualified actuaries. 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. Where the value is a net asset, the amount recognised is limited to the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of 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 payments required to settle the obligation resulting from employee service in current and prior periods. The discount rate used is the rate of high quality corporate bonds that are denominated in the currency in which the benefits will be paid and have terms to maturity approximating the terms of the related pension liability. In the absence of a deep and liquid bond market the rates on government bonds are used.

The fair value of the plan assets is calculated using the Bank Ltd Group's accounting policies, and estimates and assumptions for similar assets. Where the plan assets include qualifying insurance policies that exactly match the amount and timing of some or all of the benefits under the plan, the fair value is deemed to be the present value of the related obligation. If the qualifying insurance policy has a limit of indemnity the fair value of the insurance policy is limited to that amount.

The following items are included in profit or loss as part of staff costs:

- current service costs calculated on the projected unit credit method;
- past service costs relating to plan amendments made in the current period;
- gains or losses on curtailments that took place in the current period; and
- net interest income calculated by applying the discount rate at the beginning of the period to the net asset or liability.

All other remeasurements in respect of the obligation and plan assets, including actuarial gains or losses, are recognised in other comprehensive income. The remeasurements recognised in other comprehensive income will not be reclassified to profit or loss.

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

23.2 Termination benefits

The Bank Ltd 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 Bank Ltd Group has a present obligation at the earlier of when the Bank Ltd Group can no longer withdraw the offer of the termination benefit and when the Bank Ltd Group recognises any related restructuring costs.

23.3 Leave pay provision

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

23.4 Bonuses

The Bank Ltd Group recognises a liability and an expense for management and staff bonuses when it is probable that the economic benefits will be paid and the amount can be reliably measured. The expense is included in staff costs.

24 SHARE CAPITAL

24.1 Share issue costs

Instruments issued by the Bank Ltd 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.

24.2 Dividends paid

Dividends on ordinary shares and NCNR preference shares are recognised against equity and a corresponding liability is 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.

24.3 Distributions of non-cash assets

Distributions of non-cash assets to shareholders are measured at the fair value of the asset to be distributed. The carrying amount of the dividend payable is remeasured at the end of each reporting period and on settlement date, with changes recognised in equity as an adjustment to the distribution. The difference between the carrying amount of the dividend payable and the fair value of the assets on the date of settlement is recognised in profit or loss for the period.

Distributions of non-cash assets under common control are specifically excluded from the scope of IFRIC 17 and are measured at the carrying amount of the assets to be distributed.

24.4 Treasury shares

Where the Bank Ltd Group purchases its own equity share capital, the consideration paid, including any directly attributable incremental costs, is deducted from total shareholders' equity as treasury shares until they are reissued or sold. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental costs, is included in shareholders' equity.

25 SEGMENT REPORTING

An operating segment is a component of the Bank Ltd Group that engages in business activities from which the Bank Ltd Group may earn revenue and incur expenses. An operating segment is also a component of the Bank Ltd 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 Bank Ltd Group has been identified as the Bank Ltd Group's chief operating decision maker.

The Bank Ltd 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 segment revenue, absolute profit or loss for the period or total assets are 10% or more of all the segments revenue, profit or loss or total assets, are reported separately.

Assets, liabilities, revenue or expenses that are not directly attributable to a particular segment are allocated between segments where there is a reasonable basis for doing so. The Bank Ltd 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 Bank Ltd Group.

26 SHARE-BASED PAYMENT TRANSACTIONS

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

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

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

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

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

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

26.1 Equity settled share-based compensation plans

The Bank Ltd Group expenses the fair value of the employee services received in exchange for the grant of 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 services received is calculated with reference to the fair value of the options on grant date.

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

Amounts recognised for services received if the options granted do not vest because of failure to satisfy a vesting condition, are reversed through profit or loss. If options are forfeited after the vesting date, an amount equal to the value of the options forfeited is debited against the share-based payment reserve and credited against retained earnings in the statement of changes in equity.

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

26.2 Cash settled share-based payment compensation plans

The Bank Ltd 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 Bank Ltd Group remeasures the fair value of the liability at each reporting date until settled. The liability is recognised over the vesting period and any changes in the fair value of the liability are recognised in profit or loss.

27 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 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.

28 DISCONTINUED OPERATIONS

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

29 CUSTOMER LOYALTY PROGRAMMES

The Bank Ltd 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. The consideration allocated to 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 reward credits are recognised as fee and commission expenses as incurred.

30 SERVICE CONCESSION ARRANGEMENTS

Service concession arrangements are recognised if the Bank Ltd Group acts as an operator in the provision of public services. Where the Bank Ltd 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 Bank Ltd Group's accounting policy for financial assets. Alternatively, where the Bank Ltd Group is entitled to collect monies for usage from the public, the Bank Ltd Group recognises an intangible asset. The intangible asset is measured in accordance with the Bank Ltd Group's accounting 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.

31 RESTATEMENT OF PRIOR YEAR NUMBERS

31.1 Description of restatements

IFRS 10; IFRS 11; IFRS 12; IAS 27R and IAS 28R

Under IFRS 10 there is one approach for determining consolidation of all entities based on concepts of power; variability of returns and their linkage. The application of control will be applied irrespective of the nature of the investee. The Bank has control over an investee when the Bank Ltd Group is exposed, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

IFRS 11 places more focus on the investors' rights and obligations than on the structure of the arrangement when determining whether a joint arrangement exists.

IFRS 12 is a comprehensive standard on disclosure requirements for all forms of interests in other entities, including unconsolidated structured entities. The standard impacts disclosure only and has no impact on recognition and measurement.

The adoption of IFRS 10 and 11 resulted in the following:

- The reclassification of a number of entities between associates and joint ventures. As it has always been the Bank Ltd Group's policy to account for joint ventures in accordance with the equity accounting method the reclassification did not result in a change in measurement.
- An investment security previously classified as available-for-sale is now considered to be an associate with the investment being classified as an advance.
- First and third party insurance cell captives do not meet the definition of asset silos in terms of IFRS 10 and as such do not qualify for consolidation. The insurance policies in the Bank's first party cells insure the risk arising from the Bank's Ltd Group's defined benefit plans. As such those insurance contracts are now considered to be plan assets in terms of IAS 19 and are accounted for as such. The excess profit in the cell captive is recognised as a financial asset in accounts receivable.

IAS 19

Amendments to IAS 19 require that all actuarial gains and losses in respect of defined benefit post-employment plans are no longer deferred in terms of the corridor but recognised in other comprehensive income. In addition the standard no longer requires the expected return on plan assets to be recognised in profit or loss, rather a net interest income/expense be recognised on the net asset or liability. All other remeasurements relating to plan assets are also recognised

Interest expense on fair value activities

The Bank Ltd Group has elected to present interest expense incurred on liabilities that fund the activities that generate fair value income as fair value income.

The change in presentation has had no impact on the net asset value of the Bank Ltd Group only on the classification of items in the income statement.

31 RESTATEMENT OF PRIOR YEAR NUMBERS continued

Restated consolidated statement for the year ended 30 June 2013

R million	As previously reported	IFRS 10 and 11	IAS 19	Interest expense	Restated
Interest and similar income	39 649	(22)	–	–	39 627
Interest expense and similar charges	(24 188)	–	–	6 239	(17 949)
Net interest income before impairment of advances	15 461	(22)	–	6 239	21 678
Impairment of advances	(4 441)	–	–	–	(4 441)
Net interest income after impairment of advances	11 020	(22)	–	6 239	17 237
Non-interest income	30 398	(57)	–	(6 239)	24 102
Income from operations	41 418	(79)	–	–	41 339
Operating expenses	(26 928)	240	15	–	(26 673)
Net income from operations	14 490	161	15	–	14 666
Share of (loss)/profit of associates after tax	(77)	52	–	–	(25)
Income before tax	14 413	213	15	–	14 641
Indirect tax	(579)	–	–	–	(579)
Profit before tax	13 834	213	15	–	14 062
Income tax expense	(3 071)	(64)	–	–	(3 135)
Profit for the year	10 763	149	15	–	10 927
Attributable to:					
Ordinary equityholders	10 567	149	15	–	10 731
NCNR preference shareholders	196	–	–	–	196
Profit for the year	10 763	149	15	–	10 927

31 RESTATEMENT OF PRIOR YEAR NUMBERS continued

Restated consolidated statement of comprehensive income for the year ended 30 June 2013

R million	As previously reported	IFRS 10 and 11	IAS 19	Interest expense	Restated
Profit for the year	10 763	149	15	–	10 927
Items that may subsequently be reclassified to profit or loss:					
Cash flow hedges	853	–	–	–	853
Gains arising during the year	417	–	–	–	417
Reclassification adjustments for amounts included in profit or loss	768	–	–	–	768
Deferred income tax	(332)	–	–	–	(332)
Available-for-sale financial assets	(117)	–	–	–	(117)
Losses arising during the year	(134)	–	–	–	(134)
Reclassification adjustments for amounts included in profit or loss	(32)	–	–	–	(32)
Deferred income tax	49	–	–	–	49
Exchange differences on translating foreign operations	245	–	–	–	245
Gains arising during the year	245	–	–	–	245
Items that may not subsequently be reclassified to profit or loss:					
Remeasurements on the defined benefit post-employment plans	–	–	22	–	22
Gains arising during the year	–	–	30	–	30
Deferred income tax	–	–	(8)	–	(8)
Other comprehensive income for the year	981	–	22	–	1 003
Total comprehensive income for the year	11 744	149	37	–	11 930
Attributable to:					
Ordinary equityholders	11 548	149	37	–	11 734
NCNR preference shareholders	196	–	–	–	196
Total comprehensive income for the year	11 744	149	37	–	11 930

31 RESTATEMENT OF PRIOR YEAR NUMBERS continued

Restated consolidated statement of financial position as at 30 June 2013

R million	As previously reported	IFRS 10 and 11	IAS 19	Restated
Assets				
Cash and cash equivalents	42 306	–	–	42 306
Derivative financial instruments	51 755	–	–	51 755
Commodities	6 016	–	–	6 016
Accounts receivable	4 562	12	–	4 574
Current tax asset	144	(4)	–	140
Advances	548 236	329	–	548 565
Amounts due by holding company and fellow subsidiary companies	20 882	(255)	–	20 627
Investment securities and other investments	95 025	(64)	–	94 961
Investments in associates	61	–	–	61
Property and equipment	10 421	–	–	10 421
Intangible assets	154	–	–	154
Post-employment benefit asset	2 995	(2 995)	–	–
Total assets	782 557	(2 977)	–	779 580
EQUITY AND LIABILITIES				
Liabilities				
Short trading positions	2 923	–	–	2 923
Derivative financial instruments	52 940	–	–	52 940
Creditors and accruals	8 934	(15)	–	8 919
Deposits	629 842	30	–	629 872
Provisions	246	–	–	246
Employee liabilities	9 239	(2 545)	308	7 002
Other liabilities	1 062	–	–	1 062
Amounts due to holding company and fellow subsidiary companies	14 579	(57)	–	14 522
Deferred income tax liability	250	(200)	–	50
Tier 2 liabilities	7 625	–	–	7 625
Total liabilities	727 640	(2 787)	308	725 161
Equity				
Ordinary shares	4	–	–	4
Share premium	15 304	–	–	15 304
Reserves	36 607	(190)	(308)	36 109
Capital and reserves attributable to ordinary equityholders	51 915	(190)	(308)	51 417
NCNR preference shares	3 000	–	–	3 000
Capital and reserves attributable to equityholders of the Bank Ltd Group	54 915	(190)	(308)	54 417
Non-controlling interests	2	–	–	2
Total equity	54 917	(190)	(308)	54 419
Total equity and liabilities	782 557	(2 977)	–	779 580

31 RESTATEMENT OF PRIOR YEAR NUMBERS continued

Restated consolidated statement of financial position as at 30 June 2012

R million	As previously reported	IFRS 10 and 11	IAS 19	Restated
Assets				
Cash and cash equivalents	31 565	(5)	–	31 560
Derivative financial instruments	52 392	–	–	52 392
Commodities	5 108	–	–	5 108
Accounts receivable	3 301	13	–	3 314
Current tax asset	253	(3)	–	250
Advances	482 907	361	–	483 268
Amounts due by holding company and fellow subsidiary companies	23 302	(195)	–	23 107
Investment securities and other investments	78 809	(86)	–	78 723
Investments in associates	258	(71)	–	187
Property and equipment	8 882	–	–	8 882
Intangible assets	336		–	336
Reinsurance assets	2 986	(2 986)	–	–
Non-current assets and disposal groups held for sale	215	–	–	215
Total assets	690 314	(2 972)	–	687 342
EQUITY AND LIABILITIES				
Liabilities				
Short trading positions	4 019	–	–	4 019
Derivative financial instruments	53 666	–	–	53 666
Creditors and accruals	6 472	(31)	–	6 441
Deposits	545 957	26	–	545 983
Provisions	234	–	–	234
Employee liabilities	8 480	(2 610)	654	6 524
Other liabilities	922	–	–	922
Amounts due to holding company and fellow subsidiary companies	13 300	(56)	–	13 244
Deferred income tax liability	769	(271)	–	498
Tier 2 liabilities	7 437	–	–	7 437
Total liabilities	641 256	(2 942)	654	638 968
Equity				
Ordinary shares	4	–	–	4
Share premium	15 304	–	–	15 304
Reserves	30 750	(30)	(654)	30 066
Capital and reserves attributable to ordinary equityholders	46 058	(30)	(654)	45 374
NCNR preference shares	3 000	–	–	3 000
Capital and reserves attributable to equityholders of the Bank Ltd Group	49 058	(30)	(654)	48 374
Non-controlling interests	–	–	–	–
Total equity	49 058	(30)	(654)	48 374
Total equity and liabilities	690 314	(2 972)	–	687 342

CONSOLIDATED INCOME STATEMENT

for the year ended 30 June

R million	Notes	2014	2013*
Interest and similar income	1.1	**44 756**	39 627
Interest expense and similar charges	1.2	**(19 558)**	(17 949)
Net interest income before impairment of advances		**25 198**	21 678
Impairment of advances	11	**(4 827)**	(4 441)
Net interest income after impairment of advances		**20 371**	17 237
Non-interest income	2	**28 637**	24 102
Income from operations		**49 008**	41 339
Operating expenses	3	**(31 076)**	(26 673)
Net income from operations		**17 932**	14 666
Share of loss of associates after tax	14	**(8)**	(25)
Income before tax		**17 924**	14 641
Indirect tax	4.1	**(796)**	(579)
Profit before tax		**17 128**	14 062
Income tax expense	4.2	**(4 378)**	(3 135)
Profit for the year		**12 750**	10 927
Attributable to:			
Ordinary equityholders		**12 558**	10 731
NCNR preference shareholders		**192**	196
Profit for the year		**12 750**	10 927

* *Refer to restatement of prior year numbers on pages 386 to 390.*

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June

R million	2014	2013*
Profit for the year	**12 750**	10 927
Items that may subsequently be reclassified to profit or loss		
Cash flow hedges	**361**	853
(Losses)/gains arising during the year	**(111)**	417
Reclassification adjustments for amounts included in profit or loss	**613**	768
Deferred income tax	**(141)**	(332)
Available-for-sale financial assets	**(148)**	(117)
Losses arising during the year	**(149)**	(134)
Reclassification adjustments for amounts included in profit or loss	**(66)**	(32)
Deferred income tax	**67**	49
Exchange differences on translating foreign operations	**175**	245
Gains arising during the year	**175**	245
Items that may not subsequently be reclassified to profit or loss		
Remeasurements on defined benefit post-employment plans	**(206)**	22
(Losses)/gains arising during the year	**(286)**	30
Deferred income tax	**80**	(8)
Other comprehensive income for the year	**182**	1 003
Total comprehensive income for the year	**12 932**	11 930
Attributable to:		
Ordinary equityholders	**12 740**	11 734
NCNR preference shareholders	**192**	196
Total comprehensive income for the year	**12 932**	11 930

* *Refer to restatement of prior year numbers on pages 386 to 390.*

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 30 June

R million	Notes	2014	2013*	2012*
ASSETS				
Cash and cash equivalents	6	**51 790**	42 306	31 560
Derivative financial instruments	7	**38 633**	51 755	52 392
Commodities	8	**7 904**	6 016	5 108
Accounts receivable	9	**4 130**	4 574	3 314
Current tax asset		**1**	140	250
Advances	10	**622 121**	548 565	483 268
Amounts due by holding company and fellow subsidiary companies	12	**25 984**	20 627	23 107
Investment securities and other investments	13	**88 783**	94 961	78 723
Investments in associates	14	**1**	61	187
Property and equipment	15	**11 369**	10 421	8 882
Intangible assets	16	**84**	154	336
Deferred income tax asset	18	**400**	–	–
Non-current assets and disposal groups held for sale		**–**	–	215
Total assets		**851 200**	779 580	687 342
EQUITY AND LIABILITIES				
Liabilities				
Short trading positions	19	**5 397**	2 923	4 019
Derivative financial instruments	7	**41 628**	52 940	53 666
Creditors and accruals	20	**10 376**	8 919	6 441
Current tax liability		**53**	–	–
Deposits	21	**693 176**	629 872	545 983
Provisions	22	**386**	246	234
Employee liabilities	17	**8 081**	7 002	6 524
Other liabilities	23	**4 268**	1 062	922
Amounts due to holding company and fellow subsidiary companies	12	**12 289**	14 522	13 244
Deferred income tax liability	18	**–**	50	498
Tier 2 liabilities	24	**11 484**	7 625	7 437
Total liabilities		**787 138**	725 161	638 968
Equity				
Ordinary shares	25	**4**	4	4
Share premium	25	**15 304**	15 304	15 304
Reserves		**45 754**	36 109	30 066
Capital and reserves attributable to ordinary equityholders		**61 062**	51 417	45 374
NCNR preference shares	25	**3 000**	3 000	3 000
Capital and reserves attributable to equityholders of the Bank Ltd Group		**64 062**	54 417	48 374
Non-controlling interests	26	**–**	2	–
Total equity		**64 062**	54 419	48 374
Total equity and liabilities		**851 200**	779 580	687 342

* *Refer to restatement of prior year numbers on pages 386 to 390.*

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**	**Defined benefit post-employment reserve**	**Cash flow hedge reserve**
Reported as at 1 July 2012		4	15 304	**15 308**	–	(753)
Restatements		–	–	**–**	(581)	–
Balance as at 1 July 2012		4	15 304	**15 308**	(581)	(753)
Issue of share capital	25	–	–	**–**	–	–
Movement in other reserves		–	–	**–**	–	–
Ordinary dividends		–	–	**–**	–	–
Preference dividends		–	–	**–**	–	–
Changes in ownership interest in subsidiaries		–	–	**–**	–	–
Total comprehensive income for the year		–	–	**–**	22	853
Balance as at 30 June 2013		4	15 304	**15 308**	(559)	100
Issue of share capital	25	–	–	**–**	–	–
Movement in other reserves		–	–	**–**	–	–
Equity transactions with fellow subsidiaries		–	–	**–**	–	–
Ordinary dividends		–	–	**–**	–	–
Preference dividends		–	–	**–**	–	–
Changes in ownership interest in subsidiaries		–	–	**–**	–	–
Total comprehensive income for the year		–	–	**–**	(206)	361
Balance as at 30 June 2014		4	15 304	**15 308**	(765)	461

	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 prefe-rence shares**	**Non-controlling interests**	**Total equity**
	420	696	(235)	1 346	29 276	**30 750**	**3 000**	**–**	**49 058**
	–	–	–	–	(103)	**(684)**	**–**		**(684)**
	420	696	(235)	1 346	29 173	**30 066**	**3 000**	**–**	**48 374**
	–	–	–	–	–	**–**	**–**	**–**	**–**
	19	–	–	–	–	**19**	**–**	**–**	**19**
	–	–	–	–	(5 710)	**(5 710)**	**–**	**–**	**(5 710)**
	–	–	–	–	–	**–**	**(196)**	**–**	**(196)**
	–	–	–	–	–	**–**	**–**	**2**	**2**
	–	(117)	245	–	10 731	**11 734**	**196**	**–**	**11 930**
	439	579	10	1 346	34 194	**36 109**	**3 000**	**2**	**54 419**
	–	–	–	–	–	**–**	**–**	**–**	**–**
	26	–	–	–	–	**26**	**–**	**–**	**26**
	–	–	–	–	1 168	**1 168**	**–**	**–**	**1 168**
	–	–	–	–	(4 289)	**(4 289)**	**–**	**–**	**(4 289)**
	–	–	–	–	–	**–**	**(192)**	**–**	**(192)**
	–	–	–	–	–	**–**	**–**	**(2)**	**(2)**
	–	(148)	175	–	12 558	**12 740**	**192**	**–**	**12 932**
	465	431	185	1 346	43 631	**45 754**	**3 000**	**–**	**64 062**

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 30 June

R million	Notes	2014	2013*
Cash flows from operating activities			
Cash receipts from customers	28.2	**67 636**	57 367
Cash paid to customers, suppliers and employees	28.3	**(41 381)**	(36 185)
Dividends received	28.5	**1 982**	3 146
Dividends paid	28.4	**(4 481)**	(5 906)
Cash generated from operating activities	28.1	**23 756**	18 422
Increase in income-earning assets	28.6	**(66 603)**	(81 373)
Increase in deposits and other liabilities	28.7	**53 368**	80 993
Taxation paid	28.8	**(5 346)**	(4 435)
Net cash generated/(utilised) from operating activities		**5 175**	13 607
Cash flows from investing activities			
Acquisition of investments in associates	14.2	**–**	(349)
Proceeds on disposal of investments in associates	14.3	**–**	550
Acquisition of investments in subsidiaries	37	**–**	(5)
Acquisition of property and equipment		**(3 318)**	(3 644)
Proceeds on disposal of property and equipment		**683**	431
Acquisition of intangible assets		**(105)**	(171)
Proceeds on disposal of intangible assets		**7**	3
Net cash outflow from investing activities		**(2 733)**	(3 185)
Cash flows from financing activities			
Proceeds from other liabilities		**3 180**	97
Proceeds from Tier 2 liabilities		**3 859**	188
Net cash inflow from financing activities		**7 039**	285
Net increase in cash and cash equivalents		**9 481**	10 707
Cash and cash equivalents at the beginning of the year		**42 306**	31 560
Cash and cash equivalents acquired*		**–**	7
Cash and cash equivalents disposed of**		**(7)**	–
Effect of exchange rate changes on cash and cash equivalents		**10**	32
Cash and cash equivalents at the end of the year	6	**51 790**	42 306

* *Refer to restatement of prior year numbers on pages 386 to 390.*
** *Cash and cash equivalents acquired and disposed of relates to the cash balances held by subsidiaries acquired or disposed of during the year.*

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

1 ANALYSIS OF INTEREST INCOME AND INTEREST EXPENSE

1.1 Interest and similar income

	2014				
R million	**Fair value**	**Amortised cost**	**Hedging instruments**	**Non-financial instruments**	**Total**
Advances	**–**	**40 004**	**–**	**–**	**40 004**
Cash and cash equivalents	**–**	**885**	**–**	**–**	**885**
Investment securities and other investments	**2 325**	**–**	**–**	**–**	**2 325**
Unwinding of discounted present value on NPLs	**–**	**129**	**–**	**–**	**129**
Amounts due by holding company and fellow subsidiary companies	**389**	**680**	**–**	**–**	**1 069**
Other	**–**	**9**	**327**	**8**	**344**
Interest and similar income	**2 714**	**41 707**	**327**	**8**	**44 756**

	2013				
R million	**Fair value**	**Amortised cost**	**Hedging instruments**	**Non-financial instruments**	**Total**
Advances	–	35 204	–	–	35 204
Cash and cash equivalents	–	879	–	–	879
Investment securities and other investments	2 055	–	–	–	2 055
Unwinding of discounted present value on NPLs	–	157	–	–	157
Amounts due by holding company and fellow subsidiary companies	250	482	–	–	732
Other	–	–	586	14	600
Interest and similar income	2 305	36 722	586	14	39 627

1 ANALYSIS OF INTEREST INCOME AND INTEREST EXPENSE continued

1.2 Interest expense and similar charges

	2014				
R million	**Fair value**	**Amortised cost**	**Hedging instruments**	**Non-financial instruments**	**Total**
Current accounts	**–**	**(2 684)**	**–**	**–**	**(2 684)**
Savings deposits	**–**	**(83)**	**–**	**–**	**(83)**
Call deposits	**–**	**(4 783)**	**–**	**–**	**(4 783)**
Fixed and notice deposits	**(397)**	**(6 827)**	**–**	**–**	**(7 224)**
Negotiable certificates of deposit	**(116)**	**(2 134)**	**–**	**–**	**(2 250)**
Repurchase agreements	**–**	**(431)**	**–**	**–**	**(431)**
Securities lending	**–**	**(363)**	**–**	**–**	**(363)**
Cash collateral and credit linked notes	**–**	**(406)**	**–**	**–**	**(406)**
Fixed and floating rate notes	**(136)**	**(5 563)**	**–**	**–**	**(5 699)**
Tier 2 liabilities	**(72)**	**(612)**	**–**	**–**	**(684)**
Amounts due to holding company and fellow subsidiary companies	**(24)**	**(443)**	**–**	**–**	**(467)**
Other	**(24)**	**(531)**	**(940)**	**(1)**	**(1 496)**
Gross interest expense and similar charges	**(769)**	**(24 860)**	**(940)**	**(1)**	**(26 570)**
Less: Interest reallocated to fair value income*	**–**	**7 012**	**–**	**–**	**7 012**
Interest expense and similar charges	**(769)**	**(17 848)**	**(940)**	**(1)**	**(19 558)**

	2013				
R million	**Fair value**	**Amortised cost**	**Hedging instruments**	**Non-financial instruments**	**Total**
Current accounts	–	(2 008)	–	–	(2 008)
Savings deposits	–	(58)	–	–	(58)
Call deposits	–	(4 883)	–	–	(4 883)
Fixed and notice deposits	(381)	(7 807)	–	–	(8 188)
Negotiable certificates of deposit	(98)	(1 953)	–	–	(2 051)
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)
Tier 2 liabilities	(71)	(547)	–	–	(618)
Amounts due to holding company and fellow subsidiary companies	(153)	(387)	–	–	(540)
Other	(11)	(67)	(1 354)	(21)	(1 453)
Gross interest expense and similar charges	(919)	(21 894)	(1 354)	(21)	(24 188)
Less: Interest reallocated to fair value income*	–	6 239	–	–	6 239
Interest expense and similar charges	(919)	(15 655)	(1 354)	(21)	(17 949)

* *Interest expense reallocated to fair value income relates to interest paid on liabilities that fund the Bank Ltd Group's fair value activities. In line with the Bank Ltd 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	2014	2013
Fee and commission income	**21 970**	20 215
– Instruments at amortised cost	**18 021**	15 751
– Non-financial instruments	**3 760**	4 305
– Instruments at fair value	**189**	159
Fee and commission expenses	**(3 158)**	(2 785)
Net fee and commission income*	**18 812**	17 430
Fair value gains or losses		
Held for trading	**2 629**	1 582
Designated at fair value through profit or loss	**2 183**	2 610
Other	**6**	(9)
Fair value gains or losses**	**4 818**	4 183
Gains less losses from investing activities		
Designated at fair value through profit or loss	**951**	–
Available-for-sale	**93**	39
Other	**(97)**	(80)
Gains less losses from investing activities#	**947**	(41)
Other non-interest income	**4 060**	2 530
Total non-interest income	**28 637**	24 102

* *As part of the process of implementing new and amended IFRS the classification of certain amounts within non-interest income was reconsidered. Amendments were made to the classifications to provide classifications that are more in line with the nature of the revenue-generating activities, particularly as it relates to the income derived from the Bank Ltd Group's insurance and investing activities relating to cell captives and other insurance profit share arrangements. The comparatives have been restated.*

** *Interest expense reallocated to fair value income relates to interest paid on liabilities that fund the Bank Ltd Group's fair value activities. In line with the Bank Ltd Group's accounting policies, this interest expense is reallocated to fair value income to appropriately reflect the nature of the income earned.*

\# *Certain investments initially acquired to generate fair value income have become part of the Bank Ltd Group's longer term investment strategy and the income from these amounts has been reclassified from fair value income to investment income. The comparatives have been restated.*

2 NON-INTEREST INCOME continued

R million	2014	2013
Fee and commission income		
Banking fee and commission income	**18 568**	17 022
– Card commissions	**3 149**	2 618
– Cash deposit fees	**1 664**	1 623
– Commitment fees	**672**	679
– Commissions: bills, drafts and cheques	**657**	471
– Exchange commissions	**870**	757
– Brokerage income	**68**	44
– Bank charges	**11 488**	10 830
Knowledge-based fee and commission income	**1 137**	1 054
Non-banking fee and commission income*	**1 301**	1 246
Insurance-related income, including commission	**964**	893
Fee and commission income	**21 970**	20 215
Fee and commission expenses		
Transaction processing fees	**(839)**	(766)
Commission paid	**(254)**	(242)
Customer loyalty programmes	**(735)**	(626)
Cash sorting, handling and transportation charges	**(526)**	(498)
Card and cheque book related	**(218)**	(204)
ATM commissions paid	**(26)**	(22)
Other	**(560)**	(427)
Fee and commission expenses	**(3 158)**	(2 785)
Net fee and commission income**	**18 812**	17 430
Fair value gains or losses[#,†]	**4 818**	4 183

* *Non-banking fee and commission income earned relates to fees and commissions for rendering services to clients other than those related to the banking operations. This includes income from trust and fiduciary services.*

** *As part of the process of implementing new and amended IFRS the classification of certain amounts within non-interest income was reconsidered. Amendments were made to the classifications to provide classifications that are more in line with the nature of the revenue-generating activities, particularly as it relates to the income derived from the Bank Ltd Group's insurance and investing activities relating to cell captives and other insurance profit share arrangements. The comparatives have been restated.*

\# *Included in fair value gains or losses is dividend income of R1 956 million (2013: R3 136 million).*

† *Interest expense reallocated to fair value income relates to interest paid on liabilities that fund the Bank Ltd Group's fair value activities. In line with the Bank Ltd 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 continued

R million	Notes	2014	2013
Gains less losses from investing activities*			
Loss on investment securities and other investments		**(7)**	(1)
Reclassification from other comprehensive income on the derecognition/sale of available-for-sale-assets		**66**	32
Unlisted preference share dividends		**18**	–
Unlisted dividends from subsidiaries		**8**	7
Gain on disposal of investments in associates		**14**	16
Share of loss of associates after tax	14	**(8)**	(25)
Other gains/(losses) from investing activities		**848**	(95)
Gross gains less losses from investing activities		**939**	(66)
Less: share of loss of associates after tax (disclosed separately on the face of the income statement)		**8**	25
Gains less losses from investing activities		**947**	(41)
Other non-interest income			
Loss on disposal of property and equipment		**(20)**	(56)
Recoveries from holding company and fellow subsidiary companies		**2 695**	1 598
Other income		**1 385**	988
Other non-interest income		**4 060**	2 530
Total non-interest income		**28 637**	24 102

* *Certain investments initially acquired to generate fair value income have become part of the Bank Ltd Group's longer term investment strategy and the income from these amounts has been reclassified from fair value income to investment income. The comparatives have been restated.*

3 OPERATING EXPENSES

R million	Notes	2014	2013
Auditors' remuneration			
Audit fees	22	**(143)**	(132)
Fees for other services		**(46)**	(42)
Prior year underprovision		**(1)**	(11)
Auditors' remuneration		**(190)**	(185)
Operating lease charges			
Property		**(888)**	(849)
Equipment		**(120)**	(99)
Motor vehicles		**(15)**	(12)
Operating lease charges		**(1 023)**	(960)
Staff costs			
Salaries, wages and allowances		**(10 374)**	(9 144)
Contributions to employee benefit funds		**(1 583)**	(1 397)
– Defined contribution schemes		**(1 500)**	(1 322)
– Defined benefit schemes	17.2	**(83)**	(75)
Social security levies		**(232)**	(147)
Share-based payments	27	**(2 335)**	(1 532)
Movement in staff-related provisions	17.1	**(3 487)**	(2 709)
Other		**(289)**	(259)
Staff costs		**(18 300)**	(15 188)
Other operating costs			
Amortisation of intangible assets	16	**(54)**	(94)
Depreciation of property and equipment	15	**(1 673)**	(1 627)
Impairments incurred		**(131)**	(272)
– Property and equipment	15	**(4)**	(4)
– Intangible assets	16	**(114)**	(256)
– Other		**(13)**	(12)
Insurance		**(206)**	(209)
Advertising and marketing		**(1 020)**	(957)
Maintenance		**(662)**	(751)
Property		**(678)**	(687)
Computer		**(1 407)**	(1 088)
Stationery		**(160)**	(138)
Telecommunications		**(289)**	(293)
Other operating expenditure		**(3 341)**	(2 526)
Professional fees		**(1 157)**	(967)
Expenses paid to holding company and fellow subsidiary companies	38	**(785)**	(731)
Other operating costs		**(11 563)**	(10 340)
Total operating expenses		**(31 076)**	(26 673)

3 OPERATING EXPENSES continued

Directors emoluments

	2014			2013		
	Services as directors			Services as directors		
R thousand	FSR	Group	Total 2014	FSR	Group	Total 2013
Non-executive directors						
LL Dippenaar (chairman)	**3 833**	**158**	**3 991**	3 402	206	3 608
VW Bartlett[1]	**855**	**254**	**1 109**	884	631	1 515
JJH Bester[1]	**1 504**	**2 235**	**3 739**	1 330	2 266	3 596
MS Bomela	**754**	**79**	**833**	607	76	683
P Cooper (alternate – appointed July 2013)	**293**	**30**	**323**	–	–	–
L Crouse	**911**	**74**	**985**	843	50	893
JJ Durand	**581**	**50**	**631**	485	50	535
PM Goss[1]	**742**	**199**	**941**	677	122	799
NN Gwagwa[1]	**582**	**91**	**673**	541	50	591
G Gelink	**915**	**117**	**1 032**	502	–	502
PK Harris	**455**	**50**	**505**	426	50	476
WR Jardine[1]	**553**	**61**	**614**	582	62	644
EG Mantenge-Sebesho[1]	**679**	**353**	**1 032**	639	303	942
AT Nzimande	**645**	**91**	**736**	600	50	650
D Premnarayen[2,3]	**910**	**122**	**1 032**	852	99	951
KB Schoeman	**535**	**61**	**596**	483	62	545
T Store[1] (retired May 2013)	**–**	**–**	**–**	1 014	267	1 281
BJ van der Ross[1]	**669**	**755**	**1 424**	711	402	1 113
JH van Greuning[1,4]	**1 251**	**3 965**	**5 216**	1 183	2 782	3 965
Total non-executive directors	**16 667**	**8 745**	**25 412**	15 761	7 528	23 289

1. *Independent non-executive director.*
2. *Non-executive director.*
3. *Foreign-domiciled director paid in USD. 2014 amount was $99 416 (2013: $107 575).*
4. *Foreign-domiciled director paid in USD. 2014 amount was $502 476 (2013: $448 516).*

3 OPERATING EXPENSES continued

Prescribed officers' emoluments

R thousand	2008	2009	2010	2011	2012	2013	2014
SE Nxasana[1]							
Cash package paid during the year	4 065	4 427	5 101	6 220	6 614	7 037	**7 522**
Retirement contributions paid during the year	555	617	617	616	786	834	**891**
Other allowances[2]	–	–	93	97	81	68	**75**
Subtotal	4 620	5 044	5 811	6 933	7 481	7 939	**8 488**
Performance related in respect of the year[3]	8 100	4 860	5 820	8 190	9 600	11 460	**10 000**
Portion of performance related deferred in share awards[4]	–	–	5 180	4 460	5 400	6 640	**11 000**
Subtotal	8 100	4 860	11 000	12 650	15 000	18 100	**21 000**
Total	12 720	9 904	16 811	19 583	22 481	26 039	**29 488**
JP Burger[1]							
Cash package paid during the year	3 756	4 258	4 699	5 503	5 776	6 103	**6 591**
Retirement contributions paid during the year	610	692	698	679	866	915	**981**
Other allowances[2]	–	–	62	74	118	156	**98**
Subtotal	4 366	4 950	5 459	6 256	6 760	7 174	**7 670**
Performance related in respect of the year[3]	7 650	4 590	5 520	7 470	8 760	10 440	**9 000**
Portion of performance related deferred in share awards[4]	–	–	4 480	3 980	4 840	5 960	**10 000**
Subtotal	7 650	4 590	10 000	11 450	13 600	16 400	**19 000**
Total	12 016	9 540	15 459	17 706	20 360	23 574	**26 670**
A Pullinger							
Cash package paid during the year	1 281	1 286	1 571	1 743	1 981	2 037	**2 174**
Retirement contributions paid during the year	213	333	298	330	339	407	**556**
Other allowances[2]	–	–	100	110	99	122	**13**
Subtotal	1 494	1 619	1 969	2 183	2 419	2 566	**2 743**
Performance related in respect of the year[3]	18 000	1 050	11 280	13 416	11 400	13 200	**15 000**
Portion of performance related deferred in share awards[4]	–	–	6 520	7 944	6 600	7 800	**9 000**
Subtotal	18 000	1 050	17 800	21 360	18 000	21 000	**24 000**
Total	19 494	2 669	19 769	23 543	20 419	23 566	**26 743**

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.

