ANNUAL REPORT

FOR THE YEAR ENDED 30 JUNE 2013

FIRSTRAND BANK

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FIRSTRAND BANK

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Certain entities within the FirstRand Group are Authorised Financial Services and Credit Providers
This report is available on our 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 JSE and the Namibian Stock Exchange and consists of a portfolio of leading franchises; First National Bank (FNB), the retail and commercial bank, Rand Merchant Bank (RMB), the corporate and investment bank, WesBank, the instalment finance business and Ashburton Investments, the Group's newly-established investment management business.

This report covers the audited financial results of the Bank based on International Financial Reporting Standards (IFRS) for the year ended 30 June 2013.

In the detailed financial analysis section of this report, 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 audited IFRS financial results. A detailed description of the difference between normalised and IFRS results is provided on page 17.

Alan Hedding, CA(SA), supervised the preparation of the financial results.

OVERVIEW OF FIRSTRAND BANK

The Bank provides a comprehensive range of retail, commercial, corporate and investment banking services in South Africa and has three major divisions which are separately branded. The major divisions of the Bank are FNB, RMB and WesBank. Outside of the Bank, these divisions' activities are undertaken in FirstRand's other wholly-owned subsidiaries, namely, FirstRand EMA Holdings Limited (FREMA) and FirstRand Investment Holdings (Pty) Ltd (FRIHL).

FIRSTRAND'S STRATEGY

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

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

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

These strategies are executed through the appropriate operating franchises and platforms, within a framework set by the Group. For more information on the Group's strategy, please refer to the 2013 annual integrated report for FirstRand Limited which is published on the Group's website, www.firstrand.co.za.

OVERVIEW OF OPERATING FRANCHISES

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 the market leader in South Africa and has a deal footprint across 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 distributors 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.

In February 2013, RMB Nigeria was officially opened following the granting of an investment banking licence by the Central Bank of Nigeria. RMB Nigeria 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. RMB also manages the Angolan representative office which provides a platform in western Africa to identify investment banking opportunities across this region.

The Middle East remains an important source of global capital and the FirstRand Bank 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. Managed by RMB, 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.

The India platform is incrementally gaining good traction in-country and adding value to the African expansion strategy as a whole. During the year under review RMB's operations grew strongly, albeit off a low base, driven mainly by the in-country Global Markets and Investment Banking divisions. Since the year end, RMB facilitated the largest ever investment by an Indian company in South Africa, when it advised Mumbai-listed pharmaceutical group, Cipla India, in its acquisition of South Africa's Cipla Medpro for R5 billion. This was a very significant cross-border transaction in the India/Africa corridor which RMB has identified as strategic.

SIMPLIFIED GROUP STRUCTURE

FIRSTRAND

Listed holding company (FirstRand Limited, JSE: FSR)

100% – FIRSTRAND BANK LIMITED (JSE bond 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 HOLDINGS LIMITED

Africa and emerging markets

- **59%** FNB Namibia
- **70%** FNB Botswana
- **100%** FNB Swaziland
- **90%** FNB Mozambique
- **100%** FNB Zambia
- **100%** FNB Lesotho
- **100%** FNB Tanzania
- **100%** RMB Nigeria
- **100%** FirstRand International – Mauritius

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

Other activities

- **96%** RMB Private Equity Holdings
- **93%** RMB Private Equity
- **100%** RMB Securities
- **50%** RMB Morgan Stanley
- **100%** Rentworks
- **65%** Direct Axis
- **100%** FirstRand International – Guernsey (includes RMB Australia Holdings)

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%** FNB International Wealth Management Holdings Ltd
- **100%** RMB CIS Management Company (Pty) Ltd

Structure shows effective consolidated shareholding.

1. Division
2. Branch
3. Representative office

MotoNovo Finance is a business segment of FirstRand Bank Limited (London Branch).

BOARD OF DIRECTORS OF FIRSTRAND BANK LIMITED

LL Dippenaar (64) Non-executive chairman
MCom, CA(SA)
Chairman of FirstRand and director of RMB Holdings

SE Nxasana (55) Chief executive officer
BCom, BCompt (Hons), CA(SA)
Chief executive officer and director of FirstRand

JP Burger (54) Financial director and chief operating officer
BCom (Hons), CA(SA)
Financial director and chief operating officer of FirstRand

VW Bartlett (70) Independent non-executive
AMP (Harvard), FIBSA
Director of FirstRand

JJH Bester (71) Independent non-executive
BSc Eng Elect (Pret), ISMP (Harvard)
Director of FirstRand

MS Bomela (40) Non-executive
BCom (Hons), CA(SA), MBA
Director of FirstRand

P Cooper (57) Alternate non-executive
BCom (Hons), CA(SA), H Dip Tax
Director of FirstRand and RMB Holdings

L Crouse (60) Non-executive
CA(SA)
Director of FirstRand and RMB Holdings

JJ Durand (46) Non-executive
BAcc (Hons), MPhil (Oxon), CA(SA)
Director of FirstRand and RMB Holdings

GG Gelink (63) Independent non-executive
BCompt (Hons), BCom (Hons), CA(SA)
Director of FirstRand

PM Goss (65) Independent non-executive
BEcon (Hons), BAccSc (Hons), CA(SA)
Director of FirstRand and RMB Holdings

NN Gwagwa (54) Independent non-executive
BA (Fort Hare), MTRP (Natal), MSc (cum laude) (London), PhD (London)
Director of FirstRand

PK Harris (63) Non-executive
MCom
Director of FirstRand and RMB Holdings

WR Jardine (47) Independent non-executive
BSc (Physics), MSc (Radiological Physics)
Director of FirstRand

EG Matenge-Sebesho (58) Independent non-executive
MBA (Brunel), CAIB (SA)
Director of FirstRand

AT Nzimande (42) Non-executive
BCom, CTA (UCT), CA(SA), H Dip Law (Wits)
Director of FirstRand

D Premnarayen (67) Executive
BA Economics (Hons) India
Director of FirstRand

KB Schoeman (49) Non-executive
BA Economics, Advanced Financial Management Diploma
Director of FirstRand

BJ van der Ross (66) Independent non-executive
Dip Law (UCT)
Director of FirstRand

JH van Greuning (60) Independent non-executive
DCom (Economics), DCompt (Accounting Science), CA(SA), CFA
Director of FirstRand

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 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

Directorate

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

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

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

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

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 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.

The board comprises 20 directors of whom two serve in an executive capacity. The directors of the Bank are listed on page 4. 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 such 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 in 1998. He is, *inter alia*, responsible for the duties stipulated in section 88 of the Companies Act 71 of 2008, as amended and the certificate required to be signed in terms of subsection (2)(e) thereof appears on page 177.

Analysis of financial results

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INTRODUCTION

This section covers the normalised results of the Bank for the year ended 30 June 2013. 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 audited IFRS financial results.

Normalised results include an income statement, statement of comprehensive income and a statement of financial position. A detailed description of the difference between normalised and IFRS results is provided on page 17. Detailed reconciliations of normalised to IFRS results are provided on pages 26 to 29. Commentary is based on normalised results, unless indicated otherwise.

Financial highlights (audited)

	Year ended 30 June		
	2013	2012	% change
Normalised earnings (R million)	**10 784**	9 032	19
Normalised return on equity (%)	**22.0**	21.6	
Tier 1 ratio (%)	**13.3**	12.6	
Common Equity Tier 1 ratio (%)	**12.6**	11.8	
Credit loss ratio (%)	**1.01**	1.14	
Credit loss ratio (%) excluding impact of merchant acquiring event	**0.97**	0.99	
NPLs (% of advances)	**2.88**	3.58	

KEY FINANCIAL RESULTS, RATIOS AND STATISTICS

	Year ended 30 June		
R million	**2013**	2012	% change
Attributable earnings to ordinary equityholders (refer page 23)	**10 597**	9 534	11
Headline earnings	**10 699**	9 191	16
Normalised earnings	**10 784**	9 032	19
Normalised net asset value	**51 879**	45 997	13
Average normalised net asset value	**48 938**	41 820	17
Gross advances	**560 188**	493 323	14
Normalised ROE (%)	**22.0**	21.6	
Cost-to-income ratio (%)	**57.0**	58.3	
Net interest margin (%)	**4.70**	4.58	
Capital adequacy*			
Capital adequacy ratio (CAR) (%)	**14.9**	14.6	
Tier 1 ratio (%)	**13.3**	12.6	
Common Equity Tier 1 (CET1) ratio (%)	**12.6**	11.8	

* *Reflects solo supervision, i.e. FRB excluding foreign branches. 2013 capital ratios are calculated on Basel III basis; 2012 capital ratios are calculated on Basel 2.5 basis.*

STATEMENT OF HEADLINE EARNINGS – IFRS (AUDITED)

R million	Year ended 30 June 2013	2012	% change
Profit for the year (refer page 193)	**10 793**	9 717	11
Non-cumulative non-redeemable (NCNR) preference shareholders	**(196)**	(183)	7
Earnings attributable to ordinary equityholders	**10 597**	9 534	11
Adjusted for:	**102**	(343)	(>100)
Gain on disposal of available-for-sale assets	**(32)**	(445)	
Loss on the disposal of property and equipment	**56**	75	
Impairment of assets in terms of IAS 36	**283**	–	
Other	**(162)**	18	
Tax effects of adjustments	**(43)**	9	
Headline earnings	**10 699**	9 191	16

RECONCILIATION FROM HEADLINE TO NORMALISED EARNINGS (AUDITED)

R million	Year ended 30 June 2013	2012	% change
Headline earnings	**10 699**	9 191	16
Adjusted for:	**85**	(159)	(>100)
IFRS 2 Share-based payment expense*	**–**	81	(100)
Total return swap adjustment	**85**	(240)	(>100)
Normalised earnings	**10 784**	9 032	19

* *Hedged at a Group level.*

OVERVIEW OF RESULTS

INTRODUCTION

The macroeconomic environment remained challenging over the past financial year with global growth as a whole remaining below trend throughout the reporting period.

The local economy continued to be negatively impacted by shifts in both global and domestic risk dynamics. High levels of capital inflows, a strong rand, low bond yields, elevated commodity prices and robust growth in household incomes caused the South African current account deficit to widen to 6.7% by June 2012. However, during 2013 activity in the US started to improve to a degree that its central bank authorities announced the possible unwinding of current US monetary policy stimulus. This development negatively impacted emerging market flows which had benefited from low US rates, and for South Africa this resulted in some currency weakness.

Domestic GDP slowed to 1.9% year-on-year in 1Q13, reflecting lower levels of activity in both the household and business sectors of the economy. Consumer spending slowed to 2.7% and investment spending to 4.4%, resulting in lower credit extension, slowing vehicle sales and a muted housing market.

OVERVIEW OF RESULTS

FirstRand Bank produced excellent results for the year to 30 June 2013, achieving normalised earnings of R10 784 million, an increase of 19% on the previous period and a normalised ROE of 22.0% (2012: 21.6%).

All three operating franchises continued to deliver good operational performances, achieving both strong topline growth and profitability. In the case of FNB, this was once again driven by customer acquisition, loan and deposit growth and the ongoing focus on driving transactional volumes across all of its platforms, particularly electronic. WesBank continued to grow new business volumes across all portfolios and RMB's diversified investment banking and corporate portfolios delivered strong growth in profits particularly from the client-centric business units.

The table below shows a breakdown of sources of normalised earnings.

Sources of normalised earnings

	Year ended 30 June				
R million	**2013**	**% composition**	2012	% composition	% change
FNB	**6 417**	**59**	5 117	56	25
RMB	**3 406**	**32**	2 758	31	23
WesBank	**1 567**	**15**	1 533	17	2
Corporate Centre and consolidation adjustments	**(410)**	**(4)**	(193)	(2)	>100
NCNR preference dividend	**(196)**	**(2)**	(183)	(2)	7
Normalised earnings	**10 784**	**100**	9 032	100	19

The Bank's income statement benefited from an increase of 14% in net interest income (NII), driven by good growth in new business at FNB, WesBank and RMB. Net interest margin was again positively impacted by pricing strategies, funding mix and the growth in advances in higher yielding asset classes such as vehicle asset finance and unsecured lending.

Total non-interest revenue (NIR) increased 7% year-on-year, with strong contributions from all franchises. FNB's NIR continued to be underpinned by increases in fee and commission income particularly on the back of ongoing acquisition of core transactional accounts. WesBank's NIR benefited from robust levels of new business origination and good growth in the full maintenance rental book. RMB delivered strong growth in knowledge-based fees, particularly benefiting from cross-border transactions, and fair value income remained resilient on the back of client activities, particularly financing, advisory and structuring.

Operating costs increased 8% reflecting the continued investment in FNB's electronic platforms. IFRS 2 Share-based payments decreased year-on-year reflecting the lower increase in the Group's share price. This was, however, offset by growth in variable staff costs directly linked to growth in profitability.

Bad debts, excluding the impact of the merchant acquiring event, decreased from 99 bps to 97 bps. The reduction reflects the non-recurrence of R800 million of central portfolio impairment overlays created in the prior year. The current year charge does, however, include credit impairment overlays, primarily at FNB and RMB. These overlays reflect the Bank's view that the benign credit cycle has bottomed and are considered prudent given the strong book growth year-on-year. The overlays do not reflect any specific stresses in the Bank's portfolios, all of which are tracking as anticipated.

Absolute levels of non-performing loans (NPLs) decreased 9%, reflecting the ongoing improvement in FNB's residential mortgage book and WesBank's motor book. NPLs in the unsecured books are trending in line with expectations given the tightening of origination strategies in certain risk buckets over the past 12 to 18 months.

The Bank's overall balance sheet showed a robust increase in advances year-on-year, particularly in those portfolios where the Bank has specifically targeted growth.

OVERVIEW OF OPERATING FRANCHISES

FirstRand's vision is to be the African financial services group of choice, creating long-term franchise value and delivering superior and sustainable economic returns to shareholders within acceptable levels of volatility. The Group seeks to achieve this through two parallel growth strategies:

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

These strategies are executed through its portfolio of operating franchises (namely FNB, RMB and WesBank) on the appropriate platforms (namely FRB, FREMA and FRIHL), within a framework set by the Group, and good progress continues to be made. Below is a brief overview of progress on these strategic objectives and the financial and operational performance of each franchise.

FNB

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

As previously reported, during the year under review, FNB completed an internal realignment of its successful segment focus. The original FNB segment strategy, incorporating Mass, Consumer, Wealth, Commercial and Corporate, has been refined to focus on two larger segments – Retail and Commercial. The Corporate segment, previously FNB Global Transactional Services, has been rebranded RMB Corporate Banking and aligned under RMB, the corporate and investment bank, to provide an integrated and holistic offering to its large corporate customers.

FNB financial highlights

	Year ended 30 June		
R million	**2013**	2012	% change
Normalised earnings	**6 417**	5 117	25
Normalised profit before tax	**8 696**	6 908	26
Total assets	**248 554**	227 388	9
Total liabilities	**239 899**	220 493	9
Credit loss ratio* (%)	**1.25**	1.31	

* *2013 figure includes special impairment relating to merchant acquiring event of R215 million (2012: R405 million).*

FNB produced an excellent performance for the period, increasing normalised pre-tax profits 26%. This performance can be attributed to FNB's primary strategy to grow and retain core transactional accounts (up 8% or 542 000 year-on-year under-pinning total account growth of 1.1 million) through offering a compelling value proposition to the customer (innovative products

and channels at an acceptable cost) and supported by rewards programmes, such as eBucks, SLOW lounges and fuel, data and airtime rewards. Innovations such as the banking app, cellphone banking and eWallet also continued to attract and retain customers.

FNB's NII increased 19% underpinned by good growth in both advances (+8%) and deposits (+12%). The 57 bps improvement in asset margins was driven by the mix change to unsecured lending and the repricing of newly-originated residential mortgages. However, deposit margins reduced 23 bps due to the negative endowment impact and mix change to lower margin products in line with competitive pressures. Deposit and advances growth was generated across all segments as indicated below.

Segment analysis of advances and deposit growth

	Year ended 30 June 2013			
	Deposit growth		Advances growth	
Segments	%	**R billion**	%	**R billion**
Retail	12	**13.2**	6	**11.3**
Commercial	13	**13.2**	19	**6.9**

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

Overall NPLs decreased 13% due to FNB's ongoing proactive workout strategy, although NPLs in the personal loans portfolio increased R233 million. Bad debts increased 3%, which is within expectations given the cycle and the growth in unsecured lending. FNB has, however, taken the prudent decision to increase portfolio provisions, resulting in a total increase of 12%, excluding the impact of the merchant acquiring event. Overall credit quality across all portfolios is well within risk appetite and coverage ratios have increased. In residential mortgages this was driven mainly by the Wealth portfolio. Coverage ratios in Commercial have also increased due to a reducing proportion of property finance.

FNB's strategy to grow core transactional banking accounts and drive activity across its electronic platforms resulted in strong transactional volumes (up 14%) with fee and commissions up 11%. Overall NIR increased 12% mainly driven by activity in the Retail business (up 14%), with Commercial contributing a 9% increase.

FNB's overall operating expenditure increased 13%, which includes investment costs in the operating footprint. However, the business continues to deliver positive operating jaws.

RMB

RMB represents the Group's activities in the corporate and investment banking segments in South Africa. 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, coupled with steady investment returns and a growing focus on structuring asset management products, is delivering a high quality and sustainable earnings profile.

As mentioned in the FNB section, the rebranding of the Bank's corporate banking business to RMB Corporate Banking and the alignment of this franchise under RMB also supports the client-centric strategy, by offering holistic corporate and investment banking solutions to the large corporate and institutional segment.

RMB financial highlights

	Year ended 30 June		
R million	**2013**	2012	% change
Normalised earnings	**3 406**	2 758	23
Normalised profit before tax	**4 685**	3 728	26
Total assets	**301 637**	273 937	10
Total liabilities	**298 821**	271 775	10
Credit loss ratio (%)	**0.56**	0.48	

RMB produced an excellent result for the year to June 2013 growing pre-tax profits 26% to R4 685 million. Excluding the impact of the once-off merchant acquiring event, pre-tax profits grew 17%, a strong operational performance reflecting the strength of the RMB domestic franchise, growth from the African expansion strategy and focus on cost containment.

The Global Markets division delivered profits of R1 467 million (2012: R1 478 million). The Structured Trade and Commodity Finance business delivered good balance sheet growth during the period. Domestically, Global Markets benefited from participating in a number of large structured transactions during the period and, in particular, significantly benefited from movements in nominal and real interest rate markets, however client execution revenues remained under pressure.

The Investment Banking Division (IBD) delivered strong results increasing pre-tax profits 22% to R2 909 million. The growth was balance sheet led with advances up approximately 16%, which was higher than the broader domestic market growth levels and included exceptional growth from the African portfolio on the back of the strategic investments made in the prior periods. IBD also benefited from strong dealflow in healthcare, renewable energy and telecommunications sectors.

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

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.

For the year ended 30 June 2013, WesBank grew normalised pre-tax profits 2% to R2 131 million. This performance was underpinned by strict credit discipline, effective and efficient origination channels and rigid cost management.

WesBank financial highlights

	Year ended 30 June		
R million	**2013**	2012	% change
Normalised earnings	**1 567**	1 533	2
Normalised profit before tax	**2 131**	2 086	2
Total assets	**134 869**	111 037	21
Total liabilities	**132 765**	108 959	22
Credit loss ratio (%)	**1.24**	0.98	

Total advances grew 21% to R133.6 billion on the strength of new business growth of 17% to a total origination volume of R79.5 billion. This growth was driven by all the underlying portfolios, with the retail motor, personal loans, corporate and commercial, and MotoNovo businesses reflecting origination growth of 16%, 27%, 13% and 30% respectively. In addition, the corporate division increased the value of the full maintenance rental asset book to R1.5 billion.

Interest margins were maintained despite increased competition across all portfolios, with origination well within agreed risk thresholds. As key macro inputs indicate downside risk to impairment ratios, credit appetite continues to be critically and regularly assessed and performance closely monitored. Although the credit loss ratio increased to 1.24% of advances, this is still well within through-the-cycle expectations.

NPLs continued to reflect a reducing trend (2.83% at June 2013 compared to 3.65% at June 2012 and 3.29% at December 2012), despite the high proportion of restructured debt review accounts, which are still disclosed as non-performing regardless of repayment behaviour. These accounts are increasing as a proportion of NPLs and, in the year under review, represent 18% of NPLs, which compares to 13% at June 2012.

NIR increased 15% year-on-year, reflecting the growth in the advances book and in rental assets, offset by continued pricing pressure in the Auto Card business. Core operating costs increased only 7%, however, when the impact of the increase in profit share payments to alliance partners (which now total R435 million and are 40% up year-on-year) and the increase in depreciation of full maintenance rental assets is included, total expenses grew 12%.

FINANCIAL RESOURCE MANAGEMENT

The Bank believes a strong balance sheet is key to growth, particularly in periods of uncertainty.

Asset quality

When assessing the underlying risk in the balance sheet from an economic perspective, the Bank's asset profile is dominated by a balanced advances portfolio, which constitutes 76% of total assets. In terms of credit quality, 88% of advances are rated B upper or better. Cash, cash equivalents and liquid assets represent 16% of total assets, with only a small portion related to the investment and trading businesses.

Funding

FRB'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 12.4 months in 2009 to 20.4 months in 2013.

Capital

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

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

Capital ratios and targets

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

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

BASIS OF PRESENTATION

The Bank believes normalised earnings more accurately reflect operational performance. Headline earnings are adjusted to take into account non-operational and accounting anomalies. Details of the nature of these adjustments and reasons therefore can be found on page 17.

The accounting policies applied in the preparation of the analysis of financial results, are in terms of IFRS and are consistent with those accounting policies applied in the preparation of the previous financial results. There were no restatements or reclassifications to the primary financial statements in the current year.

FirstRand's board of directors take full responsibility for the preparation of this *Analysis of financial results* section.

The auditors expressed an unmodified opinion dated 9 September 2013 on the annual financial statements of FirstRand Bank Limited at 30 June 2013. The independent auditors' report can be found on page 175 of this report.

DESCRIPTION OF DIFFERENCE BETWEEN NORMALISED AND IFRS RESULTS

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

SHARE-BASED PAYMENTS AND EMPLOYEE BENEFITS

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

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

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

ECONOMIC HEDGE AGAINST SHARE-BASED PAYMENT OBLIGATIONS

The Bank entered into a Total Return Swap (TRS) with external parties in order to economically hedge itself against the cost 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 profit or loss.

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

For purposes of calculating normalised earnings, the 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.

ECONOMIC 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. 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 within RMB on a fair value basis in terms of IFRS. As a result, the margin on these advances is reflected as part of NIR.

The 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.

IMPAIRMENT OF SOFTWARE ASSETS

In the current year RMB's Corporate Banking division impaired IT-related intangible assets. These impairments have been excluded from both headline earnings (in terms of *Circular 02/2013*) and normalised results.

Detailed financial analysis – normalised

The analysis of the financial results reflected is based on the normalised earnings of the Bank. A detailed reconciliation between the IFRS and normalised results is set out on pages 26 to 29.

KEY FINANCIAL RESULTS, RATIOS AND STATISTICS

for the year ended 30 June

R million	2013	2012	% change
Earnings performance			
Normalised earnings contribution by franchise	**10 784**	9 032	19
FNB	**6 417**	5 117	25
RMB	**3 406**	2 758	23
WesBank	**1 567**	1 533	2
Corporate Centre and consolidation adjustments	**(410)**	(193)	>100
NCNR preference dividend	**(196)**	(183)	7
Attributable earnings (refer page 24)	**10 776**	9 534	13
Headline earnings	**10 699**	9 191	16
Normalised earnings	**10 784**	9 032	19
Normalised net asset value	**51 879**	45 997	13
Tangible normalised net asset value	**51 725**	45 661	13
Average normalised net asset value	**48 938**	41 820	17
Capital adequacy*			
Capital adequacy ratio (%)	**14.9**	14.6	
Tier 1 ratio (%)	**13.3**	12.6	
CET1 ratio (%)	**12.6**	11.8	
Balance sheet			
Normalised total assets	**782 527**	690 134	13
Loans and advances (net of credit impairment)	**548 226**	482 745	14
Ratios			
Normalised ROE (%)	**22.0**	21.6	
Return on assets (%)	**1.46**	1.38	
Average loan-to-deposit ratio (%)	**89.6**	89.7	
Diversity ratio (%)	**47.8**	49.4	
Credit impairment charge	**5 334**	5 291	1
NPLs as % of advances	**2.88**	3.58	
Credit loss ratio (%)	**1.01**	1.14	
Credit loss ratio (%) excluding impact of merchant acquiring event	**0.97**	0.99	
Total impairment coverage ratio (%)	**74.2**	59.9	
Performing book coverage ratio (%)	**1.02**	0.98	
Cost-to-income ratio (%)	**57.0**	58.3	
Effective tax rate (%)	**22.3**	19.9	

* *Reflects solo supervision, i.e. FRB excluding foreign branches. 2013 capital ratios are calculated on Basel III basis; 2012 capital ratios are calculated on Basel 2.5 basis.*

INCOME STATEMENT – NORMALISED (AUDITED)

for the year ended 30 June

R million	2013	2012	% change
Net interest income before impairment of advances	**24 432**	21 468	14
Impairment of advances	**(5 334)**	(5 291)	1
Net interest income after impairment of advances	**19 098**	16 177	18
Non-interest revenue	**22 391**	20 985	7
Income from operations	**41 489**	37 162	12
Operating expenses	**(26 680)**	(24 737)	8
Income before tax	**14 809**	12 425	19
Indirect tax	**(579)**	(496)	17
Profit before tax	**14 230**	11 929	19
Income tax expense	**(3 173)**	(2 371)	34
Profit for the year	**11 057**	9 558	16
NCNR preference shareholders	**(196)**	(183)	7
Attributable earnings to ordinary equityholders of the Bank	**10 861**	9 375	16
Headline and normalised earnings adjustments	**(77)**	(343)	(78)
Normalised earnings	**10 784**	9 032	19

STATEMENT OF COMPREHENSIVE INCOME – NORMALISED (AUDITED)

for the year ended 30 June

R million	2013	2012	% change
Profit for the year	**11 057**	9 558	16
Items that may subsequently be reclassified to profit or loss			
Cash flow hedges	**853**	(301)	(>100)
Gains/(losses) arising during the year	**417**	(1 213)	(>100)
Reclassification adjustments for amounts included in profit or loss	**768**	794	(3)
Deferred income tax	**(332)**	118	(>100)
Available-for-sale financial assets	**(117)**	253	(>100)
(Losses)/gains arising during the year	**(134)**	833	(>100)
Reclassification adjustments for amounts included in profit or loss	**(32)**	(445)	(93)
Deferred income tax	**49**	(135)	(>100)
Exchange differences on translating foreign operations	**240**	177	36
Gains arising during the year	**240**	177	36
Other comprehensive income for the year	**976**	129	>100
Total comprehensive income for the year	**12 033**	9 687	24
Total comprehensive income attributable to:			
Ordinary equityholders	**11 837**	9 504	25
NCNR preference shareholders	**196**	183	7
Total comprehensive income for the year	**12 033**	9 687	24

STATEMENT OF NORMALISED EARNINGS (AUDITED)

for the year ended 30 June

R million	2013	2012	% change
IFRS profit for the year (refer page 193)	**10 793**	9 717	11
NCNR preference shareholders	**(196)**	(183)	7
Attributable to ordinary equityholders	**10 597**	9 534	11
Adjusted for:			
Impairment of RMB Corporate Banking IT-related intangible assets	**179**	–	
Attributable earnings to ordinary shareholders	**10 776**	9 534	13
Adjusted for:	**(77)**	(343)	(78)
Gain on disposal of available-for-sale assets	**(32)**	(445)	
Loss on the disposal of property and equipment	**56**	75	
Impairment of assets in terms of IAS 36	**35**	–	
Other	**(162)**	18	
Tax effects of adjustments	**26**	9	
Headline earnings	**10 699**	9 191	16
Adjusted for:	**85**	(159)	(>100)
IFRS 2 Share-based payment expenses	**–**	81	(100)
TRS adjustment	**85**	(240)	(>100)
Normalised earnings	**10 784**	9 032	19

RECONCILIATION OF ATTRIBUTABLE EARNINGS TO NORMALISED EARNINGS (AUDITED)

for the year ended 30 June

R million	2013	2012	% change
Attributable earnings per normalised income statement (refer page 21)	**10 861**	9 375	16
Normalised earnings adjustment reallocated to above the line (refer page 23)	**(85)**	159	(>100)
Attributable earnings to ordinary equityholders per normalised reconciliation (refer page 23)	**10 776**	9 534	13

STATEMENT OF FINANCIAL POSITION – NORMALISED (AUDITED)

at 30 June

R million	2013	2012
ASSETS		
Cash and cash equivalents	**42 296**	31 557
Derivative financial instruments	**51 755**	52 392
Commodities	**6 016**	5 108
Accounts receivable	**4 564**	3 301
Current tax asset	**144**	253
Advances	**548 226**	482 745
Amounts due by holding company and fellow subsidiary companies	**20 882**	23 307
Investment securities and other investments	**95 025**	78 809
Investments in subsidiary companies	**5**	*
Investments in associates	**44**	243
Property and equipment	**10 421**	8 882
Intangible assets	**154**	336
Post-employment benefit asset	**2 995**	2 986
Non-current assets and disposal groups held for sale	**–**	215
Total assets	**782 527**	690 134
EQUITY AND LIABILITIES		
Liabilities		
Short trading positions	**2 923**	4 019
Derivative financial instruments	**52 940**	53 666
Creditors and accruals	**8 935**	6 473
Deposits	**629 842**	545 796
Provisions	**246**	234
Employee liabilities	**9 239**	8 480
Other liabilities	**1 062**	922
Amounts due to holding company and fellow subsidiary companies	**14 586**	13 341
Deferred income tax liability	**250**	769
Tier 2 liabilities	**7 625**	7 437
Total liabilities	**727 648**	641 137
Equity		
Ordinary shares	**4**	4
Share premium	**15 304**	15 304
Reserves	**36 571**	30 689
Capital and reserves attributable to ordinary equityholders	**51 879**	45 997
NCNR preference shares	**3 000**	3 000
Total equity	**54 879**	48 997
Total equity and liabilities	**782 527**	690 134

* *Denotes amounts less than R500 000.*

RECONCILIATION OF NORMALISED TO IFRS INCOME STATEMENT (AUDITED)

for the year ended 30 June 2013

R million	**June 2013 normalised**	IFRS 2 Share-based payment expense	Fair value income-funding cost
Net interest income before impairment of advances	**24 432**	–	(6 212)
Impairment of advances	**(5 334)**	–	–
Net interest income after impairment of advances	**19 098**	–	(6 212)
Non-interest revenue	**22 391**	–	6 212
Income from operations	**41 489**	–	–
Operating expenses	**(26 680)**	–	–
Income before tax	**14 809**	–	–
Indirect tax	**(579)**	–	–
Profit before tax	**14 230**	–	–
Income tax expense	**(3 173)**	–	–
Profit for the year	**11 057**	–	–
Attributable to:			
NCNR preference shareholders	**(196)**	–	–
Ordinary equityholders of the Bank	**10 861**	–	–
Headline and normalised earnings adjustment	**(77)**	–	–
Normalised earnings	**10 784**	–	–

Economic hedges	Fair value annuity income (lending)	Impairment of intangible assets	TRS adjustment	**June 2013 IFRS**
(166)	(2 588)	–	–	**15 466**
–	893	–	–	**(4 441)**
(166)	(1 695)	–	–	**11 025**
166	1 695	–	(118)	**30 346**
–	–	–	(118)	**41 371**
–	–	(248)	–	**(26 928)**
–	–	(248)	(118)	**14 443**
–	–	–	–	**(579)**
–	–	(248)	(118)	**13 864**
–	–	69	33	**(3 071)**
–	–	(179)	(85)	**10 793**
–	–	–	–	**(196)**
–	–	(179)	(85)	**10 597**
–	–	179	85	**187**
–	–	–	–	**10 784**

RECONCILIATION OF NORMALISED TO IFRS INCOME STATEMENT (AUDITED)

for the year ended 30 June 2012

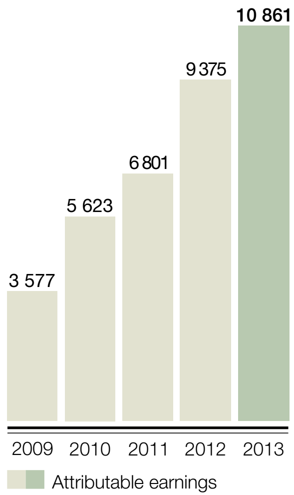
R million	**June 2012 normalised**	IFRS 2 Share-based payment expense	Fair value income-funding cost
Net interest income before impairment of advances	**21 468**	–	(3 690)
Impairment of advances	**(5 291)**	–	–
Net interest income after impairment of advances	**16 177**	–	(3 690)
Non-interest revenue	**20 985**	–	3 690
Income from operations	**37 162**	–	–
Operating expenses	**(24 737)**	(81)	–
Income before tax	**12 425**	(81)	–
Indirect tax	**(496)**	–	–
Profit before tax	**11 929**	(81)	–
Income tax expense	**(2 371)**	–	–
Profit for the year	**9 558**	(81)	–
Attributable to:			
NCNR preference shareholders	**(183)**	–	–
Ordinary equityholders of the Group	**9 375**	(81)	–
Headline and normalised earnings adjustment	**(343)**	81	–
Normalised earnings	**9 032**	–	–

Economic hedges	Fair value annuity income (lending)	TRS adjustment	**June 2012 IFRS**
(520)	(2 042)	–	**15 216**
–	406	–	**(4 885)**
(520)	(1 636)	–	**10 331**
520	1 636	333	**27 164**
–	–	333	**37 495**
–	–	–	**(24 818)**
–	–	333	**12 677**
–	–	–	**(496)**
–	–	333	**12 181**
–	–	(93)	**(2 464)**
–	–	240	**9 717**
–	–	–	**(183)**
–	–	240	**9 534**
–	–	(240)	**(502)**
–	–	–	**9 032**

OVERVIEW OF RESULTS

Earnings performance (R million)

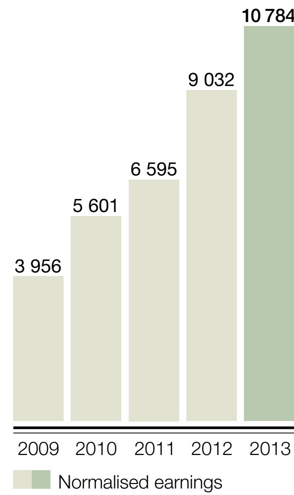
CAGR 32%



Note: 2009 figures presented on an IFRS basis, figures from 2010 onwards presented on a normalised basis.