1. *These prescribed officers in terms of the Companies Act 71 of 2008 are also executive directors. FirstRand defines its prescribed officers as members of Group strategic executive committee: Group CEO, Group deputy CEO, financial director, and the CEOs of the Group's operating franchises (FNB, RMB and WesBank).*
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 27 in the annual financial statements.*

3 OPERATING EXPENSES continued

Prescribed officers' emoluments continued

R thousand	2008	2009	2010	2011	2012	2013	2014
Retiring prescribed officers (effective 31 December 2013)							
M Jordaan[5]							
Cash package paid during the year	3 286	3 606	3 898	4 283	4 604	4 917	**2 615**
Retirement contributions paid during the year	692	760	692	760	816	945	**2 003**
Other allowances[2]	–	–	133	144	149	46	**24**
Subtotal	3 978	4 366	4 723	5 187	5 569	5 908	**4 642**
Performance related in respect of the year[3]	8 950	6 265	5 400	6 360	7 512	10 320	**–**
Portion of performance related deferred in share awards[4]	–	–	2 600	3 240	4 008	5 880	**–**
Subtotal	8 950	6 265	8 000	9 600	11 520	16 200	**–**
Total	12 928	10 631	12 723	14 787	17 089	22 108	**4 642**
B Riley[5]							
Cash package paid during the year	1 697	2 177	2 315	2 572	2 746	2 887	**1 536**
Retirement contributions paid during the year	218	275	268	297	270	432	**229**
Other allowances[2]	–	–	100	106	163	52	**27**
Subtotal	1 915	2 452	2 683	2 975	3 179	3 371	**1 792**
Performance related in respect of the year[3]	2 762	1 700	3 000	4 200	5 400	6 000	**–**
Portion of performance related deferred in share awards[4]	–	–	1 000	1 800	2 600	3 000	**–**
Subtotal	2 762	1 700	4 000	6 000	8 000	9 000	**–**
Total	**4 677**	**4 152**	**6 683**	**8 975**	**11 179**	**12 371**	1 792
New prescribed officers (effective 1 October 2013)							
H Kellan[1,6]							
Cash package paid during the year							**4 046**
Retirement contributions paid during the year							**362**
Other allowances[2]							**98**
Subtotal							**4 506**
Performance related in respect of the year[3]							**4 416**
Portion of performance related deferred in share awards[4]							**1 944**
Subtotal							**6 360**
Total							**10 866**

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.

1. *These prescribed officers in terms of the Companies Act 71 of 2008 are also executive directors. FirstRand defines its prescribed officers as members of Group strategic executive committee: Group CEO, Group deputy CEO, financial director, and the CEOs of the Group's operating franchises (FNB, RMB and WesBank).*
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 27 in the annual financial statements.*
5. *Prescribed officer retired 31 December 2013.*
6. *Prescribed officer appointed 1 October 2013. Emoluments include earnings in prior role from 1 July 2013 to 30 September 2013.*

3 OPERATING EXPENSES continued

Prescribed officers' emoluments continued

R thousand	2014
New prescribed officers (effective 1 October 2013)	
J Celliers[6]	
Cash package paid during the year	**4 901**
Retirement contributions paid during the year	**490**
Other allowances[2]	**122**
Subtotal	**5 513**
Performance related in respect of the year[3]	**5 400**
Portion of performance related deferred in share awards[4]	**2 600**
Subtotal	**8 000**
Total	**13 513**
C De Kock[6]	
Cash package paid during the year	**2 778**
Retirement contributions paid during the year	**266**
Other allowances[2]	**71**
Subtotal	**3 115**
Performance related in respect of the year[3]	**4 200**
Portion of performance related deferred in share awards[4]	**1 800**
Subtotal	**6 000**
Total	**9 115**

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.

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 27 in the annual financial statements.

6. Prescribed officer appointed 1 October 2013. Emoluments include earnings in prior role from 1 July 2013 to 30 September 2013.

Co-investment scheme

R thousand	2014	2013
JP Burger	**6 222**	649
M Jordaan	**3 111**	324
SE Nxasana	**1 376**	143
A Pullinger	**8 255**	853

4 INDIRECT TAX AND INCOME TAX EXPENSE

	R million	2014	2013
4.1	**Indirect tax**		
	Value added tax (net)	**(796)**	(579)
	Total indirect tax	**(796)**	(579)
4.2	**Income tax expense**		
	South African income tax		
	Current	**(4 822)**	(3 866)
	– Current year	**(4 939)**	(3 377)
	– Prior year adjustment	**117**	(489)
	Deferred income tax	**445**	678
	– Current year	**380**	323
	– Prior year adjustment	**65**	355
	Total South African income tax	**(4 377)**	(3 188)
	Capital gains tax	**–**	69
	– Deferred income tax	**–**	69
	Tax rate adjustment	**–**	(8)
	Total capital gains tax	**–**	61
	Customer tax adjustment account	**(1)**	(8)
	Total income tax expense	**(4 378)**	(3 135)

%	2014	2013
Tax rate reconciliation		
Standard rate of income tax	**28.0**	28.0
Total tax has been affected by:		
Non-taxable income	**(4.4)**	(7.8)
Prior year adjustments	**(1.1)**	1.0
Effect of income at capital gains tax rate	**–**	(0.4)
Other non-deductible items	**3.1**	1.4
Effective rate of tax*	**25.6**	22.2

* *The change in the effective tax rate is due to a change in income mix, with strong growth in NII and standard-rate NIR.*

5 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 368 to 390 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.

		2014			
R million	**Notes**	**Held for trading**	**Designated at fair value through profit or loss**	**Held-to-maturity**	**Loans and receivables**
ASSETS					
Cash and cash equivalents	6	–	–	–	**51 790**
Derivative financial instruments	7	**37 615**	–	–	–
Commodities	8	–	–	–	–
Accounts receivable	9	–	–	–	**2 851**
Current tax asset		–	–	–	–
Advances	10	–	**177 893**	**30**	**444 176**
Amounts due by holding company and fellow subsidiary companies	12	**305**	–	–	**25 679**
Investment securities and other investments	13	**24 805**	**39 147**	–	**505**
Investments in associates	14	–	–	–	–
Property and equipment	15	–	–	–	–
Intangible assets	16	–	–	–	–
Deferred income tax asset	18	–	–	–	–
Total assets		**62 725**	**217 040**	**30**	**525 001**
Fair value of assets held or placed on behalf of customers in a fiduciary capacity					
LIABILITIES					
Short trading positions	19	**5 397**	–	–	–
Derivative financial instruments	7	**41 228**	–	–	–
Creditors and accruals	20	–	–	–	–
Current tax liability		–	–	–	–
Deposits	21	–	**83 181**	–	–
Provisions	22	–	–	–	–
Employee liabilities	17	–	–	–	–
Other liabilities	23	–	**3 287**	–	–
Amounts due by holding company and fellow subsidiary companies	12	**226**	–	–	–
Tier 2 liabilities	24	–	**1 030**	–	–
Total liabilities		**46 851**	**87 498**	–	–

The *risk management note* contains further information about the risk associated with various financial assets and financial liabilities recognised in the statement of financial position.

Refer to note 31 for information about changes in the Bank Ltd Group's own credit risk and the impact on the financial liabilities of the Bank Ltd Group.

Refer to note 33 for additional information relating to the fair value of assets and liabilities carried at fair value.

2014						
Available-for-sale financial assets	Financial liabilities at amortised cost	Derivatives designated as hedging instruments	Non-financial instruments	Total carrying value	Current	Non-current
–	–	–	–	51 790	51 790	–
–	–	1 018	–	38 633	36 766	1 867
–	–	–	7 904	7 904	7 904	–
–	–	–	1 279	4 130	3 766	364
–	–	–	1	1	–	1
22	–	–	–	622 121	207 562	414 559
–	–	–	–	25 984	15 933	10 051
24 326	–	–	–	88 783	52 659	36 124
–	–	–	1	1	–	1
–	–	–	11 369	11 369	–	11 369
–	–	–	84	84	–	84
–	–	–	400	400	–	400
24 348	–	1 018	21 038	851 200	376 380	474 820
				61 783		
–	–	–	–	5 397	5 397	–
–	–	400	–	41 628	39 598	2 030
–	4 653	–	5 723	10 376	9 822	554
–	–	–	53	53	–	53
–	609 995	–	–	693 176	591 743	101 433
–	–	–	386	386	314	72
–	–	–	8 081	8 081	5 641	2 440
–	981	–	–	4 268	802	3 466
–	12 063	–	–	12 289	11 197	1 092
–	10 454	–	–	11 484	1 790	9 694
–	638 146	400	14 243	787 138	666 304	120 834

5 ANALYSIS OF ASSETS AND LIABILITIES continued

R million	Notes	2013 Held for trading	Designated at fair value through profit or loss	Held-to-maturity	Loans and receivables
ASSETS					
Cash and cash equivalents	6	–	–	–	42 306
Derivative financial instruments	7	50 893	–	–	–
Commodities	8	–	–	–	–
Accounts receivable	9	–	–	–	2 852
Current tax asset		–	–	–	–
Advances	10	–	152 535	42	395 916
Amounts due by holding company and fellow subsidiary companies	12	516	–	–	20 111
Investment securities and other investments	13	28 285	49 560	–	415
Investments in associates	14	–	–	–	–
Property and equipment	15	–	–	–	–
Intangible assets	16	–	–	–	–
Total assets		79 694	202 095	42	461 600
Fair value of assets held or placed on behalf of customers in a fiduciary capacity					
LIABILITIES					
Short trading positions	19	2 923	–	–	–
Derivative financial instruments	7	52 124	–	–	–
Creditors and accruals	20	–	–	–	–
Deposits	21	–	83 107	–	–
Provisions	22	–	–	–	–
Employee liabilities	17	–	–	–	–
Other liabilities	23	–	171	–	–
Amounts due by holding company and fellow subsidiary companies	12	255	–	–	–
Deferred income tax liability	18	–	–	–	–
Tier 2 liabilities	24	–	1 049	–	–
Total liabilities		55 302	84 327	–	–

2013						
Available-for-sale financial assets	Financial liabilities at amortised cost	Derivatives designated as hedging instruments	Non-financial instruments	Total carrying value	Current	Non-current
–	–	–	–	42 306	42 306	–
–	–	862	–	51 755	50 194	1 561
–	–	–	6 016	6 016	6 016	–
–	–	–	1 722	4 574	4 443	131
–	–	–	140	140	–	140
72	–	–	–	548 565	189 172	359 393
–	–	–	–	20 627	10 476	10 151
16 701	–	–	–	94 961	73 713	21 248
–	–	–	61	61	61	–
–	–	–	10 421	10 421	–	10 421
–	–	–	154	154	–	154
16 773	–	862	18 514	779 580	376 381	403 199
				57 133		
–	–	–	–	2 923	2 923	–
–	–	816	–	52 940	51 313	1 627
–	3 973	–	4 946	8 919	8 570	349
–	546 765	–	–	629 872	535 751	94 121
–	–	–	246	246	195	51
–	–	–	7 002	7 002	4 807	2 195
–	891	–	–	1 062	325	737
–	14 267	–	–	14 522	13 867	655
–	–	–	50	50	–	50
–	6 576	–	–	7 625	–	7 625
–	572 472	816	12 244	725 161	617 751	107 410

6 CASH AND CASH EQUIVALENTS

R million	2014	2013
Coins and bank notes	**5 018**	5 058
Money at call and short notice	**30 638**	22 892
– Banks	**24 997**	15 567
– Other	**5 641**	7 325
Balances with central banks	**16 134**	14 356
Cash and cash equivalents	**51 790**	42 306
Mandatory reserve balances included above	**16 040**	14 322

Banks are required to deposit a minimum average balance, calculated monthly, with the central bank, which is not available for use in the Bank Ltd 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.

7 DERIVATIVE FINANCIAL INSTRUMENTS

Use of derivatives

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

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

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

The Bank Ltd Group's detailed risk management strategy, including the use of hedging instruments in risk management, is set out in the *risk management note* of the annual report.

Trading derivatives

Most of the Bank Ltd 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 on, transfer, modify or reduce current or expected risks.

Hedging instruments

Fair value hedges

The Bank Ltd Group's fair value hedges consist principally of commodity futures used to hedge the price risk associated with physical commodity positions and interest rate swaps used to hedge the fair value risk associated with changes in interest rates.

The following amounts were recognised in profit or loss for the year:

R million	2014	2013
Gains/(losses) for the year arising from the change in fair value of fair value hedges		
On hedging instruments	**(229)**	(25)
On hedged items attributable to the hedged risk	**233**	21
Total	**4**	(4)

7 DERIVATIVE FINANCIAL INSTRUMENTS continued

Cash flow hedges

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

The Bank Ltd 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 Bank Ltd Group uses the following derivatives as hedging instruments:

- forward rate agreements are negotiated interest rate futures that call for cash settlement at a future date for the difference between the contractual and market rates of interest, based on a notional principal amount; and
- interest rate swaps are commitments to exchange one set of cash flows for another, resulting in the economic exchange of interest rates (for example fixed rate for floating rate). No exchange of principal takes place.

During the period the hedging relationships were highly effective and the Bank Ltd 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 hedging instruments were higher than changes on the hedged items, hedge ineffectiveness was recognised in profit or loss.

R million	2014	2013
Hedge ineffectiveness recognised in profit or loss (net of tax)	**43**	(44)

7 DERIVATIVE FINANCIAL INSTRUMENTS continued

The cash flows (gross of tax) on the underlying hedged items are expected to impact profit or loss as follows:

	2014		2013	
R million	**Assets**	**Liabilities**	**Assets**	**Liabilities**
0 – 3 months	**49**	**16**	87	(28)
4 – 12 months	**195**	**(142)**	432	(98)
1 – 5 years	**(1)**	**(759)**	139	(684)
Over 5 years	**5**	**(35)**	2	(37)
Total	**248**	**(920)**	660	(847)

The cash flows (gross of tax) on the hedging instruments are expected to be released to profit or loss as follows:

	2014		2013	
R million	**Assets**	**Liabilities**	**Assets**	**Liabilities**
0 – 3 months	**(30)**	**40**	(56)	83
4 – 12 months	**(127)**	**216**	(77)	468
1 – 5 years	**(733)**	**9**	(685)	164
Over 5 years	**(20)**	**5**	(38)	2
Total	**(910)**	**270**	(856)	717

7 DERIVATIVE FINANCIAL INSTRUMENTS continued

	2014			
	Assets		Liabilities	
R million	Notional	Fair value	Notional	Fair value
Qualifying for hedge accounting				
Cash flow hedges				
Interest rate derivatives	83 888	852	49 786	306
– Forward rate agreements	27 405	5	5 805	5
– Swaps	56 483	847	43 981	301
Total cash flow hedges	83 888	852	49 786	306
Fair value hedges				
Interest rate derivatives	14 086	166	12 492	94
– Swaps	14 086	166	12 492	94
Commodity derivatives	1 769	–	–	–
– Futures	1 769	–	–	–
Total fair value hedges	15 855	166	12 492	94
Total qualifying for hedge accounting	99 743	1 018	62 278	400
Not qualifying for hedge accounting				
Held for trading				
Currency derivatives	303 501	6 254	295 760	8 553
– Swaps	261 785	4 572	257 456	7 123
– Options	19 073	1 144	18 568	754
– Futures	22 643	538	19 736	676
Interest rate derivatives	8 324 679	29 026	7 997 022	29 474
– Forward rate agreements	6 153 871	3 917	6 017 725	3 910
– Swaps	1 743 283	24 653	1 765 866	24 888
– Options	422 878	428	207 986	661
– Futures	4 647	28	5 445	15
Equity derivatives	56 142	1 908	49 881	2 925
– Swaps	3 442	1 023	–	–
– Options	25 314	500	40 339	2 446
– Futures	27 386	385	9 542	479
Commodity derivatives	18 996	344	6 692	219
– Swaps	2 835	154	5 065	145
– Options	415	18	486	18
– Futures	15 746	172	1 141	56
Credit derivatives	3 488	83	5 853	57
Total held for trading	8 706 806	37 615	8 355 208	41 228
Total not qualifying for hedge accounting	8 706 806	37 615	8 355 208	41 228
Total	8 806 549	38 633	8 417 486	41 628

7 DERIVATIVE FINANCIAL INSTRUMENTS continued

R million	2014 Assets: Derivative instruments Exchange traded Notional	Exchange traded Fair value	Over the counter Notional	Over the counter Fair value	Total Notional	Total Fair value
Qualifying for hedge accounting						
Cash flow hedges	–	–	83 888	852	83 888	852
– Interest rate derivatives	–	–	83 888	852	83 888	852
Fair value hedges	1 769	–	14 086	166	15 855	166
– Interest rate derivatives	–	–	14 086	166	14 086	166
– Commodity derivatives	1 769	–	–	–	1 769	–
Not qualifying for hedge accounting						
Held for trading	22 897	15	8 683 909	37 600	8 706 806	37 615
– Currency derivatives	1 994	–	301 507	6 254	303 501	6 254
– Interest rate derivatives	2 119	–	8 322 560	29 026	8 324 679	29 026
– Equity derivatives	4 518	–	51 624	1 908	56 142	1 908
– Commodity derivatives	14 266	15	4 730	329	18 996	344
– Credit derivatives	–	–	3 488	83	3 488	83
Total	24 666	15	8 781 883	38 618	8 806 549	38 633

R million	2014 Liabilities: Derivative instruments Exchange traded Notional	Exchange traded Fair value	Over the counter Notional	Over the counter Fair value	Total Notional	Total Fair value
Qualifying for hedge accounting						
Cash flow hedges	–	–	49 786	306	49 786	306
– Interest rate derivatives	–	–	49 786	306	49 786	306
Fair value hedges	–	–	12 492	94	12 492	94
– Interest rate derivatives	–	–	12 492	94	12 492	94
Not qualifying for hedge accounting						
Held for trading	3 709	4	8 351 499	41 224	8 355 208	41 228
– Currency derivatives	22	4	295 738	8 549	295 760	8 553
– Interest rate derivatives	3 580	–	7 993 442	29 474	7 997 022	29 474
– Equity derivatives	–	–	49 881	2 925	49 881	2 925
– Commodity derivatives	107	–	6 585	219	6 692	219
– Credit derivatives	–	–	5 853	57	5 853	57
Total	3 709	4	8 413 777	41 624	8 417 486	41 628

7 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
Not qualifying for hedge accounting				
Held for trading				
Currency derivatives	242 262	11 749	320 514	13 604
– Forward rate agreements	27	*	19	1
– Swaps	190 568	8 344	212 542	9 471
– Options	17 450	972	23 141	1 069
– Futures	34 217	2 433	84 812	3 063
Interest rate derivatives	6 350 840	35 342	6 244 940	35 689
– Forward rate agreements	4 226 596	4 344	4 137 098	4 200
– Swaps	1 763 511	30 197	1 728 727	30 506
– Options	352 052	696	367 204	958
– Futures	8 681	105	11 911	25
Equity derivatives	38 131	2 356	18 178	2 450
– Swaps	3 206	1 623	–	–
– Options	13 772	196	11 138	2 247
– Futures	21 153	537	7 040	203
Commodity derivatives	24 768	1 366	28 994	242
– Swaps	4 402	725	1 277	114
– Options	416	41	745	44
– Futures	19 950	600	26 972	84
Credit derivatives	2 265	80	5 879	139
Total held for trading	6 658 266	50 893	6 618 505	52 124
Total not qualifying for hedge accounting	6 658 266	50 893	6 618 505	52 124
Total	6 724 768	51 755	6 716 411	52 940

* *Denotes amounts less than R500 000.*

7 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	–
Not qualifying for hedge accounting						
Held for trading	31 221	129	6 627 045	50 764	6 658 266	50 893
– Currency derivatives	2 775	1	239 487	11 748	242 262	11 749
– Interest rate derivatives	6 759	–	6 344 081	35 342	6 350 840	35 342
– Equity derivatives	4 834	–	33 297	2 356	38 131	2 356
– Commodity derivatives	16 853	128	7 915	1 238	24 768	1 366
– Credit derivatives	–	–	2 265	80	2 265	80
Total	33 367	129	6 691 401	51 626	6 724 768	51 755

	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
Not qualifying for hedge accounting						
Held for trading	84 904	3	6 533 601	52 121	6 618 505	52 124
– Currency derivatives	48 200	–	272 314	13 604	320 514	13 604
– Interest rate derivatives	11 164	3	6 233 776	35 686	6 244 940	35 689
– Equity derivatives	–	–	18 178	2 450	18 178	2 450
– Commodity derivatives	25 540	–	3 454	242	28 994	242
– Credit derivatives	–	–	5 879	139	5 879	139
Total	84 904	3	6 631 507	52 937	6 716 411	52 940

8 COMMODITIES

R million	2014	2013
Agricultural commodities	**2 077**	1 729
Gold	**5 827**	4 287
Total commodities	**7 904**	6 016

Certain commodities are subject to option agreements whereby the counterparty may acquire the commodity at a future date. The price risk in these commodities is fully hedged through a short position and if the party exercises the option the net profit earned on the transaction will be an interest margin.

9 ACCOUNTS RECEIVABLE

R million	2014	2013
Items in transit	**1 963**	1 881
Interest and commission accrued	**49**	49
Prepayments	**598**	549
Other accounts receivable	**1 520**	2 095
Total accounts receivable	**4 130**	4 574
Analysis of accounts receivable:		
Financial	**2 851**	2 852
Non-financial	**1 279**	1 722
Total accounts receivable	**4 130**	4 574

9 ACCOUNTS RECEIVABLE continued

The credit quality of the financial instruments included in accounts receivable is provided in the table below.

	2014						
R million	Neither past due nor impaired	Re-negotiated but current	Past due but not impaired: 1 – 30 days	Past due but not impaired: 31 – 60 days	Past due but not impaired: 61 – 90 days	Impaired	Total
Items in transit	**1 900**	**–**	**38**	**–**	**–**	**–**	**1 938**
Interest and commission accrued	**49**	**–**	**–**	**–**	**–**	**–**	**49**
Other accounts receivable	**761**	**–**	**74**	**16**	**13**	**–**	**864**
Total financial accounts receivable	**2 710**	**–**	**112**	**16**	**13**	**–**	**2 851**

	2013						
R million	Neither past due nor impaired	Re-negotiated but current	Past due but not impaired: 1 – 30 days	Past due but not impaired: 31 – 60 days	Past due but not impaired: 61 – 90 days	Impaired	Total
Items in transit	1 166	–	–	–	–	–	1 166
Interest and commission accrued	49	–	–	–	–	–	49
Other accounts receivable	1 576	–	25	2	4	30	1 637
Total financial accounts receivable	2 791	–	25	2	4	30	2 852

10 ADVANCES

R million	Notes	2014 Designated at fair value through profit or loss	Held-to maturity	Loans and receivables	Available-for-sale	Total
Notional value of advances		177 893	36	455 231	22	633 182
Contractual interest suspended		–	(5)	(1 517)	–	(1 522)
Gross value of advances		**177 893**	**31**	**453 714**	**22**	**631 660**
Sector analysis						
Agriculture		417	–	19 906	22	20 345
Banks		4 014	–	4 338	–	8 352
Financial institutions		54 778	–	20 014	–	74 792
Building and property development		21 641	–	7 900	–	29 541
Government, Land Bank and public authorities		11 392	–	2 534	–	13 926
Individuals		307	31	326 931	–	327 269
Manufacturing and commerce		37 238	–	38 007	–	75 245
Mining		15 945	–	4 208	–	20 153
Transport and communication		11 706	–	6 192	–	17 898
Other services		20 455	–	23 684	–	44 139
Gross value of advances		**177 893**	**31**	**453 714**	**22**	**631 660**
Impairment of advances	11	–	(1)	(9 538)	–	(9 539)
Net advances		**177 893**	**30**	**444 176**	**22**	**622 121**
Category analysis						
Overdrafts and cash management accounts		–	–	48 574	–	48 574
Term loans		1 031	–	21 523	22	22 576
Card loans		–	–	17 032	–	17 032
Instalment sales and hire purchase agreements		–	–	128 051	–	128 051
Lease payments receivable		–	–	7 262	–	7 262
Property finance		302	31	184 150	–	184 483
– Home loans		–	31	170 518	–	170 549
– Commercial property finance		302	–	13 632	–	13 934
Personal loans		–	–	24 443	–	24 443
Preference share agreements		25 149	–	407	–	25 556
Assets under agreement to resell		31 390	–	1 363	–	32 753
Investment bank term loans		119 597	–	–	–	119 597
Long-term loans to associates and joint ventures		–	–	98	–	98
Other		424	–	20 811	–	21 235
Gross value of advances		**177 893**	**31**	**453 714**	**22**	**631 660**
Impairment of advances	11	–	(1)	(9 538)	–	(9 539)
Net advances		**177 893**	**30**	**444 176**	**22**	**622 121**

10 ADVANCES continued

R million	Notes	2014 Designated at fair value through profit or loss	Held-to-maturity	Loans and receivables	Available-for-sale	Total
Geographic analysis (based on credit risk)						
South Africa		**156 477**	**31**	**430 479**	**22**	**587 009**
Other Africa		**15 282**	**–**	**3 909**	**–**	**19 191**
United Kingdom		**3 944**	**–**	**14 850**	**–**	**18 794**
Other		**2 190**	**–**	**4 476**	**–**	**6 666**
– Europe		**864**	**–**	**3 374**	**–**	**4 238**
– North America		**504**	**–**	**210**	**–**	**714**
– South America		**–**	**–**	**–**	**–**	**–**
– Australasia		**–**	**–**	**2**	**–**	**2**
– Asia		**822**	**–**	**890**	**–**	**1 712**
Gross value of advances		**177 893**	**31**	**453 714**	**22**	**631 660**
Impairment of advances	11	**–**	**(1)**	**(9 538)**	**–**	**(9 539)**
Net advances		**177 893**	**30**	**444 176**	**22**	**622 121**

10 ADVANCES continued

		2013				
R million	**Notes**	**Designated at fair value through profit or loss**	**Held-to maturity**	**Loans and receivables**	**Available-for-sale**	**Total**
Notional value of advances		152 535	47	406 390	72	559 044
Contractual interest suspended		–	(4)	(1 763)	–	(1 767)
Gross value of advances		152 535	43	404 627	72	557 277
Sector analysis						
Agriculture		574	–	17 849	72	18 495
Banks		4 274	–	2 707	–	6 981
Financial institutions		48 165	–	17 340	–	65 505
Building and property development		23 076	–	5 961	–	29 037
Government, Land Bank and public authorities		14 710	–	1 234	–	15 944
Individuals		130	43	296 595	–	296 768
Manufacturing and commerce		24 141	–	38 363	–	62 504
Mining		13 796	–	6 044	–	19 840
Transport and communication		9 198	–	4 686	–	13 884
Other services		14 471	–	13 848	–	28 319
Gross value of advances		152 535	43	404 627	72	557 277
Impairment of advances	11	–	(1)	(8 711)	–	(8 712)
Net advances		152 535	42	395 916	72	548 565
Category analysis						
Overdrafts and cash management accounts		–	–	39 634	–	39 634
Term loans		1 631	–	18 834	72	20 537
Card loans		–	–	13 741	–	13 741
Instalment sales and hire purchase agreements		–	–	107 762	–	107 762
Lease payments receivable		–	–	8 852	–	8 852
Property finance		2 583	43	174 561	–	177 187
– Home loans		–	43	162 735	–	162 778
– Commercial property finance		2 583	–	11 826	–	14 409
Personal loans		–	–	21 836	–	21 836
Preference share agreements		21 380	–	392	–	21 772
Assets under agreement to resell		38 828	–	1 674	–	40 502
Investment bank term loans		87 535	–	–	–	87 535
Long-term loans to associates		–	–	76	–	76
Other		578	–	17 265	–	17 843
Gross value of advances		152 535	43	404 627	72	557 277
Impairment of advances	11	–	(1)	(8 711)	–	(8 712)
Net advances		152 535	42	395 916	72	548 565

10 ADVANCES continued

R million	Notes	2013 Designated at fair value through profit or loss	Held-to-maturity	Loans and receivables	Available-for-sale	Total
Geographic analysis (based on credit risk)						
South Africa		141 909	43	388 260	72	530 284
Other Africa		7 270	–	3 588	–	10 858
United Kingdom		1 216	–	9 142	–	10 358
Other		2 140	–	3 637	–	5 777
– Europe		582	–	2 773	–	3 355
– North America		346	–	48	–	394
– South America		89	–	–	–	89
– Australasia		497	–	1	–	498
– Asia		626	–	815	–	1 441
Gross value of advances		152 535	43	404 627	72	557 277
Impairment of advances	11	–	(1)	(8 711)	–	(8 712)
Net advances		152 535	42	395 916	72	548 565

10 ADVANCES continued

R million	Within 1 year	Between 1 and 5 years	More than 5 years	Total
2014				
Analysis of instalment sales and lease payments receivable				
Lease payments receivable	**2 193**	**5 222**	**411**	**7 826**
Suspensive sale instalments receivable	**40 450**	**113 804**	**9 105**	**163 359**
Subtotal	**42 643**	**119 026**	**9 516**	**171 185**
Less: unearned finance charges	**(8 576)**	**(25 035)**	**(2 174)**	**(35 785)**
Total gross instalment sales and lease payments receivable	**34 067**	**93 991**	**7 342**	**135 400**
Less: interest in suspense				**(87)**
Total net instalment sales and lease payments receivable				**135 313**
2013				
Analysis of instalment sales and lease payments receivable				
Lease payments receivable	2 576	6 355	475	9 406
Suspensive sale instalments receivable	36 338	90 474	6 719	133 531
Subtotal	38 914	96 829	7 194	142 937
Less: unearned finance charges	(7 135)	(17 666)	(1 399)	(26 200)
Total gross instalment sales and lease payments receivable	31 779	79 163	5 795	116 737
Less: interest in suspense				(123)
Total net instalment sales and lease payments receivable				116 614

Under the terms of the lease agreements, no contingent rentals are payable. The agreements relate to motor vehicles and equipment. The accumulated allowance for uncollectable minimum lease payments receivable included in the allowance for impairments at the reporting date is R84 million (2013: R162 million).

Advances relating to synthetic securitisations

Fresco II is a synthetic securitisation transaction amounting to R5 billion (2013: R5 billion) of the Bank Ltd Group's corporate advances. In terms of the transaction, the Bank has transferred the credit risk up to the value of the reference portfolio to Fresco II, a bankruptcy remote special purpose entity. The securitisation matured on 2 August 2013.

10 ADVANCES continued

Credit risk mitigation

Collateral is an important mitigant of credit risk. Refer to the *risk management note* for the Bank Ltd 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	2014	2013
FNB retail	**6 910**	6 321
FNB commercial	**481**	455
Total FNB	**7 391**	6 776
RMB investment banking	**1 054**	1 420
RMB corporate banking	**26**	24
Total RMB	**1 080**	1 444
WesBank	**1 959**	1 695
FCC (including Group Treasury) and other	**31**	2
Total	**10 461**	9 917

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 provisioning purposes, no financial effect was calculated.

It is the Bank Ltd 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, more detailed reviews and valuations of collateral are performed, which, therefore, yields a more accurate financial effect.

11 IMPAIRMENT OF ADVANCES

Significant loans and advances are monitored by the credit committee and impaired according to the Bank Ltd 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:

- decreases in the estimated amount of collateral held against the loans and advances;
- breaches of loan covenants and conditions;
- the time period of overdue contractual payments;
- actuarial credit models;
- loss of employment or death of the borrower; and
- the probability of liquidation of the customer.

Where objective evidence of impairment exists, impairment testing is performed based on LGD, PD and EAD.

	2014			
	FNB		RMB	
R million	**Retail**	**Commercial**	**Investment banking**	**Corporate banking**
Analysis of movement in impairment of advances per class of advance				
Opening balance	**4 390**	**1 007**	**156**	**232**
Amounts written off	**(3 303)**	**(195)**	**–**	**(3)**
Acquisitions of businesses	**–**	**–**	**–**	**–**
Transfers from/(to) other divisions	**2**	**10**	**–**	**(10)**
Reclassifications	**–**	**–**	**–**	**–**
Exchange rate differences	**–**	**6**	**3**	**–**
Unwinding of discounted present value on NPLs	**(109)**	**(8)**	**–**	**–**
Net new impairments created*	**2 952**	**362**	**72**	**32**
Closing balance	**3 932**	**1 182**	**231**	**251**
Increase in impairment*	**(2 952)**	**(362)**	**(72)**	**(32)**
Recoveries of bad debts previously written off	**1 103**	**30**	**–**	**1**
Impairment loss recognised in profit or loss	**(1 849)**	**(332)**	**(72)**	**(31)**

* *Refer to the risk management note in the following categories for more details: credit risk – under the impairment of financial assets and non-performing loan section; operational risk – under the boundary events section.*

2014				
WesBank	Other	Total impairment	Specific impairment	Portfolio impairment
2 127	800	8 712	5 228	3 484
(2 045)	–	(5 546)	(5 546)	–
43	–	43	22	21
(66)	64	–	–	–
–	–	–	(3)	3
6	1	16	8	8
(11)	–	(128)	(128)	–
2 541	483	6 442	5 414	1 028
2 595	1 348	9 539	4 995	4 544
(2 541)	(483)	(6 442)	(5 414)	(1 028)
481	–	1 615	1 615	–
(2 060)	(483)	(4 827)	(3 799)	(1 028)

11 IMPAIRMENT OF ADVANCES continued

	2013			
	FNB		RMB	
R million	Retail	Commercial	Investment banking	Corporate banking
Analysis of movement in impairment of advances per class of advance				
Opening balance	4 149	884	160	210
Amounts written off	(2 864)	(199)	(25)	(33)
Transfers from/(to) other divisions	2	(2)	1	–
Reclassifications	–	–	–	–
Exchange rate differences	–	2	1	–
Unwinding of discounted present value on NPLs	(124)	(13)	–	–
Net new impairments created	3 227	335	19	55
Closing balance	4 390	1 007	156	232
Increase in impairment	(3 227)	(335)	(19)	(55)
Recoveries of bad debts previously written off	682	18	–	12
Impairment loss recognised in profit or loss	(2 545)	(317)	(19)	(43)

2013				
WesBank	**Other**	**Total impairment**	**Specific impairment**	**Portfolio impairment**
2 018	800	8 221	5 119	3 102
(1 796)	–	(4 917)	(4 917)	–
(49)	48	–	–	–
–	–	–	146	(146)
5	–	8	5	3
(20)	–	(157)	(157)	–
1 969	(48)	5 557	5 032	525
2 127	800	8 712	5 228	3 484
(1 969)	48	(5 557)	(5 032)	(525)
404	–	1 116	1 116	–
(1 565)	48	(4 441)	(3 916)	(525)

11 IMPAIRMENT OF ADVANCES continued

	2014		
R million	**Total value net of interest in suspense**	**Security held and expected recoveries**	**Specific impairment**
Non-performing loans by sector			
Agriculture	**174**	**126**	**48**
Financial institutions	**167**	**47**	**120**
Building and property development	**2 081**	**1 776**	**305**
Government, Land Bank and public authorities	**54**	**20**	**34**
Individuals	**11 323**	**7 623**	**3 700**
Manufacturing and commerce	**469**	**155**	**314**
Mining	**52**	**14**	**38**
Transport and communication	**65**	**26**	**39**
Other	**599**	**202**	**397**
Total non-performing loans	**14 984**	**9 989**	**4 995**
Non-performing loans by category			
Overdrafts and cash management accounts	**940**	**263**	**677**
Term loans	**270**	**127**	**143**
Card loans	**385**	**113**	**272**
Instalment sales and hire purchase agreements	**3 488**	**2 187**	**1 301**
Lease payments receivable	**183**	**107**	**76**
Property finance	**6 147**	**4 776**	**1 371**
– Home loans	**5 629**	**4 506**	**1 123**
– Commercial property finance	**518**	**270**	**248**
Personal loans	**1 474**	**496**	**978**
Investment bank term loans	**1 636**	**1 636**	**–**
Other	**466**	**284**	**177**
Total non-performing loans	**14 984**	**9 989**	**4 995**

11 IMPAIRMENT OF ADVANCES continued

	2014		
R million	**Total value net of interest in suspense**	**Security held and expected recoveries**	**Specific impairment**
Non-performing loans by class			
FNB retail	**7 256**	**4 906**	**2 350**
FNB commercial	**1 321**	**526**	**795**
Total FNB	**8 577**	**5 432**	**3 145**
RMB investment banking	**1 740**	**1 690**	**50**
RMB corporate banking	**6**	**–**	**6**
Total RMB	**1 746**	**1 690**	**56**
WesBank	**4 661**	**2 867**	**1 794**
Total non-performing loans	**14 984**	**9 989**	**4 995**
Non-performing loans by geographical area			
South Africa	**14 886**	**9 983**	**4 903**
United Kingdom	**37**	**6**	**31**
Asia	**61**	**–**	**61**
Total non-performing loans	**14 984**	**9 989**	**4 995**

11 IMPAIRMENT OF ADVANCES continued

	2013		
R million	**Total value net of interest in suspense**	**Security held and expected recoveries**	**Specific impairment**
Non-performing loans by sector			
Agriculture	603	500	103
Financial institutions	244	150	94
Building and property development	2 488	2 116	372
Government, Land Bank and public authorities	13	13	–
Individuals	11 540	7 550	3 990
Manufacturing and commerce	580	276	304
Mining	95	60	35
Transport and communication	115	55	60
Other	447	177	270
Total non-performing loans	16 125	10 897	5 228
Non-performing loans by category			
Overdrafts and cash management accounts	923	269	654
Term loans	231	115	116
Card loans	318	88	230
Instalment sales and hire purchase agreements	2 972	1 801	1 171
Lease payments receivable	382	225	157
Property finance	7 526	5 746	1 780
– Home loans	6 925	5 420	1 506
– Commercial property finance	601	326	274
Personal loans	1 479	363	1 116
Investment bank term loans	2 290	2 290	–
Other	4	–	4
Total non-performing loans	16 125	10 897	5 228

11 IMPAIRMENT OF ADVANCES continued

	2013		
R million	**Total value net of interest in suspense**	**Security held and expected recoveries**	**Specific impairment**
Non-performing loans by class			
FNB retail	8 615	5 754	2 861
FNB commercial	1 429	647	782
Total FNB	10 044	6 401	3 643
RMB investment banking	2 296	2 290	6
RMB corporate banking	9	–	9
Total RMB	2 305	2 290	15
WesBank	3 776	2 206	1 570
Total non-performing loans	16 125	10 897	5 228
Non-performing loans by geographical area			
South Africa	15 708	10 541	5 167
Other Africa	1	–	1
United Kingdom	29	7	22
North America	34	34	–
South America	315	315	–
Asia	38	–	38
Total non-performing loans	16 125	10 897	5 228

12 AMOUNTS DUE (TO)/BY HOLDING COMPANY AND FELLOW SUBSIDIARY COMPANIES

R million	2014	2013
Amounts due to holding company	**(133)**	(766)
Amounts due to fellow subsidiary companies	**(12 156)**	(13 756)
Amounts due to holding company and fellow subsidiary companies	**(12 289)**	(14 522)
Amounts due by holding company	**–**	–
Amounts due by fellow subsidiary companies	**25 984**	20 627
Amounts due by holding company and fellow subsidiary companies	**25 984**	20 627
Net amounts due by holding company and fellow subsidiary companies	**13 695**	6 105

These loans have no fixed terms of repayment and carry varying rates of interest. Loans to fellow subsidiary companies amounting to R236 million (2013: R189 million) are subject to subordination agreements until such a time that their assets, fairly valued, exceed their liabilities.

Included in the above amounts are the following:

	Amounts due by fellow subsidiary companies		Amounts due to fellow subsidiary companies	
R million	Notional	Fair value	Notional	Fair value
2014				
Derivative instruments	**28 411**	**305**	**(14 821)**	**(226)**
2013				
Derivative instruments	37 889	516	(25 353)	(255)

13 INVESTMENT SECURITIES AND OTHER INVESTMENTS

	2014				
R million	**Held for trading**	**Designated at fair value through profit or loss**	**Loans and receivables**	**Available-for-sale**	**Total**
Negotiable certificates of deposit	**–**	**–**	**–**	**749**	**749**
Treasury bills	**1 075**	**15 791**	**–**	**1 024**	**17 890**
Other government and government guaranteed stock	**20 206**	**2 174**	**–**	**20 213**	**42 593**
Other dated securities	**3 454**	**11 899**	**505**	**1 778**	**17 636**
Other undated securities	**67**	**–**	**–**	**–**	**67**
Equities	**3**	**9 283**	**–**	**561**	**9 847**
Other	**–**	**–**	**–**	**1**	**1**
Total investment securities and other investments	**24 805**	**39 147**	**505**	**24 326**	**88 783**

	2013				
R million	**Held for trading**	**Designated at fair value through profit or loss**	**Loans and receivables**	**Available-for-sale**	**Total**
Negotiable certificates of deposit	1 547	–	–	762	2 309
Treasury bills	1 624	29 928	–	799	32 351
Other government and government guaranteed stock	21 708	1 940	–	14 628	38 276
Other dated securities	3 391	10 990	415	–	14 796
Other undated securities	15	–	–	–	15
Equities	–	6 702	–	510	7 212
Other	–	–	–	2	2
Total investment securities and other investments	28 285	49 560	415	16 701	94 961

R36 504 million (2013: R33 866 million) of the financial instruments form part of the Bank Ltd Group's liquid asset portfolio in terms of the SARB and other foreign banking regulators' requirements.

13 INVESTMENT SECURITIES AND OTHER INVESTMENTS continued

Analysis of investment securities and other investments

R million	2014	2013
Listed	**58 988**	58 763
– Equities	**1 412**	1 040
– Debt	**57 576**	57 723
Unlisted	**29 795**	36 198
– Equities	**8 435**	6 172
– Debt	**21 360**	30 026
Total	**88 783**	94 961

Information regarding investment securities and other investments is kept at the Bank Ltd 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

R million	Notes	2014	2013
Unlisted investments		**1**	61
Total investments in associates carrying value		**1**	61
Movement in the carrying value of the associates			
Balance at the beginning of the reporting period		**61**	187
Share of losses from associates after tax		**(8)**	(25)
– Income before tax for the year		**–**	(6)
– Tax for the year		**(8)**	(19)
Net movement resulting from acquisitions, disposals, and transfers	14.1	**(43)**	(129)
Movement in other reserves		**(9)**	17
Exchange rate differences		**–**	11
Balance at the end of the reporting period		**1**	61
Analysis of carrying value of associates			
Shares at cost less impairment		**19**	49
Share of post-acquisition reserves		**(18)**	12
Total investments in associates		**1**	61

	2014		
Name	**Nature of the relationship**	**Place of business**	**Year end**
Weston Atlas Funds*	**Payment finance**	**United States of America**	**30 June**
Capricorn Fund Managers*	**Hedge funding**	**South Africa**	**28 February**
Truffle Asset Management*	**Hedge funding**	**South Africa**	**30 June**

* *This investment in associate was disposed of in the current financial year.*

14 INVESTMENTS IN ASSOCIATES continued

Financial information of significant associates

	Weston Atlas Funds		Capricorn Fund Managers		Truffle Asset Management	
R million	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Amounts recognised in profit or loss and other comprehensive income						
Revenue	–	33	–	9	–	–
Profit or loss from continuing operations before tax	–	33	–	7	–	–
Total comprehensive income	–	33	–	7	–	–
Amounts recognised in the statement of financial position						
Total assets	–	133	–	48	–	11
Total liabilities	–	–	–	1	–	–
Net asset value	–	133	–	47	–	11
Group's share of net asset value	–	44	–	11	–	5
Carrying value of investment	–	44	–	11	–	5

14 INVESTMENTS IN ASSOCIATES continued

Financial information of individually immaterial associates

	Other individually immaterial associates	
R million	**2014**	**2013**
Carrying amount	**1**	1
Group's share of profit or loss after tax	**(8)**	(15)
Group's share of profit or loss after tax from discontinued operations	**–**	–
Group's share of other comprehensive income	**–**	–
Group's share of total comprehensive income	**(8)**	(15)

No losses were recognised in the current or prior financial year as the balance of the investment in the associate was R nil. The cumulative share of losses from associates not recognised is R nil (2013: R nil).

The most recent audited annual financial statements of associates are used by the Bank Ltd Group in applying the equity method of accounting. These are not always drawn up to the same date as the financial statement of the Bank Ltd Group. Where the reporting date of associate is different from that of the Bank Ltd Group, the Bank Ltd Group uses the most recent available financial statement of the associate as well as reviews the management account for material transactions during the in-between period. In instances where significant events occurred between the last reporting date of an associate and the reporting date of the Bank Ltd Group, the effect of such events are adjusted for. The Bank Ltd Group has applied this principle consistently since adopting the equity accounting method.

The Bank Ltd Group has no exposure to contingent liabilities as a result of its relationships with associates.

14 INVESTMENTS IN ASSOCIATES continued

14.1 Acquisitions and disposals of associates

R million	Notes	2014	2013
Acquisition of associates	14.2	**–**	15
Disposal of associates	14.3	**(43)**	(144)
Net movement		**(43)**	(129)

14.2 Acquisition of associates

	2014	2013		
	Total*	**Total**	**Capricorn Fund Managers**	**Truffle Asset Management**
Acquisition date			30/11/12	30/09/12
Interest acquired (%)			21	44
Total consideration transferred (R million)	**–**	15	10	5
– Cash	**–**	15	10	5
– Non-cash	**–**	–	–	–

* *There were no associates acquired during the current year.*

Capricorn Fund Managers

During the prior year the Bank Ltd Group invested seed capital of R10 million in Capricorn Fund Managers. As a result, the Bank Ltd Group owned 21% of the fund.

Truffle Asset Management

During the prior year the Bank Ltd Group invested seed capital of R5 million in Truffle Asset Management. As a result, the Bank Ltd Group owned 44% of the fund.

14 INVESTMENTS IN ASSOCIATES continued

14.3 Disposal of associates

	2014			
	Total	**Capricorn Fund Managers**	**Truffle Asset Management**	**Weston Atlas Fund**
Disposal date		**30/11/13**	**30/11/13**	**31/05/14**
Interest disposed of (%)		**21**	**44**	**33**
Total consideration received (R million)	**57**	**10**	**6**	**41**
– Cash	*****	**–**	**–**	*****
– Non-cash	**57**	**10**	**6**	**41**
Less: carrying value of the associate on disposal date	**(43)**	**(11)**	**(5)**	**(27)**
Gain/(loss) on disposal of associates	**14**	**(1)**	**1**	**14**

* *Amounts less than R500 000.*

Capricorn Fund Managers and Truffle Asset Management

These amounts represent seed capital invested into funds managed by third party fund managers. The investments were disposed of in the current year for R10 million and R6 million respectively.

Weston Atlas Funds

The Weston Capital Partners Fund II Limited (the fund) has ceased trading and is in the process of liquidation. The underlying assets of the fund were sold and the proceeds have been distributed to investors. These distributions are in effect a return of capital and the Bank Ltd Group (through its division, RMB) no longer holds an investment in the fund. The distributions received from the fund exceeded the carrying value of the investment and a gain of R14 million was recognised on the transaction.

14 INVESTMENTS IN ASSOCIATES continued

14.3 Disposal of associates continued

	2013			
	Total	**New Seasons Investments**	**Sutter Gold**	**Other Insignificant acquisitions***
Disposal date		18/12/12	03/09/12	01/02/13
Interest disposed of (%)		29	50	–
Total consideration received (R million)	245	26	186	33
– Cash	239	26	186	27
– Non-cash	6	–	–	6
Less: carrying value of the associate on disposal date	(144)	(26)	(86)	(32)
Gain on disposal of associates	101	–	100	1

* *Excludes loss on the disposal of investment in Mvelaphanda Group.*

New Seasons Investments

During the prior year, the Bank Ltd Group disposed of its 29% interest in New Seasons Investments to New Seasons Investment Holdings Limited.

Sutter Gold

During the prior year, the Bank Ltd Group disposed of its 50% in Sutter Gold to RMB Investments and Advisory Proprietary Limited for a consideration of R186 million.

Mvelaphanda Group Limited

During the prior year, the Bank Ltd 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.

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 lives of the individual assets.

Leasehold premises	Shorter of estimated life or period of lease
Freehold property and property held under finance lease	
– Buildings and structures	50 years
– Mechanical and electrical	20 years
– Components	20 years
– Sundries	3 – 5 years
Computer equipment	3 – 5 years
Furniture and fittings	3 – 10 years
Motor vehicles	5 years
Office equipment	3 – 6 years

	2014			2013		
R million	**Cost**	**Accumulated depreciation and impairments**	**Carrying amount**	**Cost**	**Accumulated depreciation and impairments**	**Carrying amount**
Property*	**8 820**	**(2 003)**	**6 817**	8 509	(2 086)	6 423
Freehold property	**5 729**	**(928)**	**4 801**	5 251	(696)	4 555
Leasehold premises	**3 091**	**(1 075)**	**2 016**	3 258	(1 390)	1 868
Equipment*	**9 432**	**(4 880)**	**4 552**	9 005	(5 007)	3 998
Computer equipment	**4 983**	**(3 008)**	**1 975**	4 855	(3 296)	1 559
Furniture and fittings	**1 334**	**(687)**	**647**	1 301	(702)	599
Motor vehicles	**2 125**	**(561)**	**1 564**	1 924	(410)	1 514
Office equipment	**990**	**(624)**	**366**	925	(599)	326
Total property and equipment	**18 252**	**(6 883)**	**11 369**	17 514	(7 093)	10 421

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

15 PROPERTY AND EQUIPMENT continued

	Property		
R million	**Freehold property**	**Leasehold premises**	**Assets held under leasing agreements**
Carrying amount at 1 July 2012	3 698	2 018	–
Acquisitions	1 137	168	–
Disposals	(70)	(65)	–
Exchange rate differences	–	7	–
Depreciation charge for the period	(210)	(261)	–
Impairments recognised	–	–	–
Other	–	1	–
Carrying amount at 30 June 2013	**4 555**	**1 868**	**–**
Acquisitions	**522**	**406**	**–**
Disposals	**(32)**	**(41)**	**–**
Exchange rate differences	**–**	**3**	**–**
Depreciation charge for the period	**(244)**	**(219)**	**–**
Impairments recognised*	**–**	**(1)**	**–**
Carrying amount at 30 June 2014	**4 801**	**2 016**	**–**

* *During the current year certain fleet vehicles were repossessed early in the life of the relevant finance contracts and were, therefore, impaired by R3 million to their recoverable amount. During the prior year, office equipment with a carrying value that exceeded the recoverable amount by R4 million was identified. An impairment for this amount was therefore recognised.*

There were no reversals of previously recognised impairments during the current or prior years.

Information regarding land and buildings is kept at the Bank's registered offices. This information is open for inspection in terms of section 26 of the Companies Act 71 of 2008.

	Equipment					
	Computer equipment	**Furniture and fittings**	**Motor vehicles**	**Office equipment**	**Capitalised leased assets**	**Total**
	1 410	658	794	303	1	8 882
	823	100	1 266	150	–	3 644
	(49)	(12)	(286)	(4)	–	(486)
	3	–	–	1	–	11
	(628)	(144)	(260)	(124)	–	(1 627)
	–	(4)	–	–	–	(4)
	–	1	–	–	(1)	1
	1 559	**599**	**1 514**	**326**	**–**	**10 421**
	1 126	**205**	**910**	**150**	**–**	**3 319**
	(97)	**(13)**	**(517)**	**(3)**	**–**	**(703)**
	4	**1**	**–**	**1**	**–**	**9**
	(617)	**(145)**	**(340)**	**(108)**	**–**	**(1 673)**
	–	**–**	**(3)**	**–**	**–**	**(4)**
	1 975	**647**	**1 564**	**366**	**–**	**11 369**

16 INTANGIBLE ASSETS

The useful life of each intangible asset is individually assessed. 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

	2014			2013		
R million	**Cost**	**Accumulated amortisation and impairments**	**Carrying amount**	**Cost**	**Accumulated amortisation and impairments**	**Carrying amount**
Goodwill						
Opening balance	**–**	**–**	**–**	–	–	–
Acquisition of businesses*	**104**	**–**	**104**	–	–	–
Impairment recognised	**–**	**(104)**	**(104)**	–	–	–
Closing balance	**104**	**(104)**	**–**	–	–	–
Software and development costs						
Opening balance	**949**	**(805)**	**144**	824	(510)	314
Acquisitions	**1**	**–**	**1**	171	–	171
Disposals	**(19)**	**12**	**(7)**	(47)	44	(3)
Exchange rate differences	**1**	**(1)**	**–**	1	(1)	–
Amortisation for the period	**–**	**(54)**	**(54)**	–	(90)	(90)
Impairments recognised**	**–**	**–**	**–**	–	(248)	(248)
Closing balance	**932**	**(848)**	**84**	949	(805)	144
Trademarks						
Opening balance	**59**	**(59)**	**–**	50	(50)	–
Exchange rate differences	**11**	**(11)**	**–**	9	(9)	–
Closing balance	**70**	**(70)**	**–**	59	(59)	–

* *The Bank acquired the business of FirstAuto Proprietary Limited (FirstAuto) from FRIHL during the current financial year. The transaction was accounted for as a business combination under common control and the Bank acquired the goodwill recognised on the original business combination.*

** *During the prior 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 its current state without major modifications or alterations. The software was written down to its recoverable amount.*

There were no reversals of previously recognised impairments in the current or prior years.

16 INTANGIBLE ASSETS continued

R million	2014 Cost	2014 Accumulated amortisation and impairments	2014 Carrying amount	2013 Cost	2013 Accumulated amortisation and impairments	2013 Carrying amount
Other						
Opening balance	**92**	**(82)**	**10**	102	(80)	22
Disposals	**–**	**–**	**–**	(14)	14	–
Exchange rate differences	**4**	**(4)**	**–**	4	(4)	–
Amortisation for the period	**–**	**–**	**–**	–	(4)	(4)
Impairments recognised*	**–**	**(10)**	**(10)**	–	(8)	(8)
Closing balance	**96**	**(96)**	**–**	92	(82)	10
Total intangible assets						
Goodwill	**104**	**(104)**	**–**	–	–	–
Software and development costs	**932**	**(848)**	**84**	949	(805)	144
Trademarks	**70**	**(70)**	**–**	59	(59)	–
Other	**96**	**(96)**	**–**	92	(82)	10
Total intangible assets	**1 202**	**(1 118)**	**84**	1 100	(946)	154

* *During the current year a customer book ceased to generate income and was impaired by R10 million to its recoverable amount. The amount of R8 million recognised in the prior 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 or prior years.

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 the Bank Ltd Group level.

The CGU to which the goodwill balance as at 30 June relates to:

R million	2014	2013
WesBank	**–**	–

Impairments during 2014

During the current year the full goodwill balance of R104 million relating to the business of FirstAuto was impaired. The recoverable amount was determined as being the value in use. The business is based in South Africa and the impairment is recognised in the WesBank segment.

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 its 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. 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 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 the CGU.

	Discount rates*		Growth rates	
%	2014	2013	2014	2013
WesBank	**15**	–	**3**	–

* *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. WesBank determines the recoverable amount as the fair value less costs to sell and not 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 CGU would not result in its recoverable amounts exceeding the carrying values. The recoverable amounts of this CGU is 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.

17 EMPLOYEE LIABILITIES AND RELATED ASSETS

R million	Notes	2014	2013
Staff-related provision	17.1	**4 882**	3 894
Cash settled share-based payment liability*		**2 550**	2 701
Defined benefit post-employment liability	17.2	**649**	407
Defined contribution post-employment liability	17.3	**–**	–
Total employee liabilities		**8 081**	7 002
Net amount due to employees		**8 081**	7 002

* *Included in the cash settled share-based payment liability is an amount of R nil (2013: R207 million) that relates to options already vested but not yet exercised by staff.*

Refer to note 27 for more detail on the cash settled share-based payment schemes.

17.1 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 participants in the BEE schemes will receive. Further details of this scheme and the vesting conditions related to the scheme are provided in note 27.

R million	Notes	2014	2013
Opening balance		**3 894**	3 215
Acquisitions of businesses		**7**	–
Exchange rate differences		**28**	20
Charge to profit or loss	3	**3 487**	2 709
– Additional provisions created		**3 506**	2 709
– Unused provisions reversed		**(19)**	–
Utilised		**(2 534)**	(2 050)
Closing balance		**4 882**	3 894

17 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

17.2 Defined benefit post-employment liability

Nature of benefits

The Bank Ltd Group operates two defined benefit plans in South Africa; a plan that provides post-employment medical benefits and a pension plan. The pension plan provides retired employees with annuity income after their service. The medical scheme provides retired employees with medical benefits after their service. In terms of these plans, the Bank Ltd 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. For the pension plan a separate fund (the fund) has been established. The fund holds assets that are used solely to pay pension benefits. For current pensioners the fund pays a pension to the members, and dependants' pension to the spouse and eligible children payable on death of the member.

On retirement of current defined contribution active members, the fund provides a pension that can be purchased with the member's share. The pension so purchased is determined based on the purchasing member's demographic details (age, sex, age of spouse), the pension structure (guarantee period, spouse's reversion, pension increase target) and the economic assumptions at time of purchase (inflation-linked bond yields available. There are also a small number of active members whose benefits are calculated on a defined benefit basis as prescribed in the rules of the fund. Benefits on withdrawal and retrenchment are determined in terms of the prevailing legislation and are equivalent to the value of the actuarial reserve held in the fund. The liability in respect of contributing defined contribution members is equal to the member's share of the fund, which is determined as the accumulation of the member's contributions and employer's contributions (net of deduction for fund expenses and cost of death benefits) as well as any amounts transferred into the fund by the member, increased with the net investment returns earned (positive or negative) on the member's asset.

In terms of the medical scheme, the Bank Ltd Group is liable for any deficit in the provision of the benefits from the plan assets. In terms of the small number of defined benefit contributing members in the plan, the Bank Ltd Group is liable for any deficit in the value of accrued benefits exceeding the assets in the funds earmarked for these liabilities. In terms of the existing pensioners in the pension plan, the trustees are responsible for setting the pension increase policy and granting of pension increases subject to the assets of the fund supporting such increases. Should the pension account in the fund be in a deficit to the extent that current pensions in payment cannot be maintained, the Bank Ltd Group is liable to maintain the nominal value of pensions in payment. The liabilities and assets of these defined benefit plans are reflected as a net asset or liability in the statement of financial position.

The Fund also provides death and withdrawal benefits. The 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).

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.

Regulatory framework

The plans are governed by local regulations and practice in South Africa. The pension plan is regulated by the Financial Services Board and the medical plan by The Registrar of Council for Medical Schemes.

17 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

17.2 Defined benefit post-employment liability continued

Governance of the plans

Responsibility for governance of the plans, including investment decisions and contribution schedules, lies jointly with the Bank Ltd Group and the board of trustees. The board of trustees must be composed of representatives of the company and plan participants in accordance with the plans' regulations. The board consists of four representatives of the Bank Ltd Group and 4 representatives of the plan participants in accordance with the plans' regulations. The trustees serve on the boards for five years and may be re-elected. An external auditor performs an audit of the fund on an annual basis and such annual financial statements are submitted to the Regulator of Pension Funds (i.e. to the Financial Services Board). A full actuarial valuation of the pension fund submission to the Financial Services Board is done every three years, with the last valuation being in 2014. Annual interim actuarial valuations are performed for the trustees and IAS 19 purposes. At the last valuation date the fund was financially sound.

Governance of the post-employment medical aid subsidy policy lies with the Bank Ltd Group. The Bank Ltd Group established a committee that regularly meets to discuss and review the management and the subsidy. The committee also considers administration and data management issues and analyse demographic and economic risks inherent in the subsidy policy.

Funding policy

Funding levels are monitored on an annual basis and the current agreed contribution rate in respect of the defined benefit pension fund is 21% of pensionable salaries (in excess of the minimum recommended contribution rate set by the fund actuary). The Bank Ltd Group considers the recommended contribution rate as advised by the Fund actuary with each actuarial valuation.

In addition, the trustees of the fund target a funding position on the pensioner liabilities that exceeds the value of the best estimate actuarial liability. The funding position is also considered in relation to a solvency reserve basis, which makes allowance for the discontinuance cost of outsourcing the pensions.

The last statutory actuarial valuation of the fund (30 June 2014) reflected that all categories of liabilities were at least 100% funded.

Asset-liability matching strategies

The Bank Ltd Group ensures that the investment positions are managed within an asset-liability matching (ALM) framework that has been developed to achieve long-term investments that are in line with the obligations under the schemes. Within this framework, the Bank Ltd Group's ALM objective is to match assets to the pension obligations by investing in long-term fixed interest securities with maturities that match the benefit payments as they fall due. The Bank Ltd Group actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the pension obligations. Investments are well diversified so that the failure of any single investment will not have a material impact on the overall level of assets.

The trustees of the fund have adopted an investment strategy in respect of the pensioner liabilities that largely follows a 70% exposure in fixed interest instruments to immunise the interest rate and inflation risk, and 30% exposure to local growth assets. The fixed interest instruments consists mainly of long dated South African government issued inflation linked bonds, while the growth assets are allocated to selected local asset managers. The trustees receive monthly reports on the funding level of the pensioner liabilities and an in-depth attribution analysis in respect of changes in the pension funding level.

17 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

17.2 Defined benefit post-employment liability continued

The trustees of the fund aim to apportion an appropriate level of balanced portfolio, conservative portfolio, inflation linked and money market assets to match the maturing defined benefit active member liabilities. It should be noted that this is an approximate matching strategy as elements such as salary inflation and decrement rates cannot be matched. This is, however, an insignificant liability compared to the pensioner liability of the fund.

Risks associated with the plans

Through its defined benefit pension plans and post-employment medical plans, the Bank Ltd Group is exposed to a number of risks, the most significant of which are detailed below:

Asset volatility: Assets are held in order to provide a return to back the plans' obligations, therefore, any volatility in the value of these assets would create a deficit.

Inflation risk: The plans' benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities. Consumer price inflation and health care cost inflation form part of the financial assumptions used in the valuation.

Life expectancy: The plans' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plans' liabilities.

Demographic movements: The plans' liabilities are determined based on a number of best estimate assumptions on demographic movements of participants, including withdrawal and early retirement rates. This is especially relevant to the post-employment medical aid subsidy liabilities. Should less eligible employees withdraw and/or should more eligible employees retire earlier than assumed, the liabilities could be understated.

The financial implications to the Bank Ltd Group in the event of deficit of the pension plan have been discussed in the nature of the benefits section above.