Normalised earnings (R million)

CAGR 28%



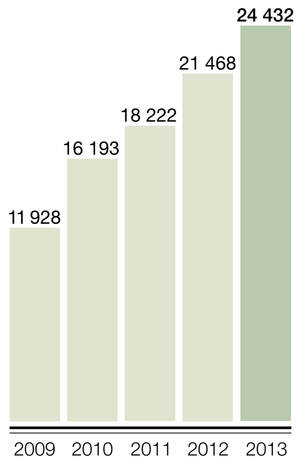
These results are characterised by the following themes:

Positives	Negatives
- Robust advances growth of 14%. - Advances growth from higher-yielding asset classes such as VAF and unsecured lending. - Better risk-adjusted pricing maintained on new business, specifically residential mortgages and VAF. - Robust fee and commission income growth of 12%, benefiting from: – continued growth in active accounts at FNB; – strong new business volumes across the retail franchises, (although slowing in certain segments towards the latter part of the financial year); and – solid growth in knowledge-based fees at RMB. - The benefit of higher capital levels. - Resilient levels of income from investment banking activities, underpinned by a strong performance from RMB's client-centric businesses, in particular: – high levels of financing activities, in part on the back of various infrastructure projects, creating structuring opportunities; and – good results from the flow trading and residual risk businesses, supported by strong client demand.	- Negative endowment impact due to average interest rates being 48 bps lower than the comparative period. - Excluding the impact of the reduction in the impairment charge relating to the merchant acquiring event, the business as usual credit impairment charge increased 11% year-on-year, impacted by: – an increase in specific impairments, mainly in the unsecured books which reflect higher levels of NPLs although still in line with expectations; and – higher levels of portfolio impairments, reflecting the Bank's view that the credit cycle has bottomed, and impacted by the growth in the book. Overall credit impairments increased 1% year-on-year. - Overall cost growth of 8%, driven by: – higher variable costs, which are directly linked to higher profitability; – ongoing expansion costs, particularly in the building out of India; and – increased spend associated with infrastructure and IT platforms. - A significant decrease in investment income on the back of the realisation of profit on the disposal of available-for-sale assets, profit on the disposal of investment in associates and other investment income being down on the prior year.

NET INTEREST INCOME (BEFORE IMPAIRMENT OF ADVANCES) – UP 14%

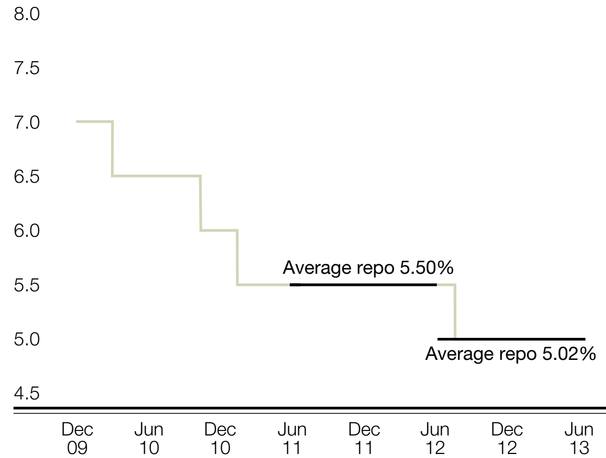
Net interest income (R million)

CAGR 20%



Note: 2009 figures presented on an IFRS basis, figures from 2010 onwards presented on a normalised basis.

Repo rate (%)



Note: R88 billion = average endowment book for the year. Repo rates were lower by 48 bps on average in the current year, which translates into a negative endowment impact of approximately R422 million for the year.

Margin cascade table

Percentage of average interest-earning banking assets	%
June 2012 normalised margin	**4.58**
Capital and deposit endowment	(0.11)
Advances	0.27
– Changes in balance sheet mix	0.16
– Asset pricing	0.11
Liabilities	0.03
– Changes in balance sheet mix (deposits)	0.04
– Changes in balance sheet mix (capital)	0.02
– Term funding cost	–
– Deposit pricing	(0.03)
Foreign currency liquidity buffer carry cost	(0.04)
Accounting mismatches	(0.03)
June 2013 normalised margin	**4.70**

Segmental analysis of net interest income before impairment of advances

R million	Year ended 30 June 2013	2012	% change
FNB	**13 132**	11 054	19
Retail segment	**8 878**	7 210	23
Residential mortgages	**2 477**	2 119	17
Card	**1 215**	1 088	12
Personal loans	**2 194**	1 495	47
Retail other	**2 992**	2 508	19
Commercial segment	**4 261**	3 849	11
FNB Africa	**(7)**	(5)	(40)
RMB	**3 664**	2 721	35
Investment banking	**3 061**	2 210	39
Corporate banking	**603**	511	18
WesBank	**6 080**	5 318	14
Corporate Centre	**1 538**	2 324	(34)
Net interest income – banking activities	**24 414**	21 417	14
Other*	**18**	51	(65)
Net interest income	**24 432**	21 468	14

* *Other includes consolidation adjustments.*

Average balance sheet

R million	Notes	As at 30 June					
		2013			2012		
		Average balance	**Interest income/ (expense)**	**Average client rate %**	Average balance	Interest income/ (expense)	Average client rate %
INTEREST-EARNING ASSETS							
Average prime rate				**8.52**			9.00
Balances with central banks		**13 464**	**–**	**–**	12 151	–	–
Cash and cash equivalents		**13 159**	**527**	**4.00**	7 693	349	4.54
Statutory liquid assets portfolio		**42 784**	**3 059**	**7.15**	48 098	3 618	7.52
Loans and advances to customers	1	**450 310**	**41 192**	**9.15**	400 362	37 299	9.32
Interest-earning assets		**519 717**	**44 778**	**8.62**	468 304	41 266	8.81
INTEREST-BEARING LIABILITIES							
Average JIBAR				**5.18**			5.59
Deposits due to customers	2	**(308 903)**	**(10 137)**	**3.28**	(273 031)	(9 027)	3.31
Group Treasury funding		**(197 250)**	**(10 255)**	**5.20**	(177 899)	(10 211)	5.74
Interest-bearing liabilities		**(506 153)**	**(20 392)**	**4.03**	(450 930)	(19 238)	4.27
ENDOWMENT AND TRADING BOOK							
Other assets*		**128 359**	**92**	**0.07**	116 581	(538)	(0.46)
Other liabilities**		**(89 820)**	**–**	**–**	(86 523)	–	–
NCNR preference shareholders		**(3 000)**	**(46)**	**1.53**	(3 000)	(22)	0.73
Equity		**(49 103)**	**–**	**–**	(44 431)	–	–
Endowment and trading book		**(13 564)**	**46**	**(0.34)**	(17 373)	(560)	3.22
Total interest earning liabilities endowment and trading book		**(519 717)**	**(20 346)**	**3.91**	(468 303)	(19 798)	4.23
Net interest margin on average interest-earning assets		**519 717**	**24 432**	**4.70**	468 303	21 468	4.58

Interest income represents the gross interest received on assets and interest expense represents the gross interest paid on liabilities.
* *Other assets include preference share advances and trading assets.*
** *Other liabilities include trading liabilities.*

Note 1 – Margin analysis on loans and advances to customers

R million	2013 Average balance	2013 Average margin %	2012 Average balance	2012 Average margin** %
Average prime rate (RSA)		**8.52**		9.00
ADVANCES				
Retail – secured	**242 669**	**2.47**	224 307	2.24
Residential mortgages	**159 548**	**1.46**	156 012	1.24
Vehicle asset finance	**83 121**	**4.41**	68 295	4.53
Retail – unsecured	**36 244**	**13.58**	29 112	12.68
Card	**12 192**	**9.08**	10 779	8.79
Personal loans	**19 373**	**17.99**	15 091	17.07
FNB loans	**12 804**	**16.39**	9 567	14.94
WesBank loans	**6 569**	**21.10**	5 524	20.75
Overdrafts	**4 679**	**7.08**	3 242	5.24
Corporate	**171 397**	**2.69**	146 943	2.73
FNB Commercial	**38 930**	**3.72**	33 232	3.44
– Mortgages	**11 057**	**2.17**	9 304	1.60
– Overdrafts	**16 360**	**5.21**	14 466	5.11
– Term loans	**11 513**	**3.10**	9 462	2.69
WesBank Corporate	**30 178**	**3.00**	28 739	3.12
RMB Investment Banking	**100 126**	**2.20**	82 981	2.32
RMB Corporate Banking	**2 163**	**2.05**	1 991	1.96
Total advances*	**450 310**	**3.45**	400 362	3.18

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 the South African operations (FNB and WesBank) and monthly averages for RMB and non-South African operations.

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

** *2012 margins have been restated for the change in the Group's funds transfer pricing methodology and segment changes.*

Margin analysis on loans and 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 funds transfer pricing rate (earned or paid by Group Treasury), i.e. the average margin is, therefore, net of the funds transfer pricing.

The Group operates a transfer pricing framework that incorporates liquidity cost benefits and risks into product pricing, including any regulatory requirement 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 Group as a whole.

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

Note 2 – Margin analysis on deposits due to customers

R million	2013 Average balance	2013 Average margin %	2012 Average balance	2012 Average margin* %
Average prime rate (RSA)		**8.52**		9.00
DEPOSITS				
Retail	**107 188**	**2.56**	93 806	2.74
Current and savings	**35 994**	**4.79**	30 375	5.18
Call	**3 083**	**2.64**	3 377	2.63
Money market	**27 242**	**1.69**	26 095	1.85
Term	**40 869**	**1.16**	33 959	1.24
Commercial	**114 421**	**2.33**	101 043	2.58
Current and savings	**42 748**	**4.34**	37 964	4.77
Call	**27 019**	**1.37**	23 014	1.53
Money market	**17 328**	**1.89**	16 570	2.00
Term	**27 326**	**0.39**	23 495	0.50
Corporate and investment banking	**87 294**	**0.74**	78 182	0.73
Current and savings	**32 883**	**1.45**	25 862	1.47
Call	**31 783**	**0.37**	30 842	0.44
Term	**22 628**	**0.24**	21 478	0.23
Total deposits	**308 903**	**1.96**	273 031	2.10

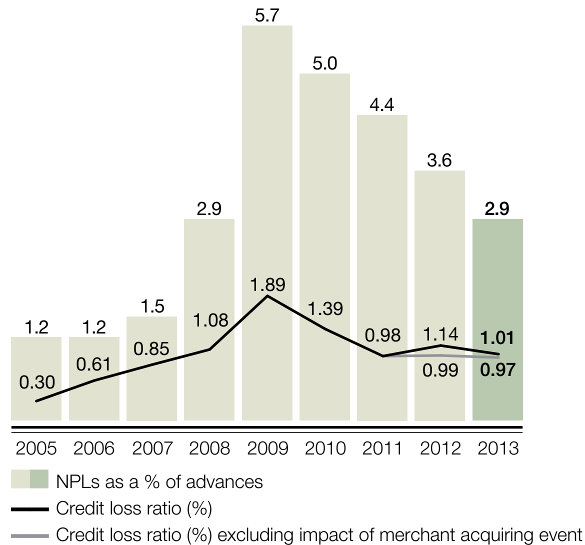
Average balances are daily averages for the South African operations (FNB and WesBank) and monthly averages for RMB and non-South African operations. Institutional funding is excluded from deposits due to customers.

** 2012 margins have been restated for changes in the Group's funds transfer pricing methodology and segment changes.*

Positives	Negatives
• The continued benefit, albeit at lower levels, from growth in higher-yielding asset classes. • Strong advances growth in wholesale and commercial. • The ongoing funding benefit from a higher proportion of retail and commercial funding sources. • Lower absolute term funding costs year-on-year. • The ISP unwind benefit from lower levels of residential mortgage and VAF NPLs.	• Negative endowment impact as average interest rates were 48 bps lower than in the comparative period. • Higher levels of ISP in unsecured lending, associated with rising NPLs. • Mark-to-market losses on certain term funding instruments related to the narrowing of funding spreads during the year – these losses will pull to par over the duration of the instruments. • Dollar funding carry costs incurred for the USD 1 billion liquidity surplus (invested in US treasuries) amounting to R205 million. • Mark-to-market losses on endowment hedges against potential rate cuts. • Increased pricing pressure in the retail and commercial segments.

IMPAIRMENT OF ADVANCES – UP 1% (UP 11% EXCLUDING THE IMPACT OF THE MERCHANT ACQUIRING EVENT)

NPLs and impairment history



CREDIT HIGHLIGHTS

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

R million	Year ended 30 June 2013	2012	% change
Total gross advances*†	**560 188**	493 323	14
NPLs†	**16 125**	17 667	(9)
NPLs as a % of advances	**2.88**	3.58	
Impairment charge – total†	**5 334**	5 291	1
– Business as usual	**5 104**	4 586	11
– Special impairment**	**230**	705	(67)
Impairment charge as a % of average advances	**1.01**	1.14	
– Business as usual	**0.97**	0.99	
– Special impairment	**0.04**	0.15	
Total impairments*†	**11 962**	10 578	13
– Portfolio impairments	**5 540**	4 676	18
– Specific impairments	**6 422**	5 902	9
Implied loss given default (coverage)***	**39.8**	33.4	
Total impairments coverage ratio#	**74.2**	59.9	
Performing book coverage ratio‡	**1.02**	0.98	

* *Includes cumulative credit fair value adjustments.*

** *This impairment related to the discovery during the year ended June 2012 of the deliberate concealment by employees of unrecovered amounts in FNB's merchant acquiring business. This was classified as a boundary event in the prior year.*

*** *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.*

† *Normalised audited.*

‡ *Portfolio impairments as a percentage of the performing book.*

Positives

- Further reduction in the absolute level of NPLs, driven by residential mortgage and VAF portfolios, assisted by:
  - a slowdown in inflows of new NPLs;
  - the continued low interest rate environment; and
  - an ongoing focus on collection processes.
- Strong post write-off recoveries, albeit at slightly lower levels than the comparative period and in line with expectations.

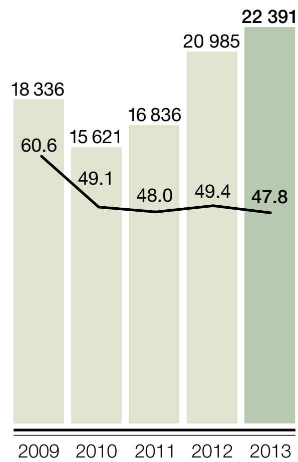
Negatives

- Increased specific impairments on the core advances book, in the main driven by rising NPLs in the unsecured lending portfolios.
- Ageing levels of NPLs in the secured portfolios (VAF and residential mortgages), negatively impacted by protracted workout processes, in part due to the debt review process.
- Higher portfolio impairments on the core advances books (excluding central credit overlays), indicative of:
  - the bottoming of the credit cycle; and
  - strong book growth year-on-year.
- A final specific impairment charge of R230 million relating to the merchant acquiring event.

NON-INTEREST REVENUE – UP 7%

Non-interest revenue and diversity ratio

NIR CAGR 5%



Note: 2009 figures presented on an IFRS basis, figures from 2010 onwards presented on a normalised basis.

Non-interest revenue – up 7%

R million	Notes	Year ended 30 June 2013	2012	% change
Fee and commission income	1	**17 422**	15 496	12
Fair value income	2	**3 467**	3 746	(7)
Investment income	3	**(6)**	572	(>100)
Other non-interest revenue		**1 508**	1 171	29
Total non-interest revenue		**22 391**	20 985	7

Note 1 – Fee and commission income – up 12%

R million	Year ended 30 June		% change
	2013	2012	
Bank commissions and fee income	**16 976**	14 869	14
– Card commissions	**2 618**	2 184	20
– Cash deposit fees	**1 623**	1 653	(2)
– Commissions on bills, drafts and cheques	**1 228**	1 132	8
– Bank charges	**11 507**	9 900	16
Knowledge-based fees	**1 054**	844	25
Insurance income	**887**	784	13
Other non-bank commissions	**1 290**	1 537	(16)
Gross fee and commission income	**20 207**	18 034	12
Fee and commission expenditure	**(2 785)**	(2 538)	10
Total fee and commission income	**17 422**	15 496	12

Positives

- Growth in fee and commission income underpinned by an 8% increase in core transactional banking accounts at FNB, and growth of 13% in transaction volumes.
- Ongoing benefit from strategy to migrate customers to more efficient and cheaper electronic channels, with active cellphone bankers and electronic channel transactional volumes growing 17% and 16% respectively.
- Excellent growth of 25% in knowledge-based fees, reflecting:
  - consistent M&A dealflow, despite a constrained domestic market, benefiting from increased cross-border transactions;
  - strong structuring and originating fee income; and
  - resilient levels of fees earned from the debt and equity capital markets businesses, buoyed by an increase in volumes in debt capital markets.
- Satisfactory performance from the insurance businesses, with income growth underpinned by increased sales growth.
- Strong NIR growth of 15% from WesBank, benefiting from resilient levels of new business origination, as well as an increase in the full maintenance rental book.

Note 2 – Fair value income – down 7%

Positives	Negatives
Fair value income benefited from a robust performance from the client-centric businesses, in particular, RMB's flow trading and residual risk businesses, driven by client demand and the rate cut early in the financial year. A solid performance from the structuring solutions business, despite low market volatility for most of the year, benefiting from several large structuring transactions.	A muted performance from the SA client execution business, hampered by lower levels of market volatility for most of the year. A significant reduction in the year-on-year fair value income earned on derivative instruments held to hedge the Bank's share-based payment liabilities, resulting from the lower increase in the Group's share price during the financial year. The commensurate expense is recorded as part of the Bank's share-based payment expenses.

Note 3 – Investment income – down >100%

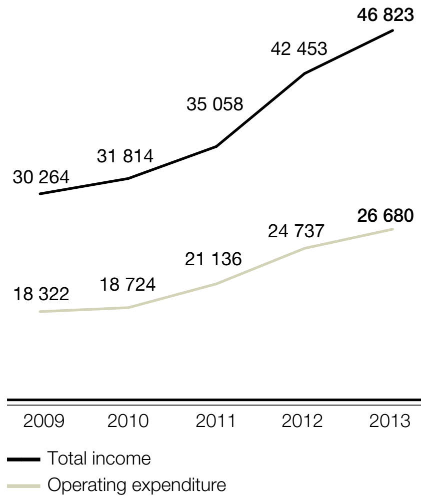
	Year ended 30 June		
R million	**2013**	2012	% change
Profit on disposal of available-for-sale assets	**32**	445	(93)
Profit on disposal of investment in associates	**27**	81	(67)
Other investment income	**(65)**	46	(>100)
Total investment income	**(6)**	572	(>100)

Negatives

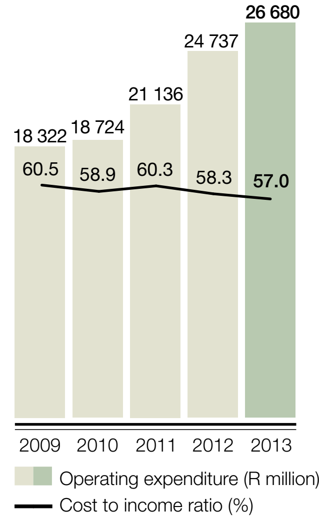
- Non-recurrence of the sale of R206 bonds and an investment policy which was sold by the Bank to a Group company. This resulted in a profit of R445 million (R118 million and R327 million respectively) on the disposal of available-for-sale assets in the prior year.
- A loss of R67 million in the current year relating to documentation fees for the Turbo III Securitisation in the London branch (MotoNovo Finance).

OPERATING EXPENSES – UP 8%

Operating jaws (R million)



Operating efficiency (R million)



Note: 2009 presented on a normalised basis excluding the fee and commission expenses restatement, figures from 2010 onwards presented on a normalised basis.

Operating expenses

	Year ended 30 June		
R million	**2013**	2012	% change
Staff expenditure	**15 439**	14 643	5
– Direct staff expenditure	**9 144**	8 419	9
– Other staff-related expenditure	**6 295**	6 224	1
Depreciation	**1 627**	1 728	(6)
Amortisation of other intangible assets	**94**	149	(37)
Advertising and marketing	**957**	817	17
Insurance	**209**	191	9
Lease charges	**960**	904	6
Professional fees	**967**	837	16
Audit fees	**185**	150	23
Computer expenses	**1 088**	804	35
Maintenance	**751**	670	12
Telecommunications	**293**	261	12
Cooperation agreements and joint ventures	**764**	564	35
Property	**687**	587	17
Business travel	**262**	262	–
Other expenditure	**2 397**	2 170	10
Total operating expenses	**26 680**	24 737	8

STAFF COSTS – UP 5%

- Direct staff costs increased due to above inflation wage settlements for the financial year.
- Other staff costs were affected by:
  - an increase of 23% in variable staff costs, directly attributable to increased profits; and
  - a reduction of 29% in IFRS 2 Share-based payment expenses during the year, in part reflecting the lower year-on-year increase in the FirstRand share price as well as the final vesting of certain share schemes during the year. The related income earned on derivative instruments held to hedge the Bank's share-based payment liabilities is reflected in fair value income.

OTHER OPERATING EXPENSES

- Growth in costs associated with various cooperation agreements and joint ventures, reflective of the revenue growth of these alliances.
- Increased computer expenses, reflecting investment in the Bank's electronic infrastructure.
- The reduction in the depreciation charge is primarily due to the accelerated depreciation charge of R245 million on certain assets in the comparative period.

DIRECT TAXATION – UP 34%

Impacted by:

- The growth in profits during the financial year.
- Change in income mix, with robust growth in NII and standard rate taxable NIR.

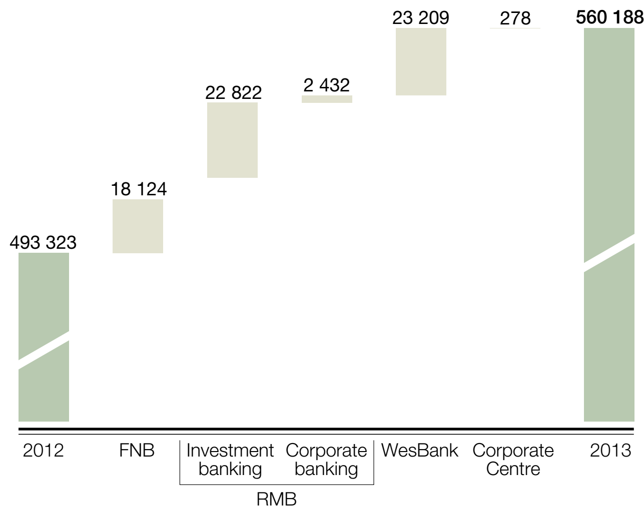
Abridged statement of financial position – normalised

R million	As at 30 June 2013	2012	% change
ASSETS			
Derivative financial instruments	**51 755**	52 392	(1)
Advances	**548 226**	482 745	14
Investment securities and other investments	**95 025**	78 809	21
Other assets	**87 521**	76 188	15
Total assets	**782 527**	690 134	13
EQUITY AND LIABILITIES			
Liabilities			
Deposits	**629 842**	545 796	15
Short trading positions and derivative financial instruments	**55 863**	57 685	(3)
Other liabilities	**41 943**	37 656	11
Total liabilities	**727 648**	641 137	13
Total equity	**54 879**	48 997	15
Total equity and liabilities	**782 527**	690 134	13

ADVANCES – UP 14%

R million	As at 30 June 2013	2012	% change
Normalised gross advances	**560 188**	493 323	14
Normalised impairment of advances	**(11 962)**	(10 578)	13
Normalised net advances	**548 226**	482 745	14

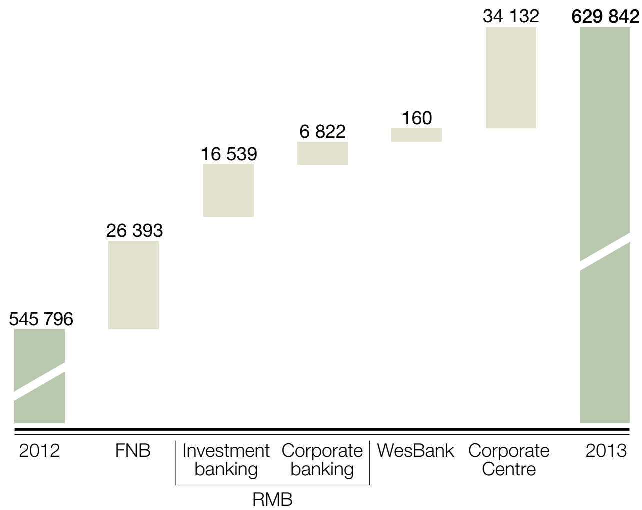
Gross advances by franchise (R million)



Positives	Negatives
⪢ Solid growth of 6% from the FNB retail franchise, including: – 17% growth from affordable housing loans, underpinned by strong demand and resilient customer affordability levels; – card advances grew 15%, supported by new customer acquisition; – 10% growth in personal loans, which continues to moderate reflecting a more conservative approach to unsecured term credit extension; and – other retail, particularly overdrafts, grew strongly (up 86%), mainly on the back of new customer acquisition. ⪢ Strong growth of 19% from FNB Commercial, particularly agricultural loans. ⪢ 18% growth in the core RMB Investment Banking advances book (excluding repos), benefiting from expansion into the rest of Africa, as well as strong deal flow in the healthcare, renewable energy and telecoms sectors. ⪢ Excellent growth of 21% from WesBank, driven by strong new business volumes across all portfolios.	⪢ Constrained growth of 3% from HomeLoans, indicative of ongoing pressure in the consumer market, as well a deliberate strategy to focus new business acquisition on low-risk customers.

DEPOSITS – UP 15%

Deposits by franchise (R million)



Positives
• Strong growth of 12% from FNB's retail franchise. • Current, savings and transmission accounts, notice deposits and call accounts grew 23%, 30% and 10% respectively, resulting from FNB's focus on attracting a larger share of retail and commercial deposits.

Segment report – normalised

SEGMENT REPORT – NORMALISED

for the year ended 30 June 2013

	FNB							
	Retail segment							
R million	Residential mortgages	Card	Personal loans	Retail other	**Retail segment**	Commercial	FNB Africa*	**Total FNB**
Net interest income before impairment of advances	2 477	1 215	2 194	2 992	**8 878**	4 261	(7)	**13 132**
Impairment of advances	(507)	(23)	(1 402)	(613)	**(2 545)**	(318)	–	**(2 863)**
Net interest income after impairment of advances	1 970	1 192	792	2 379	**6 333**	3 943	(7)	**10 269**
Non–interest revenue	293	1 182	1 031	7 264	**9 770**	4 727	303	**14 800**
Income from operations	2 263	2 374	1 823	9 643	**16 103**	8 670	296	**25 069**
Operating expenses	(1 358)	(1 169)	(834)	(7 134)	**(10 495)**	(5 130)	(358)	**(15 983)**
Income before tax	905	1 205	989	2 509	**5 608**	3 540	(62)	**9 086**
Indirect tax	(34)	(38)	(34)	(245)	**(351)**	(38)	(1)	**(390)**
Profit before tax	871	1 167	955	2 264	**5 257**	3 502	(63)	**8 696**
Income tax expense	(231)	(309)	(253)	(601)	**(1 394)**	(928)	17	**(2 305)**
Profit for the year	640	858	702	1 663	**3 863**	2 574	(46)	**6 391**
Attributable to:								
Ordinary equityholders	640	858	702	1 663	**3 863**	2 574	(46)	**6 391**
NCNR preference shareholders	–	–	–	–	**–**	–	–	**–**
Profit for the year	640	858	702	1 663	**3 863**	2 574	(46)	**6 391**
Attributable earnings to ordinary equityholders	640	858	702	1 663	**3 863**	2 574	(46)	**6 391**
Headline earnings adjustments	–	–	–	19	**19**	7	–	**26**
Headline earnings	640	858	702	1 682	**3 882**	2 581	(46)	**6 417**
TRS adjustment	–	–	–	–	**–**	–	–	**–**
IFRS 2 Share-based payment expense	–	–	–	–	**–**	–	–	**–**
Normalised earnings	640	858	702	1 682	**3 882**	2 581	(46)	**6 417**

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

RMB								
Investment banking	Corporate banking	**Total RMB**	**WesBank**	Corporate Centre	Consolidation and IFRS adjustments	**FRB – normalised**	Normalised adjustments	**FRB – IFRS**
3 061	603	**3 664**	**6 080**	1 538	18	**24 432**	(8 966)	**15 466**
(912)	(43)	**(955)**	**(1 516)**	–	–	**(5 334)**	893	**(4 441)**
2 149	560	**2 709**	**4 564**	1 538	18	**19 098**	(8 073)	**11 025**
5 602	1 039	**6 641**	**1 575**	1 272	(1 897)	**22 391**	7 955	**30 346**
7 751	1 599	**9 350**	**6 139**	2 810	(1 879)	**41 489**	(118)	**41 371**
(3 509)	(1 075)	**(4 584)**	**(3 789)**	(2 890)	566	**(26 680)**	(248)	**(26 928)**
4 242	524	**4 766**	**2 350**	(80)	(1 313)	**14 809**	(366)	**14 443**
(49)	(32)	**(81)**	**(219)**	111	–	**(579)**	–	**(579)**
4 193	492	**4 685**	**2 131**	31	(1 313)	**14 230**	(366)	**13 864**
(1 111)	(134)	**(1 245)**	**(565)**	(10)	952	**(3 173)**	102	**(3 071)**
3 082	358	**3 440**	**1 566**	21	(361)	**11 057**	(264)	**10 793**
3 082	358	**3 440**	**1 566**	21	(557)	**10 861**	(264)	**10 597**
–	–	**–**	**–**	–	196	**196**	–	**196**
3 082	358	**3 440**	**1 566**	21	(361)	**11 057**	(264)	**10 793**
3 082	358	**3 440**	**1 566**	21	(557)	**10 861**	(264)	**10 597**
(34)	–	**(34)**	**1**	(31)	(39)	**(77)**	179	**102**
3 048	358	**3 406**	**1 567**	(10)	(596)	**10 784**	(85)	**10 699**
–	–	**–**	**–**	–	–	**–**	85	**85**
–	–	**–**	**–**	–	–	**–**	–	**–**
3 048	358	**3 406**	**1 567**	(10)	(596)	**10 784**	–	**10 784**

	FNB							
	Retail segment							
R million	Residential mortgages	Card	Personal loans	Retail other	**Retail segment**	Commercial	FNB Africa*	**Total FNB**
Cost-to-income ratio (%)	49.0	48.8	25.9	69.6	**56.3**	57.1	>100	**57.2**
Diversity ratio (%)	10.6	49.3	32.0	70.8	**52.4**	52.6	>100	**53.0**
Credit loss ratio (%)	0.32	0.19	11.39	11.54	**1.34**	0.81	–	**1.25**
NPLs as a percentage of advances (%)	4.24	2.32	7.32	6.64	**4.40**	3.34	–	**4.21**
Assets under management	–	–	–	34 124	**34 124**	–	–	**34 124**
Assets under advice	–	–	–	20 472	**20 472**	–	–	**20 472**
Income statement includes:								
Depreciation	(9)	(4)	(2)	(1 007)	**(1 022)**	(122)	–	**(1 144)**
Amortisation	–	–	–	(48)	**(48)**	(13)	–	**(61)**
Impairment charges	–	–	–	(22)	**(22)**	–	–	**(22)**
Other non-cash provisions	(66)	(23)	(13)	(863)	**(965)**	(184)	(4)	**(1 153)**
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 associated companies	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	18 824	**204 338**	44 093	123	**248 554**
Total liabilities	160 495	11 333	10 758	16 532	**199 118**	40 595	186	**239 899**

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

RMB								
Investment banking	Corporate banking	**Total RMB**	**WesBank**	Corporate Centre	Consolidation and IFRS adjustments	**FRB – normalised**	Normalised adjustments	**FRB – IFRS**
40.5	65.5	**44.5**	**49.5**	102.8	30.1	**57.0**	–	**58.8**
64.7	63.3	**64.4**	**20.6**	45.3	>100	**47.8**	–	**66.2**
0.54	1.11	**0.56**	**1.24**	–	–	**1.01**	–	**0.85**
1.28	0.18	**1.25**	**2.83**	–	–	**2.88**	–	**2.90**
18 178	–	**18 178**	**–**	–	4 831	**57 133**	–	**57 133**
–	–	**–**	**–**	–	–	**20 472**	–	**20 472**
(62)	(33)	**(95)**	**(297)**	(89)	(2)	**(1 627)**	–	**(1 627)**
(13)	–	**(13)**	**(15)**	(5)	–	**(94)**	–	**(94)**
(2)	–	**(2)**	**–**	–	–	**(24)**	(248)	**(272)**
(1 271)	(58)	**(1 329)**	**(192)**	(414)	206	**(2 882)**	–	**(2 882)**
178 811	5 101	**183 912**	**133 599**	4 028	(26)	**560 188**	(3 250)	**556 938**
2 296	9	**2 305**	**3 776**	–	–	**16 125**	–	**16 125**
44	–	**44**	**–**	–	–	**44**	–	**44**
117 370	45 855	**163 225**	**811**	224 520	(1 286)	**629 842**	–	**629 842**
296 531	5 106	**301 637**	**134 869**	98 722	(1 255)	**782 527**	–	**782 527**
294 020	4 801	**298 821**	**132 765**	57 388	(1 225)	**727 648**	–	**727 648**

SEGMENT REPORT – NORMALISED

for the year ended 30 June 2012

	FNB							
	Retail segment							
R million	Residential mortgages	Card	Personal loans	Retail other	**Retail segment**	Commercial	FNB Africa*	**Total FNB**
Net interest income before impairment of advances	2 119	1 088	1 495	2 508	**7 210**	3 849	(5)	**11 054**
Impairment of advances	(922)	(27)	(1 011)	(650)	**(2 610)**	(167)	–	**(2 777)**
Net interest income after impairment of advances	1 197	1 061	484	1 858	**4 600**	3 682	(5)	**8 277**
Non-interest revenue	321	1 071	974	6 297	**8 663**	4 319	206	**13 188**
Income from operations	1 518	2 132	1 458	8 155	**13 263**	8 001	201	**21 465**
Operating expenses	(1 208)	(1 124)	(749)	(6 384)	**(9 465)**	(4 451)	(257)	**(14 173)**
Income before tax	310	1 008	709	1 771	**3 798**	3 550	(56)	**7 292**
Indirect tax	(31)	(36)	(30)	(255)	**(352)**	(33)	1	**(384)**
Profit before tax	279	972	679	1 516	**3 446**	3 517	(55)	**6 908**
Income tax expense	(74)	(257)	(180)	(401)	**(912)**	(932)	–	**(1 844)**
Profit for the year	205	715	499	1 115	**2 534**	2 585	(55)	**5 064**
Attributable to:								
Ordinary equityholders	205	715	499	1 115	**2 534**	2 585	(55)	**5 064**
NCNR preference shareholders	–	–	–	–	**–**	–	–	**–**
Profit for the year	205	715	499	1 115	**2 534**	2 585	(55)	**5 064**
Attributable earnings to ordinary equityholders	205	715	499	1 115	**2 534**	2 585	(55)	**5 064**
Headline earnings adjustments	–	(1)	–	39	**38**	15	–	**53**
Headline earnings	205	714	499	1 154	**2 572**	2 600	(55)	**5 117**
TRS adjustment	–	–	–	–	**–**	–	–	**–**
IFRS 2 Share-based payment expense	–	–	–	–	**–**	–	–	**–**
Normalised earnings	205	714	499	1 154	**2 572**	2 600	(55)	**5 117**

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

	RMB								
	Investment banking	Corporate banking	**Total RMB**	**WesBank**	Corporate Centre	Consolidation and IFRS adjustments	**FRB – normalised**	Normalised adjustments	**FRB – IFRS**
	2 210	511	**2 721**	**5 318**	2 324	51	**21 468**	(6 252)	**15 216**
	(422)	(273)	**(695)**	**(1 019)**	–	(800)	**(5 291)**	406	**(4 885)**
	1 788	238	**2 026**	**4 299**	2 324	(749)	**16 177**	(5 846)	**10 331**
	4 914	1 119	**6 033**	**1 368**	2 386	(1 990)	**20 985**	6 179	**27 164**
	6 702	1 357	**8 059**	**5 667**	4 710	(2 739)	**37 162**	333	**37 495**
	(3 118)	(1 141)	**(4 259)**	**(3 376)**	(3 320)	391	**(24 737)**	(81)	**(24 818)**
	3 584	216	**3 800**	**2 291**	1 390	(2 348)	**12 425**	252	**12 677**
	(57)	(15)	**(72)**	**(205)**	167	(2)	**(496)**	–	**(496)**
	3 527	201	**3 728**	**2 086**	1 557	(2 350)	**11 929**	252	**12 181**
	(933)	(53)	**(986)**	**(552)**	(386)	1 397	**(2 371)**	(93)	**(2 464)**
	2 594	148	**2 742**	**1 534**	1 171	(953)	**9 558**	159	**9 717**
	2 594	148	**2 742**	**1 534**	1 171	(1 136)	**9 375**	159	**9 534**
	–	–	**–**	**–**	–	183	**183**	–	**183**
	2 594	148	**2 742**	**1 534**	1 171	(953)	**9 558**	159	**9 717**
	2 594	148	**2 742**	**1 534**	1 171	(1 136)	**9 375**	159	**9 534**
	16	–	**16**	**(1)**	(412)	1	**(343)**	–	**(343)**
	2 610	148	**2 758**	**1 533**	759	(1 135)	**9 032**	159	**9 191**
	–	–	**–**	**–**	–	–	**–**	(240)	**(240)**
	–	–	**–**	**–**	–	–	**–**	81	**81**
	2 610	148	**2 758**	**1 533**	759	(1 135)	**9 032**	–	**9 032**

R million	FNB							
	Retail segment							
	Residential mortgages	Card	Personal loans	Retail other	**Retail segment**	Commercial	FNB Africa*	**Total FNB**
Cost-to-income ratio (%)	49.5	52.1	30.3	72.5	**59.6**	54.5	>100	**58.5**
Diversity ratio (%)	13.2	49.6	39.4	71.5	**54.6**	52.9	>100	**54.4**
Credit loss ratio (%)	0.59	0.24	10.73	27.24	**1.46**	0.50	–	**1.31**
NPLs as a percentage of advances (%)	5.51	2.40	6.05	7.04	**5.38**	4.63	–	**5.26**
Assets under management	–	–	–	15 542	**15 542**	–	–	**15 542**
Assets under advice	–	–	–	19 224	**19 224**	–	–	**19 224**
Income statement includes:								
Depreciation	(9)	(4)	(3)	(1 043)	**(1 059)**	(248)	–	**(1 307)**
Amortisation	–	–	–	(73)	**(73)**	(2)	–	**(75)**
Impairment charges	–	–	–	–	**–**	–	–	**–**
Other non-cash provisions	(40)	(27)	(6)	(612)	**(685)**	(157)	–	**(842)**
Statement of financial position includes:								
Advances (after ISP – before impairments)	157 851	11 291	11 730	3 719	**184 591**	35 960	–	**220 551**
NPLs	8 697	271	710	262	**9 940**	1 665	–	**11 605**
Investments in associated companies	12	–	–	(12)	**–**	–	–	**–**
Total deposits (including non-recourse deposits)	694	1 124	–	110 377	**112 195**	103 984	–	**216 179**
Total assets	156 122	10 835	10 747	13 154	**190 858**	36 404	126	**227 388**
Total liabilities	155 615	9 793	10 147	11 515	**187 070**	33 241	182	**220 493**

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

RMB								
Investment banking	Corporate banking	**Total RMB**	**WesBank**	Corporate Centre	Consolidation and IFRS adjustments	**FRB – normalised**	Normalised adjustments	**FRB – IFRS**
43.8	70.0	**48.7**	**50.5**	70.5	20.2	**58.3**	–	**58.6**
69.0	68.7	**68.9**	**20.5**	50.7	>100	**49.4**	–	**64.1**
0.30	10.38	**0.48**	**0.98**	–	–	**1.14**	–	**1.05**
1.30	0.34	**1.28**	**3.65**	–	–	**3.58**	–	**3.60**
–	–	**–**	**–**	–	–	**15 542**	–	**15 542**
–	–	**–**	**–**	–	–	**19 224**	–	**19 224**
(67)	(42)	**(109)**	**(210)**	(101)	(1)	**(1 728)**	–	**(1 728)**
(30)	–	**(30)**	**(42)**	(3)	1	**(149)**	–	**(149)**
–	–	**–**	**–**	(26)	–	**(26)**	–	**(26)**
(1 071)	(63)	**(1 134)**	**(3)**	(107)	(372)	**(2 458)**	–	**(2 458)**
155 989	2 669	**158 658**	**110 390**	3 421	303	**493 323**	(2 357)	**490 966**
2 028	9	**2 037**	**4 025**	–	–	**17 667**	–	**17 667**
243	–	**243**	**–**	–	–	**243**	–	**243**
100 831	39 033	**139 864**	**651**	189 653	(551)	**545 796**	–	**545 796**
271 067	2 870	**273 937**	**111 037**	78 815	(1 043)	**690 134**	–	**690 134**
269 171	2 604	**271 775**	**108 959**	39 805	105	**641 137**	–	**641 137**

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 76% of total assets. The composition of the advances portfolio consists of retail secured (46%), retail unsecured (7%), corporate (46%) and Corporate Centre (1%). Total NPLs were R16.125 billion (2.88% as a percentage of advances) with a credit loss ratio of 0.97% excluding the impact of the merchant acquiring event and 88% of advances are rated B upper or better.