17 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

17.2 Defined benefit post-employment liability

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

	2014			2013		
R million	**Pension**	**Medical**	**Total**	**Pension**	**Medical**	**Total**
Post-employment benefit fund liability						
Present value of funded obligation	**9 369**	**3 030**	**12 399**	8 976	2 791	11 767
Fair value of plan assets	**(9 725)**	**(2 381)**	**(12 106)**	(8 886)	(2 474)	(11 360)
Total employee liability/(asset)	**(356)**	**649**	**293**	90	317	407
Limitation imposed by IAS 19 asset ceiling	**356**	**–**	**356**	–	–	–
Total post-employment liability	**–**	**649**	**649**	90	317	407
The amounts recognised in the income statement are as follows:						
Current service cost	**3**	**43**	**46**	3	44	47
Net interest	**8**	**29**	**37**	17	11	28
Total included in staff costs (note 3)	**11**	**72**	**83**	20	55	75
Movement in employment benefit fund liability						
Present value at the beginning of the year	**90**	**317**	**407**	365	108	473
Current service cost	**3**	**43**	**46**	3	44	47
Interest expense	**8**	**29**	**37**	17	11	28
Remeasurements:						
Recognised in OCI	**(98)**	**385**	**287**	(291)	261	(30)
– Actuarial losses from changes in demographic assumptions	**12**	**–**	**12**	1	–	1
– Actuarial losses from changes in financial assumptions	**175**	**78**	**253**	61	–	61
– Other remeasurements	**(285)**	**307**	**22**	(353)	261	(92)
Benefits paid	**–**	**(125)**	**(125)**	–	(107)	(107)
Employer contributions	**(2)**	**–**	**(2)**	(3)	–	(3)
Employee contributions	**(1)**	**–**	**(1)**	(1)	–	(1)
Closing balance	**–**	**649**	**649**	90	317	407

17 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

17.2 Defined benefit post-employment liability continued

	2014			2013		
R million	**Pension**	**Medical**	**Total**	**Pension**	**Medical**	**Total**
Movement in the fair value of plan assets						
Opening balance	**8 886**	**2 474**	**11 360**	8 478	2 539	11 017
Interest income	**745**	**207**	**952**	966	219	1 185
Remeasurements:						
Recognised in OCI						
Return on plan assets	**641**	**(300)**	**341**	–	(284)	(284)
Benefits paid and settlements	**(550)**	**–**	**(550)**	(561)	–	(561)
Employer contributions	**2**	**–**	**2**	2	–	2
Employee contributions	**1**	**–**	**1**	1	–	1
Closing balance	**9 725**	**2 381**	**12 106**	8 886	2 474	11 360
Actual return on plan assets was:	**16%**			11%		
Reconciliation of limitation imposed by IAS 19 asset ceiling						
Opening balance	**–**	**–**	**–**	–	–	–
Change in the asset ceiling, excluding amounts included in interest	**356**	**–**	**356**	–	–	–
Closing balance	**356**	**–**	**356**	–	–	–
Plan assets comprise the following:						
Equity securities: Listed	**2 163**	**–**	**2 163**	1 561	–	1 561
Cash and cash equivalents	**331**	**–**	**331**	208	–	208
Debt instruments	**7 231**	**–**	**7 231**	7 117	–	7 117
– Government bonds	**6 175**	**–**	**6 175**	5 800	–	5 800
– Money market	**609**	**–**	**609**	765	–	765
– Corporate bonds	**95**	**–**	**95**	109	–	109
– Other	**352**	**–**	**352**	443	–	443
Other dated instruments	**–**	**2 381**	**2 381**	–	2 474	2 474
Total plan assets	**9 725**	**2 381**	**12 106**	8 886	2 474	11 360
Included in plan assets were the following:						
FirstRand Limited ordinary shares with fair value of	**1**	**–**	**1**	–	–	–
Buildings occupied by the Bank Ltd Group with fair value of	**62**	**–**	**62**	56	–	56
Total	**63**	**–**	**63**	56	–	56

17 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

17.2 Defined benefit post-employment liability continued

Each sensitivity analysis is based on changing one assumption while keeping all other remaining assumptions constant. In practice, this is unlikely to occur and changes in some of the assumptions may be correlated. The sensitivity analysis has been calculated in terms of the projected unit credit method and illustrates how the value of the liability would change in response to certain changes in actuarial assumptions.

	2014		2013	
	Pension	**Medical**	**Pension**	**Medical**
The principal actuarial assumptions used for accounting purposes were:				
Expected rates of salary increases (%)	**8.3**	**–**	8.0	–
Long-term increase in health cost (%)	**–**	**8.3**	–	7.5
The effects of a 1% movement in the assumed health cost rate were as follows:				
Increase of 1%				
– Effect on the aggregate of the current service cost and interest cost (R million)	**–**	**55.4**	–	51.1
– Effect on the defined benefit obligation (R million)	**–**	**470.6**	–	460.5
Decrease of 1%				
– Effect on the aggregate of the current service cost and interest cost (R million)	**–**	**44.6**	–	40.5
– Effect on the defined benefit obligation (R million)	**–**	**382.7**	–	371.2
The effects of a 1% movement in the expected rates of salary increases were as follows:				
Increase of 1%				
– Effect on the aggregate of the current service cost and interest cost (R million)	**3.0**	**–**	2.3	–
– Effect on the defined benefit obligation (R million)	**8.9**	**–**	12.0	–
Decrease of 1%				
– Effect on the aggregate of the current service cost and interest cost (R million)	**1.0**	**–**	1.8	–
– Effect on the defined benefit obligation (R million)	**7.9**	**–**	4.5	–
The effects of a change in the average life expectancy of a pensioner retiring at age 65				
Increase in life expectancy by 10 years				
– Effect on the aggregate of the current service cost and interest cost (R million)	**17.0**	**11.7**	14.9	10.3
– Effect on the defined benefit obligation (R million)	**347.8**	**109.5**	333.9	102.1
Decrease in life expectancy by 10 years				
– Effect on the aggregate of the current service cost and interest cost (R million)	**14.4**	**11.5**	13.3	10.2
– Effect on the defined benefit obligation (R million)	**329.1**	**108.1**	297.1	101.0

17 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

17.2 Defined benefit post-employment liability continued

	2014		2013	
	Pension	**Medical**	**Pension**	**Medical**
Estimated contributions expected to be paid to the plan in the next annual period (R million)	**3**	**49**	1	49
Net increase in rate used to value pensions allowing for pension increases (%)	**1.7**	**0.9**	1.8	1
The weighted average duration of the defined benefit obligation (years)	**11.1**	**17.9**	11.1	17.1

The expected maturity analysis of undiscounted pension and post-employment medical benefits is as follows:

R million	**Within 1 year**	**Between 1 – 5 years**	**More than 5 years**	**Total**
Pension benefits	**651**	**2 437**	**8 073**	**11 161**
Post-employment medical benefits	**125**	**627**	**27 500**	**28 252**
Total as 30 June 2014	**776**	**3 064**	**35 573**	**39 413**

The interest income is determined using a discount rate with reference to high quality corporate bonds.

		2014		2013	
Mortality rate		**Active members**	**Pensioners**	**Active members**	**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-retirement medical benefits					
Normal retirement age		**60**	**–**	60	–
Mortality rate table used (rated down	Active	**SA85-90**	**–**	SA85-90	–
three years for females)	Retired	**PA(90)-2**	**PA(90)-2**	PA(90)-2	PA(90)-2

SA85-90 refers to standard actuarial mortality tables for active members on a defined benefit plan where the chance of dying before normal retirement is expressed at each age for each gender.

PA(90)-2 refers to standard actuarial mortality tables for current and prospective pensioners on a defined benefit plan where the chance of dying after early or normal retirement is expressed at each age for each gender.

17 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

17.2 Defined benefit post-employment liability continued

	2014		2013	
Mortality rate	**Pension**	**Medical**	**Pension**	**Medical**
The average life expectancy in years of a pensioner retiring at age 65 on the reporting date is as follows:				
Male	**17**	**17**	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

	2014	**2013**
Defined benefit obligation amounts owing to:		
Pension:		
Active members	**43**	47
Pensioners	**6 393**	6 475
Deferred plan participants	**279**	286
Total	**6 715**	6 808
Benefits vested at the end of the reporting period (R million)	**9 369**	8 977
Amounts attributable to future salary increases (R million)	**125**	117
Other benefits (R million)	**9 244**	8 860
Defined benefit obligation amounts owing to:		
Medical:		
Active members	**5 486**	5 824
Pensioners	**5 064**	4 962
Total	**10 550**	10 786
Benefits vested at the end of the reporting period (R million)	**1 881**	1 803
Benefits accrued but not vested at the end of the reporting period (R million)	**1 149**	987
Conditional benefits (R million)	**1 149**	987
Amounts attributable to future salary increases (R million)	**1 881**	1 803

17 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

17.3 Defined contribution post-employment liability

R million	2014	2013
Post-employment defined contribution plan		
– Present value of obligation	**14 709**	12 892
– Present value of assets	**(14 709)**	(12 892)
Net defined contribution liability	**–**	–

The defined contribution scheme allows active members to purchase a pension from the defined benefit plan on retirement. The purchase price for the pension is determined based on the purchasing member's demographic details, the pension structure and economic assumptions at time of purchase. Should a member elect to purchase a pension, the Bank Ltd Group becomes exposed to longevity and other actuarial risks. However, because of the way the purchase is priced, the employer is not exposed to any asset return risk prior to the election of this option. On the date of the purchase the defined benefit liability and the plan assets will increase for the purchase amount and thereafter the accounting treatment applicable to defined benefit plans will be applied to the purchased pension.

18 DEFERRED INCOME TAX

The movement on the deferred income tax account is as follows:

R million	2014	2013
Deferred income tax asset		
Opening balance	–	–
Release to profit or loss	400	–
Total deferred income tax asset	400	–
Deferred income tax liability		
Opening balance	(50)	(498)
Release to profit or loss	44	747
Tax rate adjustment	–	(8)
Deferred income tax on amounts charged directly to other comprehensive income	6	(283)
Other	–	(8)
Total deferred income tax liability	–	(50)
Net deferred income tax	400	(50)

Deferred income tax assets and liabilities and deferred income tax (charged)/released to profit or loss are attributable to the following items:

	2014				
R million	Opening balance	Tax (charge)/ release	Tax rate adjustment	Other	Closing balance
Deferred income tax asset					
Other	–	400	–	–	400
Total deferred income tax asset	–	400	–	–	400
Deferred income tax liability					
Provision for loan impairment	569	205	–	–	774
Provision for post-employment benefits*	114	(12)	–	80	182
Other provisions	958	(119)	–	–	839
Cash flow hedge*	(39)	–	–	(141)	(180)
Instalment credit assets	(1 223)	343	–	–	(880)
Accruals	(183)	61	–	–	(122)
Available-for-sale securities*	(201)	–	–	67	(134)
Capital gains tax	69	19	–	–	88
Other	(114)	(453)	–	–	(567)
Total deferred income tax liability	(50)	44	–	6	–
Net deferred income tax	(50)	444	–	6	400

* *Amounts reported under the other column have been charged directly to other comprehensive income.*

18 DEFERRED INCOME TAX continued

	2013				
R million	**Opening balance**	**Tax (charge)/ release**	**Tax rate adjustment**	**Other**	**Closing balance**
Deferred income tax asset					
Other	–	–	–	–	–
Total deferred income tax asset	–	–	–	–	–
Deferred income tax liability					
Provision for loan impairment	578	(9)	–	–	569
Provision for post-employment benefits*	132	(10)	–	(8)	114
Other provisions	586	372	–	–	958
Cash flow hedge*	293	–	–	(332)	(39)
Instalment credit assets	(1 546)	323	–	–	(1 223)
Accruals	(169)	(14)	–	–	(183)
Available-for-sale securities*	(250)	–	–	49	(201)
Capital gains tax	–	69	–	–	69
Other	(122)	16	(8)	–	(114)
Total deferred income tax liability	(498)	747	(8)	(291)	(50)
Net deferred income tax	(498)	747	(8)	(291)	(50)

* *Amounts reported under the other column have been charged directly to other comprehensive income.*

Dividends declared by South Africa entities are subject to shareholders' withholding tax. The Bank Ltd Group would therefore incur no additional tax if the total reserves of R 4 575 million (2013: R 3 611 million) were declared as dividends.

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 Bank Ltd Group has not recognised a deferred tax asset to the amount of R92 million (2013: R nil) relating to tax losses. These tax losses have expiry dates ranging from 2014 to 2017.

19 SHORT TRADING POSITIONS

R million	2014	2013
Government and government guaranteed stock	**5 366**	2 908
Other dated securities	**31**	15
Total short trading positions	**5 397**	2 923
Analysed as follows:		
Listed	**5 397**	2 923
Total short trading positions	**5 397**	2 923

20 CREDITORS AND ACCRUALS

R million	2014	2013
Accrued interest	**53**	51
Accounts payable and accrued liabilities	**9 096**	7 857
Deferred income	**947**	793
Operating lease liability arising from straight lining of lease payments	**81**	87
Payments received in advance	**199**	131
Total creditors and accruals	**10 376**	8 919

21 DEPOSITS

R million	2014 Designated at fair value through profit or loss	2014 At amortised cost	2014 Total
Category analysis			
Current accounts	**–**	**155 128**	**155 128**
Savings accounts	**–**	**5 958**	**5 958**
Call deposits	**133**	**130 680**	**130 813**
Fixed and notice deposits	**51 103**	**138 232**	**189 335**
Negotiable certificates of deposit	**3 062**	**49 578**	**52 640**
Repurchase agreements*	**16 953**	**4 749**	**21 702**
Securities lending	**–**	**6 303**	**6 303**
Cash collateral and credit linked notes	**9 379**	**12 370**	**21 749**
Fixed and floating rate notes	**2 268**	**86 233**	**88 501**
Other	**283**	**20 764**	**21 047**
Total deposits	**83 181**	**609 995**	**693 176**

R million	2013 Designated at fair value through profit or loss	2013 At amortised cost	2013 Total
Category analysis			
Current accounts	–	126 508	126 508
Savings accounts	–	4 673	4 673
Call deposits	1 211	122 874	124 085
Fixed and notice deposits	40 079	159 948	200 027
Negotiable certificates of deposit	1 729	26 448	28 177
Repurchases agreements*	28 265	3 094	31 359
Securities lending	–	6 414	6 414
Cash collateral and credit linked notes	7 627	17 441	25 068
Fixed and floating rate notes	3 986	61 078	65 064
Other	210	18 287	18 497
Total deposits	83 107	546 765	629 872

* *The Bank Ltd Group repurchased R21.7 billion (2013: R31.4 billion) of notes issued into the market during the year. These notes have been pledged as security in terms of a repurchase transaction to an external counterparty.*

21 DEPOSITS continued

R million	2014 Designated at fair value through profit or loss	2014 At amortised cost	2014 Total
Sector analysis			
Sovereigns, including central banks	**508**	**47 228**	**47 736**
Public sector entities	**2 011**	**30 325**	**32 336**
Local authorities	**758**	**8 989**	**9 747**
Banks	**17 283**	**23 760**	**41 043**
Securities firms	**566**	**11 302**	**11 868**
Corporate customers	**52 302**	**287 986**	**340 288**
Retail customers	**8 799**	**199 987**	**208 786**
Other	**954**	**418**	**1 372**
Total deposits	**83 181**	**609 995**	**693 176**
Geographical analysis			
South Africa	**66 179**	**577 499**	**643 678**
Other Africa	**4 735**	**5 322**	**10 057**
UK	**5 310**	**4 207**	**9 517**
Other	**6 957**	**22 967**	**29 924**
Total deposits	**83 181**	**609 995**	**693 176**

R million	2013 Designated at fair value through profit or loss	2013 At amortised cost	2013 Total
Sector analysis			
Sovereigns, including central banks	1 588	36 497	38 085
Public sector entities	2 171	34 230	36 401
Local authorities	241	9 245	9 486
Banks	25 478	33 486	58 964
Securities firms	626	10 584	11 210
Corporate customers	46 524	242 771	289 295
Retail customers	5 486	179 952	185 438
Other	993	–	993
Total deposits	83 107	546 765	629 872
Geographical analysis			
South Africa	68 344	517 463	585 807
Other Africa	3 106	5 552	8 658
UK	7 729	3 896	11 625
Other	3 928	19 854	23 782
Total deposits	83 107	546 765	629 872

22 PROVISIONS

R million	Notes	2014	2013
Audit fees			
Opening balance		**51**	24
Charge to profit or loss	3	**143**	132
– Additional provisions created		**143**	195
– Unused provisions reversed		**–**	(63)
Utilised		**(151)**	(105)
Closing balance		**43**	51
Other*			
Opening balance		**195**	210
Exchange rate difference		**3**	2
Charge to profit or loss		**261**	41
– Additional provisions created		**274**	59
– Unused provisions reversed		**(13)**	(18)
Utilised		**(116)**	(58)
Closing balance		**343**	195
Total provisions		**386**	246

* *Other provisions include provisions for litigation and claims.*

23 OTHER LIABILITIES

R million	2014	2013
Funding liabilities*	**4 268**	1 062
Total other liabilities	**4 268**	1 062

* *Funding liabilities include liabilities not directly related to banking activities, including preference shares not qualifying as Tier 2 capital.*

24 TIER 2 LIABILITIES

R million	2014	2013
Fixed rate bonds*	**4 582**	4 464
Floating rate bonds**	**6 902**	3 161
Total Tier 2 liabilities	**11 484**	7 625

* *The fixed rate bonds mature between 15 September 2014 and 2 June 2021 and bear interest at between 8.5% and 12%.*

** *The floating rate bonds mature between 10 June 2016 and 2 June 2021 and the interest rate varies between 70 bps and 300 bps above the three-month JIBAR rate and 415 bps over LIBOR rate. The subordinated bonds issued during the current financial year mature between 9 April 2019 and 2 June 2021 and the interest rate varies between 225 bps and 239 bps above the three-month JIBAR rate and 415 bps above six-month LIBOR rate. In terms of the bank regulations, these subordinated bonds would at the discretion of the Registrar either be written down or converted into the most subordinated form of equity upon the occurrence of a trigger event; being the point at which the Bank Ltd Group is considered non-viable.*

25 SHARE CAPITAL AND SHARE PREMIUM

25.1 Share capital and share premium classified as equity

R million	2014	2013
Ordinary shares		
Authorised		
2 000 000 shares with a par value of R2 per share	**4**	4
Issued – fully paid up		
1 866 835 (2013: 1 866 835) ordinary shares with a par value of R2 per share	**4**	4
All issued share capital is fully paid up		
Ordinary share premium	**15 304**	15 304
Total issued ordinary share capital and share premium	**15 308**	15 308
NCNR preference shares		
Authorised		
100 million NCNR preference shares with a par value of R0.01 per share	**1**	1
Issued – fully paid up		
3 million (2013: 3 million) NCNR preference shares with a par value of R0.01 per share to FirstRand Limited.	*****	*
The NCNR preference shares were issued at varying interest rates which are linked to the prime lending rate as determined by the Bank Ltd Group.		
NCNR preference share premium	**3 000**	3 000
Total issued NCNR preference share capital and share premium	**3 000**	3 000
Total issued share capital and share premium	**18 308**	18 308

25.2 Share capital and share premium classified as liabilities

Preference shares that are classified as financial liabilities have been included in deposits (note 21) or other liabilities (note 23) as appropriate. The table below provides details of these preference shares:		
Redeemable preference shares		
Authorised		
5 billion redeemable preference shares with a par value of R0.0001 per share	**1**	1
Issued – fully paid up		
32 670 (2013: 1 670) redeemable preference shares with a par value of R0.0001 per share	*****	*
Redeemable preference share premium	**3 267**	167
Redeemable class R preference shares		
Authorised		
50 000 redeemable preference shares with a par value of R0.0001 per share	*****	*
Issued – fully paid up		
9 812 (2013: 8 905) redeemable preference shares with a par value of R0.0001 per share	*****	*
Redeemable R class share premium	**981**	891

* *Denotes amounts less than R500 000.*

1 100 (2013: 1 635) class R redeemable preference shares were issued and 193 (2013: nil) shares were redeemed during the year. These preference shares yield dividends at 66.67% of FNB prime lending rate from time-to-time and are redeemable after three years and one day of issue.

25 SHARE CAPITAL AND SHARE PREMIUM continued

25.2 Share capital and share premium classified as liabilities continued

	Number of ordinary shares	Number of NCNR preference shares	Number of redeemable preference shares*	Number of redeemable class R preference shares
Reconciliation of shares issued				
Shares at 1 July 2012	1 866 835	3 000 000	1 905	7 270
(Redeemed)/issued during the year	–	–	(235)	1 635
Shares at 30 June 2013	1 866 835	3 000 000	1 670	8 905
Issued during the year	**–**	**–**	**31 000**	**907**
Shares at 30 June 2014	**1 866 835**	**3 000 000**	**32 670**	**9 812**

* *Included in share capital and share premium classified as equity.*

The unissued ordinary shares are under the control of the directors until the next annual general meeting.

26 NON-CONTROLLING INTERESTS

The Bank Ltd Group currently has no subsidiaries with non-controlling interests that are material to the Bank Ltd Group. The Bank Ltd Group only has the following immaterial non-controlling interest:

	Profit or loss attributable to non-controlling interests		Accumulated balance of non-controlling interests		Dividends paid to non-controlling interests	
R million	2014	2013	2014	2013	2014	2013
Immaterial non-controlling interests	**–**	–	**–**	2	**–**	–
Total non-controlling interests	**–**	–	**–**	2	**–**	–

27 REMUNERATION SCHEMES

R million	Notes	2014	2013
The charge to profit or loss for share-based payments is as follows:			
FirstRand black employee trust		**25**	16
FirstRand black non-executive directors trust		**1**	1
FirstRand share appreciation rights scheme		**269**	284
Conditional share plan		**2 040**	1 229
Forfeitable share plan		**–**	2
Amount included in profit or loss	3	**2 335**	1 532

The purpose of these schemes is to appropriately attract, incentivise and retain managers within the Bank Ltd Group.

27 REMUNERATION SCHEMES continued

The FirstRand share schemes are equity settled schemes, except for the FirstRand share appreciation rights scheme, conditional share plan and forfeitable share plan which are cash settled.

Description of schemes and vesting conditions:

Scheme	IFRS 2 treatment	Description	Vesting conditions
FirstRand black employee scheme	Equity settled	This scheme was set up specifically for the benefit of the black employees. The issue of participation rights in the scheme 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 scheme	Equity settled	This scheme was set up specifically for the benefit of the black non-executive directors and those executive directors who were non-executive prior to becoming executives of the FirstRand 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 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 have vested during the financial year ending 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 474. The majority of the shares vested in November 2013 with the remaining balance to vest 1 October 2014.

27 REMUNERATION SCHEMES continued

Description of schemes and vesting conditions:

Scheme	IFRS 2 treatment	Description	Vesting conditions
Conditional share plan	Cash settled	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 set annually by the Group's remuneration committee. These corporate performance targets are set out on page 474.
Forfeitable share plan	Cash 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 arrangement	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 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 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 are included in note 38.	The scheme encourages executives to remain in the employment of the FirstRand Limited Group companies in excess of three years, as the value of the underlying investments are expected to realise over a longer time frame.

27 REMUNERATION SCHEMES continued

Valuation methodologies:

Scheme	Valuation methodology	
FirstRand black employee scheme	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 scheme	Black Scholes option pricing model	The FirstRand black non-executive directors scheme is valued on the same methodology as used for the FirstRand black employee scheme, except that a zero percentage weighted average forfeiture rate was used due to the fact that there are only 9 participants (2013: 9 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 option pricing model with a zero strike price. The scheme 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. The scheme is cash settled and will thus 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. 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.		Not applicable
Management's estimates of future dividends.	• Volatility is the expected volatility over the period of the plan. 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.
		The weighted average forfeiture rate used is based on historical forfeiture data over all schemes cognisant of whether the shares are in or out the money and the vesting date.
		No forfeiture rate is used due to the short duration of the scheme.

27 REMUNERATION SCHEMES continued

Corporate performance targets

The FirstRand Limited Group remuneration committee sets the corporate performance targets (CPTs) based on the expected prevailing macroeconomic conditions anticipated during the performance period for the Group's long-term incentive schemes, the share appreciation right scheme, 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 are not entitled to any dividends on their long-term incentive (LTI) allocations during the performance period, nor do these accrue to them during the performance period.

The criteria for the schemes are as follows:

Expired schemes

2007 (CPTs not met) – Normalised earnings per share (EPS) must grow at a rate per annum which equals or exceeds consumer price index (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, the committee 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 (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 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 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.

Currently open

2011 (vests in 2014) – Normalised EPS growth must equal or exceed South African nominal GDP 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, the committee may sanction a partial vesting of conditional shares, which is calculated pro rata to the performance which exceeds nominal GDP.

2012 (vests in 2015) – FirstRand Limited 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.

2013 (vests in 2016) – FirstRand Limited 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.

2014 (vests in 2017) – FirstRand Limited must achieve growth in normalised EPS which equals or exceeds the South African nominal GDP plus 2% growth on a cumulative basis over the life of the conditional award, from base year end 30 June 2014 to the financial year end immediately preceding the vesting date. In addition NIACC must be positive over the three-year performance period.

27 REMUNERATION SCHEMES continued

Corporate performance targets continued

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

	FirstRand black employee scheme	FirstRand black non-executive directors scheme	FirstRand share appreciation rights scheme	Conditional share plan	Forfeitable share plan	Other subsidiary schemes
2014						
Range of exercise prices (rand)	**12.05 – 24.60**	**12.28 – 17.60**	**12.98 – 12.98**	**–**	**–**	**–**
Expected volatility (%)	**24 – 29**	**23 – 33**	**25**	**25**	**–**	**–**
Expected option life (years)	**5 – 10**	**10**	**5**	**3 – 4**	**–**	**–**
Expected risk free rate (%)	**6.91 – 9.90**	**6.91**	**4.82 – 5.21**	**4.82 – 7.07**	**–**	**–**
Expected dividend yield (%)	**3.5**	**3.5**	**–**	**–**	**–**	**–**
Expected dividend growth (%)	**–**	**–**	**–**	**–**	**–**	**–**
2013						
Range of exercise prices (rand)	12.05 – 24.60	12.28 – 17.60	7.85 – 12.98	–	–	–
Expected volatility (%)	24 – 29	23 – 33	25	25	–	–
Expected option life (years)	5 – 10	10	5	3 – 4	–	–
Expected risk free rate (%)	6.91 – 9.90	6.91	4.82 – 5.21	4.82 – 7.07	–	–
Expected dividend yield (%)	3.50	3.50	–	–	–	–
Expected dividend growth (%)	–	–	–	–	–	–

27 REMUNERATION SCHEMES continued

	2014				
	FirstRand share appreciation rights scheme (FSR shares)	**FirstRand black employee scheme (FSR shares)[#]**	**FirstRand black non-executive directors scheme (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)	**37.9**	**102.6**	**8.5**	**117.4**	**–**
Granted at prices ranging between (cents)	**785 – 1 298**	**1 205 – 2 460**	**1 228 – 1 760**	**–**	**–**
Weighted average (cents)	**1 048**	**1 651**	**1 291**	**–**	**–**
Number of options and share awards granted during the year (millions)	**–**	**–**	**–**	**39.8**	**–**
Fair value per share on grant date				*****	
Number of options and share awards transferred (within the Group) during the year (millions)**	**0.1**	**–**	**–**	**(2.8)**	**–**
Granted at prices ranging between (cents)	**1 048 – 1 048**	**–**	**–**	**–**	**–**
Weighted average (cents)	**1 048**	**–**	**–**	**–**	**–**
Number of options and share awards exercised/released during the year (millions)	**(37.6)**	**–**	**–**	**(44.3)**	**–**
Market value range at date of exercise/release (cents)	**2 440 – 3 866**	**–**	**–**	**2 825 – 4 074**	**–**
Weighted average (cents)	**3 518**	**–**	**–**	**3 346**	**–**
Number of options and share awards cancelled/lapsed during the year (millions)	**(0.3)**	**3.1**	**–**	**(4.7)**	**–**
Granted at prices ranging between (cents)	**1 014 – 1 048**	**1 228 – 2 234**	**–**	**–**	**–**
Weighted average (cents)	**1 046**	**1 182**	**–**	**–**	**–**
Number of options and share awards in force at the end of the year (millions)	**0.1**	**105.7**	**8.5**	**105.4**	**–**
Granted at prices ranging between (cents)	**1 298 – 1 298**	**1 205 – 2 460**	**1 228 – 1 760**	**–**	**–**
Weighted average (cents)	**1 298**	**1 637**	**1 291**	**–**	**–**

* *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.*

** *These relate to options and share awards for employees transferred between legal entities within the FirstRand Limited Group.*

[#] *As the scheme gets closer to the vesting date more accurate information is available about the final level of forfeitures expected.*

27 REMUNERATION SCHEMES continued

	2013				
	FirstRand share appreciation rights scheme (FSR share)	**FirstRand black employee scheme (FSR shares)**	**FirstRand black non-executive directors scheme (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)	102.2	105.6	8.5	130.1	0.6
Granted at prices ranging between (cents)	785 – 1 700	1 205 – 2 460	1 228 – 1 760	–	–
Weighted average (cents)	1 297	1 655	1 291	–	–
Number of options and share awards granted during the year (millions)	–	–	–	37.3	–
Fair value per share on grant date	–	–	–	*	–
Number of options and share awards transferred (within the Group) during the year (millions)**	0.4	–	–	0.1	–
Granted at prices ranging between (cents)	1 700 – 1 700	–	–	–	–
Weighted average (cents)	1 700	–	–	–	–
Number of options and share awards exercised/released during the year (millions)	(23.9)	–	–	(45.3)	(0.6)
Market value range at date of exercise/release (cents)	785 – 3 285	–	–	2 550 – 3 219	2 753 – 2 753
Weighted average (cents)	2 854	–	–	2 570	2 753
Number of options and share awards cancelled/lapsed during the year (millions)	(40.8)	(3.0)	–	(4.8)	–
Granted at prices ranging between (cents)	1 048 – 1 700	1 228 – 2 234	–	–	–
Weighted average (cents)	1 676	1 813	–	–	–
Number of options and share awards in force at the end of the year (millions)	37.9	102.6	8.5	117.4	–
Granted at prices ranging between (cents)	785 – 1 298	1 205 – 2 460	1228 – 1 760	–	–
Weighted average (cents)	1 048	1 651	1 291	–	–

* *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.*
** *These relates to options and share awards for employees transferred between legal entities within the FirstRand Limited Group.*

27 REMUNERATION SCHEMES continued

	2014					
	FirstRand share appreciation rights scheme (FSR shares)			**FirstRand black non-executive directors scheme (FSR shares)**		
Options and share awards outstanding	**Range of exercise prices (rand)***	**Weighted average remaining life (years)**	**Outstanding options (millions)**	**Range of exercise prices (rand)***	**Weighted average remaining life (years)**	**Outstanding options (millions)**
	10.48 – 14.46	**0.3**	**0.1**	**12.05 – 14.00**	**0.5**	**7.5**
	–	**–**	**–**	**16.57 – 19.89**	**0.5**	**1.0**
	–	**–**	**0.1**	**–**	**–**	**8.5**
Total options and share awards- in the money (millions)	**–**	**–**	**0.1**	**–**	**–**	**8.5**
Total options and share awards- out of the money (millions)	**–**	**–**	**–**	**–**	**–**	**–**
Total options and share awards (R million)	**–**	**–**	**0.1**	**–**	**–**	**8.5**
Value of company loans to share option scheme at the beginning of the year (R million)	**–**	**–**	**–**	**–**	**–**	**–**
Value of company loans to share option scheme at the end of the year (R million)	**–**	**–**	**–**	**–**	**–**	**–**
Number of participants	**–**	**–**	**1**	**–**	**–**	**9**

* *Some share appreciation rights are subject to other vesting conditions that are highly unlikely to be achieved.*

** *The employees are awarded the shares, there is therefore no strike price associated with the awards made under the conditional or forfeitable share plan.*

2014					
	FirstRand black employee scheme			Conditional share plan (FSR shares)**	
	Range of exercise prices (rand)	Weighted average remaining life (years)	Outstanding options (millions)	Weighted average remaining life (years)	Outstanding options (millions)
	12.05 – 14.00	0.5	51.9	0.3	39.4
	14.01 – 16.56	0.5	1.1	1.3	35.0
	16.57 – 19.89	0.5	35.9	2.3	30.8
	19.90 – 24.60	0.5	16.8	2.8	0.2
	–	–	105.7	–	105.4
	–	–	105.7	–	105.4
	–	–	–	–	–
	–	–	105.7	–	105.4
	–	–	–	–	–
	–	–	–	–	–
	–	–	11 296	–	2 444

27 REMUNERATION SCHEMES continued

	2013					
	FirstRand share appreciation rights scheme (FSR shares)			**FirstRand black non-executive directors scheme (FSR shares)**		
Options and share awards outstanding	**Range of exercise prices (rand)***	**Weighted average remaining life (years)**	**Outstanding options (millions)**	**Range of exercise prices (rand)***	**Weighted average remaining life (years)**	**Outstanding options (millions)**
	7.85 – 10.47	0.4	37.8	12.05 – 14.00	1.5	7.5
	10.48-14.46	1.3	0.1	16.57 – 19.89	1.5	1.0
	–	–	–	–	–	–
	–	–	–	–	–	–
	–	–	37.9	–	–	8.5
Total options and share awards – in the money (millions)	–	–	37.9	–	–	8.5
Total options and share awards – out of the money (millions)	–	–	–	–	–	–
Total options and share awards (millions)	–	–	37.9	–	–	8.5
Value of company loans to share option scheme at the beginning of the year (R million)	–	–	–	–	–	–
Value of company loans to share option scheme at the end of the year (R million)	–	–	–	–	–	–
Number of participants	–	–	1 066	–	–	9

* *Some share appreciation rights are subject to other vesting conditions that are highly unlikely to be achieved.*
** *Denotes amounts of less than R500 000.*
# *The employees are awarded the shares, there is therefore no strike price associated with the awards made under the conditional or forfeitable share plan.*

2013						
FirstRand black employee scheme			Conditional share plan (FSR shares)#		Forfeitable share plan (FSR shares)#	
Range of exercise prices (rand)	Weighted average remaining life (years)	Outstanding options (millions)	Weighted average remaining life (years)	Outstanding options (millions)	Weighted average remaining life (years)	Outstanding options (millions)
12.05 – 14.00	1.5	48.5	0.3	43.6	–	–
14.01 – 16.56	1.5	1.1	1.3	42.7	–	–
16.57 – 19.89	1.5	36.6	2.3	30.4	–	–
19.90 – 24.60	1.5	16.4	2.9	0.4	–	–
			4.0	0.3	–	–
		102.6		117.4		
–	–	102.6	–	117.4	–	–
–	–	–	–	–	–	**
–	–	102.6	–	117.4	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	10 970	–	2 253	–	–

28 CASH FLOW INFORMATION

	R million	2014	2013
28.1	**Reconciliation of operating profit before income tax to cash generated from operating activities**		
	Operating profit before tax	**17 924**	14 642
	Adjusted for:		
	Depreciation, amortisation and impairment charges	**1 858**	1 993
	Impairment of advances	**4 827**	4 441
	Share of loss of associates after tax net of dividends	**8**	25
	Movement in provisions and employee liabilities	**3 891**	2 882
	Loss on disposal of property and equipment	**20**	56
	Loss on disposal of investments securities and other investments	**7**	1
	Gain on disposal of investment in associates	**(14)**	(16)
	Deferred expenses and income	**(473)**	(489)
	Share-based payment expense	**2 335**	1 532
	Net fair value gains on financial assets through profit or loss	**(2 863)**	(2 085)
	Accruals	**298**	750
	Present value adjustments	**(129)**	(157)
	Dividends paid	**(4 481)**	(5 906)
	Losses on foreign currency translation reserve	**1**	16
	Reclassification from other comprehensive income in respect of available-for-sale assets and cash flow hedges	**547**	737
	Cash generated from operating activities	**23 756**	18 422
28.2	**Cash receipts from customers**		
	Interest income	**43 828**	38 378
	Fee and commission income	**18 765**	17 374
	Trading and other income	**5 043**	1 615
	Cash receipts from customers	**67 636**	57 367
28.3	**Cash paid to customers, suppliers and employees**		
	Interest expense	**(18 590)**	(16 542)
	Other operating expenses	**(22 791)**	(19 643)
	Cash paid to customers, suppliers and employees	**(41 381)**	(36 185)
28.4	**Dividends paid**		
	Charged to retained earnings	**(4 481)**	(5 906)
	Total dividends paid	**(4 481)**	(5 906)
28.5	**Dividends received**		
	Dividend income from trading activities	**100**	420
	Dividend income from banking activities	**1 856**	2 716
	Dividend income (not of trading nature) including preference dividends	**26**	10
	Total dividends received	**1 982**	3 146
28.6	**Increase in income-earning assets**		
	Liquid assets and trading securities	**9 070**	(13 415)
	Advances	**(75 673)**	(67 958)
	Increase in income-earning assets	**(66 603)**	(81 373)

28 CASH FLOW INFORMATION continued

R million	2014	2013
28.7 Increase in deposits and other liabilities		
Deposits	**62 643**	82 333
Employee liabilities	**(5 032)**	(3 840)
Creditors (net of debtors)	**1 535**	668
Other	**(5 778)**	1 832
Increase in deposits and other liabilities	**53 368**	80 993
28.8 Taxation paid		
Indirect tax paid	**(716)**	(676)
Tax refundable at beginning of the year	**140**	247
Charge to profit or loss	**(4 378)**	(3 141)
Tax refundable at year end	**52**	(140)
Deferred income tax charged to profit or loss	**(445)**	(733)
Other*	**1**	8
Total taxation paid	**(5 346)**	(4 435)

* *Other includes acquisitions/disposals of subsidiaries and customer tax adjustments.*

29 CONTINGENCIES AND COMMITMENTS

R million	2014	2013
Guarantees*	**30 895**	28 515
Letters of credit	**7 075**	8 928
Total contingencies	**37 970**	37 443
Irrevocable commitments	**73 659**	74 054
Committed capital expenditure	**3 016**	2 971
Operating lease commitments	**1 901**	2 052
Other	**146**	129
Contingencies and commitments	**116 692**	116 649
Other contingencies		
The Bank Ltd Group is exposed to various actual or potential claims.		
Legal proceedings		
There are a number of legal or potential claims against the Bank Ltd Group, the outcome of which cannot at present be foreseen. These claims are not regarded as material either on an individual or a total basis. Provision is made for all liabilities expected to materialise.	**218**	60
Commitments		
– Capital commitments contracted for at the reporting date but not yet incurred: Property and equipment and intangible assets	**694**	1 166
– Capital commitments not yet contracted for at reporting date but have been approved by the directors: Property and equipment and intangible assets	**2 320**	1 805

* *Guarantees consist predominantly of endorsements and performance guarantees. Guarantees reported above include guarantees of R705 million (2013: R658 million) granted to other FirstRand Group companies.*

Funds to meet these commitments will be provided from the Bank Ltd Group's resources.