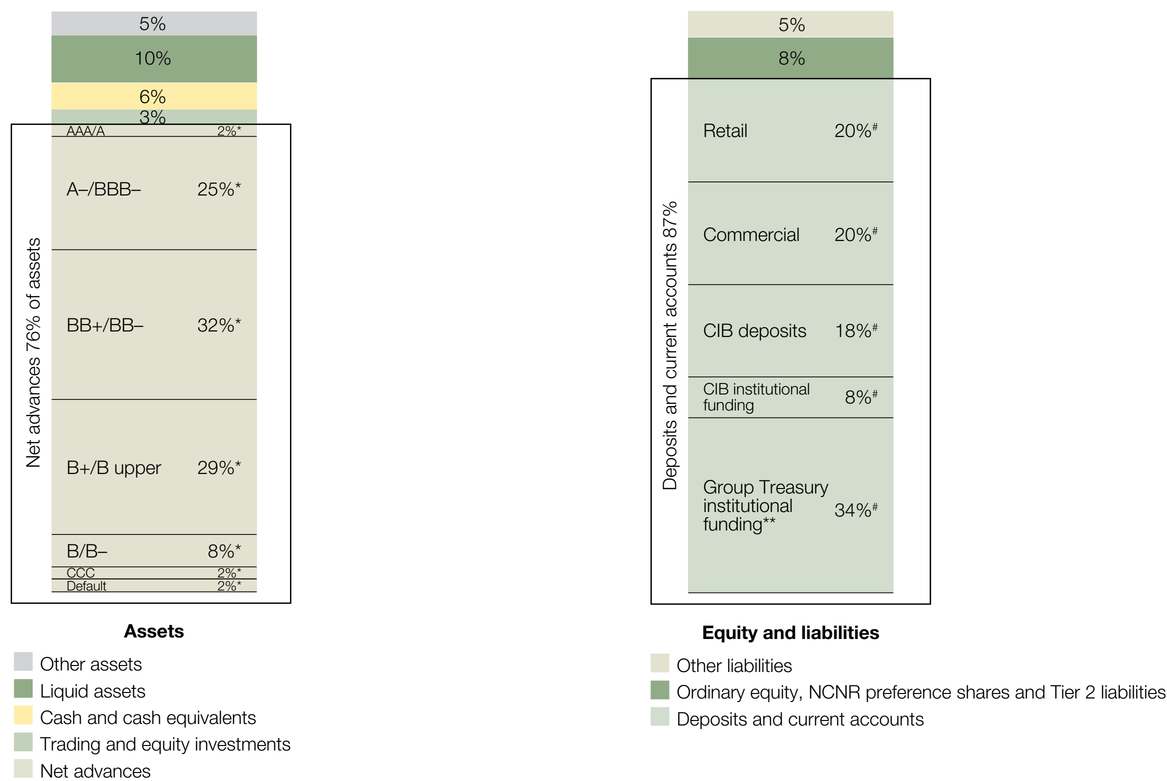
Cash and cash equivalents and liquid assets represent 6% and 10% respectively of total assets. Only a small portion of assets relate to the investment and trading businesses. Market risk arising from trading activities has declined as a result of RMB's decision to exit outright proprietary trading and the Bank's equity investments stem primarily from RMB's private equity activities.

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 12.4 months in 2009 to 20.4 months in 2013.

The weighted average remaining term of the advances portfolio is approximately 36 months and 9 months for deposits.

The Bank's capital ratios remained strong with the CET1 ratio (12.6%), Tier 1 ratio (13.3%) and total capital adequacy ratio (14.9%). Financial gearing changed from 16 times in 2012 to 15 times in 2013.

Economic view of the balance sheet as at 30 June 2013 (%)



* *of net advances*

\# *of deposits and current accounts*
** *includes consolidation and IFRS adjustments*

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

CAPITAL

Refer to pages 106 to 110 for an overview of the Bank's capital position and capital management practices.

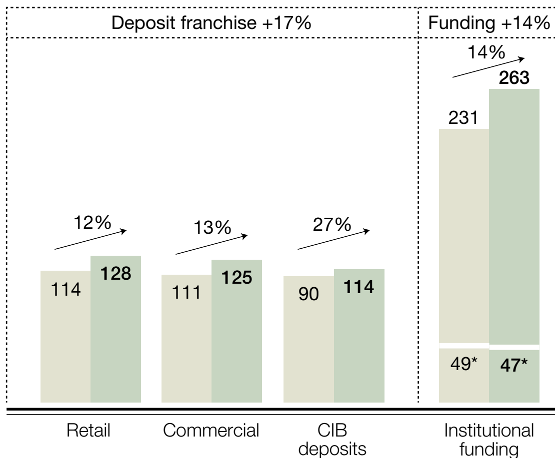
FUNDING AND LIQUIDITY

FUNDING STRATEGY

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

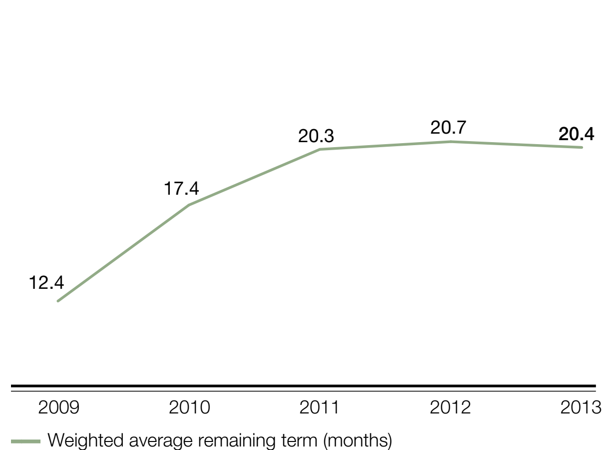
The graph below provides a segment analysis of the Bank's funding base.

Bank funding by segment (R billion)



Compliance with the Basel III Liquidity Coverage Ratio (LCR) influences the Group's funding strategy, in particular as it seeks to restore the correct risk-adjusted pricing of deposits. FRB is actively building its deposit franchise through innovative and competitive products and pricing, while improving the risk profile of its wholesale funding (as illustrated by the following graph).

Weighted average remaining term of institutional funding (months)



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. 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. Given these structural issues and, as a result of the need to fund the significant asset growth between 2001 and 2007, South African banks' overall proportion of institutional funding increased. This is reflected in the table below.

SA banks' funding sources

	As at 30 June 2013			
% of funding liabilities	Total	Short-term	Medium-term	Long-term
Institutional	41.5	14.7	8.1	18.7
Corporate	21.6	17.6	1.5	2.5
Retail	16.1	12.0	2.5	1.6
SMEs	5.2	4.4	0.5	0.3
Government and parastatals	7.9	6.2	1.1	0.6
Foreign	6.8	3.3	1.2	2.3
Other	0.9	0.2	–	0.7
Total	**100**	**58.4**	**14.9**	**26.7**

Source: SA banking sector aggregate SARB BA900 returns (30 June 2013), FirstRand research.

FRB generates a larger proportion of its funding from the deposit franchise in comparison to the SA aggregate, but its funding profile also reflects the structural features described above. Emphasis is placed on improving the profile of institutional funding and developing products that better meet the needs of deposit franchise clients in order to capture a greater proportion of these clients' available liquidity.

FRB's funding sources

	As at 30 June 2013			
% of funding liabilities	Total	Short-term	Medium-term	Long-term
Institutional	39	14	9	16
Deposit franchise	61	47	6	8
Corporate	22	19	1	2
Retail	16	12	3	1
SMEs	6	5	1	–
Government and parastatals	9	7	1	1
Foreign	6	4	–	2
Other	2	–	–	2
Total	**100**	**61**	**15**	**24**

The chart on page 162 provides a historic analysis of FRB's funding sources and reflects the stability of funding sources with an improvement in the deposit franchise. The increase in institutional funding shown in the chart was driven by two factors:

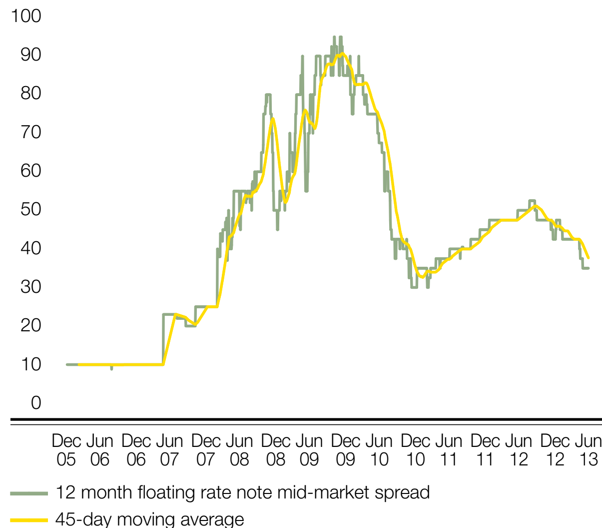
- higher funding requirements associated with the seasonal peak in activity in December; and
- advances growth.

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. FRB'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. In the year under review, short-term liquidity costs decreased. The SARB's monetary policy rate over the year under review implied negative real rates, yet the supply dynamics for savings and investor requirements for real returns kept liquidity premiums above pre-2007 levels. With the steepening of the yield curve to higher 12-month swap rates, liquidity premiums started to contract.

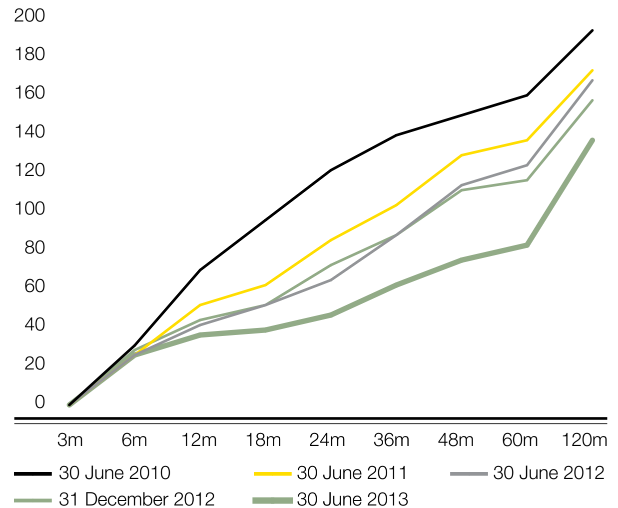
12-month liquidity spread (bps)



Source: Bloomberg (RMBP screen) and Reuters.

Long-term funding spreads are elevated from a historical perspective, however, these have reduced considerably over the year as can be seen from the graph below. These movements are also related to the yield curve steepening and changes in the basis between the South African government bond curve and the swap curve. 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.

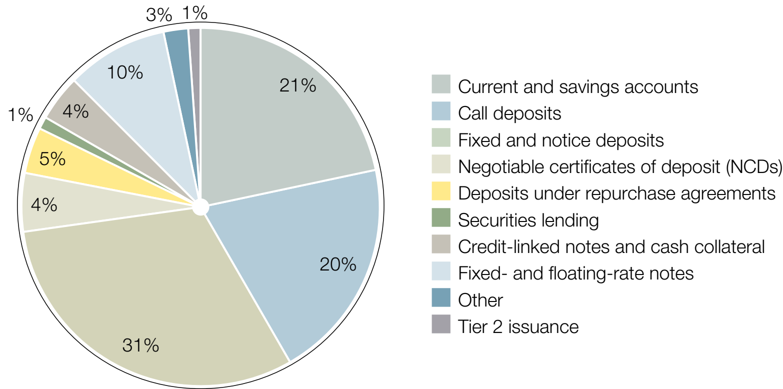
Long-term funding spreads (bps)



Source: Bloomberg (RMBP screen) and Reuters.

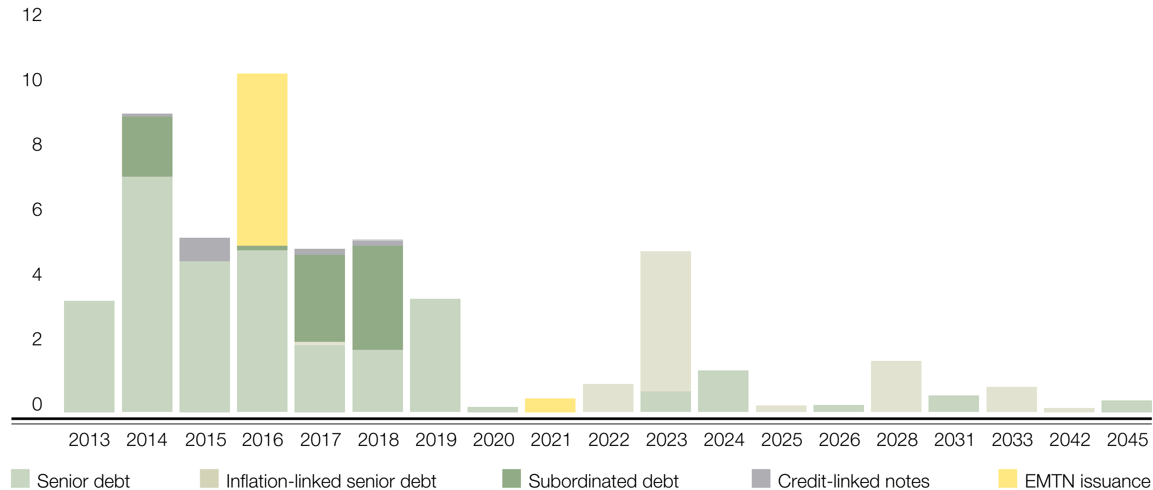
The chart below shows that the Bank has well-diversified instruments funding the balance sheet.

Instrument type (including senior debt)



The maturity profile of all issued capital markets instruments is shown below – FRB 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 FRB's capital market instruments (R billion)



Foreign-currency balance sheet

Given the Group'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 imperative. The Group seeks to avoid exposing itself to undue liquidity risk within the risk appetite approved by the FirstRand board and risk committee. The SARB via *Exchange Control Circular 9 of 2011* introduced macro-prudential limits (MPL) that are applicable to authorised dealers. The Group utilises its own foreign currency measurement balance sheet measures based on economic risk and has set internal limits below that are allowed by the MPL limit framework.

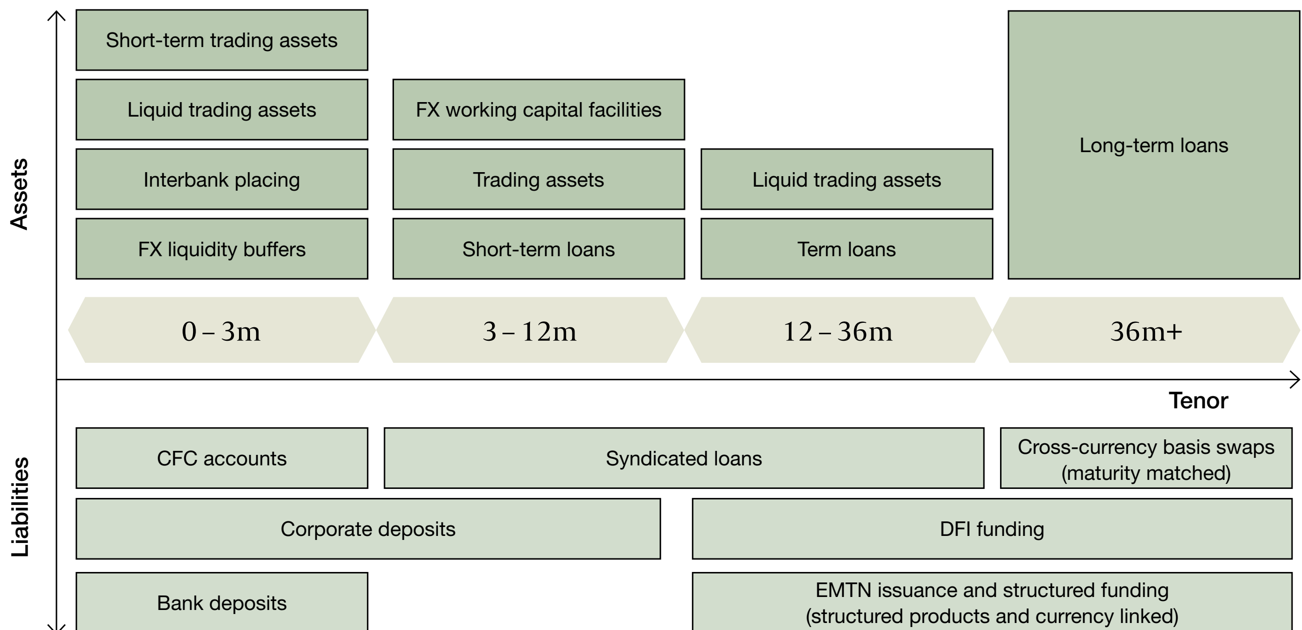
FirstRand's expansion strategy means that its foreign currency activities, in particular lending and trade finance, have increased. Therefore it is important to have a sound framework for the assessment and management of foreign currency external debt, given the inherent vulnerabilities and liquidity risks associated with cross-border financing. This limit includes FRB'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 Group considers risks arising from unsustainable debt path, liquidity, exchange rate and macroeconomic crises.

To determine South Africa's foreign currency funding capacity, the Group considers the external debt of all South African entities (private and public sector, financial institutions) as all these entities utilise the South African system's capacity – confidence, export receipts.

Graphical representation of the foreign currency balance sheet



BASEL III UPDATE

During January 2013 the Basel Committee reaffirmed the liquidity coverage ratio as an essential component of the Basel III reforms. It endorsed a package of amendments to the formulation of the LCR.

A summary of the amendments are:

- a phased-in approach extending the timeframe for full compliance to 2019 from 2015;
  - the minimum requirement will be for an LCR of 60% at 1 January 2015, with 10% incremental step ups each year to 100% on 1 January 2019 (as can be seen in the graph);
- expansion of eligible collateral to include:
  - levels 2A and 2B with qualifying criteria; and
- ratings requirement now refers to national scale ratings for liquidity risk in that local currency.

The Basel Committee on Banking Supervision (BCBS) amendments to Basel III are very positive for South Africa, as the country has a longer period to make the required structural adjustments and the Level 2 criteria now provide support for the improvement and further development of the local debt capital markets.

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

The facility remains broadly as defined in *Guidance Note 5 of 2012* and revises the acceptable collateral, however, the SARB with the *Guidance Note 6 of 2013* release has provided a detailed operational notice on the facility.

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

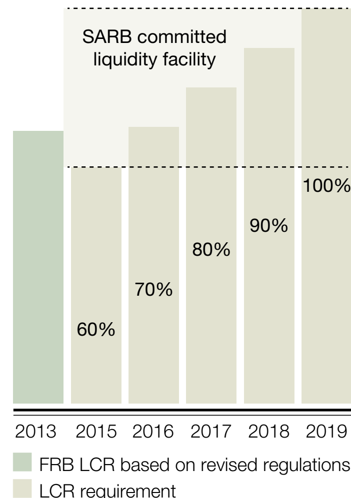
- listed debt securities (minimum A- national scale credit rating);
- listed equities on the main board of the JSE;
- notes of self-securitised eligible residential mortgages; and
- selection of on-balance sheet ring-fenced assets.

In order to include the CLF in bank's available liquidity resources, a considerable amount of work is first required to structure and prepare the assets of the bank appropriately to access such a facility. The collateral requirements include structuring features, eligibility criteria and haircuts designed to protect all counterparties. The CLF 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 timeline for the other liquidity measure introduced by the Basel lll guidelines, namely the Net Stable Funding Ratio (NSFR), which measures the stability of long-term structural funding, is still to be finalised. Expectations are for an updated measure to be released by the Basel Committee in early 2014.

FRB is in the process of LCR implementation and expects to be able to comply with LCR requirements.

Implementation of LCR



CREDIT

Credit strategy is managed as part of the broader financial resource management process and is aligned with the Group's view of the trends in the wider economy.

Total advances increased 14% during the year under review. These originated across all of the Bank's portfolios.

NPLs have continued to trend down since the peak in June 2009. Retail defaults and retail NPLs as a percentage of advances continue to decline. NPLs for the unsecured portfolios have increased as expected, and NPLs in the corporate portfolios declined as a result of continued curing and workout.

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	**2013**	2012	% change
Total gross advances*†	1	**560 188**	493 323	14
NPLs†	2	**16 125**	17 667	(9)
NPLs as a % of advances		**2.88**	3.58	
Impairment charge – total†	3	**5 334**	5 291	1
– Business as usual		**5 104**	4 586	11
– Special impairment**		**230**	705	(67)
Impairment charge as a % of average advances		**1.01**	1.14	
– Business as usual		**0.97**	0.99	
– Special impairment		**0.04**	0.15	
Total impairments*†	4	**11 962**	10 578	13
– Portfolio impairments		**5 540**	4 676	18
– Specific impairments		**6 422**	5 902	9
Implied loss given default (coverage)***	4	**39.8**	33.4	
Total impairment coverage ratio#		**74.2**	59.9	
Performing book coverage ratio‡		**1.02**	0.98	

* *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. This was classified as a boundary 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.*
† *Normalised audited.*
‡ *Portfolio impairments as a percentage of the performing book.*

The notes referred to in the table above are detailed on the following pages. Comparatives of certain portfolios 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:

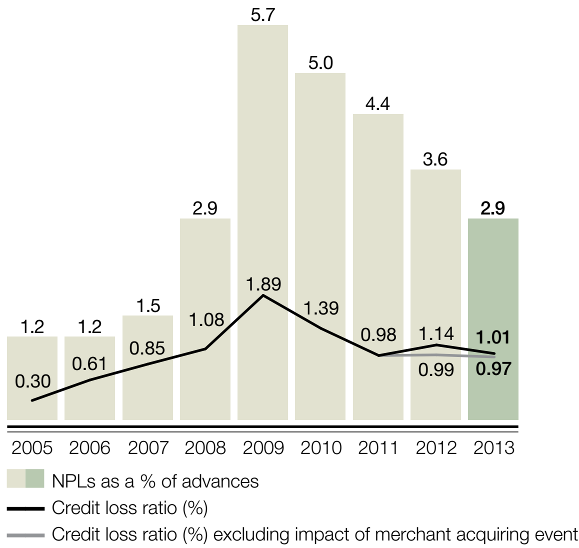
- advances were adjusted (upwards) by the balance sheet credit fair value adjustment of R3 250 million (June 2012: R2 357 million); and
- IFRS credit impairments in the income statement were adjusted to include the credit fair value adjustment impact of R893 million (June 2012: R406 million). Under IFRS, these would have been accounted for under non-interest revenue.

Retail credit portfolios

Impairments in the residential mortgages portfolio declined as a result of the strategy to improve the risk profile. Retail NPLs reduced, driven by the slower inflow into NPLs in FNB HomeLoans. NPLs increased, however, in the unsecured portfolio. This is in line with expectations and risk appetite and has been appropriately priced for.

The higher impairment charge in the retail secured portfolios was due to increased impairments in VAF.

FRB NPLs and impairment history



Corporate credit portfolios

NPLs in the corporate portfolio declined year-on-year. The increase in impairment charges was largely due to portfolio impairments.

NOTE 1: ANALYSIS OF ADVANCES

The table below provides a segmental analysis of advances.

Segmental analysis of advances

R million	Advances			
	As at 30 June		% change	2013 % composition
	2013	2012		
Retail	**296 535**	264 838	12	53
Retail – secured	**256 493**	232 197	10	46
Residential mortgages	**163 046**	157 851	3	29
Vehicle and asset finance	**93 447**	74 346	26	17
Retail – unsecured	**40 042**	32 641	23	7
Card	**13 001**	11 291	15	2
Personal loans	**20 132**	17 631	14	4
– FNB loans	**12 885**	11 730	10	2
– WesBank loans	**7 247**	5 901	23	2
Retail other	**6 909**	3 719	86	1
Corporate	**259 651**	224 761	16	46
FNB Commercial	**42 834**	35 960	19	7
WesBank Corporate	**32 905**	30 143	9	6
RMB Investment Banking	**178 811**	155 989	15	32
RMB Corporate Banking	**5 101**	2 669	91	1
Corporate Centre	**4 002**	3 724	7	1
Total advances	**560 188**	493 323	14	100
Of which:				
Accrual book	**407 844**	355 112	15	73
Fair value book*	**152 344**	138 211	10	27

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

The table below provides an analysis of the impact of assets under agreements to resell on RMB's advances growth.

RMB Investment Banking core advances

R million	As at 30 June		% change
	2013	2012	
RMB Investment Banking advances	**178 811**	155 989	15
Less: assets under agreements to resell	**(40 502)**	(38 482)	5
RMB Investment Banking core advances	**138 309**	117 507	18

Sector and geographic analysis of advances

R million	As at 30 June 2013	As at 30 June 2012	% change
Gross advances	**561 962**	495 255	13
Less: interest in suspense	**(1 774)**	(1 932)	(8)
Advances net of interest in suspense	**560 188**	493 323	14
Sector analysis			
Agriculture	**18 756**	15 463	21
Banks	**6 981**	13 926	(50)
Financial services	**65 505**	59 370	10
Building and property development	**31 745**	27 366	16
Government, Land Bank and public authorities	**15 725**	15 351	2
Individuals	**296 768**	263 923	12
Manufacturing and commerce	**62 606**	49 807	26
Mining	**19 868**	14 553	37
Transport and communication	**13 895**	14 014	(1)
Other services	**28 339**	19 550	45
Total advances	**560 188**	493 323	14
Geographic analysis			
South Africa	**532 904**	470 825	13
Other Africa	**10 885**	4 829	>100
UK	**10 358**	10 842	(4)
Other Europe	**3 379**	2 236	51
North America	**402**	66	>100
South America	**318**	99	>100
Australasia	**501**	574	(13)
Asia	**1 441**	3 852	(63)
Total advances	**560 188**	493 323	14

NOTE 2: ANALYSIS OF NPLS

Segmental analysis of NPLs

	NPLs				NPLs as a % of advances	
	As at 30 June			2013	As at 30 June	
R million	**2013**	2012	% change	% composition	**2013**	2012
Retail	**11 527**	12 889	(11)	71	**3.89**	4.87
Retail – secured	**9 379**	11 333	(17)	58	**3.66**	4.88
Residential mortgages	**6 911**	8 697	(21)	43	**4.24**	5.51
Vehicle and asset finance	**2 468**	2 636	(6)	15	**2.64**	3.55
Retail – unsecured	**2 148**	1 556	38	13	**5.36**	4.77
Card	**302**	271	11	1	**2.32**	2.40
Personal loans	**1 387**	1 023	36	9	**6.89**	5.80
– FNB loans	**943**	710	33	6	**7.32**	6.05
– WesBank loans	**444**	313	42	3	**6.13**	5.30
Retail other	**459**	262	75	3	**6.64**	7.04
Corporate	**4 598**	4 778	(4)	29	**1.77**	2.13
FNB Commercial	**1 429**	1 665	(14)	9	**3.34**	4.63
WesBank Corporate	**864**	1 076	(20)	6	**2.63**	3.57
RMB Investment Banking	**2 296**	2 028	13	14	**1.28**	1.30
RMB Corporate Banking	**9**	9	–	–	**0.18**	0.34
Corporate Centre	**–**	–	–	–	**–**	–
Total NPLs	**16 125**	17 667	(9)	100	**2.88**	3.58
Of which:						
Accrual book	**13 835**	15 651	(12)	86	**3.39**	4.41
Fair value book	**2 290**	2 016	14	14	**1.50**	1.46

Sector and geographical analysis of NPLs

R million	NPLs As at 30 June 2013	NPLs As at 30 June 2012	% change	NPLs as a % of advances As at 30 June 2013	NPLs as a % of advances As at 30 June 2012
Sector analysis					
Agriculture	**603**	562	7	**3.21**	3.63
Financial services	**244**	369	(34)	**0.37**	0.62
Building and property development	**2 488**	2 299	8	**7.84**	8.40
Government, Land Bank and public authorities	**13**	36	(64)	**0.08**	0.23
Individuals	**11 540**	12 654	(9)	**3.89**	4.79
Manufacturing and commerce	**580**	849	(32)	**0.93**	1.70
Mining	**95**	165	(42)	**0.48**	1.13
Transport and communication	**115**	239	(52)	**0.83**	1.71
Other services	**447**	494	(10)	**1.58**	2.53
Total NPLs	**16 125**	17 667	(9)	**2.88**	3.58
Geographic analysis					
South Africa	**15 708**	17 322	(9)	**2.95**	3.68
Other Africa	**1**	33	(97)	**0.01**	0.68
UK	**29**	22	32	**0.28**	0.20
North America	**34**	–		**8.46**	–
South America	**315**	290	9	**99.06**	>100
Australasia	**–**	–	–	**–**	–
Asia	**38**	–		**2.64**	–
Total NPLs	**16 125**	17 667	(9)	**2.88**	3.58

Security and recoverable amounts

	2013			2012		
R million	**NPLs**	**Security held and expected recoveries**	**Specific impairment***	NPLs	Security held and expected recoveries	Specific impairment*
Retail	**11 527**	**7 579**	**3 948**	12 889	9 019	3 870
Retail – secured	**9 379**	**7 053**	**2 326**	11 333	8 704	2 629
Residential mortgages	**6 911**	**5 408**	**1 503**	8 697	6 969	1 728
Vehicle and asset finance	**2 468**	**1 645**	**823**	2 636	1 735	901
Retail – unsecured	**2 148**	**526**	**1 622**	1 556	315	1 241
Card	**302**	**85**	**217**	271	93	178
Personal loans	**1 387**	**353**	**1 034**	1 023	200	823
– FNB loans	**943**	**173**	**770**	710	124	586
– WesBank loans	**444**	**180**	**264**	313	76	237
Retail other	**459**	**88**	**371**	262	22	240
Corporate	**4 598**	**2 124**	**2 474**	4 778	2 746	2 032
FNB Commercial	**1 429**	**647**	**782**	1 665	879	786
WesBank Corporate	**864**	**381**	**483**	1 076	624	452
RMB Investment Banking	**2 296**	**1 096**	**1 200**	2 028	1 243	785
RMB Corporate Banking	**9**	**–**	**9**	9	–	9
Corporate Centre	**–**	**–**	**–**	–	–	–
Total	**16 125**	**9 703**	**6 422**	17 667	11 765	5 902

* *Specific impairments include cumulative credit fair value adjustments.*

NOTE 3: ANALYSIS OF INCOME STATEMENT CREDIT IMPAIRMENTS

The bad debt charge decreased from 114 bps at June 2012 to 101 bps at June 2013. Without the impact of the specific impairment related to the merchant acquiring event, overall credit impairments decreased slightly from 99 bps to 97 bps.

Income statement impairments

	Total impairment charge			As a % of average advances	
	As at 30 June			As at 30 June	
R million	**2013**	2012	% change	**2013**	2012
Retail	**3 717**	2 847	31	**1.32**	1.13
Retail – secured	**1 464**	1 300	13	**0.60**	0.58
Residential mortgages	**507**	922	(45)	**0.32**	0.59
Vehicle and asset finance	**957**	378	>100	**1.14**	0.55
Retail – unsecured	**2 253**	1 547	46	**6.20**	5.47
Card	**23**	27	(15)	**0.19**	0.24
Personal loans	**1 832**	1 275	44	**9.70**	8.56
– FNB loans	**1 402**	1 011	39	**11.39**	10.73
– WesBank loans	**430**	264	63	**6.54**	4.84
Retail other	**398**	245	62	**7.49**	10.27
Corporate	**1 387**	939	48	**0.57**	0.45
FNB Commercial	**318**	167	90	**0.81**	0.50
WesBank Corporate	**129**	377	(66)	**0.41**	1.26
RMB Investment Banking	**912**	422	>100	**0.54**	0.30
RMB Corporate Banking	**28**	(27)	(>100)	**0.72**	(1.03)
Corporate Centre central portfolio impairments*	**–**	800		**–**	0.17
Business as usual impairment charge*	**5 104**	4 586	11	**0.97**	0.99
Special impairment*	**230**	705	(67)	**0.04**	0.15
Total impairment charge	**5 334**	5 291	1	**1.01**	1.14
Of which:					
Portfolio impairment charge	**1 211**	1 409	(14)	**0.23**	0.31
Specific impairment charge	**4 123**	3 882	6	**0.78**	0.83

* *Percentages calculated on total average advances.*

NOTE 4: ANALYSIS OF BALANCE SHEET IMPAIRMENTS AND COVERAGE RATIOS

The Bank constantly monitors market conditions as well as recent and expected recoveries on NPLs to determine its coverage ratios. The NPLs coverage ratio increased to 39.8% (June 2012: 33.4%).

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	**2013**	2012	% change	**2013**	2012
Specific impairments*					
Retail	**3 948**	3 870	2	**34.3**	30.0
Retail – secured	**2 326**	2 629	(12)	**24.8**	23.2
Residential mortgages	**1 503**	1 728	(13)	**21.7**	19.9
Vehicle and asset finance	**823**	901	(9)	**33.3**	34.2
Retail – unsecured	**1 622**	1 241	31	**75.5**	79.8
Card	**217**	178	22	**71.9**	65.7
Personal loans	**1 034**	823	26	**74.5**	80.4
– FNB loans	**770**	586	31	**81.7**	82.5
– WesBank loans	**264**	237	11	**59.5**	75.7
Retail other	**371**	240	55	**80.8**	91.6
Corporate	**2 474**	2 032	22	**53.8**	42.5
FNB Commercial	**782**	786	(1)	**54.7**	47.2
WesBank Corporate	**483**	452	7	**55.9**	42.0
RMB Investment Banking	**1 200**	785	53	**52.3**	38.7
RMB Corporate Banking	**9**	9	–	**100.0**	100.0
Total specific impairments/implied loss given default**	**6 422**	5 902	9	**39.8**	33.4
Portfolio impairments#	**5 540**	4 676	18	**34.4**	26.5
Total impairments/total impairment coverage ratio†	**11 962**	10 578	13	**74.2**	59.9

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

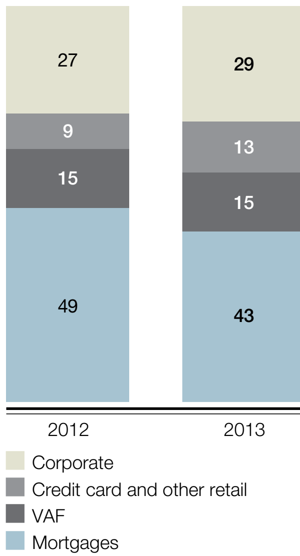
** *Amortised cost specific impairments and credit fair value adjustments as a percentage of NPLs.*

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.*

The graph below provides the NPLs distribution across the product categories, showing a decrease in the proportion of residential mortgage NPLs since June 2012.

NPLs distribution (%)



RECONCILIATION OF IMPAIRMENTS

The following table provides an analysis of the balance sheet amortised cost impairments and credit fair value adjustments.

Balance sheet impairments and credit fair value adjustments

	As at 30 June					
	Amortised cost book		Fair value book		Total book	
R million	**2013**	2012	**2013**	2012	**2013**	2012
Non-performing book	**5 228**	5 119	**1 194**	783	**6 422**	5 902
Performing book	**3 484**	3 102	**2 056**	1 574	**5 540**	4 676
Total impairments	**8 712**	8 221	**3 250**	2 357	**11 962**	10 578

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

Balance sheet specific impairments – amortised cost

	As at 30 June		
R million	**2013**	2012	% change
Opening balance	**5 119**	5 527	(7)
Reclassifications and transfers	**146**	(33)	(>100)
Acquisitions	**–**	3	(100)
Exchange rate difference	**5**	2	>100
Unwinding and discounted present value on NPLs	**(157)**	(122)	29
Bad debts written off	**(4 917)**	(5 340)	(8)
Net new impairments created	**5 032**	5 082	(1)
Closing balance	**5 228**	5 119	2

The following table provides an analysis of the income statement impact of amortised cost impairments and credit fair value adjustments.

Income statement impairments

R million	Year ended 30 June		% change
	2013	2012	
Specific impairment charge	**5 032**	5 082	(1)
Recoveries of bad debts written off	**(1 116)**	(1 279)	(13)
Net specific impairment charge (amortised cost)	**3 916**	3 803	3
Portfolio impairment charge (amortised cost)	**525**	1 082	(51)
Credit fair value adjustments	**893**	406	>100
– Non-performing book	**207**	79	>100
– Performing book	**686**	327	>100
Total impairments	**5 334**	5 291	1

RISK ANALYSES

Refer to pages 136 to 139 for selected risk analyses of the credit portfolios.

SEGMENTAL ADVANCES, NPLS AND IMPAIRMENT ANALYSIS

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

R million/%	Year ended 30 June 2013					Year ended 30 June 2012				
	Advances	**NPLs**	**NPLs as a % of advances**	**Total impairment charge**	**Impairments as % of average advances**	Advances	NPLs	NPLs as a % of advances	Total impairment charge	Impairments as % of average advances
FNB*	**238 675**	**10 044**	**4.21**	**2 648**	**1.15**	220 551	11 605	5.26	2 372	1.12
Retail	**195 841**	**8 615**	**4.40**	**2 330**	**1.22**	184 591	9 940	5.38	2 205	1.24
– Residential mortgages	**163 046**	**6 911**	**4.24**	**507**	**0.32**	157 851	8 697	5.51	922	0.59
– Card	**13 001**	**302**	**2.32**	**23**	**0.19**	11 291	271	2.40	27	0.24
– Personal loans	**12 885**	**943**	**7.32**	**1 402**	**11.39**	11 730	710	6.05	1 011	10.73
– Retail other	**6 909**	**459**	**6.64**	**398**	**7.49**	3 719	262	7.04	245	10.27
Commercial	**42 834**	**1 429**	**3.34**	**318**	**0.81**	35 960	1 665	4.63	167	0.50
WesBank	**133 599**	**3 776**	**2.83**	**1 516**	**1.24**	110 390	4 025	3.65	1 019	0.98
Asset-backed finance	**126 352**	**3 332**	**2.64**	**1 086**	**0.94**	104 489	3 712	3.55	755	0.76
– Retail	**93 447**	**2 468**	**2.64**	**957**	**1.14**	74 346	2 636	3.55	378	0.55
– Corporate	**32 905**	**864**	**2.63**	**129**	**0.41**	30 143	1 076	3.57	377	1.26
Loans	**7 247**	**444**	**6.13**	**430**	**6.54**	5 901	313	5.30	264	4.84
RMB	**183 912**	**2 305**	**1.25**	**940**	**0.55**	158 658	2 037	1.28	395	0.27
Investment Banking	**178 811**	**2 296**	**1.28**	**912**	**0.54**	155 989	2 028	1.30	422	0.30
Corporate Banking	**5 101**	**9**	**0.18**	**28**	**0.72**	2 669	9	0.34	(27)	(1.03)
Corporate Centre*	**4 002**	**–**	**–**	**–**	**–**	3 724	–	–	800	0.17
Subtotal	**560 188**	**16 125**	**2.88**	**5 104**	**0.97**	493 323	17 667	3.58	4 586	0.99
Special impairments**	**–**	**–**	**–**	**230**	**0.04**	–	–	–	705	0.15
Total	**560 188**	**16 125**	**2.88**	**5 334**	**1.01**	493 323	17 667	3.58	5 291	1.14

* *Comparative information of certain portfolios has been restated to reflect the current segmentation of the business.*

** *Special impairments relate to FNB R215 million (2012: R405 million) and RMB Corporate Banking R15 million (2012: R300 million).*

Risk and capital management report

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RISK AND CAPITAL MANAGEMENT REPORT

OVERVIEW

This risk and capital management report covers the operations of FirstRand Bank Limited (the Bank or FRB). 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 management is of primary importance to its success and is a key component of the delivery of sustainable returns to shareholders. It is, therefore, deeply embedded in the Group's tactical and strategic decision making. The Group aligns its risk management approach to its strategy.

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

Risk taking is an essential part of the Group's business and FirstRand explicitly recognises risk identification, assessment, monitoring and management as core competencies and important differentiators in the competitive environment in which it operates. Through its portfolio of leading franchises namely, FNB, RMB, WesBank and the newly-established investment management business, Ashburton Investments, FirstRand aims to be appropriately represented in all significant earnings pools across all chosen markets and risk-taking activities. This entails building revenue streams that are diverse and create long-term value through sustainable earnings pools managed within acceptable earnings volatility parameters.

Managing the risk profile

The Group's focus areas to manage its risk profile and optimise its portfolio, are outlined below.

Earnings resilience and balance sheet strength

- Strong earnings resilience through diversification, growth in client franchise businesses, improved margins and cost containment.
- Maintaining balance sheet strength through:
  - an asset profile that reflects an appropriate balance between corporate and retail lending activities;
  - optimal retail asset mix;
  - improved asset quality.
- A diversified and competitive deposit franchise.
- Maintaining return on equity (ROE).
- Funding the Group's activities in a sustainable, efficient and flexible manner, underpinned by strong counterparty relationships within prudential limits and requirements.
- Maintaining the Group's strong capital position post-Basel III. Current targeted levels and ratios are summarised in the following table.

Capital adequacy position of the Bank

%	CET1	Tier 1	Total
Regulatory minimum	4.5	6.0	9.5**
Target	9.5 – 11.0	11.0	12.0 – 13.5
FRB* actual	**12.6**	**13.3**	**14.9**

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

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 consistently applied throughout the organisation.

Top and emerging risks

- Although the debt crisis in Europe has stabilised somewhat, concerns exist that the slowdown in emerging market economies, coupled with US quantitative easing tapering, pose a risk to growth prospects.
- South Africa currently runs a large current account deficit. This imbalance reflects the country's dependence on foreign capital inflows to fund growth. The dependence renders the economy vulnerable to adverse global or domestic economic developments that could affect foreign capital inflows, increasing the risks to growth and commodity prices.
- The tailwinds (commodity super cycle and foreign capital flows) that benefited the South African economy over the past few years are fading, putting pressure on an already weak exchange rate, and a higher inflation rate relative to domestic demand conditions.
- Consumers' disposable income will remain constrained resulting in continued pressure on the retail credit book performance and growth. This may also result in increased levels of non-performing loans (NPLs) including unsecured lending portfolios.
- Regulatory changes that are currently being planned for unsecured lending may affect business models and could result in a number of consequences across the industry.
- With global cybercrime increasing, renewed focus is being placed on protecting the Group against external and internal attacks.
- A changing and tougher regulatory landscape (Financial Intelligence Centre Act, Consumer Protection Act, Treating Customers Fairly, Basel III) with concomitant high compliance costs. This is further exacerbated by international requirements such as 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 apply in order to maintain correspondent banking relationships and secure inward funding.

Recent and future regulatory changes

The year under review was characterised not only by announcements relating comprehensive future regulatory reforms but also by amended legislation, ongoing amendments and proposed enhancements to the banking, regulatory and supervisory framework.

Basel III

The most notable regulatory change was the implementation of the Basel III framework through the amended *Regulations relating to Banks* (the Basel III regulations), which became effective on 1 January 2013. The regulatory reforms in respect of the Basel III framework are mainly focused on banks' capital and liquidity, and details are discussed in the relevant sections of this report. The Group expects that in order to ensure that the South African regulatory framework for banks remains aligned to internationally-agreed regulatory and supervisory standards, future amendments to banking legislation will continue. The Group will continue to actively and constructively support and participate in working and task groups.

Twin peaks

An important development in respect of the regulatory framework was a document issued for public comment in February 2013 by the Financial Regulatory Reform Steering Committee. This provides information on a wide-ranging set of reforms and proposals relating to, amongst others, the implementation of a twin peaks model of financial regulation in South Africa; details of which were initially published during February 2011 in a policy document, *A safer financial sector to serve South Africa better.* In a pure twin peaks model, prudential and market conduct regulation is undertaken by separate regulators. A dedicated prudential regulator performs the safety and soundness supervision function and a dedicated market conduct regulator performs the market and business conduct supervision function. It is expected that the financial regulation reforms will be implemented in two phases, along with the development of necessary legislation to enable the relevant regulators to deliver on revised mandates.

The design and implementation of a twin peaks model of financial regulation is a complex undertaking that requires considerable consultation and the Group will, as a key stakeholder, continue to foster close interaction and cooperation with the regulators.

Highlights

Details of highlights for the year and focus areas identified through risk management processes are discussed below.

Highlights for the year	Focus
Capital management	
• Basel III was successfully implemented on 1 January 2013. The final capital framework was released in October 2012 and the impact on the Bank's CET1 capital ratio is positive given the add-back of certain disclosable reserves, most notably the share-based payment and available-for-sale reserves. • Tier 1 and Total capital ratios will be negatively impacted by 2019 as the existing Additional Tier 1 (AT1) and Tier 2 instruments do not meet the Basel III qualifying criteria. These instruments will be grandfathered from 2013 over a ten-year period.	• The Group continues to focus on the most optimal capital mix following guidance from the South African Reserve Bank (SARB) on the loss absorbency requirements for capital instruments, as well as capacity for new issuance in the capital markets. • In addition, the Group will look at: – maintaining strong capital levels, with particular attention on the quality of capital; and – optimising the Group's risk-weighted assets (RWA) and capital mix during the transitional period of implementing Basel III.
Credit risk	
• Steady growth in retail advances attributable to affordable housing loans, card advances, personal loans, FNB Africa and vehicle and asset finance (locally and internationally). • Growth in corporate advances particularly in infrastructure finance (including renewable energy), resource finance, larger listed property funds and other structured lending transactions. • Mortgages continue to show improvement with the vintages at multi-year lows, although slow growth reflects continuing pressure in the property market. Vintages and arrear levels in vehicle and asset finance at consistently low and stable levels. • Impairments are at the bottom of the cycle and lower than the FirstRand impairment highway of roughly 100 – 110 bps, however, given the level of consumer indebtedness, further rate increases would negatively impact impairments. • Improvements in NPLs emanating from reductions in mortgages, driven by the low interest rate environment, which positively impacted customers ability to service debt, lower levels of new inflows into NPLs and ongoing focus on enhanced collection processes across the Group. • Credit tightening actions taken in the unsecured loans portfolios are expected to result in continued slower growth in these portfolios going forward.	• Monitoring credit concentration in industries affected by labour unrest. *Retail credit portfolio* • Continued focus on credit strategy and consumer affordability to capture appropriate levels of new business utilising credit capacity calculation and risk appetite drivers. • Refining origination scorecards to ensure optimal credit quality of new business in the unsecured lending portfolios as well as the other retail portfolios. • Ongoing focus on low risk business in the retail bank and banked clients is expected to improve the risk profile of the book further. *Commercial credit portfolio* • Credit strategy to capture appropriate levels of new business utilising credit capacity and more granular risk appetite drivers. • Further developing commercial lending skills and product offerings to strengthen advances growth in support of the Group's global product ownership and African corridor strategies. *Wholesale credit portfolio* • Ensuring movements in facilities are in line with origination strategy, i.e. predominantly to better-rated counterparties and medium and low volatility industries.

Highlights for the year	Focus
Counterparty credit risk	
• Successful implementation of the Basel III credit value adjustment (CVA), asset value correlation (AVC) and central clearing capital charges. • Improvement in the risk profile of the prime financing portfolio with the implementation of bespoke risk frameworks for each individual business line.	• Continued incorporation of the African businesses into the counterparty credit risk process. • Extracting gains through the optimal management of collateral. • Risk management of credit and funding fair value adjustments of derivatives.
Market risk	
Market risk in the trading book	
• Overall levels of market risk remained fairly low compared to prior periods, particularly following the strategic decision to cease outright proprietary trading activities. • Integration of the remaining equities businesses into Global Markets and the consolidation of market risk analysis across the division.	• Continued improvements to the overall RMB market risk process, with a focus on producing risk analytics on an intra-day basis.
Interest rate risk in the banking book	
• During the year under review, the average repo rate dropped by 48 bps, resulting in a negative endowment impact, which was managed through hedges.	• Improving the quality and frequency of interest rate risk identification, management and analysis throughout the Group.
Equity investment risk	
• Regular portfolio churn with a number of realisations during the year. • Certain industries presented new investment opportunities for the Group.	• Basel III impact on the treatment of investments in financial entities and optimisation of these requirements.
Foreign exchange and translation risk in the banking book	
• Continued to strengthen principles for management of foreign exchange positions, funding and support from FirstRand to its foreign entities. • Net open forward positions in foreign exchange (NOFP) limits were set for each of the foreign entities, together with a reporting and management framework and the foreign exchange market risk framework and limits.	• Management of foreign exchange assets and foreign exchange exposures on the balance sheets of foreign entities. • Continually assess and review the foreign exchange exposure and enhance the quality and frequency of reporting.

Highlights for the year	Focus
Funding and liquidity risk	
• The latest release of the Basel III liquidity coverage ratio has alleviated the requirement for the SARB committed liquidity facility due to a reduction in outflow factors and an increase in available assets.	• The Basel III liquidity regime continues to be a focus area for the Group with emphasis on both funding and market liquidity risk management, and particular attention on the structural funding constraints of the South African market. • Optimising a risk-adjusted diversified funding profile in line with Basel III requirements for the liquidity coverage ratio (LCR), which measures short-term liquidity stress (effective from 1 January 2015) and the net stable funding ratio (NSFR), which measures the stability of long-term structural funding (effective 1 January 2018).
Operational risk	
• Risk maturity assessments were conducted across the Group to identify key processes requiring improved levels of maturity in each division. • Progress with process mapping activities with an initial focus on end-to-end mapping of high risk processes and the identification of risks, controls and handover points. • Process-based risk and control identification and assessment methodology was rolled out. • Progress on automation of operational risk tools. • Approval of Group and divisional operational risk appetite enabling the Group and its divisions to measure and monitor operational risk profiles against approved operational risk appetite levels, and to set the boundaries for operational risk within which the business can achieve its strategic objectives.	• Integration and automation of the Group's operational risk management tools onto a single platform to enhance operational risk management processes. • Key themes identified during the risk maturity assessment initiative have resulted in the initiation and prioritisation of several projects across the Group which will address identified operational risks. • Roll-out of the process-based risk and control identification and assessment methodology. • Definition of operational risk appetite at Group and franchise levels.
Regulatory risk	
• Implementation of the Basel III framework through the Basel III regulations, which became effective on 1 January 2013. • Announcements by the authorities on the proposed implementation of a twin peaks model of financial regulation in South Africa.	• Continued support for regulatory objectives and endorsement of improvements in risk management and governance practices, and cooperation with regulatory authorities.

Basel Pillar 3 disclosure

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

FirstRand Limited is the listed holding company and regulated bank-controlling company. The wholly-owned subsidiaries of FirstRand are:

- FirstRand Bank Limited (the Bank or FRB);
- FirstRand EMA Holdings Limited (FREMA);
- FirstRand Investment Holdings Proprietary Limited (FRIHL), all of which are regulated; and
- Ashburton Investments Holdings Limited (Ashburton Investments).

Banking operations are included under the Bank, FREMA includes the banking operations in Africa, Ashburton Investments is the newly-established investment management business of FirstRand, and all other activities are included under FRIHL. A simplified group structure can be found on page 3 of this annual report.

Some differences exist between the practices, approaches, processes and policies of the Bank and its fellow wholly-owned subsidiaries and these are highlighted by a reference to the appropriate entity, where necessary. This report has been internally verified by the Group's governance processes in line with the Group's public disclosure policy. All information in this report is unaudited unless otherwise indicated.

Improved disclosure

An assessment of the Group's Basel Pillar 3 disclosure in terms of the Financial Stability Board's (FSB) *Report of the Enhanced Disclosure Task Force on risk disclosure of banks* identified a number of recommendations which have been included in the Group's disclosure previously. The Group's risk disclosure has been improved in response to recommendations from regulators, investors, shareholders, the *Enhanced disclosure report* (not previously included) and other users of the Pillar 3 report, including disclosure of:

- top and emerging risks affecting the Group;
- the Group's risk culture and how procedures and strategies are applied to support the culture;
- the differences between statutory and regulatory consolidation;
- SARB's RWA calculation approaches per risk type applicable to the Bank;
- additional information on the components of RWA calculations;
- exposure-weighted average risk weights for major credit risk portfolios;
- nominal amounts of exposure at default (EAD) and the RWA/EAD ratios for major credit risk portfolios;
- additional qualitative information regarding securitisations;
- description of the limitations of the use of the Value at Risk (VaR) methodology relevant to market risk;
- market risk factors relevant to the Group's market risk portfolio in addition to interest rates, foreign exchange, commodity and equity measures.

SARB approaches to calculation of RWA

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

Risk type	FirstRand Bank domestic operations	SARB approval date	Remaining FirstRand Bank foreign operations
Credit risk	Advanced internal ratings-based (AIRB) approach	January 2008	Standardised approach
Counterparty credit risk	Standardised approach	May 2012	Current exposure method (CEM)
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)
Other assets	Standardised approach	January 2008	Standardised approach

* *All entities on AMA and TSA for operational risk were included in the approval for use of AMA and TSA from January 2009.*

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 Basel, the Banks Act and accompanying regulations. There are some differences in the manner in which entities are consolidated for accounting and regulatory purposes. The following table provides the basis on which the different types of entities are treated for regulatory purposes.

Regulatory consolidation treatment

<table>
<tr><th>Shareholding</th><th>Banking, security firm or financial entity</th><th>Insurance entity</th><th>Commercial entity</th></tr>
<tr><td>Between 10% and 20%</td><td colspan="2">- refer to threshold rules.*</td><td>Internal ratings-based approach risk weight up to maximum of 1250%.</td></tr>
<tr><td>Between 20% and 50%</td><td>Legal or de facto support:
- proportionately consolidate.
No other significant shareholder:
- refer to threshold rules.*</td><td rowspan="2">Refer to threshold rules.*</td><td rowspan="2">Individual investment greater than 15% of CET1, AT1 and Tier 2:
- risk weight at 1250%.
Individual investment up to 15% of CET1, AT1 and Tier 2:
- risk weight at no less than 100%.</td></tr>
<tr><td>Greater than 50%</td><td>Entity conducting trading activities/other bank, security firm or financial entity:
- consolidate.</td></tr>
</table>

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

DEFINITIONS

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

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

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

RISK APPETITE AND FINANCIAL RESOURCE MANAGEMENT

The Group's risk appetite and financial resource management process frames all organisational decision making and is fully integrated with the Group's strategic objectives. The Group's risk appetite is not equal to its absolute risk capacity. When setting risk appetite, the Group takes into consideration the following:

- growth expectations;
- operating environment;
- targeted return profile, capital levels, liquidity position and credit rating; and
- acceptable volatility in earnings through different economic cycles.

Risk capacity is quantified in terms of:

- level, growth, volatility and mix of earnings;
- regulatory capital requirements; and
- level of liquidity buffers and diversification of funding sources.

The financial resource management process sets minimum targets for these resources. Business and strategic decisions and the setting of risk appetite are aligned to these targets to ensure they are met during a normal cyclical downturn. Therefore, at a business unit level, strategy and execution are managed through the availability and price of financial resources, earnings volatility limits and required hurdle rates.

The Group's balance sheet and return targets are outlined in the table below.

Balance sheet and return targets

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

Risk appetite

When setting risk appetite, the Group considers the requirements of key stakeholders, namely, regulators, debt holders (including depositors) and shareholders. Business units are ultimately tasked with the generation of sustainable returns within risk appetite limits. These limits act as a constraint on the assumption of increasing risk in the pursuit of profits – both quantum and type. The financial resource management process would, for example, prevent a marginal increase in return in exchange for disproportionately more volatile earnings. Certain types of risk, such as reputational, fall outside risk appetite.

The board has established risk appetite principles against which business is measured. These include:

- not excessively gearing the balance sheet;
- off-balance sheet exposure should be limited relative to own capital and funding base;
- ensure true risk transfer, avoid accounting or regulatory arbitrage;
- sources of income should be widely diversified across business entities, products, market segments, investments, financial and commodity markets and regions;
- the potential impact of severe downturn and stress conditions must be identified, measured, quantified, understood and contained in accordance with capital preservation and earnings volatility parameters;
- limit concentration in higher risk asset classes;
- diversify sources of funding;
- hold sufficient buffers for capital and liquidity purposes; and
- contain losses arising from operational process breakdowns.

In setting the risk appetite, the executive committee (exco) and the board balance the organisation's overall risk profile with a bottom-up view of the planned risk profile for each business. It is in this process that the Group ultimately seeks to achieve an optimal trade-off between its ability to take on risk and the sustainability of the returns delivered to shareholders.

The board assumes responsibility for ensuring that risks are adequately managed and controlled through the risk, capital management and compliance (RCC) committee and subcommittees, as described in the *Risk governance* section.

Risk appetite measures and stress and scenario results are included in risk and management reports across the businesses and at board level and are continually refined.

Scenario planning

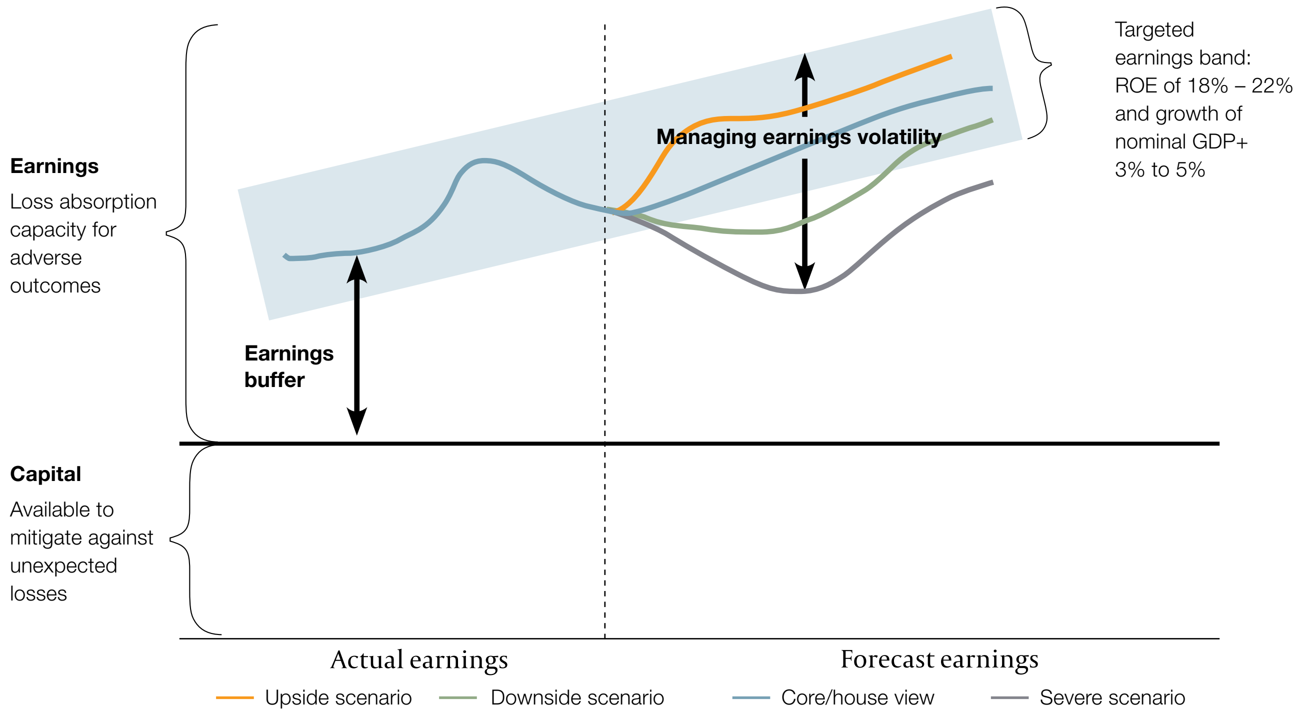
The Group offers value to its shareholders by undertaking to deliver sustainable earnings within a desired risk profile. The ability to deliver this profile is regularly evaluated with stress and scenario planning. The value of franchises is ultimately supported by the Group's financial strength, quality of its earnings and a management approach that seeks to deliver the desired risk and return profile.

Shifts in the macro environment are critical to any strategic adjustments. FirstRand manages its business based on the Group's house view which is used for budgeting, forecasting and credit origination strategies. The house view focuses on the key macroeconomic variables that impact the balance sheet and income statement. The macro outlook is reviewed on a monthly basis and spans a three-year forecast horizon. The business plan for the next three years is included in the budget and forecasting process. Scenario planning is then used to assess whether the desired profile can be delivered and whether the business stays within the constraints it has set itself. The scenarios are based on changing macroeconomic variables, plausible event risks and regulatory and competitive changes.

The Group employs a comprehensive, consistent and integrated approach to stress testing and scenario planning. The impact of risk scenarios on the business is evaluated and the need for adjustment to origination is considered and appropriate actions are taken. More severe scenarios are run less frequently but are critical to inform the buffers, capital and liquidity planning, validate existing quantitative risk models and understanding required management action.

The following chart illustrates the strategy to manage earnings volatility through the cycle.

Managing earnings volatility through the cycle



Financial resource management

The strategy, risk and financial resource management processes described above influence the capital and funding plans of the Group. The capital position provides the final buffer against adverse business performance under extremely severe economic conditions. Thorough analysis and understanding of value drivers, markets and the macro environment will also affect the portfolio optimisation decision and the price and allocation of financial resources.

To be successful in the process of allocating financial resources, a common understanding of the implications for the balance sheet and income statement is needed.

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

The instituted practices are intended to ensure that capital and liquidity-related decisions can be taken in a coordinated manner using a consistent and integrated view incorporating aspects of both finance and risk domains.

Internal capital adequacy assessment process (ICAAP)

ICAAP outlines the process to ensure the Group achieves its capital management objectives. In order to achieve these objectives the Group needs to:

- ensure that at least the minimum amount of regulatory capital is held at all times for the SARB to allow the Group to conduct business;
- hold sufficient capital that will instil confidence in the Group's ongoing solvency and status as a creditworthy counterparty for all stakeholders;
- allocate capital to businesses based on an understanding of the risk and reward drivers of the income streams and to ensure that appropriate returns are earned on capital deployed;

- ensure that the buffer over the minimum regulatory capital requirement is sufficient to cater for income and capital volatility and economic risk which may manifest through business disruption, regulatory intervention or credit downgrades, where applicable;
- consider the returns on a risk-adjusted basis to assess business performance; and
- ensure that FirstRand's capital adequacy ratios and other limits remain within approved thresholds during different economic and business cycles.

The optimal level and composition of capital is determined after taking into account business units' organic growth plans as well as investor expectations, targeted capital ratios, future business plans, plans for the issuance of additional capital instruments, appropriate buffers in excess of minimum requirements, rating agencies considerations, proposed regulatory changes and risk appetite of management and board.

Additionally, this requires that the Group develops and maintains a capital plan that incorporates, among others, the following:

- anticipated capital utilisation;
- planned issuance of capital instruments;
- stress tests and scenario analysis;
- appropriation of profits and dividend payments;
- desired level of capital, inclusive of a buffer;
- expansion and strategic initiatives; and
- general contingency plan for dealing with divergences and unexpected events.

ICAAP is an integral tool in meeting the above capital management objectives and is key to the Group's risk and capital management processes. ICAAP allows and facilitates:

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

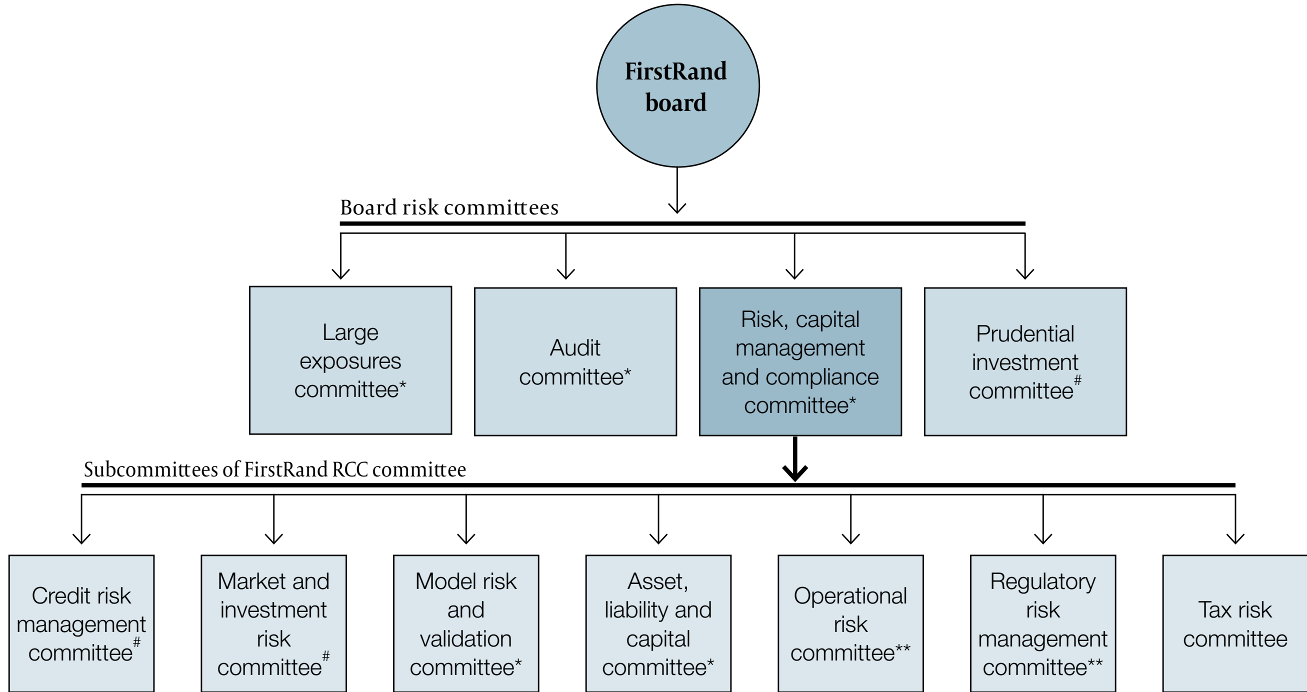
RISK GOVERNANCE

The Group believes that effective risk management is based on effective governance structures and policy frameworks as well as a risk-focused culture. Strong governance structures and policy frameworks foster the embedding of risk considerations in existing business processes and ensure that consistent standards exist across the Group. In line with the Group's corporate governance framework, the board retains ultimate responsibility for providing strategic direction and ensuring that risks are adequately identified, measured, monitored, managed and reported on.