29 CONTINGENCIES AND COMMITMENTS continued

Group commitments under operating leases where the Bank Ltd Group is the lessee

The Bank Ltd Group's significant operating leases relate 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 have fixed monthly payments, often including a contingent rental based on a percentage contribution of the monthly operating costs of the premises. Escalation clauses are based on market related rates and vary between 8% and 12%.

The leases are usually for a period of one to five years. The leases are non-cancellable and certain of the leases have an option to renew for a further leasing period at the end of the original lease term.

Restrictions are more an exception than the norm and usually relate to the restricted use of the asset for the business purposes specified in the lease contract.

	2014			
R million	**Within 1 year**	**Between 1 and 5 years**	**More than 5 years**	**Total**
Office premises	**635**	**1 107**	**–**	**1 742**
Equipment and motor vehicles	**119**	**40**	**–**	**159**
Total operating lease commitments	**754**	**1 147**	**–**	**1 901**

	2013			
R million	**Within 1 year**	**Between 1 and 5 years**	**More than 5 years**	**Total**
Office premises	651	1 208	2	1 861
Equipment and motor vehicles	91	100	–	191
Total operating lease commitments	742	1 308	2	2 052

Future minimum lease payments receivable under operating leases where the Bank Ltd Group is the lessor

The Bank Ltd Group owns various assets that are leased to third parties under non-cancellable operating leases as part of the Bank Ltd Group's revenue generating operations. The operating leases have various lease terms ranging from three to fifteen years.

The minimum future lease payments under non-cancellable operating leases on assets where the Bank Ltd Group is the lessor:

	2014			
R million	**Within 1 year**	**Between 1 and 5 years**	**More than 5 years**	**Total**
Property	**18**	**21**	**–**	**39**
Motor vehicles	**521**	**746**	**–**	**1 267**
Total receivable under non-cancellable operating leases	**539**	**767**	**–**	**1 306**

	2013			
R million	**Within 1 year**	**Between 1 and 5 years**	**More than 5 years**	**Total**
Property	33	102	–	135
Motor vehicles	517	697	–	1 214
Total receivable under non-cancellable operating leases	550	799	–	1 349

30 COLLATERAL PLEDGED AND HELD

30.1 Collateral pledged

The following liabilities have been secured by the Bank Ltd Group pledging either its own or borrowed financial assets, except for the short trading positions which are covered by borrowed securities only:

R million	2014	2013
Short trading positions	**5 397**	2 923
Creditors and accruals	**–**	128
Total deposits	**28 485**	37 775
– Deposits under repurchase agreements	**21 702**	31 359
– Deposits in securities lending transactions*	**6 303**	6 414
– Other secured deposits	**480**	2
Amounts due to holding company and fellow subsidiary companies	**292**	2
Other	**989**	931
Total	**35 163**	41 759

* *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 Bank Ltd 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 Bank Ltd Group's day-to-day operations.
- assets are pledged as collateral under repurchase agreements with other banks and for security deposits relating to local futures and options.
- collateral in the form of cash and other investment securities is pledged when the Bank Ltd 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 consist of the following:

R million	2014	2013
Cash and cash equivalents	**877**	949
Advances	**2**	153
Investment securities and other investments – held under repurchase agreements	**11 132**	16 229
Investment securities and other investments – other	**483**	92
Total assets pledged	**12 494**	17 423

30 COLLATERAL PLEDGED AND HELD CONTINUED

30.2 Collateral held

Collateral the Bank Ltd Group holds that it has the ability to sell or repledge in the absence of default by the owner of the collateral:

R million	2014 Fair value	2014 Fair value of collateral sold or repledged	2013 Fair value	2013 Fair value of collateral sold or repledged
Cash and cash equivalents	**6 641**	**–**	10 846	–
Investment securities and other investments – held under reverse repurchase agreements	**32 753**	**16 467**	40 501	18 136
Investment securities and other investments – other	**6 596**	**6 596**	6 971	6 763
Total collateral held	**45 990**	**23 063**	58 318	24 899

When the Bank Ltd Group takes possession of collateral that is not cash or not readily convertible into cash, the Bank Ltd Group determines a minimum sale amount (pre-set sale amount) and auctions the asset for the pre-set sale amount.

Where the Bank Ltd Group is unable to obtain the pre-set sale amount in an auction, the Bank Ltd 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:

R million	2014 Property
Opening balance	**154**
Disposals	**(44)**
Closing balance	**110**

R million	2013 Property
Opening balance	100
Additions	207
Disposals	(153)
Closing balance	154

31 FINANCIAL INSTRUMENTS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

31.1 Loans and receivables designated at fair value through profit or loss

Certain instruments designated at fair value through profit or loss also meet the definition of loans and receivables in terms of IAS 39. The table below contains details on the change in credit risk attributable to these instruments:

	2014					
			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	**177 893**	**2 263**	**3**	**(17)**	**414**	**(2 343)**
Included in investment securities and other investments	**17 340**	**–**	**–**	**–**	**(31)**	**(81)**
Total	**195 233**	**2 263**	**3**	**(17)**	**383**	**(2 424)**

	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	152 535	1 563	(221)	(580)	(965)	(2 740)
Included in investment securities and other investments	23 955	–	–	–	(50)	(50)
Total	176 490	1 563	(221)	(580)	(1 015)	(2 790)

* *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 Bank Ltd Group's credit spread pricing matrix) and the fair value of the advances based on the most recent credit spreads where there has been a change in the credit of the counterparty. The Bank Ltd Group uses its own annual credit review process to determine if there has been a change in the credit rating of the counterparty via an annual process to review the credit rating and LGD of the respective counterparties.

- **Investment securities and other investments**

The change in fair value for investments designated at fair value through profit or loss is calculated by stripping out the movements that result from a change in market factors that give rise to market risk.

The change in fair value due to credit risk is then calculated as the balancing figure, after deducting the movement due to market risk from the total movement in fair value.

31 FINANCIAL INSTRUMENTS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS continued

31.2 Financial liabilities designated at fair value through profit or loss

	2014			
			Change in fair value due to credit risk	
R million	Fair value	Contractually payable at maturity	Current period	Cumulative
Deposits	**83 181**	**83 072**	**–**	**–**
Other liabilities	**3 287**	**3 267**	**–**	**–**
Tier 2 liabilities	**1 030**	**1 054**	**(8)**	**9**
Total	**87 498**	**87 393**	**(8)**	**9**

	2013			
			Change in fair value due to credit risk	
R million	Fair value	Contractually payable at maturity	Current period	Cumulative
Deposits	83 107	90 784	–	–
Other liabilities	171	167	–	–
Tier 2 liabilities	1 049	1 045	6	18
Total	84 327	91 996	6	18

The current and cumulative change in fair value that is attributable to credit risk of financial liabilities designated at fair value through profit or loss is determined with reference to changes in the mark-to-market yields of own issued bonds.

32 TRANSFERS AND DERECOGNITION OF FINANCIAL ASSETS

In the normal course of business the Bank Ltd Group enters into transactions in terms of which it transfers financial assets directly to third parties or to structured entities. Financial assets are transferred when the Bank Ltd 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 Bank Ltd 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 Bank Ltd Group. The majority of transferred financial assets of the Bank Ltd 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 which are not derecognised in their entirety are included under point 32.1.
- Partial derecognition occurs when the Bank Ltd 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 Bank Ltd Group's continuing involvement. This excludes the full derecognition of part of a larger financial asset as detailed below. Disclosures relating to these transferred financial assets that are partially derecognised are included under point 32.1.
- Full derecognition occurs when the Bank Ltd 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 Bank Ltd Group derecognises the entire transferred financial asset. The transfer may however result in the Bank Ltd Group obtaining a new asset or assuming a new liability that continues to expose the Bank Ltd 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 detailed above. The majority of transferred financial assets of the Bank Ltd 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 Bank Ltd Group is still exposed are included under point 32.2.

32.1 Transferred financial assets that are not derecognised in their entirety

Repurchase agreements

The Bank Ltd Group enters into repurchase agreements in terms of which the Bank Ltd 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 Bank Ltd 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 Bank Ltd 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 Bank Ltd Group remains exposed to all the underlying risks on the investment securities. The risks include counterparty, interest rate, currency, prepayment and other price risks.

Investment securities and other investments of the Bank Ltd Group with a carrying amount of R11 132 million (2013: R16 229 million) have been transferred in terms of repurchase transactions. Associated liabilities with a carrying amount of R10 509 million (2013: R16 146 million) have been recognised for cash received from counterparties and have been included in deposits.

32 TRANSFERS AND DERECOGNITION OF FINANCIAL ASSETS continued

32.1 Transferred financial assets that are not derecognised in their entirety continued

Securities lending transactions

The Bank Ltd Group enters into securities lending transactions in terms of which the Bank Ltd Group lends investment securities that it owns to parties external to the Bank Ltd Group and to fellow subsidiary companies in exchange for cash collateral. The cash collateral is provided by the counterparty as security for the return of the shares. The investment securities that are lent continue to be recognised in full as the Bank Ltd Group retains substantially all the risks and rewards of ownership of these investment securities and the derecognition criteria are not met. A financial liability (deposit) is recognised for the cash collateral received from the counterparty. The Bank Ltd Group's only recourse in respect to the return of the investment securities it has lent is to the cash collateral held and, as such, the Bank Ltd Group generally requires cash collateral in excess of the fair value of the investment securities lent. The Bank Ltd Group remains exposed to all the underlying risks of the transferred investment securities. The risks include counterparty, investment, equity price, currency and other price risks.

During the current and prior year, the Bank Ltd Group did not enter into any securities lending transactions in terms of which it lent securities recognised on its statement of financial position.

Other transfers

The Bank Ltd Group enters into other transactions in terms of which it sells advances to conduits of the FirstRand Group but retains substantially all the risks and rewards of ownership related to the transferred advances. The transferred advances continue to be recognised in full by the Bank Ltd Group (advances) and a financial liability (deposits) is recognised for the cash received. The Bank Ltd Group remains exposed to all the underlying risks on the advances. The risks include counterparty, interest rate, currency, prepayment and other price risks.

Advances of the Bank Ltd Group with a carrying amount of R5 billion (2013: R nil) have been transferred in terms of conduit transactions. Associated liabilities of R5 billion (2013: Rnil) have been recognised for cash received and have been included in deposits.

32 TRANSFERS AND DERECOGNITION OF FINANCIAL ASSETS continued

32.2 Transferred financial assets that are derecognised

Securitisation transactions

Traditional securitisation transactions arranged by the Bank Ltd Group result in the full derecognition of the securitised financial assets. In a traditional securitisation transaction, financial assets or interests in a pool of financial assets are sold to a structured entity, which then issues liabilities to third party investors, for example, variable rate notes. As the Bank Ltd Group has assumed an obligation to pay over all the cash flows from the advances to the structured entity, the Bank Ltd Group's exposure to the variability in the amounts and timing of the cash flows of the transferred advances is no longer significant. The Bank Ltd Group has therefore transferred substantially all of the risks and rewards of ownership of the advances to the structured entity and the advances are derecognised in their entirety. The Bank Ltd Group may however acquire other financial assets and liabilities that continue to expose the Bank Ltd Group to the returns on the underlying advances, e.g. the Bank Ltd Group may be required to take up some of the notes issued by the structured entity that it is unable to issue into the market or enter into an interest rate swap with the securitisation structured entity. The Bank Ltd Group may also continue to be exposed to the underlying advances through clean-up calls in terms of which the Bank Ltd Group has the option but not the obligation to repurchase the remaining derecognised advances at fair value once the value of the advances falls below a specified level.

The following Bank Ltd Group bankruptcy remote structured entities have been created to facilitate a traditional securitisation transaction related to WesBank retail instalment sale advances:

- Nitro 4 – facilitated a securitisation transaction amounting to R4 billion of WesBank retail instalment sale advances and was established in August 2011.
- Turbo Finance 2 facilitated a securitisation transaction amounting to GBP 314 million of retail instalment sale advances in the UK relating to the Bank Ltd Group's MotoNovo finance division and was established in January 2012.
- Turbo Finance 3 facilitated a securitisation transaction amounting to GBP 326 million of retail instalment sale advances in the UK relating to the Bank Ltd Group's MotoNovo finance division and was established in September 2012.
- Turbo Finance 4 facilitated a securitisation transaction amounting to GBP 374 million of retail instalment sale advances in the UK relating to the Bank Ltd Group's MotoNovo finance division and was established in November 2013.

In the prior year, the Turbo Finance securitisation transaction was wound up and the notes were called and settled.

As a result of its continuing involvement in the derecognised assets, the Bank Ltd Group is exposed to the following risks:

- indirect credit risk as a result of any notes held by the Bank Ltd Group;
- liquidity and funding risk on any potential repurchase of the transferred assets in terms of a clean-up call or SARB-approved asset repurchase;
- operational risk related to the servicing of the transferred assets; and
- interest rate or other risk through derivatives held with the structured entities.

The Bank Ltd Group manages these risks as follows:

- through appropriate capitalisation;
- by ensuring adequate liquidity facilities are available to fund these transactions;
- through strict internal controls and continual monitoring; and
- through the application of hedging measures where appropriate/required.

32 TRANSFERS AND DERECOGNITION OF FINANCIAL ASSETS continued

32.2 Transferred financial assets that are derecognised continued

Securitisation transactions continued

The triggers associated with the Bank Ltd Group's obligation to provide financial support or to repurchase the transferred financial assets include:

- any breach of the contractual representations and warranties relating to the derecognised assets;
- special permission obtained from the SARB to repurchase the transferred assets (if relevant); and
- in the case of clean-up calls, once the value of the transferred assets falls below a certain point (such as 10% of the value at issue).

Other structured transactions

Other transactions may, depending on the individual arrangement, result in the derecognition of financial assets and the separate recognition of assets or liabilities for any rights or obligations created or retained in the transfer. These transactions could result in the Bank Ltd Group having continuing involvement in the derecognised financial assets in the form of guarantees, servicing agreements, clean-up calls, investments held, credit enhancement or liquidity facilities and derivatives such as interest rate swaps, total return swaps, written put options or purchased call options.

As a result of its continuing involvement in the derecognised assets, and dependant on the type of continuing risk arising from the specific transaction, the Bank Ltd Group may be exposed to any of the following risks:

- operational risk related to the servicing of the transferred asset for any servicing agreements in place between the Bank Ltd Group and the transferee;
- interest rate, currency risk or any other risk arising from derivatives held with the transferee where the value of the derivative is linked to the value of the transferred financial asset; and
- investment risk related to any investments held by the Bank Ltd Group where the value of the investment references or is linked to the value of the transferred financial asset.

The Bank Ltd Group manages these risks as follows:

- through strict internal controls and continual monitoring; and
- through the application of hedging measures where appropriate/required.

Where the Bank Ltd Group is required to bear losses in terms of these transactions, this will only ever be after all other parties involved i.e. the lowest ranking. Were the Bank Ltd Group does have a contractual obligation to provide financial support or to repurchase the transferred financial asset in terms of these transactions, the triggers associated with this obligation are specific to the terms of the relevant transaction and can include contractual breach or a decline in the value of the transferred financial asset.

32 TRANSFERS AND DERECOGNITION OF FINANCIAL ASSETS continued

32.2 Transferred financial assets that are derecognised continued

The table below sets out the financial information about the continuing involvement in transferred financial assets which have been derecognised in their entirety:

	2014				
Type of continuing involvement R million	**Carrying amount of continuing involvement recognised in the statement of financial position**		**Fair value of continuing involvement**		**Maximum exposure to loss***
	Assets	**Liabilities**	**Assets**	**Liabilities**	
Traditional securitisation transactions					
Derivative financial instruments	**2**	**10**	**2**	**10**	**2 243**
Investment securities and other investments	**1 967**	**–**	**1 967**	**–**	**1 967**
Other structured transactions					
Investment securities and other investments	**1 881**	**–**	**1 881**	**–**	**1 881**
Total	**3 850**	**10**	**3 850**	**10**	**6 091**

	2013				
Type of continuing involvement R million	**Carrying amount of continuing involvement recognised in the statement of financial position**		**Fair value of continuing involvement**		**Maximum exposure to loss***
	Assets	**Liabilities**	**Assets**	**Liabilities**	
Traditional securitisation transactions					
Derivative financial instruments	11	–	11	–	1 384
Investment securities and other investments	180	–	180	–	180
Other structured transactions					
Investment securities and other investments	1 146	–	1 146	–	1 146
Total	1 337	–	1 337	–	2 710

* *The maximum exposure to loss from continuing involvement in derecognised financial assets is the total loss that the Bank Ltd Group would suffer in a worst case scenario such as if the underlying derecognised financial asset were to lose all of its value. This includes any off balance sheet commitments or contingencies related to the derecognised financial asset. The maximum exposure to loss from continuing involvement through clean-up calls included in derivatives, is determined as the agreed upon amount the Bank Ltd Group would have to pay to repurchase a financial asset that has no value. The maximum exposure to loss from continuing involvement through derivatives is determined as any payments the Bank Ltd Group is obliged to make in terms of the derivative contract (such as interest payments) that is based on the value of the underlying transferred financial assets. The maximum exposure to loss from continuing involvement through notes issued by the structured entity and held by the Bank Ltd Group is determined as the value of the notes recognised as an investment by the Bank Ltd Group.*

32 TRANSFERS AND DERECOGNITION OF FINANCIAL ASSETS continued

32.2 Transferred financial assets that are derecognised continued

The table below sets out the profit or loss impact of transfers of financial assets which are derecognised in full:

	2014		
		Income recognised from continuing involvement	
Type of continuing involvement R million	**Gain at date of transfer**	**For the current period**	**Cumulative**
Traditional securitisation transactions	**1 557**	**53**	**294**
Other structured transactions	**–**	**29**	**31**
Total	**1 557**	**82**	**325**

The table below sets out the undiscounted cash flows that would or may be required to repurchase the derecognised financial assets or other amounts payable to the transferee in respect of the transferred financial assets as at 30 June 2014. It also sets out the maturity analysis of these undiscounted cash flows.

	2014					
Type of continuing involvement R million	**Total undiscounted cash outflows**	**Call**	**1 to 3 months**	**4 to 12 months**	**1 to 5 years**	**Over 5 years**
Traditional securitisation transactions	**10 067**	**13**	**41**	**540**	**9 470**	**3**
Total	**10 067**	**13**	**41**	**540**	**9 470**	**3**

	2013		
		Income recognised from continuing involvement	
	Gain at date of transfer	For the current period	Cumulative
	875	105	276
	–	25	49
	875	130	325

	2013					
	Total un-discounted cash outflows	Call	1 to 3 months	4 to 12 months	1 to 5 years	Over 5 years
	7 021	28	25	497	6 456	15
	7 021	28	25	497	6 456	15

33 FAIR VALUE MEASUREMENTS

33.1 Valuation methodology

In terms of IFRS, the Bank Ltd Group is required to or elects to measure certain assets and liabilities at fair value. The Bank Ltd Group has established control frameworks and processes at a franchise level to independently validate its valuation techniques and inputs used to determine its fair value measurements. At a franchise level technical teams are responsible for the selection, implementation and any changes to the valuation techniques used to determine fair value measurements. Valuation committees comprising representatives from key management have been established within each franchise and at an overall Bank Ltd Group level are responsible for overseeing the valuation control process and considering the appropriateness of the valuation techniques applied in fair value measurement. The valuation models and methodologies are subject to independent review and approval at a franchise level by the required technical teams, valuation committees, relevant risk committees and external auditors annually or more frequently if considered appropriate.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, i.e. an exit price. Fair value is therefore a market based measurement and when measuring fair value the Bank Ltd Group uses the assumptions that market participants would use when pricing an asset or liability under current market conditions, including assumptions about risk. 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.

Fair value measurements are determined by the Bank Ltd Group on both a recurring and non-recurring basis.

Recurring fair value measurements

Recurring fair value measurements are those for assets and liabilities that IFRS requires or permits to be recognised at fair value and are recognised in the statement of financial position at reporting date. This includes financial assets, financial liabilities and non-financial assets, including commodities, that the Bank Ltd Group measures at fair value at the end of each reporting period.

Financial instruments

When determining the fair value of a financial instrument, where the financial instrument has a bid or ask price (for example, in a dealer market), the Bank Ltd Group uses the price within the bid-ask spread that is most representative of fair value in the circumstances. Although not a requirement, the Bank Ltd Group uses the bid price for financial assets or the ask/offer price for financial liabilities where this best represents fair value.

When determining the fair value of a financial liability or the Bank Ltd Group's own equity instruments the quoted price for the transfer of an identical or similar liability or own equity instrument is used. Where this is not available and an identical item is held by another party as an asset, the fair value of the liability or own equity instrument is measured using the quoted price in an active market of the identical item, if that price is available, or using observable inputs (such as the quoted price in an inactive market for the identical item) or using another valuation technique.

Where the Bank Ltd Group has any financial liability with a demand feature, such as demand deposits, the fair value is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid where the time value of money is significant.

Non-financial assets

When determining the fair value of a non-financial asset, a market participant's ability to generate economic benefits by using the assets in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use, is taken into account. This includes the use of the asset that is physically possible, legally permissible and financially feasible. In determining the fair value of the Bank Ltd Group's commodities, the highest and best use of the assets was their current use.

Non-recurring fair value measurements

Non-recurring fair value measurements are those triggered by particular circumstances and include the classification of assets and liabilities as non-current assets or disposal groups held for sale under IFRS 5, where fair value less costs to sell is the recoverable amount; IFRS 3 business combinations where assets and liabilities are measured at fair value at acquisition date; and IAS 36 impairments of assets where fair value less costs to sell is the recoverable amount. These fair value measurements are determined on a case by case basis as they occur within each reporting period.

33 FAIR VALUE MEASUREMENTS continued

33.1 Valuation methodology continued

Other fair value measurements

Other fair value measurements include assets and liabilities not measured at fair value but for which fair value disclosures are required under another IFRS e.g. financial instruments at amortised cost. The fair value for these items is determined by using observable quoted market prices where these are available, such as market prices quoted on BESA, or in accordance with generally acceptable pricing models such as a discounted cash flow analysis. Except for the amounts included under point 33.4 below, for all other financial instruments at amortised cost the carrying value is equal to or a reasonable approximation of the fair value.

33.2 Fair value hierarchy and measurements

The Bank Ltd Group classifies assets and liabilities measured at fair value using a fair value hierarchy that reflects whether observable or unobservable inputs are used in determining the fair value of the item. If this information is not available, fair value is measured using another valuation technique that maximises the use of relevant observable inputs and minimises the use of unobservable inputs. The valuation techniques employed by the Bank Ltd 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.

Where a valuation model is applied and the Bank Ltd Group cannot mark-to-market, it applies a mark-to-model approach, subject to valuation adjustments. Mark-to-model is defined as any valuation which has to be benchmarked, extrapolated or otherwise calculated from a market input. The Bank will consider the following in assessing whether a mark-to-model valuation is appropriate:

- as far as possible, market inputs are sourced in line with market prices;
- generally accepted valuation methodologies are consistently used for particular products unless deemed inappropriate by the relevant governance forums;
- where a model has been developed in-house, it is based on appropriate assumptions, which have been assessed and challenged by suitably qualified parties independent of the development process;
- formal change control procedures are in place;
- awareness of the weaknesses of the models used and appropriate reflection in the valuation output;
- the model is subject to periodic review to determine the accuracy of its performance; and
- valuation adjustments are only made when appropriate, e.g. to cover the uncertainty of the model valuation.

Valuations based on observable inputs include:

Level 1

Fair value is determined using unadjusted quoted prices in active markets for identical assets or liabilities where this is readily available and the price represents actual and regularly occurring market transactions. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis. This category includes listed bonds and equity, exchange-traded derivatives, exchange-traded commodities and short trading positions.

Level 2

Fair value is determined using inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly such as quoted prices for similar items in an active market or for an identical item in an inactive market, or valuation models using observable inputs or inputs derived from observable market data. This category includes loans and advances to customers, equities listed in an inactive market, certain debt instruments, over the counter derivatives or exchange-traded derivatives where a market price is not available, deposits, other liabilities, Tier 2 liabilities, and commodities which are not exchange-traded.

Level 3

Fair value is determined using a valuation technique and significant inputs that are not based on observable market data (i.e. unobservable inputs) such as an entity's own assumptions about what market participants would assume in pricing assets and liabilities. The assumptions applied by the Bank Ltd Group are set out in the table below. This category includes certain loans and advances to customers, certain over the counter derivatives such as equity options, investments in debt instruments, and certain deposits such as credit linked notes.

33 FAIR VALUE MEASUREMENTS continued

33.2 Fair value hierarchy and measurements continued

The table below sets out the valuation techniques applied by the Bank Ltd Group for recurring fair value measurements of assets and liabilities categorised as level 2 and level 3 in the fair value hierarchy:

Instrument	Fair value hierarchy level	Valuation technique	Description of valuation technique and main assumptions	Observable inputs	Significant unobservable inputs of level 3 items
Derivative financial instruments					
Option contracts	Level 2 and level 3	Option pricing model	The Black Scholes model is used.	Strike price of the option, market related discount rates, forward rate and cap and floor volatility.	Volatilities
Futures contracts	Level 2	Discounted cash flows	The future 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.	Market interest rates and curves	Not applicable
Swaps	Level 2	Discounted cash flows	The future cash flows are projected using a forward curve and then discounted using a market related discount curve over the contractual period. The reset date of each swaplet is determined in terms of legal documents pertaining to the swap.	Market interest rates and curves	Not applicable
Forward rate agreements	Level 2	Discounted cash flows	The future cash flows are projected using a forward curve and then discounted using a market related discount curve over the contractual period. The reset date is determined in terms of legal documents.	Market interest rates and curves	Not applicable
Forward contracts	Level 2	Discounted cash flows	The future cash flows are projected using a forward curve and then discounted using a market related discount curve over the contractual period. Projected cash flows are obtained by subtracting the strike price of the forward contract from the market projected forward value.	Market interest rates and curves	Not applicable
Credit derivatives	Level 2 and level 3	Discounted cash flows	The future cash flows are discounted using a market related interest rate. Where prices are obtainable from the market, individual credit spreads are used.	Market interest rates and curves	Credit inputs

33 FAIR VALUE MEASUREMENTS continued

33.2 Fair value hierarchy and measurements continued

Instrument	Fair value hierarchy level	Valuation technique	Description of valuation technique and main assumptions	Observable inputs	Significant unobservable inputs of level 3 items
Derivative financial instruments continued					
Commodity derivatives	Level 2	Discounted cash flows	Commodity linked instruments are measured by taking into account the price, the location differential, grade differential, silo differential and the discount factor of the most liquidly traded futures linked to the commodity.	Futures prices	Not applicable
Equity derivatives	Level 2 and level 3	Industry standard models	The models calculate fair value based on input parameters such as stock prices, dividends, volatilities, interest rates, equity repo curves and, for multi-asset products, correlations. Unobservable model inputs are determined by reference to liquid market instruments and applying extrapolation techniques to match the appropriate risk profile.	Market interest rates and curves	Volatilities
Loans and advances to customers					
Investment banking book*	Level 3	Discounted cash flows	The future cash flows are discounted using a market related interest rate. To calculate the fair value of credit the Bank Ltd Group uses a valuation methodology based on the credit spread matrix, which considers loss given default, tenor and the internal credit committee rating criteria. The fair value measurement includes the original credit spread and is repriced when there is a change in rating of the counterparty. A decline in credit rating would result in an increase in the spread above the base rate for discounting purposes and consequently a reduction of the fair value of the advance. Similarly an increase in credit rating would result in a decrease in the spread below the base rate and an increase of the fair value of the advance.	Market interest rates and curves	Credit inputs
Other loans and advances	Level 2 and level 3	Discounted cash flows	The future cash flows are discounted using a market related interest rate adjusted for credit inputs over the contractual period.	Market interest rates and curves	Credit inputs

* *The Bank Ltd Group has elected to designate the investment banking book of advances at fair value through profit or loss. Credit risk is not observable and has a significant impact on the fair value measurement of these advances and, as such, these advances are classified as level 3 on the fair value hierarchy.*

33 FAIR VALUE MEASUREMENTS continued

33.2 Fair value hierarchy and measurements continued

Instrument	Fair value hierarchy level	Valuation technique	Description of valuation technique and main assumptions	Observable inputs	Significant unobservable inputs of level 3 items
Investment securities and other investments					
Equities/bonds listed in an inactive market	Level 2	Discounted cash flows	For listed equities and bonds, the listed price is used where the market is active (i.e. level 1). However, if the market is not active and the listed price is not representative of fair value, these are classified as Level 2 and a valuation technique is used, e.g. the discounted cash flow is used for listed bonds. This will be based on risk parameters of comparable securities and the potential pricing difference in spread and/or price terms with the traded comparable is considered. The future cash flows are discounted using a market related interest rate.	Market interest rates and curves	Not applicable
Unlisted bonds	Level 2 and level 3	Discounted cash flows	Unlisted bonds are valued similarly to advances measured at fair value. The future cash flows are discounted using a market related interest rate adjusted for credit inputs over the contractual period.	Market interest rates and curves	Credit inputs
Unlisted equities	Level 2 and level 3	Price earnings (P/E) model	For unlisted equities, the earnings included in the model are derived from a combination of historical and budgeted earnings depending on the specific circumstances of the entity whose equity is being valued. The P/E multiple is derived from current market observations taking into account an appropriate discount for unlisted companies. The valuation of these instruments may be corroborated by a discounted cash flow valuation or by the observation of other market transactions that have taken place.	Market transactions	Growth rates and P/E ratios
Negotiable certificates of deposit	Level 2	Discounted cash flows	The 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.	Market interest rates and curves	Not applicable
Treasury bills	Level 2	BESA bond pricing model	The BESA bond pricing model uses the BESA mark to market bond yield.	Market interest rates and curves	Not applicable

33 FAIR VALUE MEASUREMENTS continued

33.2 Fair value hierarchy and measurements continued

Instrument	Fair value hierarchy level	Valuation technique	Description of valuation technique and main assumptions	Observable inputs	Significant unobservable inputs of level 3 items
Deposits					
Call and non-term deposits	Level 2	None – the undiscounted amount is used	The undiscounted amount of the deposit is the fair value due to the short term nature of the instruments. These deposits are financial liabilities with a demand feature and the fair value is not less than the amount payable on demand, i.e. the undiscounted amount of the deposit.	None – the undiscounted amount approximates fair value and no valuation is performed	Not applicable
Deposits that represent collateral on credit linked notes	Level 3	Discounted cash flows	These deposits represent the collateral leg of credit linked notes. The forward curve adjusted for liquidity premiums and business unit margins. The valuation methodology does not take early withdrawals and other behavioural aspects into account.	Market interest rates and curves	Credit inputs on related advance
Other deposits	Level 2 and level 3	Discounted cash flows	The forward curve adjusted for liquidity premiums and business unit margins. The valuation methodology does not take early withdrawals and other behavioural aspects into account.	Market interest rates and curves	Credit inputs
Other liabilities and Tier 2 liabilities	Level 2	Discounted cash flows	The future cash flows are discounted using a market related interest rate.	Market interest rates and curves	Not applicable
Financial assets and liabilities not measured at fair value but for which fair value is disclosed	Level 2 and level 3	Discounted cash flows	The future cash flows are discounted using a market related interest rate and curves adjusted for credit inputs.	Market interest rates and curves	Credit inputs

33 FAIR VALUE MEASUREMENTS continued

33.2 Fair value hierarchy and measurements continued

For non-recurring fair value measurements the fair value hierarchy classification and valuation technique applied in determining fair value will depend on the underlying asset or liability being measured. Where the underlying assets or liabilities are those for which recurring fair value measurements are required as listed in the table above, the technique applied and the inputs into the models would be in line with those as set out in the table. Where the underlying assets or liabilities are not items for which recurring fair value measurements are required, e.g. property and equipment or intangible assets, the fair value will be determined per transaction and details will be provided in the relevant notes, i.e. note 36 for IFRS 3 transactions. In the current year there were no such transactions for which IFRS 13 disclosures were required. During the current reporting period there were no changes in the valuation techniques used by the Bank Ltd Group.