Risk governance structure

The risk management structure is set out in the Group's business performance and risk management framework (BPRMF). As a policy of both the board and exco, it delineates the roles and responsibilities of key stakeholders in business, support and control functions across the various franchises and the Group.

Risk governance structure



* *Chairperson is an independent non-executive board member.*
** *Chairperson is an external member.*
\# *Chairperson is a member of senior executive management. The credit risk management committee has non-executive board representation.*

The primary board committee overseeing risk matters across the Group is the FirstRand RCC committee. It has delegated responsibility for a number of specialist topics to various subcommittees. The RCC committee submits its reports and findings to the board and highlights control issues to the audit committee. The responsibilities of board risk committees and subcommittees of the RCC committee are included in the following table. Further detail on the roles and responsibilities of the board risk committees, RCC committee and its subcommittees relating to each particular risk type is provided in the major risk sections of this report.

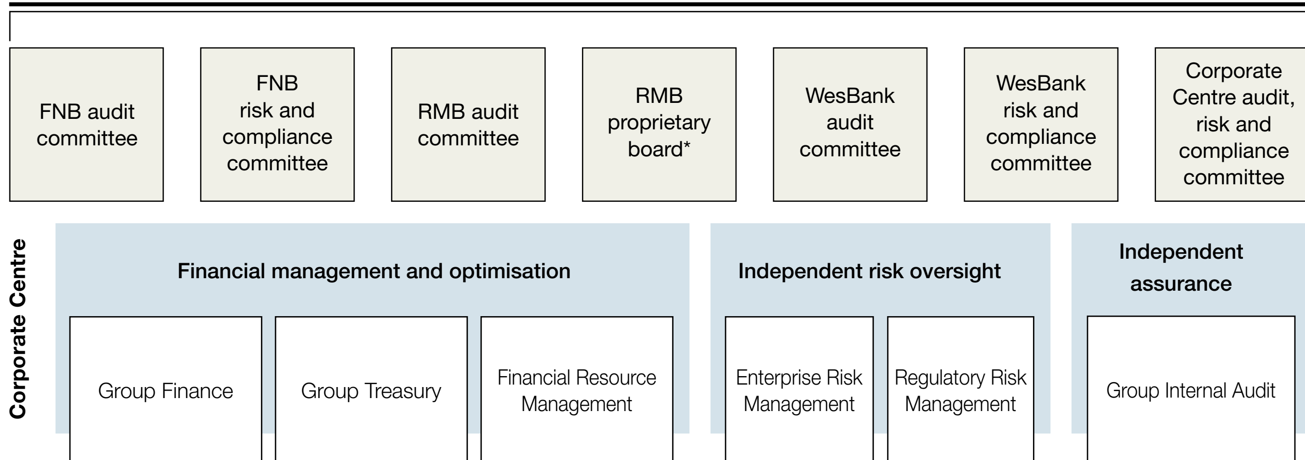
Responsibilities of the board risk committees

Committee	Responsibility
Large exposures committee (LEC)	• approves credit exposures in excess of 10% of the Group's capital; and • delegates the mandate for the approval of group and individual facilities to the FirstRand wholesale credit, commercial credit and retail credit committees, as appropriate.
Audit committee	• assists the board with its duties relating to the safeguarding of assets, operation of adequate systems and controls, assessment of going concern status and ensuring that relevant compliance and risk management processes are in place; • reviews work performed by the external auditors and internal audit function; and • considers financial information and integrated reports which are provided to shareholders and other stakeholders for approval by the board.
Risk, capital management and compliance (RCC) committee	• approves risk management policies, standards and processes; • monitors Group risk assessments; • monitors effectiveness of risk management and high priority corrective actions; • monitors Group's risk profile; • initiates corrective action, if required; • monitors compliance with the *Regulations relating to Banks*; and • approves regulatory capital models, risk and capital targets, limits and thresholds.
Prudential investment committee (PIC)	• ensures investment exposures comply with FirstRand's prudential investment guidelines.

Responsibilities of the subcommittees of the RCC committee

Committee	Responsibility
Credit risk management committee	• approves credit risk management and risk appetite policies; • independent analysis, evaluation and ongoing oversight of credit portfolio quality and performance relative to credit risk appetite thresholds; • monitors quality of the in-force business and new business origination, and underlying assets in the securitisation process; • monitors scenario and sensitivity analysis, stress tests, credit economic capital utilisation, credit pricing and credit concentrations; • ensures uniform interpretation of credit regulatory requirements and acceptable standards of credit reporting; and • reviews credit economic conditions outlook as described in the Group's house view and ensures that business units align credit origination strategies accordingly.
Market and investment risk committee (MIRC)	• approves market and investment risk management policies, standards and processes; • monitors the effectiveness of market and investment risk management processes; • monitors the market and investment risk profile; and • approves market and investment risk-related limits.
Model risk and validation committee (MRVC)	• considers and recommends the approval of all material aspects of model validation work including credit ratings and estimations, internal models for market risk and advanced measurement operational risk models for the calculation of regulatory capital.
Asset, liability and capital committee (ALCCO)	• approves and monitors effectiveness of management policies, assumptions, limits and processes for liquidity and funding risk, capital risk and market risk in the banking book (interest rate risk in the banking book, foreign exchange and translation risk); • monitors the management of funding of the Group's balance sheet; • provides governance and oversight of the level and composition of capital, and considers the supply and demand of capital across the Group; • approves buffers over regulatory capital minimum and monitors capital adequacy ratios; and • approves frameworks and policies relating to internal funds transfer pricing (FTP) for the Group.
Operational risk committee (ORC)	• provides governance, oversight and coordination of relevant operational risk management practices and initiates corrective action where required; • reviews and recommends the operational risk appetite for approval to the RCC committee; and • approves the operational risk management framework (ORMF) and all its subframeworks used in the management of operational risk in the specialist areas including fraud risk, legal risk, business resilience, information governance, information technology and physical security.
Regulatory risk management (RRM) committee	• approves regulatory risk management principles, frameworks, plans, policies and standards; and • monitors the effectiveness of regulatory risk management across the Group and initiates corrective action where required.
Tax risk committee	• monitors tax management processes, effectiveness of tax management processes and corrective actions.

Franchise risk governance structure



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

Additional risk, audit and compliance committees exist in each franchise; the governance structures of which align closely with that of the Group, as illustrated in the chart above. The board committees are staffed by members of the respective committees of the individual franchise boards so as to ensure a common understanding of the challenges business faces and how these are addressed across the Group.

Risk governance framework

Effective risk management also requires multiple points of control or safeguards that should be consistently applied at various levels throughout the organisation. There are three primary lines of control across the Group's operations, which are explicitly recognised in the BPRMF:

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

In the first line, risk ownership, risk taking is inherent in the individual businesses' activities. Business management carries the primary responsibility for the risks in its business, in particular identifying and managing risk appropriately. Business owners, the board and exco are supported in these responsibilities by Group Treasury and Financial Resource Management (FRM) within the Corporate Centre.

In the second line, risk control, business heads are supported by deployed divisional and segment risk management functions that are involved in all business decisions and are represented at an executive level across all franchises. Franchise heads of risk have a direct reporting line to the Group chief risk officer (CRO) and the relevant franchise CEO. Franchise and segment risk managers are responsible for risk identification, measurement and control. Divisional and segment risk management activities are overseen by the independent, central risk control functions; Enterprise Risk Management (ERM) and RRM. ERM is headed by the Group CRO who is a member of Exco and provides independent oversight and monitoring across the Group on behalf of the board and relevant committees.

In the third line, Group Internal Audit (GIA) and external advisors provide independent and objective assurance to the board, audit committee and regulators. The assurance is provided on the overall adequacy and effectiveness of governance, risk management and control within the Group as established by the first (management oversight) and second (management of risk) lines of control. GIA is headed by the chief audit executive (CAE) and reports to the board through the audit committee chairman. The CAE has direct, unrestricted access to the Group CEO and executives, and respective subsidiaries as well as to all FirstRand business unit functions, records, property and personnel.

GIA conducts work in accordance with international internal audit standards and practices and its activities are assessed annually by the external auditors.

The responsibilities of different areas in the three lines of risk control model are outlined in the following diagram.

Responsibilities in the lines of risk control

First line

Heads of business

- act in accordance with mandates approved by the board or its delegated authority;
- identify, quantify and monitor key risks to business under normal and stress conditions;
- implement strategy within approved risk appetite;
- design business and risk management processes that will ensure that risks are appropriately managed;
- specify and implement early warning measures, associated reporting, management and escalation processes through governance structures;
- implement risk mitigation strategies;
- implement timeous corrective actions and loss control measures as required; and
- ensure staff understand responsibilities in relation to risk management.

Financial Resource Management

- provides an integrated approach to financial resource management;
- optimises the Group's portfolio to deliver sustainable returns within an acceptable level of risk; and
- performs scenario analysis and stress testing.

Group Treasury

- manages the Group's capital, liquidity, funding, interest rate risk in the banking book and foreign exchange mismatch.

Second line

Deployed risk management

- ensures that risk policies and tools are implemented and adhered to;
- approves the design of business and risk management processes that will ensure that risks are appropriately managed;
- identifies process flaws and risk management issues and initiates and monitors implementation of corrective action; and
- compiles, analyses and escalates risk reports on performance, risk exposures and corrective actions, through governance structures in appropriate format and frequency.

Enterprise Risk Management

- maintains risk frameworks and governance structures;
- develops and communicates risk management strategy and challenges risk profiles;
- reports risk exposures and performance to management and governance structures;
- ensures appropriate risk skills and risk management culture for risk taking;
- performs risk measurement validation; and
- manages regulatory relationships with respect to risk matters.

Regulatory Risk Management

- monitors that business practices, policies, frameworks and approaches are consistent with applicable laws.

Third line

Group Internal Audit

GIA determines whether the Group's processes and controls are adequate to ensure:

- risks are appropriately identified, quantified and controlled by approved business and risk procedures; if not, initiate corrective action;
- management and financial information systems incorporate sound controls;
- financial reports, accounting records and operating information is accurate, valid, complete, reliable and timeous;
- employees execute duties in compliance with policies, standards, applicable laws and regulations;
- resources are acquired economically, used efficiently and effectively; and
- adequate processes are implemented to ensure protection of assets.

Combined assurance

Formal enterprise-wide governance structures for enhancing the practice of combined assurance at Group and subsidiary levels are overseen by the audit committee. The primary objective of the Group and assurance forums is for the assurance providers to work together with management to deliver the right assurance in the right areas by people with the best skills and experience as cost effectively as possible. The assurance providers in this model include GIA, senior management, ERM, RRM and external auditors. The combined outcome of independent oversight, validation and audit tasks performed by the assurance providers ensure a high standard across methodological, operational and process components of the Group's risk and capital management processes.

The outcomes of the combined assurance work indicate greater efficiency of the assurance processes through the elimination of duplication, more focused risk-based assurance against key control areas and heightened awareness of emerging issues resulting in the implementation of appropriate preventative and corrective action plans.

Regular risk reporting and challenge of current practices

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

ERM, together with the independent review by GIA, ensure that all pertinent risk information is accurately captured, evaluated and escalated appropriately and timeously. This enables the board and its designated committees to retain effective management control over the Group's risk position at all times.

Risk culture

The Group and its investors, debt holders and regulators recognise that effective risk management requires the maintenance of a proper risk culture, in addition to appropriate risk governance structures, policy frameworks and effective risk and capital methodologies.

Culture, the net result of how the organisation lives its values, is a strong driver of behaviour. Understanding and managing cultural attitudes towards risk and cultural attitudes that create risk, receive significant attention in the Group. ERM, in conjunction with people and culture risk specialists in the Group's Ethics Office, collaborate closely to identify and manage risk culture.

The Group believes its risk culture is influenced by the interaction of the following:

- competent and ethical leadership in setting the strategy, risk appetite and a positive attitude towards appropriate risk practices;
- robust risk governance structures to ensure risk policy frameworks are 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; ensure that ethics and accountability to risk management parameters are not overshadowed by efficiency, innovation and profit messages; avoid expediency/quick fix mentalities which may create medium- to long-term risk; and create space for subordinates to challenge superiors.
Providing resources	ensure risk management goals are attainable by adequately resourcing risk management functions; apply fit and proper tests for key risk roles; ensure comprehensive culture and people risk data is obtained from the Group culture and people risk assessment specialists within the Ethics Office; combat overloading of human and systems infrastructure; and combat unhealthy internal competition over scarce resources.
Aligning measurement and rewards	ensure risk metrics are incorporated into measurements and the way business rewards performance.

Risk and capital methodologies

Best practice risk and capital management methodologies have been developed in and for the relevant business areas. The detailed sections provide in-depth descriptions of the approaches, methodologies, models and processes used in the identification and management of each major risk. Each section also describes the applicable governance and policy framework and provides an analysis of the respective portfolios and the risk profile with respect to the type of risk under consideration and the capital position.

STRATEGIC AND BUSINESS RISK

Introduction and objectives

Any business runs the risk of choosing an inappropriate strategy or failing to execute its strategy appropriately. The Group's objective is to minimise this risk in the normal course of business.

Business risk is considered in the strategic planning process and as a part of regular and pervasive stress testing and scenario analyses carried out across the Group. The objective is to develop and maintain a portfolio that delivers sustainable earnings and minimises the chance of adverse outcomes.

In an environment of continued weakness in the South African economy and the risks imposed by the weak global economy, FirstRand continues to focus on cost containment whilst pursuing growth opportunities both locally and in selected African markets.

Organisational structure and governance

The development and execution of business level strategy is the responsibility of the strategic executive committee (stratco) and the individual business areas, subject to approval by the board. This includes the approval of any subsequent material changes to strategic plans, budgets, acquisitions, significant equity investments and new strategic alliances.

Business unit and Group executive management, as well as Group Treasury, FRM and ERM review the external environment, industry trends, potential emerging risk factors, competitor actions and regulatory changes as part of strategic planning. Through this review, as well as regular scenario planning and stress-testing exercises, the risk to earnings and level of potential business risks faced are assessed. Reports on the results of these exercises are discussed at various business, risk and board committees and are ultimately taken into account in the setting of risk appetite and in potential revisions to existing strategic plans.

Assessment and management

Strategic risk is not readily quantifiable and is not a risk that an organisation can or should hold a protective capital buffer against. The risk to earnings on the other hand can be assessed and this forms an explicit part of the Group's risk processes.

Volume and margin risk

Volume and margin risk is considered part of strategic planning and is regularly assessed through the Group's management and governance processes, and ICAAP. Volume and margin risk could result in a situation where the operating income of the Group is insufficient to absorb the variability in income and operating costs.

Reputational risk

As a financial services provider, the Group's business is one inherently built on trust and close relationships with its clients. Reputational risk can arise from environmental, social and governance issues or as a consequence of financial or operational risk events.

The Group's reputation is built on the way in which it conducts business and it protects its reputation by managing and controlling these risks across its operations. It seeks to avoid large risk concentrations by establishing a risk profile that is balanced within and across risk types. In this respect, potential reputational risks are also taken into account as part of stress-testing exercises. The Group aims to establish a risk and earnings profile within the constraints of its risk appetite and seeks to limit potential stress losses from credit, market, liquidity or operational risks that may otherwise introduce an undesirable degree of volatility in its financial results and adversely affect its reputation.

Environmental, social and governance risk management

FirstRand has formal governance processes for managing ESG risks affecting the Group's ability to successfully implement business strategy. These processes involve the generation of ESG management reports at Group and franchise level, which detail ESG performance on a quarterly basis.

Each franchise defines tolerances for its principal ESG risks and action plans for addressing these in line with particular circumstances and risk appetite. Tolerances and mitigating actions are defined at Group and franchise level, and progress in respect of these is tracked through existing risk reporting structures. Provision is made for the escalation of significant ESG issues to the board via exco, RCC and audit committees.

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

Equator Principles and environmental and social risk analysis (ESRA)

FirstRand embraces sustainable development practices in project finance transactions by integrating social and environmental management principles into its decision making. FirstRand implements its commitment to promote environmental and social management and sustainability by:

- defining requirements for environmental and social risk assessment, and monitoring approved transactions;
- developing and communicating environmental and social performance standards that clients will be expected to meet within an acceptable time frame; and
- defining environmental and social roles and responsibilities for both FirstRand and its clients.

FirstRand became an Equator Principles (EP) finance institution in July 2009. Within FirstRand, the application of EP forms part of ESRA and is a specific credit risk management framework for determining, assessing and managing environmental and social risk in selected transactions. During 2012/2013, the EP Association and its member financial institutions conducted a strategic review and increased the scope of transactions to which EP applies. Approved and effective from June 2013, this new revised standard (EP III) will be implemented by December 2013 for all products within the new scope of EP.

The key changes to EP are an increase in the scope of transaction types included from merely project finance-related transactions to transactions specified in the following table.

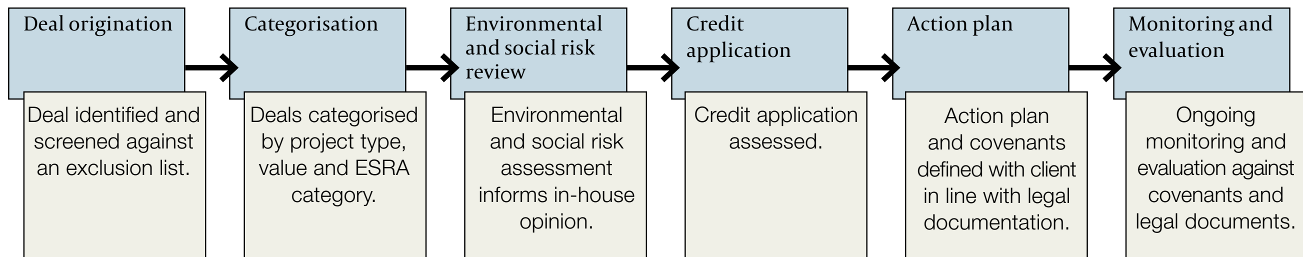
ESRA transaction type

Transaction type	Threshold amount after which an ESRA review is triggered
Project finance transactions	Total project capital costs at or above USD10 million: EP review.
Project finance advisory	Total project capital costs at or above USD10 million: EP review.
Project finance transactions	All category A (high risk) and B (medium risk) transactions with a total project capital cost of less than USD10 million: in-house ESRA review.
Corporate loans	No threshold applied, all corporate loans: in-house ESRA review.
Corporate loans – project related	Total aggregate loan amount is at least USD100 million of which the member bank's individual commitment (before syndication or sell down) is at least USD50 million and loan tenor is at least two years: EP review.
Bridge loans (subject to EP)	Bridge loans with a tenor of less than two years that are intended to be refinanced by project finance (at or above USD10 million): EP review.
Equity investment deals	No threshold applied, all equity investment deals: in-house ESRA review.
Affected commercial loans (inclusive of property finance)	No threshold applied, all property finance or property securitised loans: in-house ESRA review. Commercial loans (non-property related) – total facility amount above R7.5 million: in-house ESRA review.

ESRA review process

Each of the Group's operating franchises have formalised credit and compliance processes for the implementation of ESRA, with oversight provided by franchise social and ethics committees, risk and compliance officers, and credit committees throughout the Group. At a Group level, oversight is provided by RRM and divisional social and ethics committees. Total ESRA performance statistics related to all relevant transaction types will be formally reported from July 2013 onwards. The ESRA review process is illustrated in the following chart.

ESRA review process



2013 Equator Principles performance

The Group measures EP performance in line with the International Finance Corporation (IFC) performance standards as either category A (high risk), category B (medium risk) or category C (low to no risk), per the following definitions.

Definition of EP performance categories

IFC/equator category	Risks/impacts
Category A (high risk)	Projects with potential significant adverse social or environmental impacts that are diverse, irreversible or unprecedented. Issues relating to these risks may lead to work stoppages, legal authorisations being withdrawn and reputational damage. Examples could include projects involving the physical displacement of the natural environment or communities.
Category B (medium risk)	Projects with potential limited adverse social or environmental impacts that are few in number, generally site specific, largely reversible and readily addressed through mitigation measures. Issues relating to these risks may lead to fines, penalties or legal non-compliance and reputational damage. Examples could include increased use of energy or increased atmospheric emissions.
Category C (low risk)	Projects with minimal or no social or environmental impacts.

EP transactions

	2013		2012	
EP category	Projects screened for the first time during the year	Projects that reached financial close during the year	Projects screened for the first time during the year	Project that reached financial close during the year
A (high risk)	**9**	**3**	2	1
B (medium risk)	**5**	**4**	9	8
C (low risk)	**12**	**14**	6	7
Total*	**26**	**21**	17	16

* *Excludes project finance advisory transactions.*

The projects screened are the structured EP-defined project finance deals, which were reviewed by an in-house environmental and social risk specialist. All category A and B transactions were subjected to independent EP review to establish environmental and social risks of the project for the first time during the reporting period. Financial close is assumed when all conditions precedent to initial drawing of the debt have been satisfied or waived. EP reporting is externally assured for public disclosure by an independent third party as per requirements set out by the EP Association.

Analysis of EP transactions

The number of EP transactions screened per industry category and region during the year is provided in the following tables.

EP project finance transactions screened per industry category

	2013						
Transaction categories*	**Mining****	**Infrastructure**	**Power***	**Renewable energy***	**Retail**	**Other#**	**Total**
A (high risk)	**7**	**1**	**–**	**–**	**–**	**1**	**9**
B (medium risk)	**–**	**–**	**1**	**4**	**–**	**–**	**5**
C (low risk)	**–**	**–**	**–**	**–**	**9**	**3**	**12**
Total	**7**	**1**	**1**	**4**	**9**	**4**	**26**

* *The power and renewable energy category was split into two categories from 2013. No EP project finance transactions in the oil and gas industry category were screened during the year.*
** *Two mining transactions were based in the Americas region and the balance of the transactions in Africa.*
# *Transactions in the other category are deals related to large commercial property developments.*

	2012*						
Transaction categories	Mining	Infrastructure	Power and renewable energy	Oil and gas	Retail	Other**	Total
A (high risk)	1	1	–	–	–	–	2
B (medium risk)	–	1	7	1	–	–	9
C (low risk)	–	1	–	–	–	5	6
Total	1	3	7	1	–	5	17

* *All transactions were southern Africa-based projects.*
** *Transactions in the other category are deals related to large commercial property developments.*

The following additional EP project finance advisory transactions were screened during the year and included in disclosures from the current year.

EP project finance advisory transactions screened per industry category

	2013			
Transaction categories*	**Mining**	**Power**	**Renewables**	**Total****
A (high risk)	**2**	**–**	**–**	**2**
B (medium risk)	**–**	**1**	**4**	**5**
C (low risk)	**–**	**–**	**–**	**–**
Total	**2**	**1**	**4**	**7**

* *No EP project finance advisory transactions in the infrastructure, retail, oil and gas, and other industry categories were screened during the year.*
** *All transactions were based in Africa.*

The following table provides the number of EP transactions per EP category for the year.

Category of EP transactions

	2013	
Number of EP transactions screened	Hosted in non-OECD* countries	Hosted in OECD* countries
A (high risk)**	7	2
B (medium risk)**	5	–
C (low risk)	12	–
Total	**24**	**2**

* *Organisation for economic cooperation and development (OECD).*
** *All of the category A (high risk) and category B (medium risk) transactions were subject to independent EP review during the year.*

ESRA process going forward

FirstRand is currently in the fifth year of implementation of ESRA processes. Continued focus will be given to both awareness training and effective implementation of the ESRA process.

Areas of focus in the new financial year include the planned implementation of the new categorisation tool, which will assist in the accuracy of future reporting of all ESRA transactions, and the implementation of additional disclosure to comply with EP III reporting requirements in the 2014 EP report.

For more detail on EP and ESRA processes and the 2013 FirstRand EP report, please go to www.firstrand.co.za/sustainability/pages/detault.aspx.

Scan with your smart device's QR code reader to access more information on EP and ESRA on the Group's website.

CAPITAL MANAGEMENT

Introduction and objectives (audited)

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

Sustainability also refers to the capacity to withstand periods of severe stress characterised by very high levels of unexpected financial and economic volatility, which cannot be mitigated by earnings alone. Capitalisation ratios appropriate to safeguarding operations and interests of stakeholders are therefore maintained. In this respect, the overall capital management objective is to maintain sound capital ratios and a strong credit rating to ensure confidence in the solvency and quality of capital in the Group during calm and turbulent periods in the economy and financial markets.

The optimal level and composition of capital is determined after taking into account business units' organic growth plans – provided financial targets are met. In addition, other factors taken into consideration are:

- targeted capital ratios;
- future business plans;
- issuance of additional capital instruments;
- appropriate buffers in excess of minimum requirements;
- rating agencies' considerations;
- investor expectations;
- proposed regulatory changes; and
- risk appetite of management and board.

Allocating resources effectively, including capital and risk capacity, in terms of the risk appetite targets and in a manner that maximises value for shareholders is a core competence and key focus area. Sound capital management practices, therefore, form an important component of its overall business strategy.

The effectiveness of capital allocation decisions and the efficiency of its capital structure are important determinants of the ability to generate returns for shareholders. The Group seeks to hold limited excesses above the capital required to support its medium-term growth plans (including appropriate buffers for stresses and volatility) and future regulatory changes.

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

Capital adequacy and planning

Year under review

The capital planning process ensures that 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 normal and severe scenarios as well as a range of stress events.

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 attribution of capital in proportion to the risks inherent in the respective businesses with reference to normal economic circumstances and times of potential stress, which may lead to the realisation of risks not previously considered. These processes are under continuous review and refinement, and continue to inform the targeted buffer over the minimum capital requirement.

Regular reviews of economic capital are carried out and the Bank remains well capitalised in the current environment, with levels of Tier 1 capital exceeding the level of economic capital required. The Bank aims to back all economic risk with Tier 1 capital, which offers the greatest capacity to absorb losses.

Throughout the year under review, the Bank operated comfortably above its target ranges with a total capital adequacy of 14.9% and CET1 ratio of 12.6%. The Bank continues to follow a conservative approach to capital levels and prefers to maintain capital ratios at the upper end of its targeted capitalisation range, particularly given the current macro conditions and ongoing regulatory developments.

The targeted capital levels as well as the ratios at 30 June 2013 are summarised in the following table.

Capital adequacy position of the Bank

%	CET1	Tier 1	Total
Regulatory minimum	4.5	6.0	9.5**
Target	9.5 – 11.0	11.0	12.0 – 13.5
FRB* actual	**12.6**	**13.3**	**14.9**

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

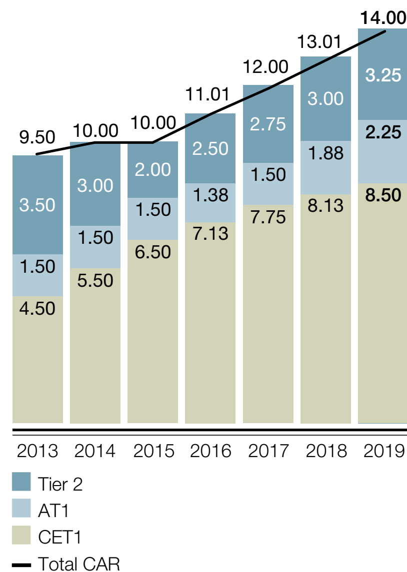
Basel III

Basel III was successfully implemented on 1 January 2013 and the impact on the Bank's CET1 ratio is positive. However, Tier 1 and Total capital ratios will decline from 1 January 2013 to 2019, as the current AT1 and Tier 2 instruments do not meet the Basel III qualifying criteria. These instruments will be grandfathered from 2013 over a ten-year period. The internal target levels will be reassessed during the transitional period of Basel III.

Given the transitional period to comply with the final capital framework, the Bank remains focused on meeting the end state CET1 requirement, while looking at ways to optimise the overall capital mix. The following graph shows the minimum capital requirements (excluding the bank-specific ICR) during the transitional period until 2019.

Minimum capital requirements

(%)



The Bank continues to participate in the SARB's biannual quantitative impact studies to assess the effect of Basel III on capital adequacy ratios, as well as to monitor the impact of leverage for the industry. The simple, transparent non-risk based leverage ratio is calibrated to act as a credible supplementary measure to the risk-based capital requirements. The Bank's current leverage ratio of 6.4% continues to comfortably exceed the SARB's minimum requirement of 4%.

Supply of capital – Tier 1

Tier 1 capitalisation ratios benefited from stronger internal capital generation through earnings and the add-back of certain disclosable reserves (i.e. share-based payment and available-for-sale) under Basel III. All profits were appropriated at 30 June 2013.

Supply of capital – Tier 2

During the year under review, the Bank replaced the FRB06 and FRB07 subordinated debt instruments with a Basel III instrument that references a resolution regime. The FRB11 bond meets the Basel III entry criteria and has been included for grandfathering from 1 January 2013 with full recognition envisaged once the resolution regime is implemented in South Africa. The Bank continues to focus on the most optimal capital mix and awaits final guidance from the SARB on the loss absorbency requirements for capital instruments.

Demand for capital

Basel III is the primary driver for the movement in RWA. The following changes impacted the overall movement in the RWA:

- credit risk increased due to the additional capital requirements for counterparty credit risk i.e. CVA and AVC. The SARB, however, has allowed for a delayed implementation of CVA for local and ZAR counterparties until 1 January 2014;
- previously impaired first loss securitisation exposures are now risk weighted at 1250%; and
- previously impaired investments in financial, banking and insurance entities are risk weighted at 250%. These exposures are included in other assets RWA.

Operational risk RWA also increased in line with the six-monthly recalibration of risk scenarios, while credit risk RWA increased primarily due to organic growth.

Capital adequacy

The following table shows the composition of regulatory capital for the Bank.

Composition of qualifying capital

	FirstRand Bank*			
	2013		2012	
R million	Basel III	%	Basel 2.5	%
Ordinary share capital and share premium**	**15 308**		15 308	
Retained earnings**	**34 332**		30 284	
Accumulated other comprehensive income and reserves#	**2 463**		–	
Less: total regulatory deductions	**(1 930)**		(2 526)	
Excess of expected loss over eligible provisions†	**(135)**		(400)	
First loss credit enhancements in respect of securitisation structures‡	**–**		(45)	
Qualifying capital in branches	**(1 517)**		(1 732)	
Intangibles	**(151)**		(332)	
Other deductions	**(127)**		(17)	
Total CET1 capital	**50 173**	**12.6**	43 066	11.8
Total AT1 capital	**2 700**		3 000	
NCNR preference share capital	**2 700**		3 000	
Total Tier 1 capital	**52 873**	**13.3**	46 066	12.6
Tier 2 capital instruments	**6 856**		7 437	
Less: total regulatory deductions	**(157)**		(445)	
Excess of expected loss over eligible provisions†	**–**		(400)	
First loss credit enhancements in respect of securitisation structures‡	**–**		(45)	
Other deductions	**(157)**		–	
Total Tier 2 capital	**6 699**	**1.6**	6 992	2.0
Total qualifying capital and reserves	**59 572**	**14.9**	53 058	14.6

* *Reflects solo supervision, i.e. FRB excluding foreign branches.*
** *Audited.*
# *Disclosable reserves not qualifying under Basel 2.5: available-for-sale, share-based payment and other.*
† *Previously impaired 50:50 under Tier 1 and Tier 2. 100% impairment in CET1 under Basel III.*
‡ *Previously impaired 50:50 under Tier 1 and Tier 2. Risk weighted at 1250% under Basel III.*

The following table provides a detailed breakdown of the RWA numbers and capital requirement per current SARB regulations for each risk type of the Bank.

RWA and capital requirements

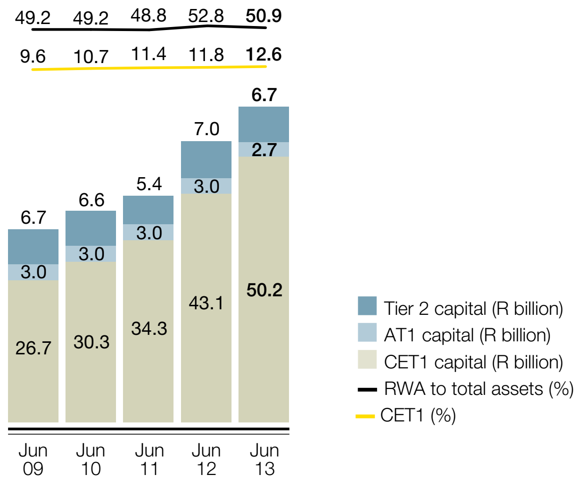
	FirstRand Bank*				
	2013				2012
	RWA				
R million	Advanced approach	Standardised approach	Total	Capital requirement**	RWA
Credit risk	**295 315**	**–**	**295 315**	**28 055**	272 159
– Corporate, banks and sovereigns	**126 357**	**–**	**126 357**	**12 004**	108 719
– Small and medium enterprises (SMEs)	**37 664**	**–**	**37 664**	**3 578**	34 134
– Residential mortgages	**48 579**	**–**	**48 579**	**4 615**	52 224
– Qualifying revolving retail	**18 382**	**–**	**18 382**	**1 746**	12 564
– Other retail	**59 691**	**–**	**59 691**	**5 671**	55 311
– Securitisation exposure	**4 642**	**–**	**4 642**	**441**	9 207
Counterparty credit risk#	**2 548**	**–**	**2 548**	**242**	–
Total credit risk	**297 863**	**–**	**297 863**	**28 297**	272 159
Operational risk†	**62 748**	**–**	**62 748**	**5 961**	54 099
Market risk	**7 855**	**–**	**7 855**	**746**	12 511
Equity investment risk	**10 511**	**–**	**10 511**	**999**	10 391
Other assets‡	**–**	**19 542**	**19 542**	**1 856**	15 275
Total RWA	**378 977**	**19 542**	**398 519**	**37 859**	364 435

* *Reflects solo supervision, i.e. FirstRand Bank excluding foreign branches.*
** *Capital requirement calculated at 9.5% of RWA.*
# *Excluding default risk. Balance for 2012 included in credit risk.*
† *Exposures subject to basic indicator approach are included under the standardised approach.*
‡ *Other assets include the investment in financial, banking and insurance entities.*

Historical overview of capital adequacy

The following graph provides a historical overview of the capital adequacy for the Bank.

Capital adequacy – Bank



The following disclosure templates, as required by *SARB Directive 8 of 2013*, are available on www.firstrand.co.za/investorcentre/pages/capitaldisclosures.aspx, as part of the Pillar 3 disclosure for the year ended 30 June 2013:

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

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

CREDIT RISK

Introduction and objectives (audited)

Credit risk is defined as the risk of loss due to the non-performance of a counterparty in respect of any financial or performance obligation. For fair value portfolios, the definition of credit risk is expanded to include the risk of losses through fair value changes arising from changes in credit spreads. Credit risk also includes credit default risk, pre-settlement risk, country risk, concentration risk and securitisation risk.

The goal of credit risk management is to maximise the Bank's risk-adjusted return, i.e. net income after cost of capital (NIACC), within acceptable levels of earnings volatility by maintaining credit risk exposure within acceptable parameters.

Credit risk is one of the core risks assumed as part of achieving the Bank's business objectives. It is the most significant risk type in terms of regulatory and economic capital requirements. The objectives of credit risk management practices are two-fold:

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

Credit risk management across the Bank is split into three distinct portfolios: retail, commercial and wholesale. These portfolios are aligned to customer profiles. As advances are split over the three Group franchises, default risk is allocated to the income-receiving portfolio.

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

Credit risk is managed through comprehensive policies and processes that ensure adequate identification, measurement, monitoring and control as well as reporting of credit risk exposure. Objectives are to ensure a sound credit risk management environment with appropriate credit granting, administration, measurement and monitoring through the implementation of adequate risk management controls.

Retail credit

Secured products in retail credit in FNB include mortgage finance with property as security for the loan and pension-backed loans with a portion of a pension fund as security to purchase or improve a property. Secured retail credit at WesBank is mainly instalment sale agreements for motor vehicle financing.

Unsecured products in both FNB and WesBank include:

- personal loans ranging from small short-term loans to larger loans with repayment terms of up to 60 months;
- revolving overdraft facilities linked to transactional demand deposit accounts; and
- credit cards with revolving credit limits and either straight or budget period repayment facilities.

Commercial credit

The commercial credit portfolio strategy is focused on tailoring credit products for commercial customers. FNB (primary relationship owner) and WesBank (vehicle and asset-based finance (VAF)) both provide products, which include:

- revolving overdraft facilities linked to transactional demand deposit accounts;
- traditional VAF and fleet petrol cards;
- dealer funding solutions to selected vehicle dealerships secured by trade stock;
- guarantees and letters of credit to assist in 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.

Wholesale credit

Wholesale credit offered by RMB to large corporate multi-banked customers includes the following products:

- all inclusive financing packages for investment banking clients;
- funding of corporate businesses, government and parastatals through debt capital market instruments;
- structured asset finance for client funding requirements in local and cross-border strategic African jurisdictions;

- structuring, raising and underwriting of equity capital and structured equity solutions;
- infrastructure and project finance;
- leveraged finance;
- real estate investment banking; and
- resource finance.

Organisational structure and governance

The Group has a comprehensive credit governance committee structure with the responsibility to approve, monitor and oversee credit risk management and exposures of the 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 (CRMF). Approved by the RCC committee and the FirstRand credit risk management committee (a subcommittee of the RCC committee), the CRMF is a board-approved policy and a subframework of the BPRMF, discussed in the *Risk governance* section.

LEC (a board committee) and the FirstRand credit risk management committee support the RCC committee in its tasks. MRVC, also a subcommittee of the RCC committee, supports the RCC committee in its tasks relating specifically to risk capital models. For a description of the role and responsibilities of these committees refer to the *Risk governance* section.

The Group Credit Risk Management (GCRM) function

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

- the overall credit risk profile of the Bank;
- setting standards for credit risk reporting;
- maintaining and overseeing the Group credit governance structures as well as the credit measurement process;
- performing independent validations of credit rating systems;
- ensuring accuracy and completeness of credit risk identification and management;
- disseminating credit risk methodologies and capabilities across the Bank;
- facilitating and managing the credit risk appetite processes across the Bank; and
- ensuring regulatory compliance.

The GCRM function is supported by credit risk functions within the franchises, which are managed by portfolio heads (Retail, Commercial and Wholesale).

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

- accountability to the 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 of volatility profile for aggregate portfolios.

Assessment and management (audited)

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 Banks Act regulations (Basel), as well as addressing business needs.

Credit risk models are widely employed in the assessment of capital requirements, pricing, impairment calculations and stress testing of the credit risk portfolio. All of these models are built on a number of client and facility rating models, in line with Basel AIRB approach requirements and the 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 of credit risks.

Probability of default

PD is defined as the probability of a counterparty defaulting on any of its obligations over the next 12 months and is a measure of the counterparty's ability and willingness to repay facilities granted. A default, in this context, is defined along two dimensions:

- time-driven: the counterparty is in arrears for more than 90 days or three instalments as appropriate; and
- event-driven: there is reason to believe that the exposure will not be recovered in full and has been classified as such.

This definition of default is consistently applied across all credit portfolios as well as in the recognition of NPLs for accounting purposes.

For communication and reporting purposes, the 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 (unaudited)

FR rating	Midpoint PD	International scale mapping*
FR 1 – 15	0.07%	AAA, AA, A
FR 16 – 25	0.32%	BBB
FR 26 – 32	0.77%	BB+, BB
FR 33 – 40	1.48%	BB-
FR 41 – 55	2.78%	B+
FR 56 – 86	7.95%	B
FR 87 – 91	15.47%	B-
FR 92 – 99	59.11%	Below B-
FR 100	100%	D (defaulted)

* *Indicative mapping to the international rating scales of Standard & Poor's. These mappings are reviewed and updated on a regular basis.*

FR 1 is the lowest PD and FR 100 is the highest. External ratings have also been mapped to the master rating scale for reporting purposes.

In line with international best practice, the 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 the historical default experience.

Loss given default

LGD is the third major credit risk component estimated on the basis of internal models. It is defined as the economic loss on a particular facility upon default of the counterparty. It is expressed as a percentage of exposure outstanding at the time of default. In most portfolios, LGD is dependent on:

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

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

Typically, a distinction is made between the long-run expected LGDs and LGDs reflective of downturn conditions. The latter is a more conservative assessment of risk, which incorporates a degree of interdependence between PD and LGD that can be found in a number of portfolios (i.e. instances where deteriorating collateral values are also indicative of higher default risk). It is this more conservative measure of LGD applicable to downturns which is used in the calculation of regulatory capital estimates.

Expected loss (EL)

EL, the product of the primary risk measures PD, EAD and LGD, is a forward-looking measure of portfolio or transaction risk. It is used for a variety of purposes across the Bank alongside other risk measures.

Slotting approach

Specialised lending relates mainly to project and commodity finance. In terms of the slotting approach, the exposure is rated after assessing the risks and mitigations applied to reduce/eliminate the risk and mapped to one of four supervisory categories. This will apply where the 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

A consistent rating process is employed across the Bank, differentiated by the type of counterparty and the type of model employed for rating purposes. For example, retail portfolios are segmented into homogeneous pools in an automated process.

Based on the internal product level data, PDs are then estimated (and continuously updated) for each pool. The following table summarises the processes and approaches employed and provides an overview of the types of exposures within each of the portfolios.

Credit portfolio rating process

Portfolio and type of exposures	Description of rating system
Large corporate portfolios (Wholesale: RMB, WesBank Corporate and Corporate Centre) Exposures to private sector counterparties including corporates, securities firms and public sector counterparties. A wide range of products give rise to credit exposure, including loan facilities, structured finance facilities, contingent products and derivative instruments.	The default definitions applied in the rating systems are aligned to Basel requirements. **Rating process** - rating assignment to corporate credit counterparties is based on a detailed individual assessment of the counterparty's creditworthiness; - this assessment is performed through a qualitative analysis of the business and financial risks of the counterparty and is supplemented by internally developed statistical rating models; - rating models were developed using internal and external data covering more than ten years. Qualitative analysis is based on the methodology followed by international rating agencies; - the rating assessment is reviewed by the wholesale credit committee or delegated subcommittee and the rating (and associated PD) is approved by these committees; - no overrides of the ratings or the PDs are possible after approval by these committees; and - LGD and EAD estimates are based on modelling of a combination of internal and suitably adjusted international data with the same committee process responsible for reviewing and approving these measures.
Low default portfolios: sovereign and bank exposures (Wholesale: RMB and Corporate Centre) Exposures to sovereign and bank counterparties.	The default definitions applied in the rating systems are aligned to Basel requirements. **Rating process** - expert judgement models are used in combination with external rating agency ratings as well as structured peer group analyses which form a key input in the ratings process. The analysis is supplemented by internally developed statistical models; - the calibration of PD and LGD ratings is based on a mapping to external default data as well as credit spread market data; - the rating assessment is reviewed by the wholesale credit committee or delegated subcommittee and the rating (as well as the associated PD) is approved by these committees; and - no overrides of the ratings or the PDs are possible after approval by these committees.
Specialised lending portfolios (Wholesale: RMB, FNB Commercial and Wealth (RMB Private Bank and FNB Private Clients)) Exposures to private-sector counterparties for the financing of income-producing real estate.	The default definitions applied in the rating systems are aligned to Basel requirements. **Rating process** - rating system is based on hybrid models using a combination of statistical cash flow simulation models and qualitative scorecards calibrated to a combination of internal data and external benchmarks; - the rating assessment is reviewed by the wholesale credit committee, commercial credit committee or delegated subcommittee and the rating (as well as the associated PD) is approved by these committees; and - no overrides of the ratings or the PDs are possible after approval by these committees.

Portfolio and type of exposures	Description of rating system
Commercial portfolio (SME corporate and SME retail counterparties in FNB Commercial and WesBank) Exposures to SME clients. A wide range of products give rise to credit exposure, including loan facilities, contingent products and term lending products.	The default definitions applied in the rating systems are aligned to Basel requirements. **SME retail rating process** - the SME retail portfolio is segmented into homogeneous pools and subpools through an automated scoring process using statistical models that incorporate product type, customer behaviour and delinquency status; - PDs are estimated for each subpool based on internal product level history associated with the respective homogeneous pools and subpools; and - LGD and EAD estimates are applied on a portfolio level, estimated from internal historical default and recovery experience. **SME corporate rating process** - PD: Counterparties are scored using Moody's RiskCalc™ in addition to other internal risk drivers, the output of which is calibrated to internal historical default data; - LGD: Recovery rates are largely determined by collateral type and these have been set with reference to internal historical loss data, external data (Fitch) and Basel guidelines; and - EAD: Portfolio level credit conversion factors are estimated on the basis of the Bank's internal historical experience and benchmarked against international studies.
Residential mortgages (Retail portfolios in FNB HomeLoans, Wealth (RMB Private Bank and FNB Private Clients) and mortgage exposures in the FNB Smart segment) Exposures to individuals for the financing of residential properties. **Qualifying revolving retail exposures (Retail portfolios in FNB Card, FNB Core Banking Solutions and Wealth)** Exposures to individuals providing a revolving limit through a credit card or overdraft facility. **Other retail exposures (Retail portfolios in FNB Loans, FNB Smart segment, WesBank VAF and WesBank Loans)**	The default definition applied in the rating systems is aligned to the requirements of Basel. **Rating process and approach** - retail portfolios are segmented into homogeneous pools and subpools through an automated scoring process using statistical models that incorporate product type, loan characteristics, customer behaviour, application data and delinquency status; - PDs are estimated for each subpool based on internal product level history associated with the respective homogeneous pools and subpools; - no overrides of the PDs are possible. The only potential override is not that of the PD, but rather of the automated decision to lend or not. Such overrides may be done on the basis of the credit manager's judgement in a structured process supported by valid business reasons; and - LGD and EAD estimates are based on subsegmentation with reference to the collateral or product type as well as associated analyses and modelling of historical internal loss data. **Additional notes on qualifying revolving retail exposures** - these exposures are unsecured and, therefore, only the efficiency of recovery processes impacts on the level of LGD; and - EAD measurement plays a significant role in the assessment of risk due to the typically high level of undrawn facilities that are characteristic of these product types. EAD estimates are based on actual historic EAD, segmented appropriately (e.g. straight versus budget in the case of credit cards).

Model validation

Rating models are recalibrated and independently validated on an annual basis to ensure validity, efficacy and accuracy. Rating models used across the credit portfolios incorporate an appropriate degree of conservatism, achieved through the prudent choice of model parameters and the inclusion in the calibration of downturn periods such as 2001 and 2007 to 2009.

Independent validation of rating systems is carried out by the GCRM function in ERM. It is responsible for reviewing all rating systems and an annual comprehensive revalidation of all material rating systems. An audit team in GIA carries out sample revalidations of the rating systems. The results of these analyses are reported to MRVC and ultimately approved by the RCC committee. As part of this process, extensive documentation covering all steps of the model development lifecycle from inception through to validation is maintained. This includes:

- developmental evidence, detailing processes followed and data used to set parameters for the model. These documents are updated at least annually by the model development teams;
- independent validation reports, documenting the process followed during the annual validation exercise as well as results obtained from these analyses; and
- model build and development frameworks are reviewed and, where required, updated annually by GCRM. These frameworks provide guidance, principles and minimum standards which the model development teams are required to adhere to.

Credit risk mitigation

Since the taking and managing of credit risk is core to its business, the Bank aims to optimise the amount of credit risk it takes to achieve its return objectives. Mitigation of credit risk is an important component of this process, beginning with the structuring and approval of facilities for only those clients and within those parameters that fall within risk appetite.

Although, in principle, the credit assessment focuses on the counterparty's ability to repay the debt, credit mitigation instruments are used where appropriate to reduce the 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 counterparties 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 and the structured facilities in RMB are secured as part of the structure through financial or other collateral including guarantees and credit derivative instruments and assets; and
- credit risk in RMB is mitigated through the use of netting agreements and financial collateral.

The 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 wholesale and commercial counterparties, collateral is reassessed during the annual review of the counterparty's creditworthiness to ensure that proper title is retained over collateral. For mortgage portfolios, collateral is revalued on an ongoing basis using an index model. For all retail portfolios, including the mortgage portfolio, collateral is revalued through physical inspections in the event of default and at the beginning of the recovery process.

The concentrations within credit risk mitigation types, such as property, are monitored and managed within the three credit portfolios. FNB HomeLoans and FNB Wealth monitor exposure to a number of geographical areas, as well as within loan-to-value bands.

Collateral is taken into account for capital calculation purposes through the determination of the LGD. The existence of collateral results in a reduced LGD, and the levels of the LGDs are determined through statistical modelling techniques based on the historical experience of the recovery processes.

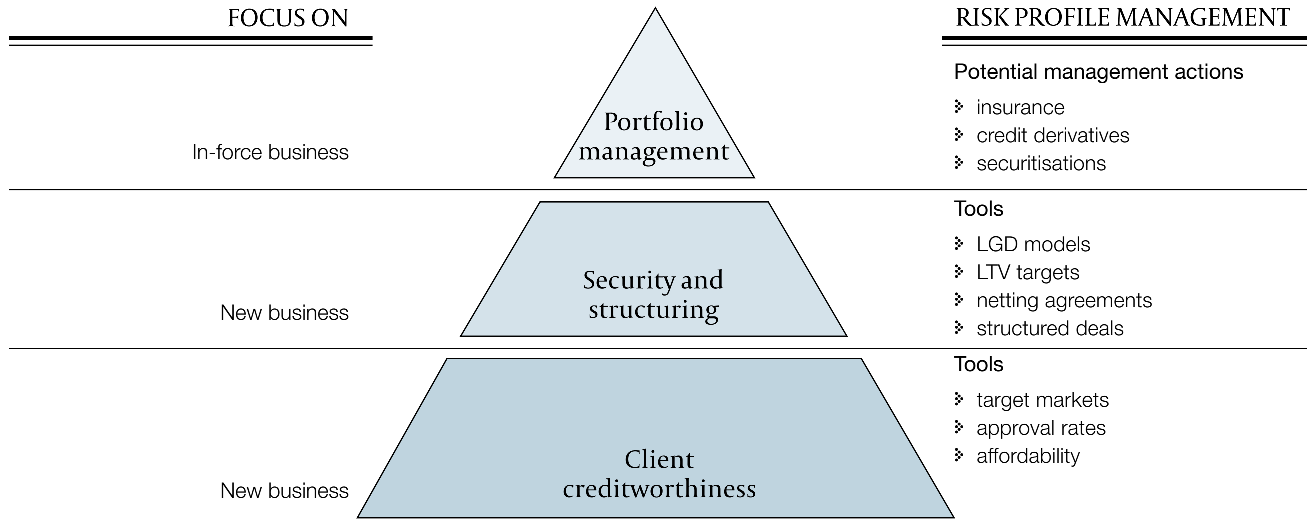
Monitoring of weak exposures

Credit exposures are actively monitored throughout the life of transactions. Portfolios are formally reviewed by the portfolio committees either monthly or quarterly to assess levels of individual counterparty risk, portfolio risks and to act on any early warning indicators. The performance and financial condition of borrowers is monitored based on information from internal performances, credit bureaux, borrowers and publicly-available information. The frequency of monitoring and contact with the borrower is determined from the borrower's risk profile. Reports on the overall quality of the portfolio are monitored at a business unit level, portfolio level and in aggregate for the Bank.

Use of credit risk tools and measures (unaudited)

Credit risk measures are used in a large number of business processes, including pricing and setting impairments, determining capitalisation levels and business strategy, risk appetite, and the establishing of appropriate return targets. Credit risk tools and measures are used extensively in the determination of the Bank's current credit risk profile and credit risk appetite.

Use of credit risk tools and measures



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

Use of credit measures in the credit lifecycle

	Wholesale	Retail
Determination of portfolio and client acquisition strategy	assessment of overall portfolio credit risk determined by PD, EAD and LGD; and acquisition and overall strategy set in terms of appropriate limits and Group risk appetite.	see wholesale; and credit models determine loss thresholds used in setting of credit risk appetite.
Determination of individual and portfolio limits	industry and geographical concentrations; ratings; risk-related limits on the composition of portfolio; and Group credit risk appetite.	see wholesale; and modelled versus actual experience is evaluated in setting of risk appetite.
Profitability analysis and pricing decisions	PD, EAD and LGD used to determine pricing; and economic profit used for profitability.	see wholesale.
Credit approval	consideration of applicant's ratings; credit risk appetite limits; and projected risk-adjusted return on economic capital (PD, EAD and LGD are key inputs in these measures).	automated based on application scorecards (scorecards are reflective of PD, EAD and LGD); and assessment of client's affordability.
Credit monitoring and risk management	risk assessment based on PD, EAD and LGD; counterparty FR grades updated based on risk assessment; and portfolio model apportions and additional capital to large transactions that will increase concentration risk.	see wholesale; and monthly analysis of portfolio and risk movements used in portfolio management and credit strategy decisions.
Impairments	PD and LGD used in assessment of impairments and provisioning; and judgemental assessment to determine adequacy of provisions.	loss identification period (LIP), PD, LGD and roll rates used for specific, portfolio and incurred but not reported (IBNR) provisions.
Regulatory and economic capital calculation	primary credit risk measures – PD, EAD and LGD are the most important inputs.	primary credit risk measures – PD, EAD and LGD are the most important inputs.
Reporting to senior management and board	portfolio reports discussed at franchise and business unit risk committee meetings; and quarterly portfolio reports submitted to credit risk management and RCC committees.	portfolio reports discussed at franchise and business unit risk committee meetings; and quarterly portfolio reports submitted to credit risk management and RCC committees.

Credit risk portfolio

Credit strategy is managed as part of the broader balance sheet management process and is aligned with the Group's view of trends in the wider economy. The current origination strategies are resulting in improving credit quality across all retail portfolios (as evidenced in the vintage analyses for the large retail portfolios in the *selected risk analysis* section).

Gross advances grew 13.4% during the year under review. Growth in investment banking and commercial loans to the mining, agriculture as well as the manufacturing and commerce sectors underpinned the commercial and wholesale advances increase. Retail advances benefited from strong growth in the VAF portfolio. Unsecured lending growth remains robust, with credit extension review actions continuously applied. Growth in the Africa book is consistent.

The level of NPLs has maintained a downward trend since the peak in June 2009. Retail defaults and retail NPLs as a percentage of advances continued to decline. Increases in NPLs for the unsecured portfolios have materialised as expected. The commercial portfolios saw a decline in NPLs as a result of continued curing and workout.

Retail credit portfolios

VAF book growth was particularly robust for the year under review. Residential mortgage growth remains low, with the focus on improving the risk profile. Impairments in this portfolio declined noticeably as a result. The unsecured lending portfolio continues to grow. A reduction of retail NPLs was driven by the slower inflow into NPLs in FNB HomeLoans. NPL increases, however, occurred in all of the unsecured portfolios, in line with expectations and risk appetite and have been appropriately priced for.

The Bank's impairment charge reflects the increased impairments in the unsecured lending book, in line with expectations. The higher impairment charge in the retail secured portfolios was due to increased impairments in VAF.

Corporate credit portfolios

The wholesale advances book grew due to investment banking-related lending, particularly in mining and renewable energy, while FNB Commercial's advances portfolio achieved growth attributed mainly to the leveraged finance, property term loan and agriculture portfolios.

Credit assets (audited)

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

Credit assets by type and segment

R million	2013	2012
Cash and short-term funds	**37 238**	27 347
– Balances with central banks	**14 356**	12 421
– Money at call and short notice	**22 882**	14 926
Gross advances	**556 938**	490 966
FNB*	**238 675**	220 551
– FNB Retail	**195 841**	184 591
– FNB Commercial**	**42 834**	35 960
WesBank	**133 599**	110 390
RMB Investment Banking	**175 561**	153 632
RMB Corporate Banking*	**5 101**	2 669
Corporate Centre	**4 002**	3 724
Derivatives	**51 755**	52 392
Debt investment securities (excluding non-recourse investments)	**87 749**	73 969
Accounts receivable	**4 564**	3 301
Loans due by holding company and fellow subsidiaries	**20 882**	23 307
Credit risk not recognised on the balance sheet	**116 274**	98 040
– Guarantees	**28 515**	21 446
– Acceptances	**270**	293
– Letters of credit	**8 658**	7 301
– Irrevocable commitments	**74 054**	64 872
– Credit derivatives	**4 777**	4 128
Total	**875 400**	769 322

* *Comparative information of certain portfolios has been restated to reflect the current segmentation of the business.*
** *Includes public sector.*

Credit quality (audited)

Advances are considered past due in the following circumstances:

- loans with a specific expiry date (e.g. term loans) and consumer loans repayable by regular instalments (e.g. mortgage loans and personal loans) are treated as overdue where one full instalment is in arrears for one day or more and remains unpaid 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

	2013					
			Past due but not impaired			
R million	**Neither past due nor impaired**	**Renegotiated but current**	**One full instalment past due**	**Two full instalments past due**	**Impaired**	**Total**
FNB Retail	**182 868**	**507**	**2 457**	**1 394**	**8 615**	**195 841**
FNB Commercial*	**41 260**	**101**	**29**	**15**	**1 429**	**42 834**
FNB	**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**	**173 344**	**–**	**112**	**799**	**1 306**	**175 561**
RMB Corporate Banking	**5 091**	**–**	**1**	**–**	**9**	**5 101**
Corporate Centre	**4 002**	**–**	**–**	**–**	**–**	**4 002**
Total	**532 588**	**608**	**5 307**	**3 300**	**15 135**	**556 938**

* *Includes public sector.*
** *Impaired advances for RMB Investment Banking are net of cumulative credit fair value adjustments on the non-performing book.*

	2012					
			Past due but not impaired			
R million	Neither past due nor impaired	Renegotiated but current	One full instalment past due	Two full instalments past due	Impaired	Total
FNB Retail	170 454	288	2 603	1 306	9 940	184 591
FNB Commercial*	34 240	–	38	17	1 665	35 960
FNB**	204 694	288	2 641	1 323	11 605	220 551
WesBank	103 011	–	2 461	893	4 025	110 390
RMB Investment Banking#	152 223	–	147	17	1 245	153 632
RMB Corporate Banking**	2 660	–	–	–	9	2 669
Corporate Centre	3 724	–	–	–	–	3 724
Total	466 312	288	5 249	2 233	16 884	490 966

* *Includes public sector.*
** *Certain portfolios have been restated to reflect the current segmentation of the business.*
\# *Impaired advances for RMB Investment Banking are net of cumulative credit fair value adjustments on the non-performing book.*

Renegotiated advances (audited)

Financial assets that would otherwise be past due or impaired that have been renegotiated, are separately classified as neither past due nor impaired assets.

Renegotiated advances are advances where, due to deterioration in the counterparty's financial condition, the 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, adherence to the new terms and conditions is closely monitored. Renegotiated advances exclude advances which are extended or renewed as part of the ordinary course of business on similar terms and conditions as the original advances.

Non-performing advances cannot be reclassified as renegotiated unless the arrears balance has been repaid. Renegotiated but current financial assets are considered as part of the collective evaluation of impairment where financial assets are grouped on the basis of similar credit risk characteristics.

As part of the risk management and recoveries approach, the Bank enters into arrangements with clients where concessions are made on payment terms (e.g. a reduction in payments for a specified period, changes in the payment profile or debt counselling payment plans). There are formally defined eligibility criteria appropriate for individual products to determine when clients are eligible for such arrangements. These accounts are monitored in a separate portfolio in each product segment and the performance is tracked for management and impairment purposes. Retail accounts classified as NPLs cannot be reclassified to performing until all arrears have been paid up as per the Bank's policy.

Past due but not impaired (audited)

The classification of advances as past due but not impaired follows the standards set out in applicable accounting policies. Advances past due but not impaired in the tables above include accounts in arrears by one or two full repayments. For the year ended 30 June 2013 exposures to technical and partial arrears of R4.2 billion (June 2012: R5.4 billion) were classified as neither past due nor impaired in accordance with FirstRand's impairment methodology, primarily driven by retail exposures.

The following table provides the credit quality of advances of the in-force portfolio; detailed information on the movements on an asset class level is provided in the *PD, EAD and LGD profiles* section.

Credit quality of performing advances

	2013						
	Total neither past due nor impaired*	**FNB**					
R million		**Retail**	**Commercial****	**WesBank**	**RMB Investment Banking**	**RMB Corporate Banking**	**Corporate Centre**
FR 1 – 25	**146 723**	**42 919**	**2 037**	**3 440**	**92 455**	**3 388**	**2 484**
FR 26 – 91	**376 281**	**132 552**	**38 620**	**122 017**	**79 892**	**1 703**	**1 497**
Above FR 92	**10 192**	**7 904**	**704**	**566**	**997**	**–**	**21**
Total	**533 196**	**183 375**	**41 361**	**126 023**	**173 344**	**5 091**	**4 002**

* *Total neither past due nor impaired includes renegotiated but current advances.*
** *Includes public sector.*

	2012						
	Total neither past due nor impaired**	FNB*					
R million		Retail	Commercial#	WesBank	RMB Investment Banking	RMB Corporate Banking*	Corporate Centre
FR 1 – 25	111 661	28 580	1 939	2 687	76 707	508	1 240
FR 26 – 91	340 056	134 404	29 870	97 950	73 222	2 152	2 458
Above FR 92	14 883	7 758	2 431	2 374	2 294	–	26
Total	466 600	170 742	34 240	103 011	152 223	2 660	3 724

* *Certain portfolios have been restated to reflect the current segmentation of the business.*
** *Total neither past due nor impaired 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) classified as neither past due nor impaired

	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**	**20 882**	**175 504**
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**	**20 882**	**197 624**

* *Excludes non-recourse investments.*

	2012				
R million	Debt investment securities*	Derivatives	Cash and short-term funds	Amounts due by fellow subsidiary companies	Total
AAA to BBB	72 043	35 969	27 288	23 307	158 607
BB+ to B-	1 926	16 396	56	–	18 378
CCC	–	24	–	–	24
Unrated	–	3	3	–	6
Total	73 969	52 392	27 347	23 307	177 015

* *Excludes non-recourse investments.*

Impairment of financial assets and NPLs (audited)

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

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

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

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

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

Fair value sensitivity of wholesale advances due to credit risk

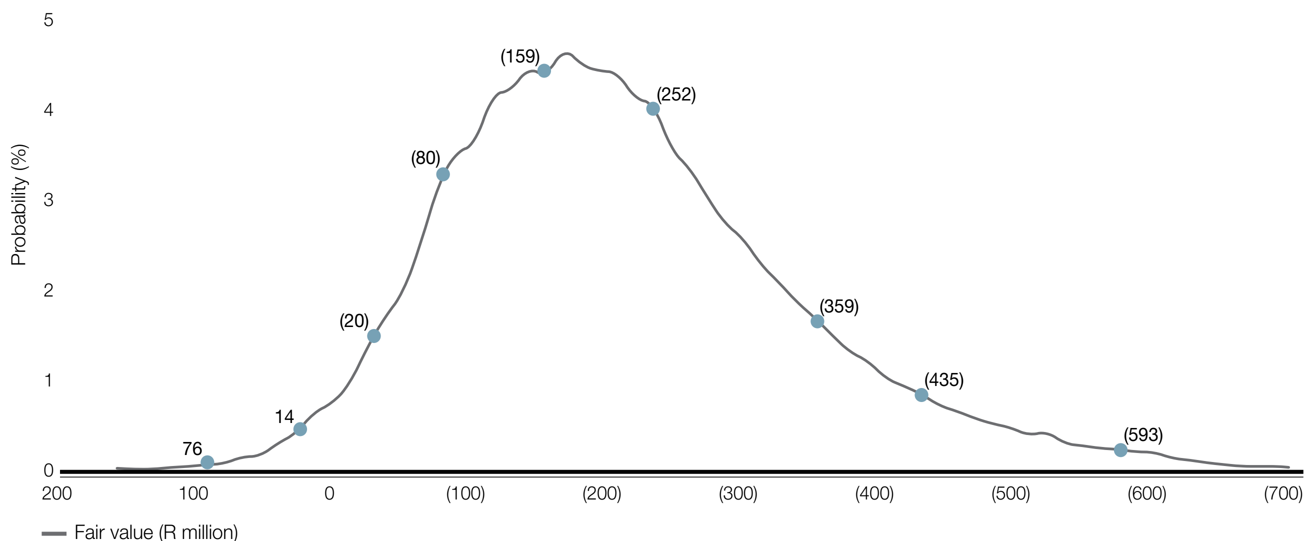
The Investment Banking division in RMB recognises a significant portion of the wholesale advances at fair value through profit or loss. The fair value adjustments directly impact the income statement and the value of advances. For risk management purposes a migration matrix is used to estimate the fair value impact of changes in credit risk. The matrix contains probabilities of downgrading or upgrading to another rating bucket.

The main benefits of using the migration matrix to estimate the fair value impact of credit risk are:

- more realistic downgrades as better rating grades are less likely to be downgraded compared to riskier rating grades;
- migration matrices which take into account higher volatility of riskier rating grades;
- rating migration can be positive or negative;
- rating migration is not restricted by one notch only and, in extreme cases, includes default risk; and
- migration matrices can be based on different economic conditions (for example long term, or downturn).

The following graph sets out the fair value impact based on actual observed rating migrations from Standard & Poor's over the long term. Based on this scenario the average fair value impact is a loss of approximately R159 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 R252 million.

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



Management of concentration risk (audited)

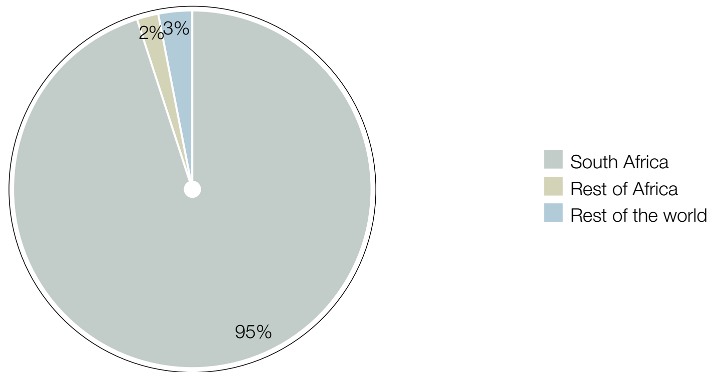
Credit concentration risk is the risk of loss to the Bank arising from an excessive concentration of exposure to a single counterparty, industry, market, product, financial instrument or type of security, country or region, or maturity. This concentration typically exists when a number of counterparties 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 in the credit portfolios, based on the nature of the credit concentration within each portfolio. The Bank's 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.

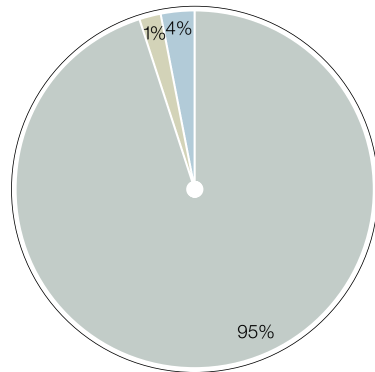
Geographic and industry concentration risk (audited)

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.

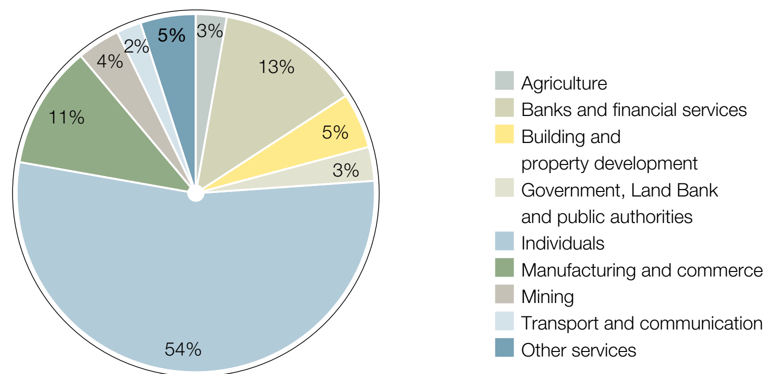
Geographical split by exposure 2013



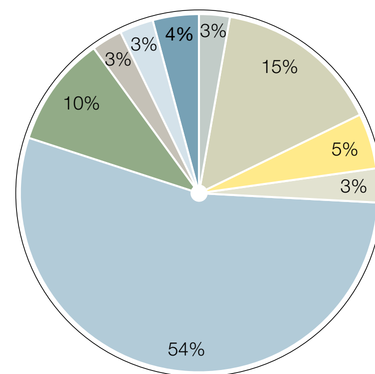
Geographical split by exposure 2012



Industry split by exposure 2013



Industry split by exposure 2012



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 credit exposure (audited)

	2013								
R million	**South Africa**	**Rest of Africa**	**United Kingdom**	**Other Europe**	**North America**	**South America**	**Australasia**	**Asia**	**Total**
Advances	**529 945**	**10 858**	**10 358**	**3 355**	**394**	**89**	**498**	**1 441**	**556 938**
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 in the notes to the financial statements.*

	2012								
R million	South Africa	Rest of Africa	United Kingdom	Other Europe	North America	South America	Australasia	Asia	Total
Advances	468 855	4 667	10 823	2 230	65	95	395	3 836	490 966
Derivatives	33 635	60	11 841	5 527	1 241	–	–	88	52 392
Debt investment securities*	67 284	93	2 704	–	1 636	–	–	2 252	73 969
Guarantees, acceptances and letters of credit**	24 326	3 143	39	529	7	2	–	994	29 040
Irrevocable commitments**	63 073	465	814	148	66	–	43	263	64 872

* *Excludes non-recourse investments.*
** *Significant off-balance sheet exposures. Refer to the note on contingencies and commitments in the notes to the financial statements.*

Average advances per major risk type (unaudited)

R million	**2013**	2012
Retail credit*	**312 653**	259 574
Wholesale credit	**167 421**	146 197
Commercial credit	**39 718**	33 299

* *The average advances of retail credit for June 2012 were restated.*

The average amount of gross credit exposure is calculated on a monthly average basis.

Segmental analysis of advances (audited)

The following table provides a breakdown of credit exposure by Bank segments.