The following table presents the recurring and non-recurring fair value measurements and fair value hierarchy of assets and liabilities of the Bank Ltd Group which are recognised at fair value:

	2014			
R million	**Level 1**	**Level 2**	**Level 3**	**Total fair value**
Assets				
Recurring fair value measurements				
Derivative financial instruments	**22**	**38 610**	**1**	**38 633**
Advances*	**–**	**31 809**	**146 106**	**177 915**
Investment securities and other investments	**49 298**	**33 461**	**5 519**	**88 278**
Commodities	**7 904**	**–**	**–**	**7 904**
Amounts due by holding company and fellow subsidiaries	**–**	**305**	**–**	**305**
Total assets measured at fair value	**57 224**	**104 185**	**151 626**	**313 035**
Liabilities				
Recurring fair value measurements				
Short trading positions	**5 397**	**–**	**–**	**5 397**
Derivative financial instruments	**25**	**41 598**	**5**	**41 628**
Deposits	**125**	**82 103**	**953**	**83 181**
Other liabilities	**–**	**3 287**	**–**	**3 287**
Tier 2 liabilities	**–**	**1 030**	**–**	**1 030**
Amounts due to holding company and fellow subsidiaries	**–**	**226**	**–**	**226**
Total liabilities measured at fair value	**5 547**	**128 244**	**958**	**134 749**

* *Although the fair value of credit is not significant year-on-year it may become significant in 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 Bank Ltd 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, loans and advances to customers are classified as level 2 of the fair value hierarchy.*

33 FAIR VALUE MEASUREMENTS continued
33.2 Fair value hierarchy and measurements continued

	2013			
R million	**Level 1**	**Level 2**	**Level 3**	**Total fair value**
Assets				
Recurring fair value measurements				
Derivative financial instruments	180	51 574	1	51 755
Advances*	–	40 264	112 343	152 607
Investment securities and other investments	52 322	37 393	4 831	94 546
Amounts due by holding company and fellow subsidiaries	–	516	–	516
Total assets measured at fair value	52 502	129 747	117 175	299 424
Liabilities				
Recurring fair value measurements				
Short trading positions	2 923	–	–	2 923
Derivative financial instruments	75	52 865	–	52 940
Deposits	–	81 805	1 302	83 107
Other liabilities	–	171	–	171
Tier 2 liabilities	–	1 049	–	1 049
Amounts due to holding company and fellow subsidiaries	–	255	–	255
Total liabilities measured at fair value	2 998	136 145	1 302	140 445

* *Although the fair value of credit is not significant year-on-year it may become significant in 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 Bank Ltd 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, loans and advances to customers are classified as level 2 of the fair value hierarchy.*

There were no transfers of assets or liabilities between level 1 and level 2 during the current or prior reporting period.

33 FAIR VALUE MEASUREMENTS continued

33.3 Additional disclosures for level 3 instruments

33.3.1 Changes in level 3 instruments with recurring fair value measurements

The following tables show a reconciliation of the opening and closing balances for fair value assets and liabilities classified as level 3 in terms of the fair value hierarchy, for which recurring fair value measurement is required.

	2014		
R million	**Fair value on 30 June 2013**	**Gains/losses recognised in profit or loss**	**Gains/losses recognised in other comprehensive income**
Assets			
Derivative financial instruments	**1**	**–**	**–**
Advances	**112 343**	**3 172**	**–**
Investment securities and other investments	**4 831**	**317**	**55**
Total financial assets measured at fair value in level 3	**117 175**	**3 489**	**55**
Liabilities			
Derivative financial instruments	**–**	**5**	**–**
Deposits	**1 302**	**–**	**–**
Total financial liabilities measured at fair value in level 3	**1 302**	**5**	**–**

Note: Decreases in level 3 assets and liabilities are included in brackets. Decreases in the value of assets may be as a result of losses, sales and settlements or the disposal of subsidiaries. Decreases in the value of liabilities may be as a result of gains, settlements or the disposal of subsidiaries.

During the current reporting period investment securities to the value of R187 million were transferred into level 3 out of level 2. The transfer occurred as a result of certain of the significant inputs becoming unobservable owing to a change in the counterparty's capital structure.

	2013		
R million	**Fair value on 30 June 2012**	**Gains/losses recognised in profit or loss**	**Gains/losses recognised in other comprehensive income**
Assets			
Derivative financial instruments	95	3	–
Advances	97 807	2 060	–
Investment securities and other investments	4 201	(846)	84
Total financial assets measured at fair value in level 3	102 103	1 217	84
Liabilities			
Derivative financial instruments	147	72	–
Deposits	3 030	(228)	–
Total financial liabilities measured at fair value in level 3	3 177	(156)	–

Note: Decreases in level 3 assets and liabilities are included in brackets. Decreases in the value of assets may be as a result of losses, sales and settlements or the disposal of subsidiaries. Decreases in the value of liabilities may be as a result of gains, settlements or the disposal of subsidiaries.

Derivative financial liabilities to the value of R201 million were transferred out of level 3 and into level 2 in the previous reporting period 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.

2014					
Purchase, sales, issues and settlements	**Acquisitions/ disposals of subsidiaries**	**Transfers into level 3**	**Transfers out of level 3**	**Exchange rate differences**	**Fair value on 30 June 2014**
–	**–**	**–**	**–**	**–**	**1**
30 176	**–**	**–**	**–**	**415**	**146 106**
123	**–**	**187**	**–**	**6**	**5 519**
30 299	**–**	**187**	**–**	**421**	**151 626**
–	**–**	**–**	**–**	**–**	**5**
(370)	**–**	**–**	**–**	**21**	**953**
(370)	**–**	**–**	**–**	**21**	**958**

2013					
Purchase, sales, issues and settlements	**Acquisitions/ disposals of subsidiaries**	**Transfers into level 3**	**Transfers out of level 3**	**Exchange rate differences**	**Fair value on 30 June 2013**
(97)	–	–	–	–	1
11 825	–	–	–	651	112 343
1 364	(3)	–	–	31	4 831
13 092	(3)	–	–	682	117 175
(18)	–	–	(201)	–	–
(1 606)	–	–	–	106	1 302
(1 624)	–	–	(201)	106	1 302

33 FAIR VALUE MEASUREMENTS continued

33.3 Additional disclosures for level 3 instruments continued

33.3.2 Unrealised gains or losses on level 3 instruments with recurring fair value measurements

The Bank Ltd Group classifies assets or liabilities 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 assets or liabilities 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 table below presents the total gains/(losses) relating to fair value remeasurement of assets and liabilities classified in level 3 that are still held at reporting date. With the exception of interest on funding instruments and available-for-sale financial assets, all of the gains or losses are recognised in non-interest income.

	2014		
R million	**Gains/losses recognised in the income statement**	**Gains/losses recognised in other comprehensive income**	**Total gains/losses**
Assets			
Derivative financial instruments	**–**	**–**	**–**
Advances*	**2 898**	**–**	**2 898**
Investment securities and other investments	**289**	**51**	**340**
Total	**3 187**	**51**	**3 238**
Liabilities			
Derivative financial instruments	**(4)**	**–**	**(4)**
Deposits	**2**	**–**	**2**
Other liabilities	**–**	**–**	**–**
Tier 2 liabilities	**–**	**–**	**–**
Total	**(2)**	**–**	**(2)**

* *Mainly accrued interest on fair value loans and advances and movements in interest rates that have been hedged.*

Note: Decreases in level 3 assets and liabilities are included in brackets. Decreases in the value of assets may be a result of losses, sales and settlements or the disposal of subsidiaries. Decreases in the value of liabilities may be a result of gains, settlements or the disposal of subsidiaries.

33 FAIR VALUE MEASUREMENTS continued

33.3 Additional disclosures for level 3 instruments continued

33.3.2 Unrealised gains or losses on level 3 instruments with recurring fair value measurements continued

	2013		
R million	**Gains/losses recognised in the income statement**	**Gains/losses recognised in other comprehensive income**	**Total gains/losses**
Assets			
Derivative financial instruments	–	–	–
Advances*	2 362	–	2 362
Investment securities and other investments	152	84	236
Total	2 514	84	2 598
Liabilities			
Derivative financial instruments	–	–	–
Deposits	(131)	–	(131)
Other liabilities	–	–	–
Tier 2 liabilities	–	–	–
Total	(131)	–	(131)

* *Mainly accrued interest on fair value loans and advances and movements in interest rates that have been hedged.*

Note: Decreases in level 3 assets and liabilities are included in brackets. Decreases in the value of assets may be as a result of losses, sales and settlements or disposal of subsidiaries. Decreases in the value of liabilities may be a result of gains, settlements or disposal of subsidiaries.

33 FAIR VALUE MEASUREMENTS continued

33.3.3 Effect of changes in significant unobservable assumptions of level 3 instruments to reasonably possible alternatives

As described under point 33.2, the fair value of assets and liabilities that are classified in level 3 of the fair value hierarchy is determined using valuation techniques that make use of significant inputs that are not based on observable market data. The inputs into these valuation techniques are derived from all available information and management's judgement. While management believes that these fair values are appropriate they could be sensitive to changes in the assumptions used to derive the inputs. The table below illustrates the sensitivity of the significant inputs when they are changed to reasonably possible alternative inputs:

	2014	
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 assets measured at fair value in level 3		
Liabilities		
Derivative financial instruments	**Volatilities**	**Volatilities are increased and decreased by 10%**
Deposits	**Credit risk of the cash collateral leg of credit linked notes**	**Credit migration matrix****
Total liabilities measured at fair value in level 3		

* *The credit migration matrix is used as part of the Bank Ltd Group's credit risk management process for the advances measured at fair value through profit or loss. The matrix is a simulation model that contains a matrix of probabilities for downgrading or upgrading to another rating bucket. The migration matrix is based on actual observed rating migrations from S&P over the long term and is based on the fair value in the 75th percentile.*

** *The deposits included in level 3 of the hierarchy represent the collateral leg of credit linked notes. The most significant unobservable input in determining the fair value of the credit linked notes is the credit risk component. The sensitivity to credit risk has been assessed in the same way as for advances using the credit migration matrix with the deposit representing the cash collateral component thereof.*

2014			2013		
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
1 146 106	**1 147 062**	**1 146 517**	1 112 343	1 113 264	1 111 688
5 519	**6 086**	**4 957**	4 831	5 411	4 173
151 626	**153 149**	**151 475**	117 175	118 676	115 862
5	**5**	**5**	–	1	1
953	**858**	**1 048**	1 302	1 172	1 433
958	**863**	**1 053**	1 302	1 173	1 434

33 FAIR VALUE MEASUREMENTS continued

33.4 Other fair value measurements

The following represents the fair values of financial instruments not carried at fair value on the statement of financial position but for which fair value is required to be disclosed:

	2014					2013	
R million	**Carrying amount**	**Fair value**	**Level 1**	**Level 2**	**Level 3**	**Carrying amount**	**Fair value**
Assets							
Advances	**444 206**	**446 200**	**–**	**60 101**	**386 099**	395 958	390 590
Investment securities and other investments	**505**	**505**	**–**	**505**	**–**	415	415
Total assets at amortised cost	**444 711**	**446 705**	**–**	**60 606**	**386 099**	396 373	391 005
Liabilities							
Deposits	**609 995**	**611 136**	**18 029**	**592 152**	**955**	546 765	548 202
Other liabilities	**981**	**975**	**–**	**975**	**–**	891	–
Tier 2 liabilities	**10 454**	**10 705**	**–**	**10 705**	**–**	6 576	6 693
Total liabilities at amortised cost	**621 430**	**622 816**	**18 029**	**603 832**	**955**	554 232	554 895

For all other financial instruments the carrying value is equal to or a reasonable approximation of the fair value.

33 FAIR VALUE MEASUREMENTS continued

33.5 Day 1 profit or loss

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price (i.e. the entry or exit price) 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. Day 1 profit or loss arises on the initial recognition of a financial instrument when the fair value of the 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. The day 1 profits or losses arising as a result of the difference between the two values should only be recognised over the life of the instrument as a result of changes that would also be considered by market participants.

The following table represents the aggregate difference between transaction price and fair value based on a valuation technique yet to be recognised in profit or loss:

R million	2014	2013
Balance at 1 July	**16**	21
Amount recognised in profit or loss as a result of changes which would be observable by market participants	**(5)**	(5)
Balance at 30 June	**11**	16

34 FINANCIAL INSTRUMENTS SUBJECT TO OFFSETTING, MASTER NETTING ARRANGEMENTS AND SIMILAR AGREEMENTS

In accordance with IAS 32 the Bank Ltd Group offsets financial assets and financial liabilities and presents the net amount in the statement of financial position only if there is both a legally enforceable right to offset and there is an intention to settle the amounts on a net basis or to realise the asset and settle the liability simultaneously. Financial assets and financial liabilities subject to master netting arrangements (MNA) or similar agreements are not offset, if the right of set-off under these agreements is only enforceable in the event of default, insolvency and bankruptcy.

The tables below include information about financial assets and financial liabilities that are:

- offset and the net amount presented in the Bank Ltd Group's statement of financial position in accordance with the requirements of IAS 32; and
- subject to enforceable master netting arrangements or similar agreements where the amounts have not been offset because one or both of the requirements of IAS 32 are not met or the amounts relate to financial collateral (cash or non-cash) that mitigates credit risk.

	2014		
	Financial instruments subject to offsetting agreements, MNA and similar agreements		
		Amounts where offsetting is applied	
R million	Gross amount	Amounts set-off	Net amount reported in the statement of financial position*
Assets			
Derivatives	42 795	7 989	34 806
Reverse repurchase, securities borrowing and similar arrangements	42 762	13 909	28 853
Other advances	2 163	2 163	–
Intercompany assets	5 664	531	5 133
Total	93 384	24 592	68 792
Liabilities			
Derivatives	44 886	7 989	36 897
Repurchase securities lending and similar arrangements	34 121	13 909	20 212
Other deposits	2 471	2 163	308
Intercompany liabilities	836	531	305
Total	82 314	24 592	57 722

* *The net amount reported on the statement of financial position represents the net amount of financial assets and financial liabilities where offsetting has been applied in terms of IAS 32 and financial instruments that are subject to master netting and similar agreements but no offsetting has been applied.*

** *The financial collateral included in the table above is limited to the net statement of financial position exposure in line with the requirements of IFRS 7 and excludes the effect of any over-collateralisation. The amount of collateral included in the table for IFRS 7 disclosure purposes has been determined at a business unit level. If these limits were determined on a Bank Ltd Group-wide level, the amount of collateral included in this table could increase.*

The total amount reported on the statement of financial position is the sum of the net amount and the amount of financial instruments not subject to set-off or MNA.

2014				
Financial instruments subject to offsetting agreements, MNA and similar agreements				
Amounts where offsetting is not applied				
Financial instruments subject to MNA and similar agreements	Financial collateral**	Net amount	Financial instruments not subject to set-off or MNA	Total statement of financial position#
28 519	1 883	4 404	3 827	38 633
202	28 651	–	3 900	32 753
–	–	–	589 847	589 847
71	–	5 062	20 851	25 984
28 792	30 534	9 466	618 425	687 217
28 519	239	8 139	4 731	41 628
202	20 010	–	7 793	28 005
–	–	308	664 863	665 171
71	–	234	11 984	12 289
28 792	20 249	8 681	689 371	747 093

34 FINANCIAL INSTRUMENTS SUBJECT TO OFFSETTING, MASTER NETTING ARRANGEMENTS AND SIMILAR AGREEMENTS continued

	2013		
	Financial instruments subject to offsetting agreements, MNA and similar agreements		
		Amounts where offsetting is applied	
R million	**Gross amount**	**Amounts set-off**	**Net amount reported in the statement of financial position***
Assets			
Derivatives	56 011	8 167	47 844
Reverse repurchase, securities borrowing and similar arrangements	46 379	10 098	36 281
Other advances	2 861	2 861	–
Intercompany assets	12 439	8 061	4 378
Total	117 690	29 187	88 503
Liabilities			
Derivatives	57 672	8 167	49 505
Repurchase securities lending and similar arrangements	40 311	10 098	30 213
Other deposits	3 294	2 861	433
Intercompany liabilities	8 286	8 061	225
Total	109 563	29 187	80 376

2013				
Financial instruments subject to offsetting agreements, MNA and similar agreements				
Amounts where offsetting is not applied				
Financial instruments subject to MNA and similar agreements	Financial collateral**	Net amount	Financial instruments not subject to set-off or MNA	Total statement of financial position#
39 541	2 860	5 443	3 911	51 755
1 179	35 102	–	4 221	40 502
–	–	–	508 063	508 063
146	–	4 232	16 249	20 627
40 866	37 962	9 675	532 444	620 947
39 541	726	9 238	3 435	52 940
1 179	29 034	–	7 560	37 773
–	–	433	591 666	592 099
146	–	79	14 297	14 522
40 866	29 760	9 750	616 958	697 334

34 FINANCIAL INSTRUMENTS SUBJECT TO OFFSETTING, MASTER NETTING ARRANGEMENTS AND SIMILAR AGREEMENTS continued

Details of the offsetting and collateral arrangements

Derivative assets and liabilities

The Bank Ltd Group's derivative transactions that are not transacted on an exchange are entered into under International Derivatives Swaps and Dealers Association (ISDA) MNA. Generally, under such agreements the amounts owed by each counterparty that are due on a single day in respect of all transactions outstanding in the same currency under the agreement are aggregated into a single net amount being payable by one party to the other. In certain circumstances, e.g. when a credit event such as default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is due or payable in settlement of all transactions, (close-out netting).

The Bank Ltd Group only offsets derivative financial assets and financial liabilities with a counterparty under ISDA agreements where the amounts are due on a single day and in the same currency. The Bank Ltd Group's intention to settle these transactions on a net basis is evidenced by a past practice of settling similar transactions on a net basis. The remaining financial assets and financial liabilities (where amounts are not due on a single day and in the same currency) transacted under an ISDA agreement do not meet the IAS 32 requirements for offsetting. This is because they create a right of set-off that is only enforceable in the event of default, insolvency or bankruptcy of the Bank Ltd Group or the counterparties. However, these amounts are included in the table above under the financial instruments subject to MNA and similar agreements column.

Financial collateral (mostly cash) is also obtained, often daily, for the net exposure between counterparties to mitigate credit risk.

Repurchase, reverse repurchase and securities borrowing and lending transactions

The Bank Ltd Group's repurchase, reverse repurchase and securities borrowing and lending transactions are covered by master agreements with netting terms similar to those of the ISDA MNA. These financial assets and financial liabilities with the same counterparty are only set-off in the statement of financial position if they are due on a single day, denominated in the same currency and the Bank Ltd Group has the intention to settle these amounts on a net basis.

The Bank Ltd Group receives and accepts collateral for these transactions in the form of cash and other investments and investment securities.

Other advances and deposits

The advances and deposits that are offset relate to transactions where the Bank Ltd Group has a legally enforceable right of offset of the amounts and the Bank Ltd Group has the intention to settle the net amount.

Intercompany assets and liabilities

Intercompany assets and liabilities consist of derivative assets and liabilities that are offset based on the same criteria applicable to external derivatives.

35 SEGMENT INFORMATION

35.1 Reportable segments

Basis of preparation of segment information

The segmental analysis is based on the information reported to management for the respective segments. The information is based on IFRS with the exception of certain adjustments that are made to segment results in order to eliminate the effect of non-taxable income and other segment specific items that impact certain key ratios reviewed by the chief operating decision maker when assessing the operating segments' performance.

In order to ensure that the total segment results, assets and liabilities agree to the amounts reported in terms of IFRS, the above mentioned amounts are adjusted in the IFRS adjustments column.

Set out below is information about the reportable segments of the Bank Ltd Group, the details of the various products and services provided by the franchises, their major customers and the basis of preparation of segment information.

FNB

FNB represents the Bank Ltd Group's retail and commercial activities in South Africa. 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). FNB's primary segments are retail and commercial.

35 SEGMENT INFORMATION continued

35.1 Reportable segments continued

FNB Africa

FNB Africa comprises a support division acting as strategic enabler, facilitator and coordination for expansion in the rest of Africa.

RMB

RMB is the corporate and investment bank and offers advisory, financing, trading, corporate banking and principal investing solutions. RMB's business units include global markets, investment banking, and corporate banking.

WesBank

WesBank represents the Bank Ltd 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, suppliers and dealer groups where it has built a strong point-of-sale presence in South Africa. WesBank also has a vehicle finance business in the UK, MotoNovo.

FCC (FirstRand Corporate Centre)

FCC represents key group-wide functions, including Group Treasury (capital liquidity and financial resource management), Group Finance, Group Tax, Enterprise Risk Management, Regulatory Risk Management and Group Internal Audit. FCC has a custodian mandate which includes managing relationships on behalf of the Group with key external stakeholders (e.g. shareholders, debt holders, regulators) and the ownership of key Group strategic frameworks (e.g. performance measurement, risk/reward). Its objective is to ensure the Group delivers on its commitments to stakeholders.

Major customers

In terms of IFRS 8, a customer is regarded as a major customer if the revenue from transactions with this customer exceeds 10% or more of the entity's revenue. The Bank Ltd Group has no major customer as defined and is therefore not reliant on the revenue from one or more major customers.

35.2 Geographic segments

Refer to the reportable segment information for a description of the divisions.

Segment	Countries included	Divisions included
South Africa	South Africa	FNB RMB WesBank FCC (including Group Treasury)
United Kingdom	England	FNB RMB WesBank
Asia	India	FNB RMB
Other	Middle East (U.A.E) Mauritius Brazil	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.

	2014	2013
GBP	**18.17**	15.22
EUR	**14.55**	13.04
USD	**10.63**	10.01
AUD	**10.02**	9.17
BRL	**4.83**	4.50
INR	**0.18**	0.17

35 SEGMENT INFORMATION continued

35.3 Reportable segments continued

R million	2014 FNB	2014 FNB Africa
Net interest income before impairment of advances	15 040	(6)
Impairment of advances	(2 151)	(30)
Net interest income after impairment of advances	12 889	(36)
Non-interest income	15 536	337
Net income from operations	28 425	301
Operating expenses	(17 382)	(424)
Income from operations	11 043	(123)
Share of profit/(loss) of associates after tax	–	–
Income before tax	11 043	(123)
Indirect tax	(488)	(1)
Profit before tax	10 555	(124)
Income tax expense	(2 954)	35
Profit for the year	7 601	(89)
The income statement includes:		
Depreciation	(1 185)	–
Amortisation	(22)	–
Impairment charges	(27)	–
The statement of financial position includes:		
Investments in associates	–	–
Total assets	270 662	104
Total liabilities	260 243	229

Geographical segments

	2014				
R million	South Africa	United Kingdom	Asia	Other	Total
Net interest income after impairment of advances	20 341	54	(24)	–	20 371
Non-interest income*	27 239	1 316	74	–	28 629
Total assets	821 853	26 858	2 489	–	851 200
Non-current assets**	11 381	46	28	–	11 455
Total liabilities	758 276	26 941	1 921	–	787 138

* *Includes share of profit of associate.*

** *Excludes financial instruments, deferred income tax assets, post-employment benefit assets and rights arising under insurance contracts.*

	2014					
	RMB					
	Investment banking	Corporate banking	WesBank	FCC (including Group Treasury)	Consoli-dation and IFRS adjustments	Total
	587	708	6 771	2 070	28	25 198
	(72)	(31)	(2 060)	(34)	(449)	(4 827)
	515	677	4 711	2 036	(421)	20 371
	7 853	1 086	3 002	1 948	(1 125)	28 637
	8 368	1 763	7 713	3 984	(1 546)	49 008
	(3 930)	(1 273)	(4 668)	(3 736)	337	(31 076)
	4 438	490	3 045	248	(1 209)	17 932
	–	–	–	(8)	–	(8)
	4 438	490	3 045	240	(1 209)	17 924
	(57)	(25)	(253)	28	–	(796)
	4 381	465	2 792	268	(1 209)	17 128
	(1 226)	(130)	(782)	(75)	754	(4 378)
	3 155	335	2 010	193	(455)	12 750
	(65)	(5)	(375)	(43)	–	(1 673)
	(5)	–	(25)	(1)	(1)	(54)
	(1)	–	(3)	3	(103)	(131)
	–	–	–	1	–	1
	319 732	6 825	156 743	99 849	(2 715)	851 200
	315 470	6 303	155 058	52 103	(2 268)	787 138

35 SEGMENT INFORMATION continued

35.3 Reportable segments continued

R million	2013 FNB	2013 FNB Africa
Net interest income before impairment of advances	13 152	(7)
Impairment of advances	(2 862)	–
Net interest income after impairment of advances	10 290	(7)
Non-interest income	14 372	303
Income from operations	24 662	296
Operating expenses	(15 539)	(358)
Net income from operations	9 123	(62)
Share of profit/(loss) of associates after tax	–	–
Income before tax	9 123	(62)
Indirect tax	(389)	(1)
Profit before tax	8 734	(63)
Income tax expense	(2 446)	18
Profit for the year	6 288	(45)
The income statement includes:		
Depreciation	(1 144)	–
Amortisation	(61)	–
Impairment charges	(22)	–
The statement of financial position includes:		
Investments in associates	–	–
Total assets	248 515	123
Total liabilities	239 741	186

Geographical segments

	2013				
R million	**South Africa**	**United Kingdom**	**Asia**	**Other**	**Total**
Net interest income after impairment of advances	17 035	183	18	1	17 237
Non-interest income*	23 279	726	72	–	24 077
Total assets	762 878	14 493	2 206	3	779 580
Non-current assets**	10 717	31	27	1	10 776
Total liabilities	708 237	15 201	1 723	–	725 161

* *Includes share of profit of associate.*

** *Excludes financial instruments, deferred income tax assets, post-employment benefit assets and rights arising under insurance contracts.*

2013					
RMB					
Investment banking	Corporate banking	WesBank	FCC (including Group Treasury)	Consoli-dation and IFRS adjustments	Total
469	603	6 296	1 155	10	21 678
(19)	(43)	(1 565)	48	–	(4 441)
450	560	4 731	1 203	10	17 237
7 273	1 039	2 039	962	(1 886)	24 102
7 723	1 599	6 770	2 165	(1 876)	41 339
(3 505)	(1 323)	(3 789)	(2 725)	566	(26 673)
4 218	276	2 981	(560)	(1 310)	14 666
(6)	–	–	(19)	–	(25)
4 212	276	2 981	(579)	(1 310)	14 641
(49)	(32)	(219)	110	1	(579)
4 163	244	2 762	(469)	(1 309)	14 062
(1 165)	(68)	(773)	131	1 168	(3 135)
2 998	176	1 989	(338)	(141)	10 927
(62)	(33)	(297)	(89)	(2)	(1 627)
(13)	–	(15)	(5)	–	(94)
(2)	(248)	–	–	–	(272)
60	–	–	1	–	61
296 563	5 106	134 862	95 703	(1 292)	779 580
294 019	4 801	132 765	54 918	(1 269)	725 161

36 INVESTMENTS IN SUBSIDIARY COMPANIES

FirstRand Bank Limited is the entity through which the FirstRand Group's banking operations are conducted. This entity has branches in India and London and significant representative offices in Angola, Nigeria and Kenya. Subsidiaries held by the Bank Ltd Group are listed in the table below.

2014	Nature of business	Principal place of business	Ownership %	Voting rights %	Investment in subsidiaries (rand)
FRB Representacoes E Participacoes LTDA	**Financial services**	**Sao Paulo, Brazil**	**100**	**100**	**383 669**
Other	**Various**	**Various**	**Various**	**Various**	**100**
Total investment in subsidiary companies					**383 769**

2013	Nature of business	Principal place of business	Ownership %	Voting rights %	Investment in subsidiaries (rand)
FRB Representacoes E Participacoes LTDA	Financial services	Sao Paulo, Brazil	100	100	383 669
Brait Raptor Hedge Fund*	Financial services		72	72	5 000 000
Other	Various	Various	Various	Various	100
Total investment in subsidiary companies					5 383 769

* *Relates to units held in the hedge fund in the form of seed capital and not shares. This fund was disposed of in the current year.*

37 ACQUISITION AND DISPOSAL OF SUBSIDIARIES

37.1 Acquisition of subsidiaries and businesses

Identifiable assets acquired and liabilities assumed at the acquisition date fair value

	2014		2013	
R million	**Total**	**First Auto**	**Total**	**Brait Raptor Hedge Fund**
ASSETS				
Accounts receivable	**30**	**30**	–	–
Advances	**1 448**	**1 448**	–	–
Property and equipment	**–**	*****		
Intangible assets	**104**	**104**	–	–
Total assets acquired	**1 582**	**1 582**	–	–
LIABILITIES				
Creditors and accruals	**162**	**162**	–	–
Deposits	**4**	**4**	–	–
Provisions	*****	*****	–	–
Employee liabilities	**7**	**7**	–	–
Amounts due to holding company and fellow subsidiary companies	**1 299**	**1 299**	–	–
Total liabilities acquired	**1 472**	**1 472**	–	–
Net identifiable value as at date of acquisition	**110**	**110**	–	–
The goodwill/(gain on bargain purchase) is calculated as follows:				
Total consideration transferred	**110**	**110**	5	5
– Cash consideration	**110**	**110**	5	5
Add: Non-controlling interests at acquisition (as a % of net asset value/at fair value at acquisition date)	**–**	**–**	2	2
Less: Net identifiable asset value at date of acquisition	**(110)**	**(110)**	(7)	(7)
Goodwill/(gain on bargain purchase) at acquisition	**–**	**–**	–	–

* *Amounts less than R500 000.*

37 ACQUISITION AND DISPOSAL OF SUBSIDIARIES continued

Cash flow information

	2014		2013	
R million	**Total**	**First Auto**	**Total**	**Brait Raptor Hedge Fund**
Discharged by cash consideration	**110**	**110**	5	5
Less: Cash and cash equivalents acquired	**(110)**	**(110)**	–	–
Net cash in/outflow on acquisition of subsidiaries	**–**	**–**	5	5

First Auto Proprietary Limited

FirstAuto provides fleet management services including fuel, oil and toll card facilities and motor vehicle managed maintenance facilities for customers. The Bank Ltd Group acquired all the assets and liabilities of FirstAuto from FRIHL on 1 October 2013. The assets and liabilities acquired have been divisionalised within the Bank Ltd Group. The primary reason for the divisionalisation was to achieve operational and funding efficiencies as First Auto's business is aligned to that of WesBank (a division of FirstRand Bank Limited). The acquisition was accounted for in line with the FirstRand Group's accounting policy for common control transactions. The Bank Ltd Group recognised the assets and liabilities at the predecessor consolidated carrying values on the acquisition date. The assets and liabilities were not restated to fair value. No additional goodwill is recognised for common control transactions, but the difference between the consideration and the net carrying value of the assets is accounted for directly in equity. The consideration transferred was equal to the consolidated carrying value and no amounts were recognised in equity.