Segmental analysis

	2013†				
R million/%	Advances	NPLs	NPLs as a % of advances	Total impairment charge	Impairments as % of average advances
FNB*	238 675	10 044	4.21	2 648	1.15
– FNB Retail	195 841	8 615	4.40	2 330	1.22
– Residential mortgages	163 046	6 911	4.24	507	0.32
– Card	13 001	302	2.32	23	0.19
– Personal loans	12 885	943	7.32	1 402	11.39
– Other retail	6 909	459	6.64	398	7.49
– FNB Commercial**	42 834	1 429	3.34	318	0.81
WesBank	133 599	3 776	2.83	1 516	1.24
– WesBank asset-backed finance	126 352	3 332	2.64	1 086	0.94
– WesBank Retail	93 447	2 468	2.64	957	1.14
– WesBank Corporate	32 905	864	2.63	129	0.41
– WesBank loans	7 247	444	6.13	430	6.54
RMB Investment Banking	175 561	2 296	1.31	19	0.01
RMB Corporate Banking*	5 101	9	0.18	28	0.72
Corporate Centre	4 002	–	–	–	–
Total	556 938	16 125	2.90	4 211	0.81
Special impairments#	–	–	–	230	0.04
Total	556 938	16 125	2.90	4 441	0.85

* *Comparative information of certain portfolios has been restated to reflect the current segmentation of the business.*
** *Includes public sector.*
# *Special impairments relate to FNB R215 million (2012: R405 million) and RMB Corporate Banking R15 million (2012: R300 million).*
† *Segmental analysis included from June 2013 as additional disclosure.*
‡ *Unaudited.*

2012‡				
Advances	NPLs	NPLs as a % of advances	Total impairment charge	Impairments as % of average advances
220 551	11 605	5.26	2 372	1.12
184 591	9 940	5.38	2 205	1.24
157 851	8 697	5.51	922	0.59
11 291	271	2.40	27	0.24
11 730	710	6.05	1 011	10.73
3 719	262	7.04	245	10.27
35 960	1 665	4.63	167	0.50
110 390	4 025	3.65	1 019	0.98
104 489	3 712	3.55	755	0.76
74 346	2 636	3.55	378	0.55
30 143	1 076	3.57	377	1.26
5 901	313	5.30	264	4.84
153 632	2 028	1.32	16	0.01
2 669	9	0.34	(27)	(1.03)
3 724	–	–	800	–
490 966	17 667	3.60	4 180	0.90
–	–	–	705	0.15
490 966	17 667	3.60	4 885	1.05

Basel disclosure

Credit rating systems and processes used for Basel

The Bank uses the AIRB approach for exposures of the Bank's domestic operations and the standardised approach for all other legal entities and offshore branches of the Bank for regulatory capital purposes. Due to the relatively smaller size of the subsidiaries and the scarcity of relevant data, the Group plans to continue using the standardised approach for the foreseeable future for the majority of these portfolios, although the treatment of the London branch is currently under review.

The following table provides a breakdown of credit exposure by type, segment and Basel approach. The figures are based on IFRS and differ from the exposure figures used for regulatory capital calculations, which reflect the recognition of permissible adjustments such as the netting of certain exposures.

Credit exposure by type, segment and Basel approach

		AIRB	**Standardised approach**
R million	**2013**	FRB (SA)	Offshore branches and other subsidiaries
Cash and short-term funds	**37 238**	37 068	170
– Balances with central banks	**14 356**	14 323	33
– Money at call and short notice	**22 882**	22 745	137
Gross advances	**556 938**	543 626	13 312
FNB	**238 675**	238 452	223
– FNB Retail	**195 841**	195 841	–
– FNB Commercial*	**42 834**	42 611	223
WesBank	**133 599**	125 910	7 689
RMB Investment Banking	**175 561**	170 174	5 387
RMB Corporate Banking	**5 101**	5 101	–
Corporate Centre	**4 002**	3 989	13
Derivatives	**51 755**	51 537	218
Debt investment securities (excluding non-recourse investments)	**87 749**	85 413	2 336
Accounts receivable	**4 564**	4 434	130
Loans due by holding company and fellow subsidiaries	**20 882**	20 330	552
Credit risk not recognised on the balance sheet	**116 274**	112 056	4 218
– Guarantees	**28 515**	27 927	588
– Acceptances	**270**	270	–
– Letters of credit	**8 658**	8 656	2
– Irrevocable commitments	**74 054**	70 570	3 484
– Credit derivatives	**4 777**	4 633	144
Total	**875 400**	854 464	20 936

* *Includes public sector.*

For portfolios using the standardised approach, rating scales from Fitch Ratings, Moody's and Standard & Poor's are used. External ratings are not available for all jurisdictions and for certain parts of the portfolio other than corporate, bank and sovereign counterparties. Where applicable, the Bank uses its internally developed mapping between FR grade and rating agency grades.

PD, EAD and LGD profiles

A summary of credit risk parameters as reported for regulatory capital purposes is shown in the following tables for each significant AIRB asset class. The parameters reflect TTC PDs and downturn LGDs. The Bank uses EAD-weighted PDs based on the FR master rating scale which are then mapped to Basel rating buckets (1 – 25) for regulatory reporting purposes.

The following tables provide a summary of the EAD distribution by prescribed counterparty risk bands (Basel risk buckets). The EAD-weighted downturn LGD, EAD-weighted PD and average risk weight for the performing and total book are also shown as well as comparatives for the prior year.

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

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

The following tables include the EAD% distribution per Basel risk bucket for the different asset classes.

Risk profile per asset class: EAD% distribution per Basel risk bucket

	EAD									
%	FRB*		Corporate		Sovereign		Specialised lending		Banks and securities firms**	
Basel PD risk buckets	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
1 – 5	**9.3**	9.1	**0.4**	0.6	**83.1**	78.5	**0.1**	0.2	**3.9**	7.8
6 – 10	**16.0**	15.2	**33.8**	36.4	**13.5**	16.9	**14.8**	19.7	**67.7**	73.3
11 – 15	**36.9**	39.5	**53.3**	51.2	**2.3**	3.0	**54.7**	40.2	**22.6**	15.5
16 – 20	**31.2**	28.3	**10.3**	9.3	**0.6**	1.2	**23.0**	31.8	**4.9**	0.6
21 – 25	**4.5**	5.2	**2.0**	2.0	**0.2**	0.3	**2.2**	1.0	**0.9**	0.1
NPLs	**2.1**	2.6	**0.1**	0.5	**0.4**	–	**5.2**	7.1	**–**	–

	EAD									
%	SMEs corporate		SMEs retail		Retail mortgages		Retail revolving		Other retail#	
Basel PD risk buckets	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
1 – 5	**2.0**	–	**–**	–	**–**	–	**–**	–	**–**	–
6 – 10	**0.8**	–	**13.7**	12.4	**2.2**	–	**20.8**	22.8	**–**	1.7
11 – 15	**56.0**	54.0	**24.8**	27.9	**53.6**	55.9	**32.5**	32.0	**7.3**	21.9
16 – 20	**37.7**	41.2	**54.3**	51.4	**36.5**	34.6	**34.9**	34.2	**76.6**	55.5
21 – 25	**3.5**	3.4	**4.3**	4.6	**4.5**	5.3	**9.8**	8.9	**12.4**	16.8
NPLs	**2.0**	1.4	**2.8**	3.7	**3.2**	4.1	**2.1**	2.1	**3.7**	4.1

* *The movements in FRB from June 2012 to June 2013 are explained in each separate asset class. Distributions are stable with NPLs reducing in line with the macro environment over the year under review.*

** *Banks and securities firms: the main contributor to the movement from June 2012 to June 2013 is the movement in pre-settlement facilities which is a characteristic of these exposures. In addition, through the re-rating process, a number of counterparty ratings have changed.*

Other retail: the main contributor to the movement from June 2012 to June 2013 is the recalibration of the respective PD models.

The following tables include the nominal EAD per Basel risk bucket for the different asset classes.

Risk profile per asset class: Nominal EAD per Basel risk bucket

R million	Nominal EAD									
	FRB*		Corporate		Sovereign		Specialised lending		Banks and securities firms**	
Basel PD risk buckets	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
1 – 5	**67 222**	58 752	**621**	779	**64 718**	50 082	**41**	59	**1 833**	7 820
6 – 10	**111 135**	96 452	**51 741**	48 952	**10 489**	10 777	**5 709**	7 188	**31 518**	18 038
11 – 15	**267 689**	251 149	**81 772**	68 856	**1 782**	1 927	**21 087**	14 638	**10 500**	9 291
16 – 20	**226 451**	179 736	**15 818**	12 509	**448**	757	**8 848**	11 575	**2 280**	3 393
21 – 25	**32 860**	33 128	**3 124**	2 651	**157**	197	**848**	363	**406**	325
NPLs	**15 073**	16 684	**199**	682	**317**	24	**1 994**	2 582	**–**	–
Total	**720 430**	635 901	**153 275**	134 429	**77 911**	63 764	**38 527**	36 405	**46 537**	38 867

R million	Nominal EAD									
	SMEs corporate		SMEs retail		Retail mortgages		Retail revolving		Other retail#	
Basel PD risk buckets	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
1 – 5	**9**	–	**–**	–	**–**	–	**–**	–	**–**	12
6 – 10	**314**	–	**–**	3 902	**4 226**	–	**7 108**	6 071	**30**	1 524
11 – 15	**23 392**	18 308	**8 797**	8 779	**101 273**	101 307	**11 121**	8 537	**7 965**	19 506
16 – 20	**15 753**	13 948	**19 297**	16 185	**68 918**	62 792	**11 952**	9 122	**83 137**	49 455
21 – 25	**1 469**	1 163	**1 544**	1 433	**8 543**	9 632	**3 341**	2 368	**13 428**	14 996
NPLs	**821**	471	**1 011**	1 177	**6 036**	7 512	**721**	547	**3 974**	3 689
Total	**41 758**	33 890	**30 649**	31 476	**188 996**	181 243	**34 243**	26 645	**108 534**	89 182

* *The movements in FRB from June 2012 to June 2013 are explained in each separate asset class. Distributions are stable with NPLs reducing in line with the macro environment over the year under review.*

** *Banks and securities firms: the main contributor to the movement from June 2012 to June 2013 is the movement in pre-settlement facilities which is characteristic of these exposures. In addition, through the re-rating process, a number of counterparty ratings have changed.*

Other retail: the main contributor to the movement from June 2012 to June 2013 is the recalibration of the respective PD models.

The following tables include the PD%, LGD%, EL/EAD and RWA/EAD ratio per asset class.

PD%, LGD%, EL/EAD and RWA/EAD per asset class

%	**2013**									
	FRB*	**Corporate**	**Sovereign****	**Specialised lending#**	**Banks and securities firms**	**SMEs corporate**	**SMEs retail**	**Retail mortgages**	**Retail revolving**	**Other retail**
Average performing PD	**2.5**	**1.2**	**0.1**	**1.8**	**0.5**	**2.5**	**2.9**	**2.9**	**4.1**	**6.0**
Average performing LGD	**28.3**	**34.5**	**28.4**	**23.2**	**30.2**	**26.5**	**30.7**	**13.9**	**65.2**	**32.8**
Performing EL/ EAD	**0.8**	**0.5**	**0.1**	**0.7**	**0.2**	**0.6**	**0.8**	**0.4**	**2.7**	**2.5**
Performing RWA/ EAD	**39.9**	**57.5**	**8.0**	**55.1**	**26.9**	**53.9**	**37.7**	**26.2**	**53.2**	**53.1**
Average total book PD	**4.5**	**1.3**	**0.5**	**6.9**	**0.5**	**4.4**	**5.7**	**6.0**	**6.2**	**9.4**
Average total book LGD	**28.7**	**34.5**	**28.4**	**25.0**	**30.2**	**27.4**	**31.0**	**14.2**	**65.3**	**33.6**
Total book EL/ EAD	**1.6**	**0.6**	**0.1**	**3.1**	**0.2**	**1.7**	**2.0**	**1.2**	**4.1**	**4.2**
Total book RWA/ EAD	**41.2**	**57.4**	**8.0**	**52.4**	**26.9**	**56.3**	**40.4**	**26.0**	**54.6**	**54.4**

%	2012†									
	FRB*	Corporate	Sovereign**	Specialised lending#	Banks and securities firms	SMEs corporate	SMEs retail	Retail mortgages	Retail revolving	Other retail
Average performing PD	2.7	1.1	0.2	2.1	0.6	2.4	3.0	3.2	3.9	6.4
Average performing LGD	28.4	35.1	29.1	22.6	32.5	28.2	29.6	14.7	66.3	34.2
Performing EL/ EAD	0.9	0.5	0.1	0.5	0.2	0.7	0.8	0.5	2.6	3.1
Performing RWA/ EAD	40.0	51.0	8.8	64.6	28.4	60.2	38.8	29.4	46.1	54.1
Average total book PD	5.2	1.6	0.2	9.0	0.6	3.8	6.6	7.2	5.9	10.2
Average total book LGD	28.7	35.2	29.1	24.1	32.5	28.6	30.2	14.9	66.5	35.4
Total book EL/ EAD	1.8	0.7	0.1	3.2	0.2	1.5	2.2	1.4	4.0	4.8
Total book RWA/ EAD	41.4	52.0	8.9	60.7	28.4	60.0	43.8	28.8	47.2	62.0

* *The movements in FRB from June 2012 to June 2013 are explained in each separate asset class. Distributions are stable with NPLs reducing in line with the macro environment over the year under review.*

** *Includes public sector entities, local government and municipalities and sovereign exposures (including central government and central bank).*

Includes high volatility commercial real estate, income-producing real estate, commodities finance and project finance exposures.

† *A number of June 2012 figures have been restated. Additional information required in regulatory returns enabled more accurate information.*

The following tables include the nominal value of the credit extended, drawn exposure and EAD per asset class.

Nominal credit extended, drawn exposure and EAD per asset class

	2013									
R million	**FRB***	**Corporate**	**Sovereign****	**Specialised lending#**	**Banks and securities firms**	**SMEs corporate**	**SMEs retail**	**Retail mortgages**	**Retail revolving**	**Other retail**
Total book credit extended	**919 707**	**205 107**	**83 334**	**39 252**	**155 387**	**49 445**	**36 735**	**195 405**	**46 262**	**108 780**
Total book drawn exposure	**601 736**	**118 854**	**72 680**	**37 524**	**29 123**	**35 338**	**28 174**	**153 618**	**19 278**	**107 147**
Total book nominal EAD	**720 430**	**153 275**	**77 911**	**38 527**	**46 537**	**41 758**	**30 649**	**188 996**	**34 243**	**108 534**

	2012†									
R million	FRB*	Corporate	Sovereign**	Specialised lending#	Banks and securities firms	SMEs corporate	SMEs retail	Retail mortgages	Retail revolving	Other retail
Total book credit extended	733 962	165 192	63 011	36 569	84 512	40 751	32 087	185 843	36 815	89 182
Total book drawn exposure	517 696	102 389	58 539	32 898	19 006	27 999	25 622	148 620	14 699	87 924
Total book nominal EAD	635 901	134 429	63 764	36 405	38 867	33 890	31 476	181 243	26 645	89 182

* *The movements in FRB from June 2012 to June 2013 are explained in each separate asset class. Distributions are stable with NPLs reducing in line with the macro environment over the year under review.*

** *Includes public sector entities, local government and municipalities and sovereign exposures (including central government and central bank).*

Includes high volatility commercial real estate, income-producing real estate, commodities finance and project finance exposures.

† *A number of June 2012 figures have been restated. Additional information required in regulatory returns enabled more accurate information.*

Maturity breakdown

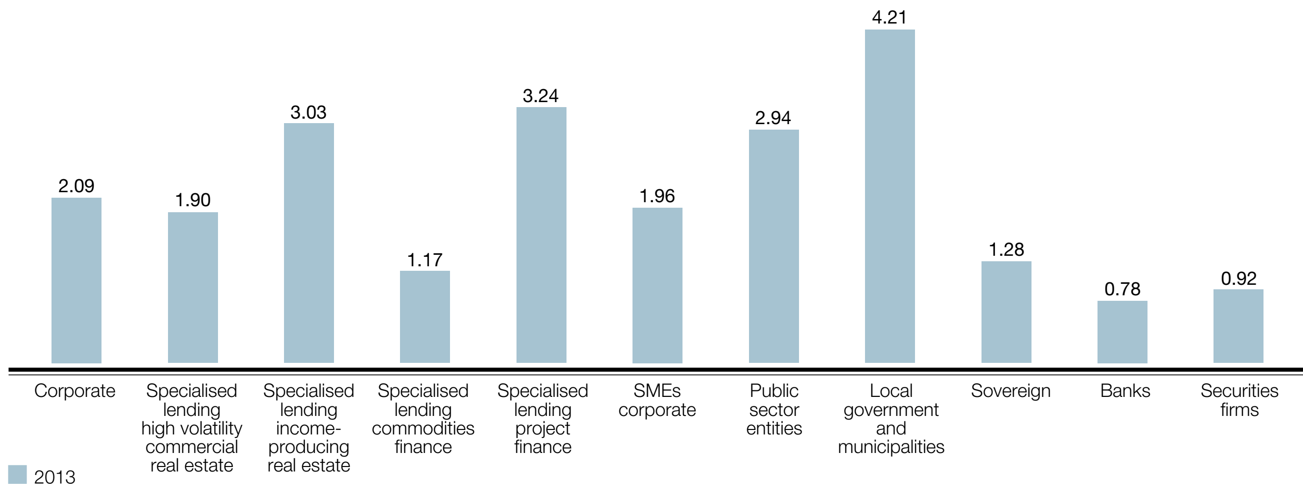
Maturity is defined as the average time at which a bank will receive its contractual payments (cash flows), calculated for each account or exposure weighted by the size of each of the cash flows.

Maturity is used as an input in the AIRB regulatory capital calculation for wholesale portfolios. These are aggregated on an asset class basis for review and reporting purposes. The longer the maturity of a deal, the greater the uncertainty, and all else being equal, the larger the regulatory capital requirement will be.

Maturity breakdown of AIRB asset classes within the wholesale credit portfolio is disclosed in the following chart.

Maturity breakdown per wholesale AIRB asset class

(Maturity in years)



Actual versus expected loss analysis

To provide a meaningful assessment of the effectiveness of internal ratings-based models, expected loss is compared against actual losses during the calendar year. This is performed for all significant AIRB asset classes.

Expected loss here refers to regulatory expected loss. This provides a one-year forward looking view, based on information available at the beginning of the year (i.e. 1 July 2012). Risk parameters include:

- PDs, which are calibrated to long-run default experience to avoid regulatory models being skewed to a specific part of the credit cycle;
- LGDs, which are calibrated to select downturn periods to reflect depressed asset prices during economic downturns; and
- EADs.

Actual losses during the year consist of the level of specific impairments at the start of the year (1 July 2012) 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 the specific provisions raised are a fair estimate of what final losses on defaulted exposures would be, although the length of the workout period creates uncertainty in this assumption.

The measure of actual losses includes specific impairments raised for exposures which defaulted during the year, but which did not exist at 1 July 2012. These exposures are not reflected in the expected loss value described.

The following table provides the comparison of actual loss to regulatory expected loss for each significant AIRB asset class of the Bank. PDs used for regulatory capital purposes are based on long run experience and are expected to underestimate actual defaults at the top of the credit cycle and overestimate actual defaults at the bottom of the credit cycle, under normal circumstances.

It should also be noted that the regulatory expected loss shown is based on the expected loss derived from the regulatory capital models that were applied as at 30 June 2012. This comparison is supplemented with more detailed analyses on the following page, comparing actual and expected outcomes for each risk parameter (PD, LGD and EAD) over the year under review.

Expected values are based on regulatory capital models applied as at 30 June 2012. For PDs, this is applied to the total performing book as at 30 June 2012. For LGDs and EADs, it is applied to all facilities that defaulted over the subsequent 12 months.

Actual values are based on actual outcomes over the 12-month period July 2012 to June 2013. Due to the length of the workout period, there is uncertainty in the measure provided for actual LGDs as facilities that default during the year would only have had between one and twelve months to recover to date – depending on when the default event occurred.

The EAD-estimated to actual ratio is derived as the ratio of expected nominal exposure at default (for all accounts that defaulted during the 12-month period July 2012 to June 2013) to the actual nominal exposure at default for the same accounts.

Actual versus expected loss per portfolio segment for the Bank

	2013		2012		2011	
R million*	**Expected loss**	**Actual loss**	Expected loss*	Actual loss	Expected loss	Actual loss
Corporate (corporate, banks and sovereign)**	**1 621**	**70**	1 499	313	847	16
SMEs (SMEs corporate and SMEs retail)#	**1 146**	**989**	1 507	1 094	1 354	1 189
Residential mortgages	**2 674**	**2 470**	2 793	2 961	3 102	3 773
Qualifying revolving retail#	**1 126**	**973**	1 179	808	1 168	1 122
Other retail†	**1 718**	**2 413**	904	1 990	790	1 013
WesBank†	**2 780**	**3 236**	3 160	3 371	3 142	3 663
Total	**11 065**	**10 151**	11 042	10 537	10 403	10 776

* *The composition used above differs slightly from that used in the remainder of this section, due to impairment charges on a business unit level as opposed to AIRB asset class level. The expected losses for the year ended June 2012 were restated to reflect the correct expected losses as at 1 July 2011.*

** *The expected losses for the corporate portfolio are much higher than the actual losses due to it being a low default portfolio. As a result, the models use conservative data inputs.*

SMEs, residential mortgages and qualifying revolving retail actual losses are below expected losses which is expected given the current point in the economic cycle and that expected loss parameters are based on long run and downturn conditions.

† *Other retail and WesBank have experienced high levels of growth during the year, although it is not reflected in the expected losses which are based on accounts that are in-force at the start of the year. However, these new accounts will contribute to the actual losses as a result of additional provisions that will be raised. As a result, actual losses are expected to be greater.*

Risk parameters used to determine regulatory expected loss for the Bank

	2013				
	PD		**LGD**		**Estimated EAD to actual EAD ratio**
Asset class	**Estimated %**	**Actual %**	**Estimated %**	**Actual %**	**%**
Corporate, banks and sovereign*	**0.94**	**0.28**	**15.78**	**34.61**	**107.88**
Specialised lending – property finance	**2.12**	**1.16**	**31.01**	**3.32**	**102.73**
SMEs – corporate	**2.26**	**1.33**	**29.28**	**28.38**	**109.93**
SMEs – retail	**2.94**	**2.81**	**32.13**	**26.32**	**111.63**
Residential mortgages	**3.45**	**2.63**	**15.65**	**12.57**	**104.73**
Qualifying revolving retail	**3.63**	**2.63**	**67.65**	**63.33**	**91.85**
Other retail	**6.31**	**5.56**	**33.43**	**33.26**	**104.12**
Total	**2.75**	**2.02**	**22.15**	**28.53**	**106.04**

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

	2012				
	PD		LGD		Estimated EAD to actual EAD ratio
Asset class	Estimated %	Actual %	Estimated %	Actual %	%
Corporate, banks and sovereign*	0.73	0.11	37.33	10.86	194.54
Specialised lending – property finance	2.70	2.31	21.82	28.84	116.04
SMEs – corporate	4.85	2.33	26.97	28.98	144.33
SMEs – retail	3.21	2.96	28.83	20.87	113.27
Residential mortgages	3.57	2.92	15.30	11.53	104.43
Qualifying revolving retail	3.02	2.46	72.37	68.53	98.94
Other retail	5.99	5.07	45.99	43.66	102.91
Total	2.72	1.96	30.55	27.52	107.98

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

Risk parameters used to determine regulatory expected loss for the Bank continued

	2011				
	PD		LGD		Estimated EAD to actual EAD ratio
Asset class	Estimated %	Actual %	Estimated %	Actual %	%
Corporate, banks and sovereign*	0.88	0.19	24.94	28.28	122.96
SMEs – corporate	4.54	2.15	35.81	14.04	108.56
SMEs – retail	3.40	3.27	36.93	26.98	114.81
Residential mortgages	3.06	3.13	15.46	14.44	104.82
Qualifying revolving retail	2.58	2.64	64.78	66.63	127.53
Other retail	5.89	5.92	33.61	31.73	106.00
Total	2.57	2.18	26.32	24.27	108.08

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

The corporate, banks and sovereign regulatory capital models remain conservative as these are low default portfolios with actual default rates remaining lower than expected.

Differences between the actual and expected LGDs for corporates, banks and sovereigns as well as specialised lending – property finance are due to the low default volumes where individual default loss experience can dominate the result. The difference in outputs as compared to prior years is primarily as a result of actual and expected LGD being based only on counterparties which have defaulted during the respective years. Differences in the loss characteristics of accounts which default over time can be significant, particularly in the wholesale and commercial portfolios where defaults are sparse.

Deviations in the actual versus expected EADs can be seen where the estimated EAD to actual EAD ratio deviates from 100%. A ratio above 100% indicates an overprediction and a ratio below 100% indicates an underprediction of EAD. The qualifying revolving retail asset class EAD models applied for regulatory capital as at June 2012 underestimated EADs and reflect the model in use at the time. An updated model is in the pipeline and will predict EADs at a more appropriate level.

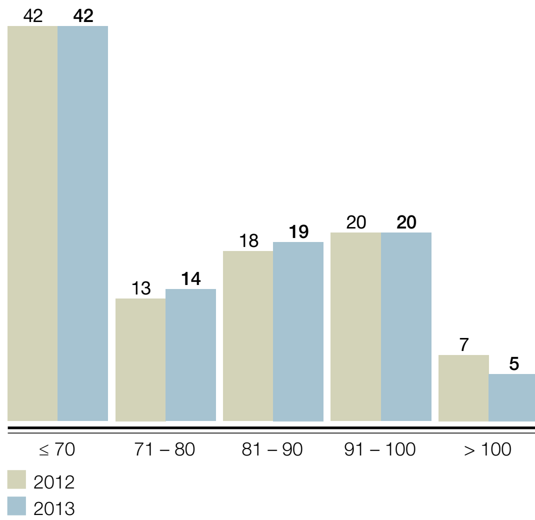
Selected risk analyses

This section provides further information on selected risk analyses of the credit portfolios.

The following graphs provide the balance-to-value distributions and the ageing of the residential mortgages portfolios. The recent focus on the loan-to-value ratios for new business has resulted in an improvement in the balance-to-original value although the broader strategy is to place more emphasis on the counterparty creditworthiness as opposed to only on the underlying security. Pressures on property market values have negatively impacted the balance-to-market value distribution.

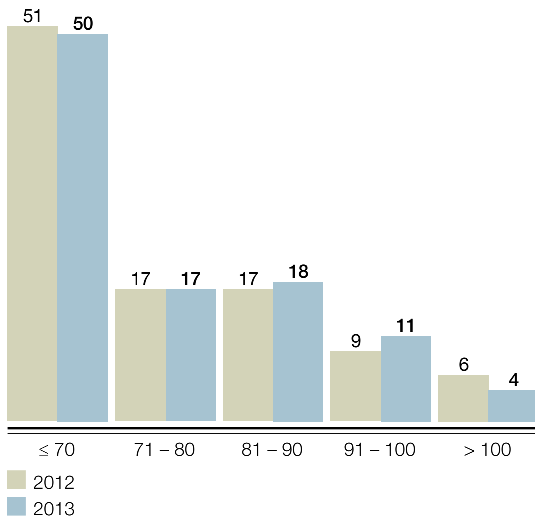
Residential mortgages balance-to-original value

(%)



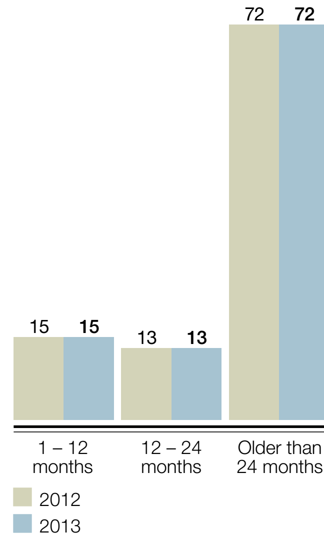
Residential mortgages balance-to-market value

(%)



Residential mortgages age distribution

(%)



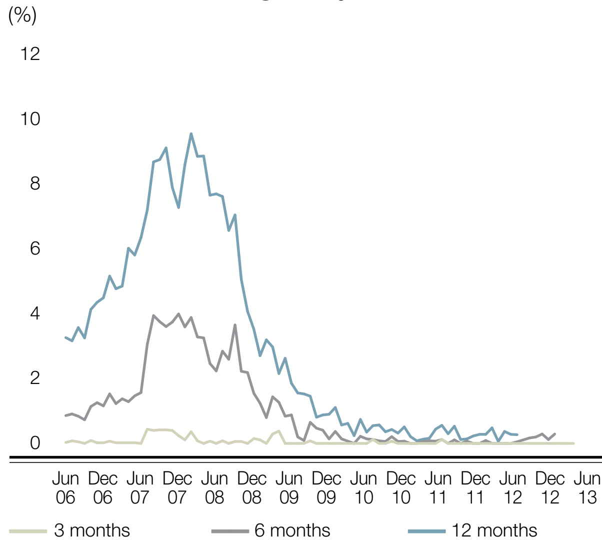
The following graph provides the arrears in the FNB HomeLoans portfolio. It includes arrears where more than one full payment is in arrears, expressed as a percentage of total advances balance.

FNB HomeLoans arrears

(%)

The following graphs provide the vintage analysis for FNB HomeLoans and WesBank retail. Vintage graphs provide the default experience three, six and twelve months after each origination date. It indicates the impact of origination strategies and the macroeconomic environment.

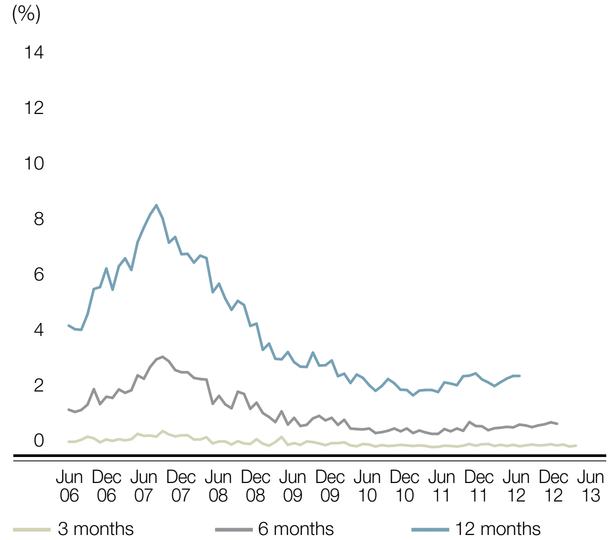
FNB HomeLoans vintage analysis



For FNB HomeLoans, the three, six and twelve month cumulative vintage analysis illustrates a marked improvement in the quality of business written since mid-2008 despite further deterioration in macro conditions in the succeeding period.

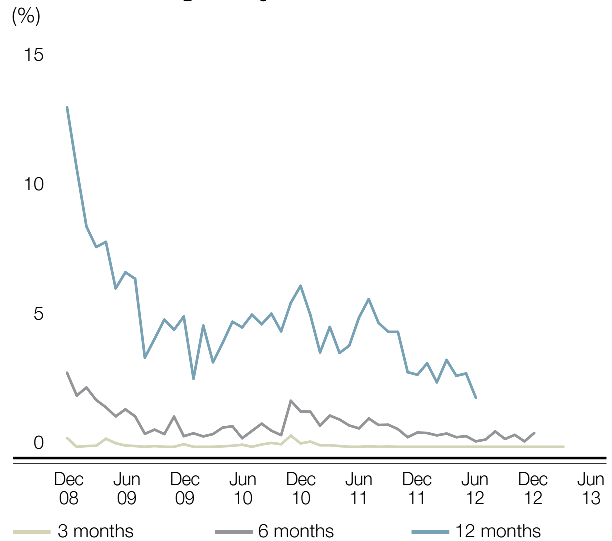
The more recent decreases in the default experience reflect a combination of the credit origination strategies and the improvement in macro conditions, resulting in an improved risk profile.

WesBank retail vintage analysis



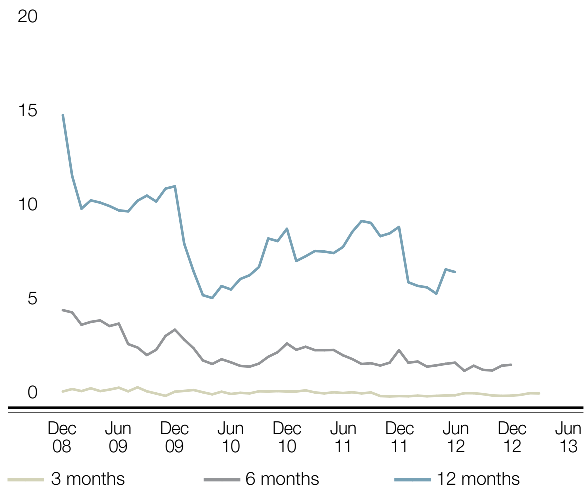
The WesBank retail six and twelve month cumulative vintage analysis continues to show a noticeable improvement in the quality of business written since mid-2007. This is due to improved customer profiles and enhanced collection strategies.

FNB Card vintage analysis



The level of inflows into NPLs continued to decrease.

Unsecured (excluding FNB Card) vintage analysis



The default experience of the FNB and WesBank unsecured portfolios is within risk appetite. Continued action is undertaken to ensure these portfolios remain within risk appetite.

The Bank's South African repossessed retail properties are shown in the following table.

Retail properties in possession

	2013	2012	% change
Number of properties	**290**	595	(51)
Value (R million)	**14**	100	(86)

SECURITISATIONS AND CONDUITS

Introduction and objectives

Securitisation is the structured process whereby interests in loans and other receivables are packaged, underwritten and sold in the form of asset-backed securities to capital market investors.

Asset securitisations enable the Bank 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 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.

Traditional and synthetic securitisations

The following tables show the traditional and synthetic securitisations currently in place, the rating distribution of any exposures retained and a breakdown of the various roles performed by the Bank. 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	2011	2016	Moody's
Turbo Finance 1	Retail: Auto loans	2011	2012	Moody's and Fitch
Turbo Finance 2	Retail: Auto loans	2012	2015	Moody's and Fitch
Turbo Finance 3	Retail: Auto loans	2012	2015	Moody's and Fitch
Synthetic securitisations**				
Fresco 2	Corporate receivables	2007	2013	Fitch
Total				

* *Does not include cash reserves.*
** *This table includes transactions that have been structured by the Bank 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 2013	**98**	**–**	**–**	**–**	**81**	**–**	**–**	**–**	**–**	**–**	**–**	**179**
At 30 June 2012	2 000	–	–	–	81	–	59	–	–	–	–	2 140
Synthetic												
At 30 June 2013	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**3 020**	**52**	**–**	**23**	**3 095**
At 30 June 2012	–	–	–	17 839	–	–	–	–	180	53	90	18 162
Third party												
At 30 June 2013	**503**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**503**
At 30 June 2012	625	–	–	–	–	51	–	–	–	–	–	676

* *While national scale ratings have been used in this table, global-scale equivalent ratings are used for internal risk management purposes. This table includes the rating distribution of transactions retained by the Bank and those purchased from third parties.*

The Bank'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	✓	✓	✓				

Assets securitised	Assets outstanding*		Notes outstanding		Retained exposure	
	2013	2012	**2013**	2012	**2013**	2012
16 209	**7 019**	7 491	**7 823**	8 130	**179**	2 140
3 982	**1 453**	2 573	**1 747**	3 007	**179**	956
3 620	**–**	1 487	**–**	1 486	**–**	696
4 037	**2 200**	3 431	**2 402**	3 637	**–**	488
4 570	**3 366**	–	**3 674**	–	**–**	–
20 000	**5 000**	20 000	**5 000**	20 000	**3 095**	18 162
20 000	**5 000**	20 000	**5 000**	20 000	**3 095**	18 162
36 209	**12 019**	27 491	**12 823**	28 130	**3 274**	20 302

Third party securitisations

Transaction	Originator	Sponsor	Servicer	Investor	Liquidity provider	Credit enhancement provider	Swap provider
Homes obligor mortgage enhanced securities					✓		
Private residential mortgages 2					✓		
Superdrive investments				✓			
Torque securitisation					✓		

Resecuritisations

A resecuritisation exposure is a securitisation exposure in which the risk associated with an underlying pool of exposures is tranched and at least one of the underlying exposures is a securitisation exposure. Securitisation paper is, on occasion, acquired by the conduit structures and managed as part of the underlying portfolio. This makes up a minimal portion of the total portfolio and is accounted for as a resecuritisation exposure for regulatory capital purposes.