Brait Raptor Hedge Fund

On 3 June 2013, the Bank Ltd Group acquired a 72% interest in Brait Raptor Hedge Fund through a seed capital investment for a consideration of R5 million. No goodwill arose on the transaction.

37 ACQUISITION AND DISPOSAL OF SUBSIDIARIES continued

37.2 Disposal of subsidiaries

	2014	
R million	**Total**	**Brait Raptor Hedge Fund**
ASSETS		
Cash and cash equivalents	**7**	**7**
Commodities	*	*
Investment securities and other investments	–	–
Total assets disposed of	**7**	**7**
LIABILITIES		
Derivative financial instruments	*	*
Employee liabilities	*	*
Total liabilities disposed of	–	–
Net identifiable value as at date of disposal	**7**	**7**
The gain on disposal is calculated as follows:		
– Non-cash	**(5)**	**(5)**
Less: Non-controlling share of net asset value at disposal date	**(2)**	**(2)**
Gain/(loss) on disposal of controlling interest in a subsidiary	–	–

* *Amounts less than R500 000.*

Cash flow information

	2014	
R million	**Total**	**Brait Raptor Hedge Fund**
Discharged by cash consideration	–	–
Less: Cash and cash equivalents disposed of	**(7)**	**(7)**
Net cash in/outflow on disposal of subsidiaries	**(7)**	**(7)**

Brait Raptor Hedge Fund

During the current year, the Bank Ltd Group disposed of its 72% interest in Brait Raptor Hedge Fund resulting in the losing control of the fund. Therefore the fund is no longer consolidated by the Bank Ltd Group.

38 RELATED PARTIES

The Bank Ltd Group defines related parties as:

(i) the parent company;
(ii) subsidiaries and fellow subsidiaries;
(iii) associate companies;
(iv) joint ventures;
(v) associates and joint ventures of the parent company and fellow subsidiaries;
(vi) groups that have significant influence over the parent. If an investor has significant influence over the parent, it is a related party not only over the parent but also the subsidiaries, including the Bank Ltd Group. If an investor that has significant influence over the parent has subsidiaries, those subsidiaries are also related to the Bank Ltd Group;
(vii) post-employment benefit funds (pension funds);
(viii) key management personnel, being the FirstRand Limited board of directors, the Bank Ltd Group's board of directors and the Bank Ltd Group's executive committee;
(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 ultimate parent of the Bank Ltd Group is FirstRand Limited, incorporated in South Africa.

38.1 Subsidiaries

Details of interest in subsidiaries are disclosed in note 36. Transactions between the Bank Ltd Group and its subsidiaries have been eliminated on consolidation and are not disclosed in this note.

During the year the Bank Ltd Group, in the ordinary course of business, entered into various transactions with fellow subsidiaries and associates on terms, the same as those arranged with third parties. The Bank Ltd Group acquired two advances from FirstRand Finance Company, a wholly owned subsidiary of FRIHL. The Bank Ltd Group and FRIHL are both wholly owned subsidiaries of FirstRand Limited. This resulted in the recognition of the capital contribution directly in equity by the Bank Ltd Group on recognition of these advances.

38.2 Associates

Details of investments in associates are disclosed in note 14.

During the year the Bank Ltd Group, in the ordinary course of business, entered into various transactions with associates on the same terms as those arranged with third parties.

38 RELATED PARTIES continued

38.3 Details of transactions with relevant related parties appear below

	2014					
R million	**Parent**	**Entities that have significant influence over the parent and their subsidiaries**	**Fellow subsidiaries**	**Own associates**	**Associates of the parent and fellow subsidiaries**	**Joint ventures of the parent and fellow subsidiaries**
Advances						
Opening balance	**–**	**1 237**	**–**	**75**	**1 020**	**3 375**
Disposal of associates and joint ventures	**–**	**–**	**–**	**–**	**(213)**	**–**
Advanced during the year	**–**	**310**	**–**	**17**	**3 363**	**1 825**
Repayments during the year	**–**	**(161)**	**–**	**–**	**(754)**	**(86)**
Exchange rate differences	**–**	**–**	**–**	**–**	**–**	**1**
Interest income	**–**	**–**	**–**	**6**	**30**	**216**
Fair value movements during the year	**–**	**102**	**–**	**–**	**127**	**75**
Provision for impairment loss	**–**	**–**	**–**	**(98)**	**–**	**(30)**
Closing balance	**–**	**1 488**	**–**	**–**	**3 573**	**5 376**
Accounts receivable						
Opening balance	**–**	**–**	**–**	**–**	**174**	**37**
Accrued during the year	**–**	**–**	**–**	**–**	**475**	**55**
Repayments during the year	**–**	**–**	**–**	**–**	**(403)**	**(56)**
Closing balance	**–**	**–**	**–**	**–**	**246**	**36**
Amounts due by holding company and fellow subsidiary companies						
Opening balance	**–**	**–**	**20 627**	**–**	**–**	**–**
Repayments during the year	**–**	**–**	**5 357**	**–**	**–**	**–**
Closing balance	**–**	**–**	**25 984**	**–**	**–**	**–**
Derivative assets						
Notional amount	**–**	**5**	**–**	**–**	**3 173**	**20 152**
Fair value	**–**	**–**	**–**	**–**	**47**	**82**
Guarantees received	**–**	**–**	**–**	**–**	**4**	**–**

38 RELATED PARTIES continued

38.3 Details of transactions with relevant related parties appear below continued

	2014					
R million	**Parent**	**Entities that have significant influence over the parent and their subsidiaries**	**Fellow subsidiaries**	**Own associates**	**Associates of the parent and fellow subsidiaries**	**Joint ventures of the parent and fellow subsidiaries**
Deposits						
Opening balance	–	3	–	–	122	60
Disposal of associates and joint ventures	–	–	–	–	(4)	–
Received during the year	–	–	–	–	470	3
Repayments during the year	–	–	–	–	(235)	(48)
Interest expense	–	–	–	–	5	–
Closing balance	–	3	–	–	358	15
Accounts payable						
Opening balance	–	–	–	–	41	50
Accrued during the year	–	–	–	–	443	–
Repayments during the year	–	–	–	–	(438)	(18)
Closing balance	–	–	–	–	46	32
Amounts due to holding company and fellow subsidiary companies						
Opening balance	766	–	13 756	–	–	–
Repayments during the year	(633)	–	(1 600)	–	–	–
Closing balance	133	–	12 156	–	–	–
Derivative liabilities						
Notional amount	–	1	–	–	–	–
Fair value	–	–	–	–	–	–
Commitments	–	–	–	–	–	–
Interest received	–	–	1 069	6	28	216
Interest paid	–	–	467	–	1	52
Non-interest income	–	19	2 695	10	202	1 169
Operating expenses (note 3)	–	–	785	–	536	57
Dividends (paid)/received	(4 289)	83	–	–	–	7

38 RELATED PARTIES continued

38.3 Details of transactions with relevant related parties appear below continued

R million	Parent	Entities that have significant influence over the parent and their subsidiaries	Fellow subsidiaries	Own associates	Associates of the parent and fellow subsidiaries	Joint ventures of the parent and fellow subsidiaries
	2013					
Advances						
Opening balance	–	1 311	–	86	632	517
Disposal of associates and joint ventures	–	–	–	–	(211)	–
Advanced during the year	–	–	–	–	913	5 200
Repayments during the year	–	(161)	–	–	(398)	(2 500)
Exchange rate differences	–	–	–	–	69	–
Interest income	–	–	–	14	46	94
Fair value movements during the year	–	87	–	–	(31)	31
Provision for impairment loss	–	–	–	(25)	–	33
Closing balance	–	1 237	–	75	1 020	3 375
Accounts receivable						
Opening balance	–	–	–	–	130	63
Disposal of associates and joint ventures	–	–	–	–	(117)	–
Accrued during the year	–	–	–	–	310	116
Repayments during the year	–	–	–	–	(149)	(142)
Closing balance	–	–	–	–	174	37
Amounts due by holding company and fellow subsidiary companies						
Opening balance	–	–	23 107	–	–	–
Repayments during the year	–	–	(2 480)	–	–	–
Closing balance	–	–	20 627	–	–	–
Derivative assets						
Notional amount	–	11	–	–	667	14 507
Fair value	–	–	–	–	19	79
Guarantees received	–	–	–	–	(60)	60

38 RELATED PARTIES continued

38.3 Details of transactions with relevant related parties appear below continued

	2013					
R million	**Parent**	**Entities that have significant influence over the parent and their subsidiaries**	**Fellow subsidiaries**	**Own associates**	**Associates of the parent and fellow subsidiaries**	**Joint ventures of the parent and fellow subsidiaries**
Deposits						
Opening balance	–	43	–	12	312	449
Disposal of associates and joint ventures	–	–	–	–	(83)	–
Received during the year	–	–	–	10	1 402	28
Repayments during the year	–	(40)	–	(22)	(1 515)	(417)
Interest expense	–	–	–	–	6	–
Closing balance	–	3	–	–	122	60
Accounts payable						
Opening balance	–	–	–	–	31	19
Accrued during the year	–	–	–	–	442	219
Repayments during the year	–	–	–	–	(432)	(188)
Closing balance	–	–	–	–	41	50
Amounts due to holding company and fellow subsidiary companies						
Opening balance	247	–	12 997	–	–	–
Issued during the year	519	–	759	–	–	–
Closing balance	766	–	13 756	–	–	–
Derivative liabilities						
Notional amount	–	27	–	–	1	–
Fair value	–	–	–	–	–	–
Commitments						
Interest received	–	–	736	14	13	94
Interest paid	–	–	540	–	7	132
Non-interest income	–	92	1 598	–	466	1 286
Operating expenses (note 3)	–	–	731	–	437	11
Dividends paid	(5 710)	–	–	–	–	–

38 RELATED PARTIES continued

38.4 Key management personnel

R million	2014	2013
Total advances		
Opening balance	**48**	37
Advanced during the year	**225**	251
Repayments during the year	**(169)**	(244)
Interest earned	**3**	4
Closing balance	**107**	48
The amounts advanced to key management personnel consists of mortgages, instalment finance agreements, credit cards and other loans.		
Total deposits		
Opening balance	**129**	211
Net withdrawals	**(32)**	(89)
Net interest and service cost	**4**	7
Closing balance	**101**	129
The amounts deposited by key management personnel are held in cheque and current accounts, savings accounts and other term accounts.		
Investments under the co-investment arrangement		
Opening balance	**25**	23
Withdrawals	**(2)**	–
Net investment return credited	**19**	2
Closing balance	**42**	25
Other fees		
Financial consulting fees and commissions	**4**	4
Key management compensation*		
Salaries and other short-term benefits	**197**	203
Share-based payments	**398**	225
Total compensation	**595**	428
* *Deferred compensation is included in the above and is payable in FirstRand Limited shares in October 2014/2015.*	**38**	38

A list of the board of directors of the Bank Ltd Group is on pages 4 to 6 of the annual report. Details of key management compensation are provided in note 3.

38.5 Post-employment benefit fund

Details of transactions between Bank Ltd Group and Bank Ltd Group's post-employment benefit plan is listed below:

R million	2014	2013
Dividend income	**9**	2
Deposits held with the Bank Ltd Group	**367**	309
Interest expenses	**16**	13

39 STRUCTURED ENTITIES

The Bank Ltd Group uses structured entities in the ordinary course of business to support its own and customers' financing and investing needs.

Consolidated structured entities

The Bank Ltd Group assesses whether it has control over these structured entities in terms of IFRS 10. Where the Bank Ltd Group has control over a structured entity it is consolidated in terms of IFRS 10. Refer to note 40 for details on the assumptions applied. Currently the Bank Ltd Group itself does not consolidate any structured entities.

Consolidated structured entities of the FirstRand Group include securitisation vehicles, conduit vehicles and certain staff share trusts. For details on any financial or other support provided by the Bank Ltd Group to these securitisation and conduit vehicles, refer to the *risk management note* of these annual financial statements and note 33; and for details on loans to the share trusts refer to note 27.

The Bank Ltd Group has not provided any additional financial or other support to these entities in the current year. The Bank Ltd Group does not have the intention to provide additional support in the foreseeable future and as such is not exposed to any additional risks from the relationship with these entities.

Interests in unconsolidated structured entities

The Bank Ltd Group currently has no interests in any unconsolidated structured entities. However the Bank Ltd Group has provided liquidity facilities and credit enhancement facilities to two non-recourse vehicles. The non-recourse vehicles are consolidated by the Bank Ltd Group's fellow subsidiary FirstRand Investment Holdings Proprietary Limited. The Bank Ltd Group receives no fee for the liquidity facilities and credit enhancement provided. During the current year no assets were transferred by the Bank Ltd Group to these entities.

The Bank Ltd Group has also provided letters of support to several external structured entities. None of these entities are consolidated by the FirstRand Group however the Bank Ltd Group's fellow subsidiary FirstRand Investment Holdings Proprietary Limited does hold immaterial interests in some of these entities. During the current year no fees were received from these entities and no assets were transferred by the Bank Ltd Group to these entities.

40 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In preparing the financial statements, the Bank Ltd 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. Unless stated otherwise the judgements applied by management in applying the accounting policies are consistent with the prior year.

40.1 Credit impairment losses on loans and advances

The Bank Ltd Group continuously assesses its credit portfolios for impairment. In determining whether an impairment loss should be recognised in the income statement, the Bank Ltd 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 of the performing portfolio is split into two parts:

- The first part consists of the portion of the performing portfolio where an incurred impairment event is inherent in a portfolio of performing advances but has not specifically been identified. An incurred but not reported (IBNR) provision is calculated on this subsegment of the portfolio, based on historical analysis of loss ratios, roll rates from performing status into non-performing status and similar risk indicators over an estimated loss emergence period.

  Estimates of roll rates, loss ratios and similar risk indicators are based on analysis of internal and, where appropriate, external data. Estimates of the loss emergence period are made in the context of the nature and frequency of credit assessments performed, availability and frequency of updated data regarding customer creditworthiness and similar factors. Loss emergence periods differ from portfolio to portfolio, but typically range from 1 to 12 months.

- 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 retail portfolios, the account status, namely arrears versus non-arrears status, is taken as a primary indicator of an impairment event. In the commercial portfolios other indicators such as the existence of high risk accounts, based on internally assigned risk ratings and management judgement are used, while the wholesale (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 three or more instalments are due and unpaid, 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 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 11 for a detailed analysis of the impairment of advances and the carrying amounts of the specific and portfolio provisions.

40.2 Impairment of available-for-sale equity instruments

The Bank Ltd Group determines that available-for-sale equity instruments are impaired and the impairment recognised as such in profit or loss when there has been a significant or prolonged decline in the fair value below cost. The determination of what is significant or prolonged requires judgement. In making this judgement, the Bank Ltd 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.

40 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES continued

40.3 Income taxes

The Bank Ltd 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 Bank Ltd Group recognises liabilities based on objective estimates of the amount of tax that may be due. Where the final tax determination is different from the amounts that were initially recorded, the difference will impact the income tax and deferred income tax provisions in the period in which such determination is made.

Refer to note 4.2 and 18 for more information regarding the direct and deferred income tax charges, assets and liabilities.

40.4 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) is the higher of the value-in-use 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. Refer to note 33 for details on how the Bank Ltd Group determines fair value.

40.5 Employee benefit liabilities

The cost of the benefits and the present value of the defined benefit pension funds and post-employment medical obligations depend on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the charge to profit or loss arising from these obligations include the expected long term rate of return on the relevant plan assets, the discount rate and the expected salary and pension increase rates. Any changes in these assumptions will impact the charge to profit or loss and may affect planned funding of the pension plans.

The assumptions related to the expected return on plan assets are determined on a uniform basis, considering long term historical returns, asset allocation and future estimations of long term investment returns. The Bank Ltd 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 Bank Ltd 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 17.

40.6 Subsidiaries and controlled structured entities

When assessing whether or not control exists, the Bank Ltd Group considers all of the existing rights that it has as well as the existing rights that other investors have that result in the ability to direct the relevant activities of the investee. Only one party can have control over an investee, therefore, if another investor has substantive rights that give them the current ability to direct the relevant activities of the investee then the Bank Ltd Group cannot have control over the investee. When the Bank Ltd Group assesses its rights, specific consideration is given to the Bank Ltd Group's holding of voting rights relative to the dispersion of holdings of other investors that hold voting rights. In instances where it is not immediately clear who has power over the investee, the Bank Ltd Group considers whether there is any evidence that it has the practical ability to direct the relevant activities of the investee unilaterally.

It is common business practice in many funding arrangements for the lender to have rights that allow it to restrict the borrower from undertaking activities that could significantly change its credit risk to the detriment of the lender. These rights are known as protective rights and are designed to protect the lender's interests and not give the lender power over the relevant activities of the borrower. Where the Bank Ltd Group has lending arrangements that contain protective rights these protective rights are not considered to give the Bank Ltd Group control over the relevant activities of the entity.

40 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES continued

40.6 Subsidiaries and controlled structured entities continued

The Memorandum of Incorporation or shareholders agreements for many companies include provisions that are designed to protect the rights of the non-controlling shareholders. These rights may require a certain percentage of votes to be received before certain decision can be taken or may require the non-controlling interests to approve certain decisions. The purpose of these rights is to protect the interests of non-controlling shareholders and to ensure that the controlling shareholders do not act in a manner that prejudices non-controlling shareholders. These rights are protective in nature and do not give non-controlling shareholders power over the relevant activities of the entity. Where the Bank Ltd Group is a non-controlling shareholder and has such rights these rights alone are not considered sufficient to give the Bank Ltd Group power over the relevant activities of the investee.

When voting rights do not have a significant effect on the investee's returns the investee is considered to be a structured entity. When assessing whether the Bank Ltd Group has control over a structured entity specific consideration is given to the purpose and design of the structured entity and whether the Bank Ltd Group has power over decisions that relate to activities that the entity was designed to conduct.

When assessing whether the Bank Ltd Group has exposure or rights to variable returns and how variable those returns are the Bank Ltd Group considers the substance of the agreement regardless of the legal form of the returns. For example, depending on the terms of the agreement, preference shares that the Bank Ltd Group holds may give the Bank Ltd Group rights to fixed dividends similar to an interest return or may give the Bank Ltd Group the right to participate in the residual profits of the investee.

The Bank Ltd Group only considers substantive rights that it or other investors have in relation to an investee when assessing control. Substantive rights are those rights where the Bank Ltd Group or other investors have the practical ability to exercise. Rights that are held by the Bank Ltd Group in an agency capacity are not considered to be substantive rights. The Bank Ltd Group considers the relationship between itself and the other investors when assessing whether it is acting as an agent, including the rights that another investor may have to remove the Bank Ltd Group from the relationship, i.e. the ability that the other investors may have to replace the Bank Ltd Group as an agent.

40.7 Structured entities

The Bank Ltd Group sponsors the formation of structured entities primarily for the purpose of allowing clients to hold investments, asset securitisation transactions and buying and selling credit protection. The Bank Ltd Group consolidates structured entities that it controls in terms of IFRS 10 as is set out under point 40.6 above.

For information on structured entities and any financial or other support provided to these entities, refer to note 39.

40.8 Associates

The Bank Ltd Group is presumed to have significant influence over an investee if it owns more than 20% of the voting rights and does not have control or joint control.

Significant influence may also arise from rights other than voting rights. These rights include, but are not limited to, the ability to appoint key management personnel and participation in the decision making processes of the investee.

The Bank Ltd Group considers both the rights that it has as well as currently exercisable rights that other investors have when assessing whether it has the practical ability to significantly influence the relevant activities of the investee.

40 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES continued

40.9 Joint arrangements

The Bank Ltd Group has joint control over an arrangement when the contractual agreements that establish the arrangement require unanimous consent of all parties sharing control for decisions that relate to directing the relevant activities of the arrangement. The Bank Ltd Group considers all of the contractual provisions, explicit and implicit, when assessing whether joint control over the arrangement exists. An example of an implicit provision indicating joint control may be where an entity is established with two 50% shareholders and a 51% majority is required for decisions that relate to the relevant activities of the entity. In that case, although unanimous consent may not explicitly be mentioned in the contracts, it is implicit that both shareholders must agree on decisions that relate to the relevant activities of the entity and joint control implicitly exists in the contract.

The Bank Ltd Group distinguishes protective rights afforded to debt financiers or non-controlling shareholders from the requirement for unanimous consent by looking at the substance of the contractual agreements. The contractual agreements that establish a joint arrangement may contain clauses which provide for the manner in which disputes are handled and arbitration dealt with. These clauses are designed to protect the parties sharing control in the event that unanimous consent cannot be reached and do not prevent an arrangement from being jointly controlled.

The Bank Ltd Group classifies joint arrangements as either joint operations or joint ventures based on the substance of the arrangement and the Bank Ltd Group's rights and obligations arising from the joint arrangement. When the Bank Ltd Group has rights to the assets and assumes responsibility for the liabilities relating to the arrangement the Bank Ltd Group classifies the arrangement as a joint operation. When the Bank Ltd Group has rights to the net assets of the arrangement it is classified as a joint venture.

If the joint arrangement is not structured through a separate legal entity then, it is classified as a joint operation. When the joint arrangement is structured through a separate legal entity it is classified as a joint venture if the separate legal entity acquires assets and incurs liabilities in its own name. If the Bank Ltd Group has ownership rights in respect of assets acquired by the separate legal entity or has the obligation to settle the liabilities of the separate legal entity in its own name, then it is classified as a joint operation.

40.10 Revenue recognition

Management needs to apply judgement to determine whether the Bank Ltd Group acts as a principal or agent in certain revenue-generating transactions. If the Bank Ltd Group acts as an agent, the gross economic benefits include amounts collected on behalf of the principal and do not result in increases in the equity of the Bank Ltd Group.

The amount collected on behalf of the principal is not recognised as revenue of the Bank Ltd Group, instead the Bank Ltd Group recognises the fee or commission that it earns while acting as an agent as non-interest income.

An entity is acting as a principal when it has exposure to significant risks and rewards associated with selling the goods or providing the services. The Bank Ltd Group considers the following as indicators when assessing whether the Bank Ltd Group is acting as a principal in a transaction:

- the Bank Ltd Group has the primary responsibility of providing the goods or services;
- the Bank Ltd Group carries the inventory risk;
- the Bank Ltd Group has the ability to establish the price, either directly or indirectly; and
- the Bank Ltd Group bears the customer's credit risk.

41 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The Bank Ltd Group will comply with the following new standards and interpretations from the stated effective date.

		Effective date
IAS 16 (amended)	**Property, Plant and Equipment – Depreciation Method** IAS 16 was amended to clarify that a depreciation method that is based on revenue generated by an activity is not an appropriate method. This is because such a method reflects the pattern of the generation of economic benefits that arise from the operation of the business of which an asset is part, rather than the pattern of consumption of an asset's expected future economic benefits. The amendment is not expected to have an impact on the Bank Ltd Group as the Bank Ltd Group does not apply a revenue-based depreciation approach.	Annual periods commencing on or after 1 January 2016
IAS 16 (amended)	**Property, Plant and Equipment – Bearer Plants** The amendment changes the financial reporting for bearer plants and indicates that bearer plants should be accounted for in the same way as property, plant and equipment because these operations are similar to that of manufacturing. Consequently, the amendment includes bearer plants within the scope of IAS 16, instead of IAS 41. The produce growing on bearer plants will remain within the scope of IAS 41. The amendment falls outside the scope of the Bank Ltd Group's operations and will have no impact on the results.	Annual periods commencing on or after 1 January 2016
IAS 19 (amended)	**Employee Benefits** IAS 19 was amended to clarify the requirements relating to how contributions from employees or third parties that are linked to service should be attributed to periods of service. The amendment permits contributions that are independent of the number of years of service to be recognised as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to periods of service. Other contributions by employees or third parties that are not linked to service should be attributed to periods of service using the plan's contribution formula or on a straight-line basis. The amendments have been assessed and are not expected to have a significant impact on the Bank Ltd Group.	Annual periods commencing on or after 1 July 2014
IAS 27 (amended)	**Separate Financial Statements** 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 Bank Ltd Group does not meet the definition of an investment entity and as such the exemption is not available to the Bank Ltd Group and will have no impact on the results.	Annual periods commencing on or after 1 January 2014

41 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE continued

		Effective date
IAS 32 (amended)	**Financial Instruments: Presentation** The amendments to IAS 32 clarify 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 will not have an impact on the net asset value or results of the Bank Ltd Group. The Bank Ltd Group has performed a preliminary assessment of the potential impact of the amendments and the results indicate that the effect is unlikely to result in significant changes in presentation for the Bank Ltd 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 be disclosed and clarifies the disclosures required. It also introduces an explicit requirement to disclose the discount rate used in determining impairment or impairment reversals where a recoverable amount is calculated 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 Bank Ltd Group's results but may result in additional disclosure.	Annual periods commencing on or after 1 January 2014
IAS 38 (amended)	**Intangible Assets** IAS 38 is amended to introduce a rebuttable presumption that a revenue-based amortisation method for intangible assets is inappropriate for the same reasons as in IAS 16. There are limited circumstances when the presumption can be overcome. The amendment is not expected to have an impact on the Bank Ltd Group as it does not apply a revenue-based amortisation approach.	Annual periods commencing on or after 1 January 2016
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 hedging derivative 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 a change in laws or regulations or the introduction of laws or regulations. The amendments have been assessed and are not expected to have a significant impact on the Bank Ltd Group.	Annual periods commencing on or after 1 January 2014

41 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE continued

		Effective date
IAS 41 (amended)	**Agriculture** The amendment changes the financial reporting for bearer plants and indicates that bearer plants should be accounted for in the same way as property, plant and equipment because their operations are similar to that of manufacturing. Consequently, the amendment includes bearer plants within the scope of IAS 16, instead of IAS 41. The produce growing on bearer plants will remain within the scope of IAS 41. The amendment falls outside the scope of the Bank Ltd Group's operations and will have no impact on the results.	Annual periods commencing on or after 1 January 2016
IFRS 9	**Financial Instruments** IFRS 9 was issued in its entirety for the first time on 24 July 2014. The final version of the standard incorporates amendments to the classification and measurement guidance as well as accounting requirements for impairment of financial assets measured at amortised cost. These elements of the final standard are discussed in detail below: - The classification and measurement of financial instruments under IFRS 9 is based on both the business model and the rationale for holding the instruments as well as the contractual characteristics of the instruments. - Impairments in terms of IFRS 9 will be determined based on an expected loss model that considers the significant changes to the assets' credit risk and the expected loss that will arise in the event of default. - IFRS 9 allows financial liabilities not held for trading to be measured at either amortised cost or fair value. If fair value is elected then changes in the fair value as a result of changes in own credit risk should be recognised in other comprehensive income. - The hedge accounting requirements under IFRS 9 are closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures. Hedge effectiveness will now be proved based on management's risk management objectives rather than the 80% – 125% band that was previously stipulated. IFRS 9 also allows for rebalancing of the hedge and the deferral of costs of hedging. The Bank Ltd Group has initiated a process to determine the impact of the standard on the Bank Ltd Group's consolidated statement of financial position and performance. Until the process has been completed, the Bank Ltd Group is unable to quantify the expected impact of the standard.	Annual periods commencing on or after 1 January 2018

41 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE continued

		Effective date
IFRS 10 (amended)	**Consolidated Financial Statements** 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 Bank Ltd Group does not meet the definition of an investment entity and the exemption is not available to the Bank Ltd Group and will have no impact on the results.	Annual periods commencing on or after 1 January 2014
IFRS 11 (amended)	**Joint Arrangements** The IASB has issued an amendment to IFRS 11 to provide guidance on the accounting of acquisitions of interests in joint operations that constitute a business. The amendment indicates that the acquirer of an interest in a joint operation, in which the activity constitutes a business in terms of IFRS 3, is required to apply all the principles on business combinations accounting in IFRS 3. The amendment is not expected to have an impact on the Bank Ltd Group as it does not have any interests in joint operations.	Annual periods commencing on or after 1 January 2016
IFRS 12 (amended)	**Disclosure of Interest in Other Entities** 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, the nature of relationship and certain transactions between the investment entity and its subsidiaries. The Bank Ltd Group does not meet the definition of an investment entity and as the exemption is not available to the Bank Ltd Group, it will have no impact on the results.	Annual periods commencing on or after 1 January 2014
IFRS 14	**Regulatory Deferral Accounts** IFRS 14 permits an entity which is a first-time adopter of IFRS to continue to account, with some limited changes, for regulatory deferral account balances in accordance with its previous GAAP, both on initial adoption of IFRS and in subsequent financial statements. The standard falls outside the scope of the Bank Ltd Group's operations and will have no impact on the results.	Annual periods commencing on or after 1 January 2016

41 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE continued

		Effective date
IFRS 15	**Revenue** IFRS 15 provides a single, principles-based model to be applied to all contracts with customers. The core principle of IFRS 15 is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expect to be entitled in exchange for those goods or services. The new standard will also provide guidance for transactions that were not previously comprehensively addressed and improve guidance for multiple-element arrangements. The standard also introduces enhanced disclosures about revenue. The Bank Ltd Group is in the process of assessing the impact that IFRS 15 will have on the financial statements. Until the process is completed, the Bank Ltd Group is unable to determine the significance of the impact.	Annual periods commencing on or after 1 January 2017
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 Bank Ltd Group's operations and will have no impact on the results.	Annual periods commencing on or after 1 January 2014
Annual Improvements	**Improvements to IFRS** The IASB issued the Annual Improvements 2010 – 2012 Cycle and the Annual Improvements 2011 – 2013 Cycle in December 2013, as its latest set of annual improvements to various accounting standards. The collection of amendments to IFRS is in response to six issues addressed during the 2010 – 2012 cycle and four issues addressed during the 2011 – 2013 cycle. The annual improvement project's aim is to clarify and improve accounting standards. The improvements include terminology or editorial changes with minimal effect on recognition and measurement. The amendments have been assessed and are not expected to have a significant impact on the Bank Ltd Group.	Annual periods commencing on or after 1 January 2014

42 TRANSACTIONS INVOLVING THE LEGAL FORM OF A LEASE

The Bank Ltd 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 Bank Ltd Group into which the counterparty is making payments and earning interest.

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 R0.4 million (2013: R2 million).

Fees received are recognised annually in non-interest income.

43 SUBSEQUENT EVENTS

No matter that is material to the financial affairs of the Bank Ltd Group occurred between the reporting date and the date of the approval of these annual financial statements.

44 RISK MANAGEMENT

44.1 Credit risk

Credit risk management

Credit risk is the risk of loss due to the non-performance of a counterparty in respect of any financial or other obligation. For fair value portfolios, the definition of credit risk is expanded to include the risk of losses through fair value changes arising from changes in credit spreads. Credit risk also includes credit default risk, pre-settlement risk, country risk, concentration risk and securitisation risk.

The goal of credit risk management is to maximise the Bank Ltd Group's risk-adjusted return, i.e. 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 Bank Ltd Group's business objectives. It is the most significant risk type in terms of regulatory and economic capital requirements. Credit risk management objectives 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 credit risk management function in Enterprise Risk Management and relevant board committees, fulfil this role.

Credit risk management across FirstRand is split into three distinct portfolios: retail, commercial and corporate. These portfolios are aligned to customer profiles. As advances are split across the operating franchises, default risk is allocated to the income-receiving portfolio.

Based on the Bank Ltd Group's risk appetite for credit risk, as measured on a ROE, NIACC and volatility-of-earnings basis, credit risk management principles include appropriate holding levels of capital and pricing for risk on an individual and portfolio basis. The scope of credit risk identification and management practices across the Bank Ltd Group therefore spans the credit value chain, including credit origination strategy, risk appetite, risk quantification and measurement and collection and recovery of delinquent accounts.

Credit risk is managed through comprehensive policies and processes that ensure adequate identification, measurement, monitoring, control and reporting of credit risk exposure. The objective is to ensure a sound credit risk management environment with appropriate credit granting, administration, measurement and monitoring through the implementation of adequate risk management controls.

44 RISK MANAGEMENT continued

44.1 Credit risk continued

Measurement of credit risk

The assessment of credit risk across the Bank Ltd Group relies on internally-developed quantitative models for regulatory purposes under the *Banks Act Regulations* (the Regulations), 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 portfolio. All of these models are built on a number of client and facility rating models, in line with the SARB Advanced Internal Rating Based (AIRB) approach requirements and the Bank Ltd Group's model building frameworks. The Bank Ltd Group was granted regulatory approval for the AIRB approach.

The models are used for the internal assessment of the following three primary credit risk components:

- 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 Bank Ltd 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.

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; 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.

The Bank Ltd 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 – 14	0.06%	AAA, AA, A
FR 15 – 25	0.29%	BBB
FR 26 – 32	0.77%	BB+, BB
FR 33 – 39	1.44%	BB-
FR 40 – 53	2.52%	B+
FR 54 – 83	6.18%	B
FR 84 – 90	13.68%	B-
FR 91 – 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.*

44 RISK MANAGEMENT continued

44.1 Credit risk continued

FR 1 is the lowest PD and FR 100 the highest. External ratings have also been mapped to the master rating scale for reporting purposes. In line with international best practice, the Bank Ltd 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.

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.

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 along with other risk measures. EL is not directly comparable to impairment levels, as EL calculations are based on the regulatory parameters TTC PD and downturn LGD, and impairment calculations are driven by IFRS requirements.

44 RISK MANAGEMENT CONTINUED

44.1 Credit risk continued

Credit exposure by type and segment

R million	2014	2013*
On-balance sheet exposures		
Cash and short-term funds	**46 772**	37 248
– Money at call and short notice	**30 638**	22 892
– Balances with central banks	**16 134**	14 356
Gross advances	**631 660**	557 277
FNB	**259 065**	238 675
– FNB retail	**208 423**	195 841
– FNB commercial**	**50 642**	42 834
WesBank	**156 856**	133 592
RMB investment banking	**206 958**	175 825
RMB corporate banking	**6 441**	5 101
FCC	**2 340**	4 084
Derivatives	**38 633**	51 755
Debt investment securities (excluding non-recourse investments)	**78 936**	87 749
Accounts receivable	**4 130**	4 574
Amounts due by holding company and fellow subsidiaries	**25 984**	20 627
Off-balance sheet exposures	**117 791**	116 274
– Guarantees	**30 895**	28 515
– Letters of credit#	**7 075**	8 928
– Irrevocable commitments	**73 659**	74 054
– Credit derivatives	**6 162**	4 777
Total	**943 906**	875 504

* *The comparative information has been restated to reflect IFRS changes.*
** *Includes public sector.*
# *Includes acceptances.*

44 RISK MANAGEMENT continued

44.1 Credit risk continued

The following tables provide an age analysis of loans and advances for Bank Ltd Group.

Age analysis of advances

R million	2014					
			Past due but not impaired			
	Neither past due nor impaired	**Re-negotiated but current**	**One full instalment past due**	**Two full instalments past due**	**Impaired**	**Total**
– FNB retail	**196 483**	**769**	**2 548**	**1 367**	**7 256**	**208 423**
– FNB commercial*	**49 148**	**88**	**54**	**31**	**1 321**	**50 642**
FNB	**245 631**	**857**	**2 602**	**1 398**	**8 577**	**259 065**
WesBank	**146 112**	**–**	**4 201**	**1 882**	**4 661**	**156 856**
RMB investment banking**	**205 613**	**–**	**100**	**571**	**674**	**206 958**
RMB corporate banking	**6 435**	**–**	**–**	**–**	**6**	**6 441**
FCC	**2 340**	**–**	**–**	**–**	**–**	**2 340**
Total	**606 131**	**857**	**6 903**	**3 851**	**13 918**	**631 660**
Percentage of total book	**96.0%**	**0.1%**	**1.1%**	**0.6%**	**2.2%**	**100%**

* *Includes public sector.*
** *Impaired advances for RMB investment banking are net of cumulative credit fair value adjustments on the non-performing book.*

R million	2013*					
			Past due but not impaired			
	Neither past due nor impaired	**Re-negotiated 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#	224 128	608	2 486	1 409	10 044	238 675
WesBank	126 016	–	2 708	1 092	3 776	133 592
RMB investment banking#	173 812	–	112	799	1 102	175 825
RMB corporate banking	5 091	–	1	–	9	5 101
FCC	4 084	–	–	–	–	4 084
Total	533 131	608	5 307	3 300	14 931	557 277
Percentage of total book	**95.6%**	**0.1%**	**1.0%**	**0.6%**	**2.7%**	**100%**

* *Balances have been restated to reflect IFRS changes.*
** *Includes public sector.*
\# *Impaired advances for RMB investment banking are net of cumulative credit fair value adjustments on the non-performing book.*

44 RISK MANAGEMENT continued

44.1 Credit risk continued

The following tables provide the credit quality of advances in the in-force portfolio.

Credit quality of performing advances

	2014						
R million	**Total neither past due nor impaired***	**FNB Retail**	**FNB Commercial****	**WesBank**	**RMB investment banking**	**RMB corporate banking**	**FCC**
FR 1 – 25	**170 906**	**42 763**	**3 314**	**2 970**	**117 909**	**1 697**	**2 253**
FR 26 – 91#	**426 839**	**147 285**	**45 419**	**142 154**	**87 178**	**4 737**	**66**
Above FR 92#	**9 243**	**7 204**	**503**	**988**	**526**	**1**	**21**
Total	**606 988**	**197 252**	**49 236**	**146 112**	**205 613**	**6 435**	**2 340**

* *Total neither past due nor impaired includes renegotiated but current advances.*
** *Includes public sector.*
# *The mapping of the FR rating scale to the international rating scale was realigned during the 2014 financial year. The impact is a misalignment in the top range affecting advances which fall into FR 91 and is considered to be insignificant. The rating buckets for financial reporting will be aligned in the next financial year.*

	2013						
R million	**Total neither past due nor impaired***	**FNB Retail**	**FNB Commercial****	**WesBank**	**RMB investment banking**	**RMB corporate banking**	**FCC**
FR 1 – 25	146 886	42 919	2 037	3 440	92 618	3 388	2 484
FR 26 – 91	376 382	132 552	38 620	122 010	79 993	1 703	1 504
Above FR 92	10 471	7 904	704	566	1 201	–	96
Total	533 739	183 375	41 361	126 016	173 812	5 091	4 084

* *Total neither past due nor impaired includes renegotiated but current advances.*
** *Includes public sector.*

44 RISK MANAGEMENT continued

44.1 Credit risk continued

The following tables provide an overview of credit quality of other financial assets that are neither past due nor impaired.

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

	2014				
R million	**Debt investment securities***	**Derivatives**	**Cash and cash equivalents**	**Amounts due by fellow subsidiary companies**	**Total**
AAA to BBB	**73 099**	**30 869**	**46 640**	**25 984**	**176 592**
BB+ to B-	**5 836**	**7 762**	**14**	**–**	**13 612**
CCC	**–**	**–**	**–**	**–**	**–**
Unrated	**1**	**2**	**118**	**–**	**121**
Total	**78 936**	**38 633**	**46 772**	**25 984**	**190 325**

* *Excludes non-recourse investments.*

	2013				
R million	**Debt investment securities***	**Derivatives**	**Cash and cash equivalents**	**Amounts due by fellow subsidiary companies**	**Total**
AAA to BBB	83 848	33 764	37 013	20 627	175 252
BB+ to B-	3 900	17 949	224	–	22 073
CCC	–	36	–	–	36
Unrated	1	6	11	–	18
Total	87 749	51 755	37 248	20 627	197 379

* *Excludes non-recourse investments.*

44 RISK MANAGEMENT continued

44.1 Credit risk continued

Concentration of significant exposure

	2014								
R million	**South Africa**	**Other Africa**	**United Kingdom**	**Other Europe**	**North America**	**South America**	**Austra-lasia**	**Asia**	**Total**
Advances	**587 009**	**19 191**	**18 794**	**4 238**	**714**	**–**	**2**	**1 712**	**631 660**
Derivatives	**21 559**	**189**	**14 120**	**1 961**	**706**	**–**	**–**	**98**	**38 633**
Debt investment securities*	**68 835**	**352**	**2 354**	**68**	**2 126**	**–**	**–**	**5 201**	**78 936**
Guarantees, acceptances and letters of credit**	**30 870**	**4 275**	**77**	**336**	**630**	**–**	**491**	**1 291**	**37 970**
Irrevocable commitments**	**67 253**	**4 451**	**805**	**555**	**1**	**–**	**–**	**594**	**73 659**

* *Excludes non-recourse investments.*
** *Significant off-balance sheet exposures. Refer to the note on contingencies and commitments.*

	2013								
R million	**South Africa**	**Other Africa**	**United Kingdom**	**Other Europe**	**North America**	**South America**	**Austra-lasia**	**Asia**	**Total**
Advances	530 284	10 858	10 358	3 355	394	89	498	1 441	557 277
Derivatives	29 704	224	18 387	2 194	832	7	–	407	51 755
Debt investment securities*	71 499	226	624	–	10 001	–	–	5 399	87 749
Guarantees, acceptances and letters of credit**	28 014	5 316	129	149	7	–	396	3 432	37 443
Irrevocable commitments**	68 383	2 901	1 485	441	440	–	–	404	74 054

* *Excludes non-recourse investments.*
** *Significant off-balance sheet exposures. Refer to the note on contingencies and commitments.*

44 RISK MANAGEMENT continued

44.2 Securitisations

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 Bank Ltd 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 Bank Ltd Group is able to reduce some of the costs of on-balance sheet financing and manage potential asset-liability mismatches and credit concentrations.

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

- improve the Bank Ltd 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	2007	2016	Moody's
Turbo Finance 2	Retail: Auto loans	2012	2015	Moody's and Fitch
Turbo Finance 3	Retail: Auto loans	2012	2015	Moody's and Fitch
Turbo Finance 4	Retail: Auto loans	2013	2021	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 Bank Ltd Group and therefore excludes third-party transactions.*

The Bank Ltd 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	✓	✓	✓	✓			
Turbo Finance 4	✓	✓	✓	✓			

Assets securitised	Assets outstanding* 2014	Assets outstanding* 2013	Notes outstanding 2014	Notes outstanding 2013	Retained exposure 2014	Retained exposure 2013
19 167	**10 066**	7 019	**10 895**	7 823	**3 325**	1 479
3 982	**576**	1 453	**717**	1 747	**268**	589
4 037	**1 067**	2 200	**1 189**	2 402	**488**	409
4 570	**1 907**	3 366	**2 108**	3 674	**574**	481
6 578	**6 516**	–	**6 881**	-	**1 995**	–
20 000	**–**	5 000	**–**	5 000	**–**	3 195
20 000	**–**	5 000	**–**	5 000	**–**	3 195
39 167	**10 066**	12 019	**10 895**	12 823	**3 325**	4 674

44 RISK MANAGEMENT continued

44.2 Securitisations continued

*Conduit programmes**

R million	Underlying assets	Year initiated	Rating agency	Programme size	Non-recourse investments 2014	Non-recourse investments 2013	Credit enhancement provided 2014	Credit enhancement provided 2013
Securitisations**								
iNdwa	Corporate and structured finance term loans	2003	Fitch	15 000	**4 420**	5 160	**–**	–
iVuzi	Corporate and structured finance term loans	2007	Fitch	15 000	**3 871**	4 123	**1 144**	1 070
Total				30 000	**8 291**	9 283	**1 144**	1 070
Fixed income fund#								
iNkotha	Overnight corporate loans	2006	GCR†	10 000	**2 937**	2 957	**–**	–
Total				10 000	**2 937**	2 957	**–**	–
Commercial paper programme#								
iNguza	Corporate and structured finance term loans	2008	GCR†	15 000	**9 482**	10 964	**–**	–
Total				15 000	**9 482**	10 964	**–**	–

* *Conduit programmes are consolidated into FRIHL for financial reporting purposes.*
** *Conduits incorporated under regulations relating to securitisation schemes.*
# *Conduits incorporated under regulations relating to commercial paper.*
† *Global credit rating.*

Bank Ltd 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.

44 RISK MANAGEMENT continued

44.2 Securitisations continued

The following table provides a summary of the liquidity facilities provided by Bank Ltd Group.

Liquidity facilities

R million	Transaction type	2014	2013
Own transactions		**4 363**	5 751
iNdwa	Conduit	**3 204**	3 866
iVuzi	Conduit	**1 159**	1 885
Third party transactions	Securitisations	**214**	1 522
Total		**4 577**	7 273

44.3 Market risk

Market risk management

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

The Bank Ltd 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 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 market risk is managed and contained within appetite.

Measurement of market risk

Market risk exposures are primarily measured and managed using an Expected Tail Loss (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 and 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. Loss escalation procedures are used to highlight positions to be reviewed by management.

Bank Ltd 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;
- the use of a 99% confidence level does not reflect the extent of potential losses beyond that percentile. The 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 Bank Ltd 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.

44 RISK MANAGEMENT continued

44.3 Market risk continued

The following table reflects VaR over a 1-day holding period at a 99% confidence level. Results indicate that overall levels of market risk remained fairly unchanged between June 2013 and 2014. The most notable differences in risk when compared to the prior year relate to the interest rate and commodity components. Commodity exposures were significantly reduced during December 2013 and remained low for the remainder of the year. Overall interest rate risk increased as a result of interest rate derivative exposures on book, as well as the formation of a new trading desk created as part of FirstRand's derivative transformation initiative. Overall levels of diversification offset have remained fairly unchanged on the previous year.

1-day 99% VaR analysis by instrument for Bank Ltd Group

	2014				2013
R million	**Min***	**Max***	**Average**	**Period end**	**Period end**
Risk type**					
Equities	**2.9**	**20.0**	**6.0**	**4.8**	4.4
Interest rates	**16.4**	**57.2**	**33.9**	**49.1**	32.9
Foreign exchange	**1.8**	**40.4**	**7.6**	**6.4**	2.3
Commodities	**3.0**	**18.4**	**8.6**	**3.3**	19.6
Traded credit	**0.6**	**5.8**	**2.7**	**2.6**	2.9
Diversification effect	**–**	**–**	**–**	**(20.8)**	(17.7)
Diversified total	**23.6**	**76.1**	**42.5**	**45.3**	44.4

* *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.*

** *Banking book exposures are managed by Group Treasury and are reported under the interest rate risk in the banking book section.*

44.4 Equity investment risk

Equity investment risk management

Equity investment risk arises mainly from equity exposures from investment banking activities in RMB, e.g. exposures to equity risk arising from principle investment or structured lending.

Equity investments in associates and joint ventures are included in the consolidated financial statements using the equity accounting method. Associates are entities where the Bank Ltd 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 Bank Ltd Group has joint control over the economic activity of the joint venture through a contractual agreement.

44 RISK MANAGEMENT continued

44.4 Equity investment risk continued

Measurement of equity investment risk

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 following represents the change in investment fair value as a result of a 10% increase or decrease in equity prices.

Estimated sensitivity of investment balances

R million	2014	2013
Carrying value of investments*	**1 890**	3 278
Estimated sensitivity of investment balances		
Sensitivity to 10% movement in market value on investment fair value**	**77**	278

* *The carrying value includes investments in financial entities, which from 1 January 2013 are subject to the Basel III 250% risk weighting. The decline in carrying value of investments from 2013 to 2014 is mainly due to the change in accounting treatment of the employee liability insurance cell captive.*

** *The 10% sensitivity movement is calculated on the carrying value of investments excluding investments subject to the ETL process and carrying value of investments in associates and joint ventures. The decline in the sensitivity value from the 2013 to 2014 relates mainly to a change in accounting treatment of the employee liability insurance cell captive. The June 2013 number was restated for IFRS changes.*

44.5 Interest rate risk in the banking book

Interest rate risk in the banking book management

Interest rate risk is the sensitivity of the bank's financial position and earnings to unexpected, adverse movements in interest rates. It originates from the differing repricing characteristics of balance sheet transactions, yield curve risk, basis risk and client optionality embedded in banking book products.

The endowment effect, which results from a large proportion of non- and low-rate liabilities that fund variable-rate assets, remains the primary driver of IRRBB and results in earnings being vulnerable to interest rate cuts, and would result in increased margins in a hiking cycle. Endowment hedging aims to protect and enhance Bank Ltd Group's earnings and is done in line with the Group's macroeconomic view. Given the current rate view, Bank Ltd Group is positioned to benefit from a hiking cycle.

IRRBB 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 Bank Ltd Group's earnings and economic value within approved risk limit and appetite levels.

Measurement of interest rate risk in the banking book

A number of measurement techniques are used to measure IRRBB. These focus on the net interest income (NII) sensitivity/earnings risk and the overall impact on economic value of equity (EVE) and daily PV01 (present value of 1 bps increase in rates) measures.

The interest rate risk from the fixed-rate book is managed to low levels with remaining risk stemming from timing and basis risk. The primary driver of NII sensitivity relates to non- and low-rate products on the balance sheet (i.e. the endowment book). This has an adverse impact on the Bank Ltd 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 saving in interest paid on liabilities.

44 RISK MANAGEMENT continued

44.5 Interest rate risk in the banking book continued

The table below shows the 12-month NII sensitivity for a 200 bps downward parallel shock to interest rates. The decreased sensitivity in June 2014 from June 2013 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 to provide protection against rate cuts in the previous financial year. Given the changes in the macroeconomic environment, these hedges have been allowed to roll off and the Bank Ltd Group's net interest margin would benefit from rate hikes as a result of the endowment impact.

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 R2 254 million, a similar increase in interest rates would result in an increase in projected 12-month NII of R2 214 million.

The NII sensitivity analysis excludes the banking books of RMB and the foreign operations, both of which are managed separately.

Sensitivity of the Bank Ltd Group's projected NII

	Change in projected 12-month NII	
R million	**2014**	**2013**
Downward 200 bps	**(2 258)**	(789)
Upward 200 bps	**2 218**	676

44.6 Liquidity risk

Liquidity risk management

The Bank Ltd Group distinguishes two 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 a 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 Bank Ltd Group's principal liquidity risk management objective is to optimally fund itself under normal and stressed conditions.

The Bank Ltd 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 global financial crisis. The Bank Ltd Group is, therefore, focused on continuously monitoring and analysing the potential impact of other risks and events on its funding and liquidity position to ensure business activities preserve and improve funding stability. This ensures the Bank Ltd Group is able to operate through periods of stress when access to funding is constrained.

The approach to liquidity risk management distinguishes between structural, daily and contingency liquidity risk management across all currencies and various approaches are employed in the assessment and management of these on a daily, weekly and monthly basis.

44 RISK MANAGEMENT continued

44.6 Liquidity risk continued

Measurement of liquidity risk

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 statement of financial position for the following reasons:

- balances are contractual, undiscounted amounts whereas the statement of financial position is prepared using discounted amounts as required by IFRS;
- table includes contractual cash flows in respect of items not recognised on the statement of financial position;
- 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 for the Bank Ltd Group (undiscounted cash flows) – maturity analysis of liabilities based on the undiscounted amount of the contractual payment

	2014			
		Term to maturity		
R million	**Carrying amount**	**Call 1 – 3 months**	**4 – 12 months**	**> 12 months**
Liabilities				
Deposits and current accounts	**748 669**	**489 442**	**107 367**	**151 860**
Short trading positions	**5 397**	**5 397**	**–**	**–**
Derivative financial instruments	**41 814**	**39 040**	**795**	**1 979**
Creditors and accruals	**10 380**	**9 519**	**307**	**554**
Tier 2 liabilities	**16 218**	**1 818**	**–**	**14 400**
Other liabilities	**5 074**	**267**	**556**	**4 251**
Financial and other guarantees	**37 231**	**35 932**	**756**	**543**
Operating lease commitments	**1 886**	**207**	**536**	**1 143**
Facilities not drawn	**73 409**	**72 881**	**508**	**20**

	2013			
		Term to maturity		
R million	**Carrying amount**	**Call 1 – 3 months**	**4 – 12 months**	**> 12 months**
Liabilities				
Deposits and current accounts	668 124	449 721	92 214	126 189
Short trading positions	2 923	2 923	–	–
Derivative financial instruments	53 098	51 217	507	1 374
Creditors and accruals	8 921	8 253	319	349
Tier 2 liabilities	10 632	139	526	9 967
Other liabilities	1 169	58	316	795
Financial and other guarantees	36 760	34 135	1 855	770
Operating lease commitments	2 018	211	506	1 301
Facilities not drawn	74 055	54 464	4 348	15 243

44 RISK MANAGEMENT continued

44.6 Liquidity risk continued

Contractual discounted cash flow analysis

The following table represents the contractual discounted cash flows of assets, liabilities and equity for the Bank Ltd 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 due to institutional funds, which represents 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 Bank Ltd Group carries out an adjusted liquidity mismatch analysis, which estimates the size of the asset and liability mismatch under normal business conditions. This analysis is also used to manage this mismatch on an ongoing basis.

Contractual discounted cash flow analysis for the Bank Ltd Group

	2014			
		Term to maturity		
R million	**Carrying amount**	**Call – 3 months**	**4 – 12 months**	**> 12 months**
Maturity analysis of assets and liabilities based on the present value of the expected payment				
Total assets	**851 200**	**299 375**	**77 005**	**474 820**
Total equity and liabilities	**851 200**	**560 247**	**106 057**	**184 896**
Net liquidity gap	**–**	**(260 872)**	**(29 052)**	**289 924**
Cumulative liquidity gap	**–**	**(260 872)**	**(289 924)**	**–**

	2013			
		Term to maturity		
R million	**Carrying amount**	**Call – 3 months**	**4 – 12 months**	**> 12 months**
Maturity analysis of assets and liabilities based on the present value of the expected payment				
Total assets	779 580	287 651	88 668	403 261
Total equity and liabilities	779 580	528 126	89 622	161 832
Net liquidity gap	–	(240 475)	(954)	241 429
Cumulative liquidity gap	–	(240 475)	(241 429)	–

As illustrated in the previous table, the negative contractual liquidity short-term gap deteriorated slightly in the short end on a cumulative basis. This is aligned to the funding strategy to grow the deposit franchise via transactional deposit accounts. Management continues to align stress funding buffers both locally and offshore, taking into account prevailing economic and market conditions.

supplementary information

COMPANY INFORMATION

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Sunninghill
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Building 8
Deloitte Place
The Woodlands
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Woodmead, Sandton
Docex 10 Johannesburg

LISTED FINANCIAL INSTRUMENTS

LISTED DEBT INSTRUMENTS

Johannesburg Stock Exchange (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
	FirstRand Bank Limited	FRB12	ZAG000116278
	FirstRand Bank Limited	FRB13	ZAG000116286
	FirstRand Bank Limited	FRB14	ZAG000116294
Upper Tier 2	FirstRand Bank Limited	FRBC21	ZAG000052283
	FirstRand Bank Limited	FRBC22	ZAG000052390
Senior unsecured	FirstRand Bank Limited	FRBN04	ZAG000041005
	FirstRand Bank Limited	FRBN05	ZAG000042169
	FirstRand Bank Limited	FRBZ01	ZAG000049255
	FirstRand Bank Limited	FRBZ02	ZAG000072711
	FirstRand Bank Limited	FRBZ03	ZAG000080029
	FirstRand Bank Limited	FRJ14	ZAG000069683
	FirstRand Bank Limited	FRJ15	ZAG000094368
	FirstRand Bank Limited	FRJ16	ZAG000073826
	FirstRand Bank Limited	FRJ17	ZAG000094343
	FirstRand Bank Limited	FRJ18	ZAG000084187
	FirstRand Bank Limited	FRJ19	ZAG000104563
	FirstRand Bank Limited	FRJ20	ZAG000109596
	FirstRand Bank Limited	FRJ21	ZAG000115858
	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	FRS62	ZAG000090614
	FirstRand Bank Limited	FRS64	ZAG000092529
	FirstRand Bank Limited	FRS81	ZAG000100892
	FirstRand Bank Limited	FRS85	ZAG000104985
	FirstRand Bank Limited	FRS86	ZAG000105008
	FirstRand Bank Limited	FRS87	ZAG000105420
	FirstRand Bank Limited	FRS88	ZAG000106154
	FirstRand Bank Limited	FRS90	ZAG000106410
	FirstRand Bank Limited	FRS93	ZAG000107863
	FirstRand Bank Limited	FRS94	ZAG000107871
	FirstRand Bank Limited	FRS95	ZAG000107889
	FirstRand Bank Limited	FRS96	ZAG000108390
	FirstRand Bank Limited	FRS97	ZAG000108440
	FirstRand Bank Limited	FRS99	ZAG000109802

	Issuer	Bond code	ISIN code
Senior unsecured	FirstRand Bank Limited	FRS100	ZAG000111634
	FirstRand Bank Limited	FRS101	ZAG000111774
	FirstRand Bank Limited	FRS102	ZAG000111782
	FirstRand Bank Limited	FRS103	ZAG000111840
	FirstRand Bank Limited	FRS104	ZAG000111857
	FirstRand Bank Limited	FRS105	ZAG000112046
	FirstRand Bank Limited	FRS106	ZAG000112004
	FirstRand Bank Limited	FRS107	ZAG000112061
	FirstRand Bank Limited	FRS108	ZAG000113515
	FirstRand Bank Limited	FRS109	ZAG000113564
	FirstRand Bank Limited	FRS110	ZAG000113663
	FirstRand Bank Limited	FRS111	ZAG000114687
	FirstRand Bank Limited	FRS112	ZAG000115395
	FirstRand Bank Limited	FRS113	ZAG000115478
	FirstRand Bank Limited	FRS114	ZAG000116070
	FirstRand Bank Limited	FRS115	ZAG000116740
	FirstRand Bank Limited	FRS116	ZAG000117136
	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	FRX20	ZAG000109604
	FirstRand Bank Limited	FRX23	ZAG000104969
	FirstRand Bank Limited	FRX24	ZAG000073693
	FirstRand Bank Limited	FRX26	ZAG000112160
	FirstRand Bank Limited	FRX31	ZAG000084195
	FirstRand Bank Limited	FRX45	ZAG000076480
Inflation-linked bonds	FirstRand Bank Limited	FRBI22	ZAG000079666
	FirstRand Bank Limited	FRBI23	ZAG000076498
	FirstRand Bank Limited	FRBI25	ZAG000109588
	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	FRC46	ZAG000082959
	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

LISTED DEBT INSTRUMENTS

JSE continued

	Issuer	Bond code	ISIN code
Credit-linked notes	FirstRand Bank Limited	FRC72	ZAG000088956
	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	FRC105	ZAG000093998
	FirstRand Bank Limited	FRC106	ZAG000093956
	FirstRand Bank Limited	FRC107	ZAG000094574
	FirstRand Bank Limited	FRC108	ZAG000094871
	FirstRand Bank Limited	FRC109	ZAG000094889
	FirstRand Bank Limited	FRC110	ZAG000094954
	FirstRand Bank Limited	FRC112	ZAG000095621
	FirstRand Bank Limited	FRC113	ZAG000095761
	FirstRand Bank Limited	FRC115	ZAG000095852
	FirstRand Bank Limited	FRC116	ZAG000095860
	FirstRand Bank Limited	FRC117	ZAG000095928
	FirstRand Bank Limited	FRC118	ZAG000096280
	FirstRand Bank Limited	FRC121	ZAG000096314
	FirstRand Bank Limited	FRC122	ZAG000096322
	FirstRand Bank Limited	FRC124	ZAG000096579
	FirstRand Bank Limited	FRC125	ZAG000096678
	FirstRand Bank Limited	FRC128	ZAG000096959
	FirstRand Bank Limited	FRC134	ZAG000097056
	FirstRand Bank Limited	FRC135	ZAG000097122
	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

	Issuer	Bond code	ISIN code
Credit-linked notes	FirstRand Bank Limited	FRC153	ZAG000100348
	FirstRand Bank Limited	FRC154	ZAG000100694
	FirstRand Bank Limited	FRC155	ZAG000101643
	FirstRand Bank Limited	FRC161	ZAG000102260
	FirstRand Bank Limited	FRC163	ZAG000102898
	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
	FirstRand Bank Limited	FRC176	ZAG000107178
	FirstRand Bank Limited	FRC177	ZAG000107632
	FirstRand Bank Limited	FRC178	ZAG000107897
	FirstRand Bank Limited	FRC179	ZAG000108168
	FirstRand Bank Limited	FRC180	ZAG000108234
	FirstRand Bank Limited	FRC181	ZAG000108549
	FirstRand Bank Limited	FRC182	ZAG000108713
	FirstRand Bank Limited	FRC183	ZAG000109356
	FirstRand Bank Limited	FRC184	ZAG000109992
	FirstRand Bank Limited	FRC185	ZAG000111451
	FirstRand Bank Limited	FRC186	ZAG000111576
	FirstRand Bank Limited	FRC187	ZAG000111584
	FirstRand Bank Limited	FRC188	ZAG000111873
	FirstRand Bank Limited	FRC189	ZAG000112145
	FirstRand Bank Limited	FRC190	ZAG000113994
	FirstRand Bank Limited	FRC191	ZAG000114547
	FirstRand Bank Limited	FRC192	ZAG000114521
	FirstRand Bank Limited	FRC193	ZAG000114620
	FirstRand Bank Limited	FRC194	ZAG000114638
	FirstRand Bank Limited	FRC195	ZAG000114745
	FirstRand Bank Limited	FRC196	ZAG000114729
	FirstRand Bank Limited	FRC197	ZAG000114737
	FirstRand Bank Limited	FRC198	ZAG000114760
	FirstRand Bank Limited	FRC199	ZAG000114844
	FirstRand Bank Limited	FRC200	ZAG000114992
	FirstRand Bank Limited	FRC201	ZAG000115106
	FirstRand Bank Limited	FRC202	ZAG000115114
	FirstRand Bank Limited	FRC203	ZAG000115122
	FirstRand Bank Limited	FRC204	ZAG000115593
	FirstRand Bank Limited	FRC205	ZAG000115619
	FirstRand Bank Limited	FRC206	ZAG000116088
	FirstRand Bank Limited	FRD003	ZAG000114067

LISTED DEBT INSTRUMENTS

JSE continued

	Issuer	Bond code	ISIN code
Investment security index contracts	Rand Merchant Bank	RMBI02	ZAG000052986
	Rand Merchant Bank	RMBI03	ZAG000054032
	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	COLRMB	ZAE000155222

London Stock Exchange (LSE)

European medium term note (EMTN) programme

	Issuer	ISIN code
Senior unsecured	FirstRand Bank Limited	XS0610341967
	FirstRand Bank Limited	XS0635404477

SIX Swiss Exchange

	Issuer	ISIN code
Senior unsecured	FirstRand Bank Limited	CH0238315680

CREDIT RATINGS

FIRSTRAND BANK LIMITED

The credit ratings reflect FRB's strong market position as one of the big four banks in South Africa as well as its focused strategy, good core profitability, financial flexibility, robust risk management and sound capitalisation.

Credit ratings assigned by Standard & Poor's Ratings Services (S&P) as at 8 September 2014

	FirstRand Bank Limited	Sovereign rating South Africa
Foreign currency counterparty credit ratings		
Long-term	**BBB-**	BBB-
Outlook	**Stable**	Stable
Short-term	**A-3**	A-3
Local currency counterparty credit ratings		
Long-term	**BBB-**	BBB+
Outlook	**Stable**	Stable
Short-term	**A-3**	A-2
National scale		
Long-term	**zaAA**	zaAAA
Short-term	**zaA-1**	zaA-1
Standalone credit profile	**bbb**	

On 13 June 2014, S&P lowered the ratings on the sovereign to BBB-/Stable/A-3 (foreign currency) and BBB+/Stable/A-2 (local currency). Consequently, FRB's ratings were lowered to BBB-/Stable/A-3 (foreign currency) and BBB-/Stable/A-3 (local currency) with the national scale ratings affirmed.

Credit ratings assigned by Moody's Investors Service (Moody's) as at 8 September 2014

	FirstRand Bank Limited	Sovereign rating South Africa
FRB foreign currency deposit ratings and sovereign foreign currency bond ratings		
Long-term	**Baa1**	Baa1
Outlook	**Negative**	Negative
Short-term	**P-2**	
FRB local currency deposit ratings and sovereign local currency bond ratings		
Long-term	**Baa1**	Baa1
Outlook	**Negative**	Negative
Short-term	**P-2**	
National scale		
Long-term	**Aa3.za**	
Short-term	**P-1.za**	
Bank financial strength rating	**C-**	
Baseline credit assessment	**baa1**	

Moody's announced on 19 August 2014 that it had downgraded the Bank's local currency and national scale ratings by one notch to Baa1 (from A3) and Aa3.za (from Aa2.za) respectively, and that all ratings had been placed under review. In the announcement Moody's indicated that the change to their credit opinion had been prompted by the SARB's action with respect to African Bank Limited which, in their view, changed the likelihood of systemic support that might be received from South African authorities. These rating actions were linked to Moody's assessment of the South African banking industry as a whole and were not a reflection of any fundamental changes in FRB's financial strength, earnings resilience or credit quality.

FRB's long-term foreign currency rating was unaffected at Baa1 (but has been placed under review). Moody's revised local currency rating and current foreign currency rating (of Baa1) are higher than S&P's equivalent ratings (local- and foreign currency rating of BBB-) and Fitch's rating (local- and foreign currency rating of BBB).

The rating action brought the Bank's local currency deposit and debt ratings in line with its Baa1 foreign currency deposit rating, its standalone credit assessment of baa1 and the Baa1 bond rating ascribed to the government of South Africa by Moody's.

Credit ratings assigned by Fitch Ratings (Fitch) as at 8 September 2014

	FirstRand Bank Limited	Sovereign rating South Africa
Foreign currency issuer default ratings (IDR)		
Long-term	**BBB**	BBB
Outlook	**Negative**	Negative
Short-term	**F3**	F3
Local currency IDR		
Long-term	**BBB**	BBB+
Outlook	**Negative**	Negative
National ratings		
Long-term	**AA(zaf)**	
Outlook	**Stable**	
Short-term	**F1+(zaf)**	
Viability rating	**bbb**	
Support rating	**3**	
Support rating floor	**BB+**	

On 13 June 2014, Fitch revised the outlook on the sovereign to negative from stable and affirmed the ratings. Consequently, the outlook on FRB was also revised from stable to negative in line with the negative outlook on the sovereign.

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 income statement expressed as a percentage of average advances (average between the opening and closing balance for the period).
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 income statement divided by income before direct tax per income statement.
Loan-to-deposit ratio	Average advances expressed as a percentage of average deposits.
Net income after capital charge (NIACC)	Normalised earnings less cost of equity multiplied by average ordinary shareholders' equity and reserves.
Normalised earnings	The Group believes normalised earnings more accurately reflect its economic performance. IFRS earnings are adjusted to take into account headline earnings adjustments, non-operational items and accounting anomalies. Refer to pages 14 and 15 for a detailed description of the difference between normalised and IFRS results.
Normalised earnings per share	Normalised earnings attributable to ordinary equityholders divided by 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.
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 credit risk of counterparties, operational risk, market risk, equity investment risk and other risks 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	CET1 capital plus AT1 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 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.

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