Resecuritisation exposure

Programme*	Resecuritisation exposure (R million)	% of total programme
iVuzi	47.5	1.1

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

Oversight and credit risk mitigation

The Bank monitors retained securitisation exposures in a number of ways:

- proposed securitisations follow a rigorous internal approval approach and are reviewed for approval by ALCCO, RCC committee and the board;
- off-balance sheet transactions are discussed and monitored at a bimonthly meeting of Group Treasury's off-balance sheet forum;
- changes to retained exposures (ratings, redemptions, losses) reflect in the monthly BA 500 regulatory reporting; and
- transaction investor reports, alignment with special purpose vehicle (SPV) financial reporting and the impact of underlying asset performance are reviewed on the quarterly BA501 regulatory reporting.

The Bank does not employ credit risk mitigation techniques to hedge credit risk on retained securitisation tranches. The Bank determines the applicable capital requirements for retained exposures according to the Basel securitisation framework.

Securitisation accounting policies

From an accounting perspective, traditional securitisations are treated as sales transactions. At inception, the assets are sold to a SPV at carrying value and no gains or losses are recognised. For synthetic securitisations, the credit derivatives used in the transaction are recognised at fair value, with any fair value adjustments reported in profit or loss.

Securitisation entities are consolidated into FRIHL for financial reporting purposes. Any retained notes are accounted for within the banking book of the appropriate entity (i.e. FRB or the consolidated accounts of FRIHL).

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

Summary of securitisation activity

Maturity of Turbo Finance plc

Launched on 2 February 2011, Turbo Finance plc (Turbo Finance 1), represented the Bank's first securitisation of offshore assets originated by its UK vehicle finance business, MotoNovo Finance. Strong asset performance together with good prepayment levels resulted in the full redemption of the investor-held Class A tranche in September 2012. With the Group holding the remaining notes, the decision was taken to repurchase all the outstanding assets and thereby terminate the securitisation. The legal process to repurchase the outstanding assets was completed in early October 2012, with all notes fully redeemed on 22 October 2012.

Issuance of Turbo Finance 3

In November 2012, the Bank closed its third UK traditional auto loan securitisation, Turbo Finance 3 plc (Turbo Finance 3). Turbo Finance 3 is a cash securitisation of fixed rate auto loans extended to obligors by MotoNovo Finance. The note issuance of GBP332.7 million is rated by both Fitch and Moody's. The performance of past and existing Turbo Finance transactions has helped to improve the rating assumptions used by the rating agencies, allowing for a reduction in the level of subordination required for the Aaa/AAA Class A note (18% compared to 28% for Turbo Finance 1). The following table provides further detail regarding the notes issued.

Turbo Finance 3 notes issued

Tranche	Rating (Moody's/Fitch)	Amount (GBP million)	Credit enhancement* (%)	Coupon
A	Aaa(sf)/AAA(sf)	273.40	17.82	1m LIBOR + 60
B	A1(sf)/A(sf)	27.80	9.47	1m LIBOR + 140
C	NR/NR	26.20	1.59	7%
D	NR/NR	5.30	0.00	20%
Total		**332.70**		

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

There was sufficient demand for high quality credit assets allowed the marketing of the Class B tranche as well. FirstRand, acting through its London branch, continues to act as servicer for the transaction. The transaction is compliant with Article 122a of the EU Capital Requirement Directive where FRB chose to use the on-balance sheet retention method to meet the 5% retained interest requirements of Article 122a.

Scheduled amortisation of Fresco 2

Scheduled amortisation of Fresco 2 commenced in November 2012, with the portfolio balance at R5 billion at 30 June 2013. As a consequence of the deleveraging of the reference portfolio, Fitch issued a ratings upgrade of Fresco 2 notes on 15 February 2013. The Class A, B and C notes were upgraded by 1 notch. The transaction's performance since closing has remained in line with expectations.

Fresco 2 ratings revision

	Fitch domestic rating	
Tranche	Previous	Revised
A	BBB (zaf)	A (zaf)
B	BB (zaf)	BBB (zaf)
C	B+ (zaf)	BB (zaf)
D	B (zaf)	B (zaf)
E	B (zaf)	B (zaf)
F	B (zaf)	B (zaf)
G	B- (zaf)	B- (zaf)

Rating downgrade of Nitro Securitisation 4 Issuer Trust (Nitro 4)

In September 2012, Moody's Investor Services downgraded the South African government debt rating from A3 to Baa1, effectively lowering the local currency country ceiling to A1. Consequently, the rating of the Nitro 4 Class A tranche was downgraded from Aa2(sf) to A1(sf) on a local currency international scale basis.

Based on a realignment of the national scale to international scale mapping, the Class A notes remain rated Aaa(sf).za. The transaction was structured to obtain matched term funding for the Bank and is currently performing in line with expectations. Targeted maturity for the Nitro 4 structure is August 2016.

Nitro 4 rating downgrade

Tranche	Moody's rating		Moody's national scale rating
	Previous	Revised	
A	Aa2 (sf)	A1 (sf)	Aaa.za(sf)
B	Baa2 (sf)	Baa2 (sf)*	A1.za (sf)
C	Ba2 (sf)	Ba2 (sf)*	Ba2.za (sf)

* *No change, placed on rating watch negative.*

Conduit programmes

The Group has conduit programmes incorporated under both securitisation scheme and commercial paper regulations. The iNdwa and iVusi conduit programmes are incorporated under securitisation scheme regulations. These are debt capital market vehicles, which provide investment-grade corporate South African counterparties with an alternative source of funding to directly accessing capital markets via their own domestic medium-term debt programmes or traditional bank funding. It also provides institutional investors with highly-rated short-term alternative investments. The fixed income fund, iNkotha is a call-loan bond fund, which offers overnight borrowers and lenders an alternative to traditional overnight bank borrowings or overnight deposits.

The commercial paper programme, iNguza, issues bespoke notes to investors. These notes reference the credit risk of separate and distinct transactions of a different underlying borrower or obligors. Note holders will have recourse only to the assets in relation to the underlying transaction and will not have recourse to any other assets. Risk relating to the underlying transactions is transferred directly to note holders and managed by them according to their risk appetite levels. Notes are listed on the Interest Rate Market of the JSE and may be traded through members of the JSE.

Both the fixed income fund and the commercial paper programme have been incorporated under commercial paper regulations.

All the assets originated for the conduit programmes are rigorously evaluated as part of the Bank's credit approval processes applicable to any other corporate exposure held by the Bank.

The conduit programmes have proved resilient during difficult financial market conditions and have experienced a tightening of credit spreads in line with the corporate debt market. Supply of assets and demand for notes issued by the conduits remain healthy, albeit within the constraints of newly introduced collective investment scheme (CIS) regulations.

The following tables show the programmes currently in place, ratings distribution of 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*

R million	Underlying assets	Year initiated	Rating agency	Programme size	Non-recourse investments		Credit enhancement provided	
					2013	2012	**2013**	2012
Securitisations**								
iNdwa	Corporate and structured finance term loans	2003	Fitch	15 000	**5 160**	6 687	**–**	–
iVuzi	Corporate and structured finance term loans	2007	Fitch	15 000	**4 123**	4 487	**1 070**	670
Total				30 000	**9 283**	11 174	**1 070**	670
Fixed income fund#								
iNkotha	Overnight corporate loans	2006	GCR†	10 000	**2 957**	2 654	**–**	–
Total				10 000	**2 957**	2 654	**–**	–
Commercial paper programme#								
iNguza	Corporate and structured finance term loans	2008	GCR†	15 000	**10 964**	8 616	**–**	–
Total				15 000	**10 964**	8 616	**–**	–

* *Conduit programmes are consolidated into FRIHL for financial reporting purposes.*
** *Conduits incorporated under regulations relating to securitisation scheme.*
# *Conduits incorporated under regulations relating to commercial paper.*
† *Global credit rating.*

Rating distribution of conduits

R million	F1+(zaf)	AAA(zaf)	AA+(zaf)	AA(zaf)	AA-(zaf)	A+(zaf)	A(zaf)	A-(zaf)	Total
Securitisations									
At 30 June 2013	**–**	**–**	**820**	**2 841**	**1 777**	**1 945**	**1 284**	**616**	**9 283**
At 30 June 2012	–	121	730	2 628	3 778	1 071	1 765	1 081	11 174
Fixed income funds									
At 30 June 2013	**–**	**–**	**–**	**648**	**827**	**601**	**321**	**560**	**2 957**
At 30 June 2012	–	–	–	1 097	479	519	–	559	2 654

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

The Bank's role in conduits

Transaction	Sponsor	Originator	Investor	Servicer	Liquidity provider	Credit enhancement provider	Swap counterparty
iNdwa	✓			✓	✓		✓
iNkotha				✓			
iVuzi	✓			✓	✓	✓	✓
iNguza				✓			

All of the above programmes continue to perform in line with expectations.

Liquidity facilities

The following table provides a summary of the liquidity facilities provided by the Bank.

Liquidity facilities

R million	Transaction type	2013	2012
Own transactions		**5 751**	8 157
– iNdwa	Conduit	**3 866**	4 713
– iVuzi	Conduit	**1 885**	3 444
Third party transactions	Securitisations	**1 522**	558
Total		**7 273**	8 715

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

Additional information

The following table provides the securitisation exposures retained or purchased as well as associated capital requirements per risk band. The Bank applies a number of methodologies in determining the capital requirements for securitisation and conduit exposures.

For domestic transactions, the Bank applies the internal ratings based approach, supervisory formula and standardised approach, the choice of which is determined by the most efficient use of capital.

Retained or purchased securitisation exposure and the associated regulatory capital charges

	Exposure		Capital*		Capital deduction**	
R million	2013	2012	2013	2012	2013	2012
Risk weighted bands						
≤10%	**3 989**	7 443	**33**	55	**–**	–
>10% ≤20%	**750**	810	**9**	11	**–**	–
>20% ≤50%	**–**	1 235	**–**	42	**–**	–
>50% ≤100%	**1 331**	81	**82**	6	**–**	–
>100% ≤650%	**–**	59	**–**	26	**–**	–
1250%/deduction	**23**	90	**23**	–	**–**	90
Look through	**6 027**	22 745	**281**	797	**–**	–
Total	**12 120**	32 463	**428**	937	**–**	90

* *Capital is calculated at the Basel III 9.5% minimum requirement (excluding the bank-specific ICR) and includes a 6% capital scalar.*
** *Exposure previously held as deductions have moved from supply to demand side of credit in line with regulatory changes.*

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

COUNTERPARTY CREDIT RISK

Introduction and objectives (audited)

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

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

During the year under review the Bank implemented the Basel standardised approach for the calculation of counterparty credit default risk capital. This measure is more risk-sensitive than CEM used previously. The improved risk sensitivity of the measure implies that capital now more accurately reflects the risk profile of the book. In the current financial year the Bank has implemented Basel III CVA capital charge, AVC multiplier, as well as Basel III capital charge for centrally cleared exposures.

FirstRand is, and will continue to be, an active participant in processes to implement legislative and structural reforms in the local derivatives market. Changes to international regulations relating to derivative market reforms are regularly monitored.

The risk to bilateral OTC counterparties is reduced by restricting transactions to higher-rated counterparties and collateralising all mark-to-market movements in the majority of cases. The risk to clients in securities financing is reduced by improved margining and restricting exposure to higher quality underlying assets.

Organisational structure and governance

RMB's credit department is responsible for the overall management of counterparty credit risk. It is supported by RMB's derivative counterparty risk department which is responsible for ensuring that market and credit risk methodologies are consistently applied in the quantification of risk.

Counterparty credit risk is managed on the basis of the principles, approaches, policies and processes set out in the credit risk management framework for wholesale credit exposures.

In this respect, counterparty credit risk governance aligns closely with the Group's credit risk governance framework, with mandates and responsibilities cascading from the board through the RCC committee to the respective credit committees and subcommittees as well as deployed and central risk management functions. Refer to the *Risk governance* section, and organisational structure and governance in the *Credit risk* section for more details.

The derivative counterparty risk committee supports the credit risk management committee and its subcommittees with analysis and quantification of counterparty credit risk for traded product exposures.

Assessment and management (audited)

Quantification of risk exposure

The measurement of counterparty credit risk aligns closely with credit risk measurement practices and is focused on establishing appropriate limits at a counterparty level and on ongoing portfolio risk management.

To this end, appropriate quantification methodologies of potential future exposure over the life of a product, even under distressed market conditions, are developed and approved at the relevant technical committees.

Individual counterparty risk limit applications are prepared using the approved risk quantification methodologies, and assessed and approved at the dedicated counterparty credit committee, which has appropriate executive and non-executive representation.

All counterparty credit risk limits are subject to annual review, while counterparty exposures are monitored by the respective risk functions on a daily basis. Overall counterparty risk limits are allocated across a number of products. Desk level reports are used to ensure sufficient limit availability prior to executing additional trades with a counterparty.

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

- quantification of exposure and risk, as well as management of facility utilisation within approved credit limits;
- ongoing monitoring of counterparty creditworthiness to ensure early identification of high risk exposures and predetermined facility reviews at certain intervals;
- collateral management;
- management of high risk (watch list) exposures;
- collections and workout process management for defaulted assets; and
- counterparty credit risk reporting.

Limit breaches are dealt with in accordance with the approved excess mandate. Significant limit breaches necessitate reporting to the head of the business unit, head of risk for the affected business unit and derivative counterparty risk management function. Any remedial actions are agreed amongst these parties and failure to remedy such a breach is reported to the RMB proprietary board, ERM and RCC committee.

As part of the ongoing process of understanding the drivers of counterparty credit risk, regular analysis is carried out on OTC derivative and securities financing portfolios on a look-through basis. This portfolio review process seeks to identify concentrations,

hypothetical impact of stress scenarios and to better understand the interaction of underlying market risk factors and credit exposure. The benefits gained include clearer insight into potential collateral, earnings and capital volatility, and potentially risky trading behaviour by counterparties.

Advanced monitoring of the creditworthiness of developed market counterparty banks is conducted through the real-time analysis of the spreads on listed securities that have been issued or referenced by these banks.

Counterparty credit risk mitigation

Where appropriate, various instruments are used to mitigate the potential exposure to certain counterparties. These include financial or other collateral in line with common credit risk practices, as well as netting agreements, guarantees and credit derivatives.

The 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 the approved CSA thresholds.

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

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

In rare instances, FirstRand has signed ISDA agreements where both parties would be required to post additional collateral in the event of a rating downgrade. The additional collateral to be provided by the Bank in the event of a downgrade is not material and would not adversely impact its financial position.

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

While these variables are not quantifiable, the following table, in addition to showing the effect of counterparty credit risk mitigation, provides a guide to the order of magnitude of the netted portfolio size and collateral placed with the 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 risk exposure

R million	**2013**	2012*
Gross positive fair value	**106 490**	97 704
Netting benefits	**(12 054)**	(8 444)
Netted current credit exposure before mitigation	**94 436**	89 260
Collateral value	**(82 100)**	(73 415)
Netted potential future exposure	**3 380**	3 194
Exposure at default**	**20 366**	21 174

* *The comparative numbers were restated to reflect the correct numbers as at 30 June 2012.*

** *EAD includes exposures calculated under both the standardised and current exposure method. The Bank implemented the standardised approach in June 2012. The standardised approach implementation covers all material portfolios with full coverage to be attained in the new financial year. EAD under the standardised approach is quantified by scaling either the current credit exposure less collateral or the net potential future exposure by a factor of 1.4. The latter explains why the summation of the netted current exposure, collateral value and netted potential future exposure in the table above differs from computed EAD.*

The 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

	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**

	2012			
R million	Credit default swaps	Total return swaps	Other	Total
Own credit portfolio				
– protection bought	19	–	–	19
– protection sold	1 900	–	–	1 900
Intermediation activities				
– protection bought	3 149	–	–	3 149
– protection sold	3 865	–	–	3 865

MARKET RISK

MARKET RISK IN THE TRADING BOOK

Introduction and objectives (audited)

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 of the Bank is taken and managed by RMB. The relevant businesses within RMB function as the centres of expertise with respect to all market risk-related activities and ensuring that market risk is managed and contained within the Bank's appetite.

Compared to previous years and, following the strategic review of RMB's business and cessation of outright proprietary trading, overall levels of market risk have reduced, particularly with respect to equity risk on the domestic balance sheet.

The performance of market risk-taking activities is measured as the higher of the 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 in *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 MIRC.

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

Assessment and management (audited)

Quantification of risk exposures

Market risk exposures are primarily measured and managed using an ETL measure and ETL limits. The ETL measure used by RMB is a historical simulation measure assessing the average loss beyond a selected percentile. RMB's ETL is based on a confidence interval of 99% and applicable holding periods. Since ETL is adjusted for the trading liquidity of the portfolio, it is referred to as liquidity-adjusted ETL. Holding periods, ranging between 10 to 90 days, are used in the calculation and are based on an assessment of distressed liquidity of portfolios. Historical data sets are chosen to incorporate periods of market stress such as data from the 2008/2009 global financial crisis included during the year under review.

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

The 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;
- use of a 99% confidence level does not reflect the extent of potential losses beyond that percentile. ETL is a better measure to quantify losses beyond that percentile (but still subject to similar limitations as stated for VaR);
- use of a 1-day time horizon is not a fair reflection of profit or loss for positions with low trading liquidity, which cannot be closed out or hedged within one day;
- as exposures and risk factors can change during daily trading, exposures and risk factors are not necessarily captured in the VaR calibration which uses end-of-day trading data; and
- where historical data is not available, time series data is approximated or backfilled using appropriate quantitative methodologies. Use of proxies is, however, limited.

These limitations mean that the 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. ETL assessment provides a view of risk exposures under stress conditions.

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

Earnings volatility

A key element of the 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 monthly basis.

Back testing

Back testing is performed in order to verify the predictive ability of the VaR model and ensure ongoing appropriateness. The regulatory standard for back testing is to measure daily profits and losses against daily VaR at the 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. More granular back testing is performed at the individual desk level, in line with the proposals published in the Basel Committee on Banking Supervision (BCBS) consultative document, *Fundamental review of the trading book*, during May 2012.

Regulatory and economic capital for market risk

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

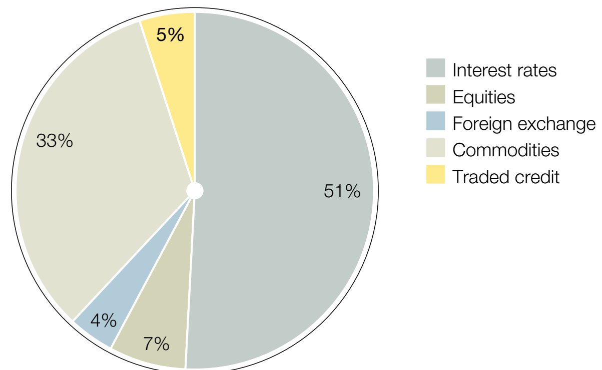
Economic capital for market risk is calculated using liquidity-adjusted ETL plus an assessment of specific risk.

Market risk in the trading book profile

The following chart shows the distribution of exposures per asset class across the Bank's trading activities at 30 June 2013 based on the VaR methodology. The interest rate asset class represented the most significant exposure at year-end.

VaR exposures per asset class for the Bank* (audited)

(%)



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

VaR analysis by risk type (audited)

The following table reflects VaR over a 1-day holding period at a 99% confidence level. Results indicate overall lower levels of market risk during the 2013 financial year compared to the previous year. The equity asset class results reflect the continued derisking that has taken place in residual exposures.

1-day 99% VaR analysis by instrument for the Bank excluding foreign branches

	2013				2012
R million	Min*	Max*	Average	Period end	Period end
Risk type**					
Equities	**0.8**	**17.5**	**5.0**	**4.4**	5.8
Interest rates	**12.7**	**55.3**	**23.1**	**29.9**	44.4
Foreign exchange	**1.8**	**26.7**	**8.3**	**2.0**	9.0
Commodities	**6.4**	**35.2**	**18.7**	**19.6**	24.6
Traded credit#	**1.8**	**10.8**	**4.4**	**2.9**	10.2
Diversification effect				**(17.5)**	(50.0)
Diversified total	**12.4**	**57.8**	**29.3**	**41.3**	44.0

* *The maximum and minimum VaR figures for each asset class did not necessarily occur on the same day. Consequently, a diversification effect was omitted from the above table.*

** *Banking book exposures are managed by Group Treasury and are reported under the banking book interest rate risk section.*

Traded credit included in disclosure from June 2013, although it does not form part of the Bank's internal VaR model calculation, it is included in the disclosure to indicate the total risk. The prior year figure for traded credit is unaudited.

1-day 99% VaR analysis by instrument for the Bank including foreign branches

	2013				2012
R million	Min*	Max*	Average	Period end	Period end
Risk type**					
Equities	**0.8**	**17.5**	**5.0**	**4.4**	5.8
Interest rates	**13.3**	**57.5**	**24.7**	**32.9**	45.6
Foreign exchange	**2.1**	**26.9**	**8.6**	**2.3**	9.2
Commodities	**6.4**	**35.2**	**18.7**	**19.6**	24.6
Traded credit#	**1.8**	**10.8**	**4.4**	**2.9**	10.3
Diversification effect				**(17.7)**	(50.1)
Diversified total	**13.9**	**58.9**	**31.2**	**44.4**	45.4

* *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 banking book interest rate risk section.*

Traded credit included in disclosure from June 2013, although it does not form part of the Bank's internal VaR model calculation, it is included in the disclosure to indicate the total risk. The prior year figure for traded credit is unaudited.

Other risk measures

Other risk factors are considered in the assessment and management of market risk. These include interest rate and equity specific risk. Specific risk accurately measures idiosyncratic risk not captured by ETL and VaR measures for interest rate and equity risk, such as default, credit migration and event risks, and identifies concentrations in a portfolio. The following table details specific risk for the year.

Specific risk measures

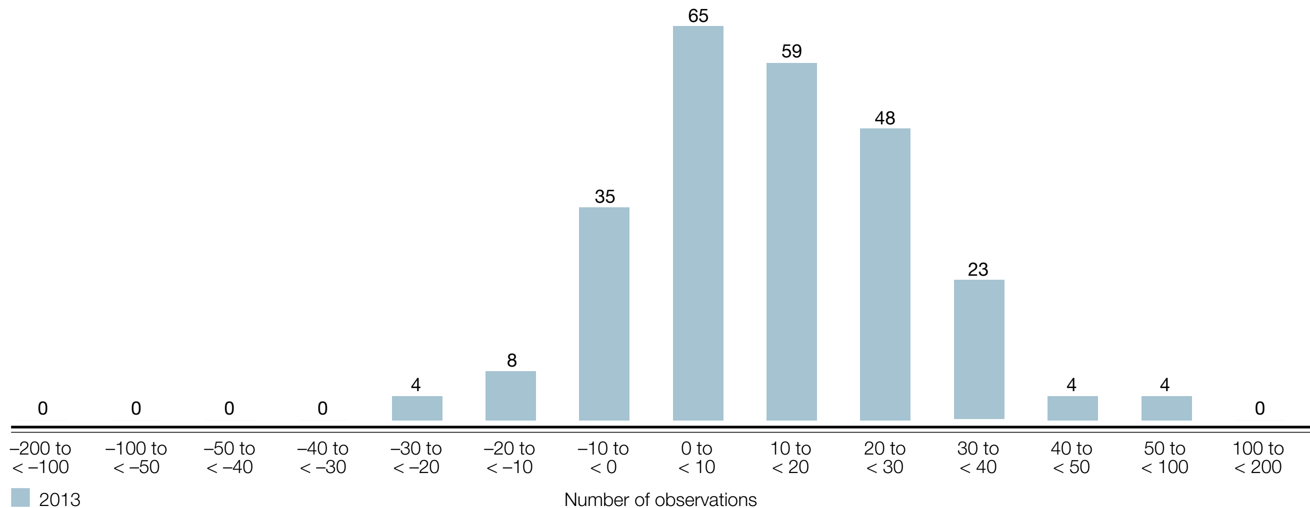
R million	2013	2012
Interest rate specific risk	**71**	76
Equity specific risk	**24**	68

Distribution of daily trading earnings from trading units

The following histogram shows the daily revenue for the local trading units in the Bank for the year under review.

Distribution of daily earnings

Frequency (days in period)

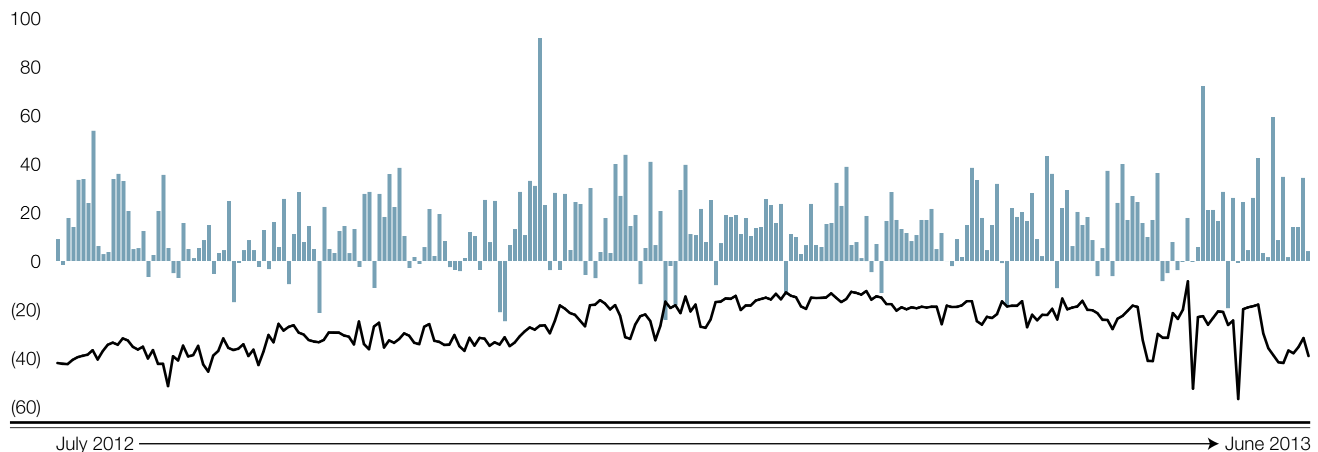


Back testing: daily regulatory trading book earnings and VaR

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 and the earnings profile is skewed towards profitability.

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

(R million)



Trading book earnings exceeded 1-day VaR on one occasion during the year under review, due to the widening of a commodities basis risk position. This indicates a reasonably accurate quantification of market risk provided by the Bank's internal model.

International

Market risk arises in the FirstRand Bank Limited London branch and FirstRand Bank Limited India branch operations. The same approach is employed for the measurement and management as in the local portfolio. During the year under review, market risk was contained within approved limits.

INTEREST RATE RISK IN THE BANKING BOOK

Introduction and objectives (audited)

Interest rate risk is the sensitivity of the balance sheet and income statement to unexpected, adverse movements in interest rates. Interest rate risk arises primarily from the endowment effect and interest rate mismatch. The endowment effect, which results from a large proportion of endowment liabilities (including stagnant deposits and equity) that fund variable-rate assets (e.g. prime-linked mortgages), remains the primary driver of interest rate risk in the banking book (IRRBB) and results in earnings being vulnerable to interest rate cuts. For its interest rate mismatch, the Bank also hedges its residual fixed-rate position, which has been adjusted for optionality.

Interest rate risk arises in trading and non-trading/banking book activities. In the trading book, interest rate risk is primarily quantified and managed using ETL measures and limits, VaR calculations are performed over a 1- and 10-day holding period as an additional risk measure. This is covered in *Market risk in the trading book* section of this report.

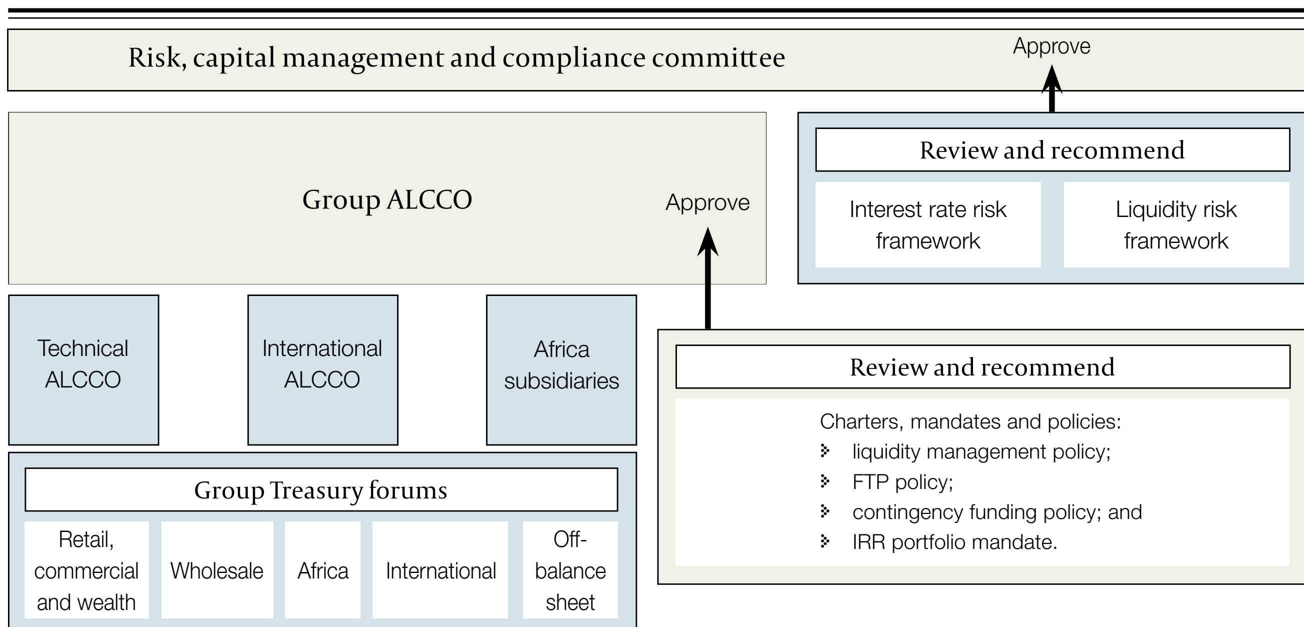
IRRBB originates from the differing repricing characteristics of balance sheet instruments, yield curve risk, basis risk and client optionality embedded in banking book products. It is an inevitable risk associated with banking and can be an important source of profitability and shareholder value. IRRBB continues to be managed from an earnings approach, with the aim to protect and enhance earnings and economic value within approved risk limit and appetite levels.

Organisational structure and governance

The control and management of IRRBB is governed by the framework for the management of IRRBB, which is a subframework of the BPRMF. Ultimate responsibility for determining risk limits and appetite for the Group vests with the board. Independent oversight for monitoring is done through the RCC committee, who, in turn, has delegated the responsibility for IRRBB to FirstRand ALCCO. ALCCO also maintains responsibility on behalf of the board for the allocation of sublimits and remedial action to be taken in the event of any limit breaches.

Individual ALCCOs exist in each of the African subsidiaries and international branches which monitor and manage in-country IRRBB. Material issues from individual ALCCOs are reported through to FirstRand ALCCO. The IRRBB management and governance structure is illustrated.

Interest rate risk management and governance structure



Assessment and management (audited)

Management and monitoring of the FirstRand domestic banking book is split between the RMB book and the remaining domestic banking book. RMB manages the banking book under its market risk framework; risk is measured and monitored in conjunction with the trading book with management oversight provided by MIRC. The RMB banking book interest rate risk exposure was R31.5 million on a 10-day ETL basis at 30 June 2013 (June 2012: R79.7 million). (Refer to *Market risk in the trading book* section). Further references to the banking book in this section exclude the RMB banking book.

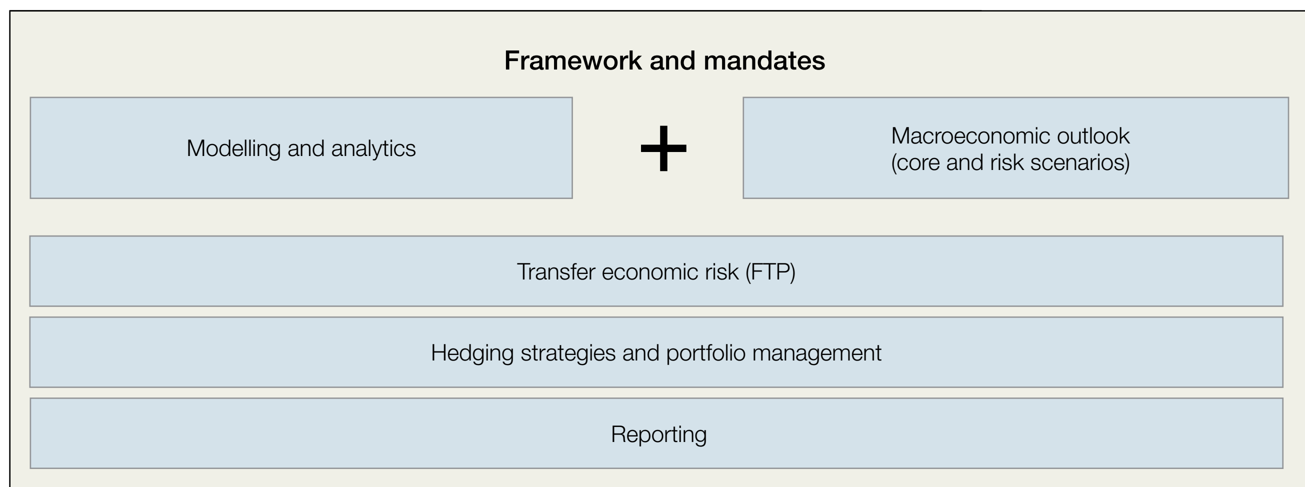
The remaining banking book consists predominantly of retail balances from FNB and WesBank, and the Corporate Centre balance sheet. This is managed centrally by Group Treasury with oversight from Corporate Centre risk management. The Group Treasury investment committee meets regularly to discuss and propose strategies and to ensure that management action is within the Bank's risk limit and appetite levels.

The internal funds transfer pricing (FTP) process is used to transfer interest rate risk from the franchises to Group Treasury, where risk can be managed holistically in line with the Group's macroeconomic outlook. This is achieved by balance sheet optimisation, or alternatively through the use of derivative transactions. Derivative instruments used are mainly interest rate swaps, for which there is a liquid market. Where possible, hedge accounting is used to minimise accounting mismatches, thus ensuring that amounts deferred in equity are released to the income statement at the same time as movements attributable to the underlying hedged asset/liability.

A number of measurement techniques are used to measure IRRBB. These focus on the 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 book is managed to low levels with remaining risk stemming from timing and basis risk. The primary driver of NII sensitivity relates to the non- and low-rate products in the balance sheet and the endowment book. This has an adverse impact on the Bank's NII margin in a cutting cycle as the decrease in NII from assets repricing to lower rates is not offset by a corresponding interest saving from liabilities. In the current rate cycle, the average repo rate for the year dropped by 48 bps, resulting in a negative impact on the Bank's margin.

Interest rate risk management and assessment



Current repricing profile (audited)

In calculating the repricing gap, all banking book assets, liabilities and derivative instruments are placed in gap intervals based on repricing characteristics. Where applicable the disclosed repricing gap has been behaviourally adjusted to align with NII assumptions. No prepayment assumptions are applied. The overall balance sheet continues to be sensitive to rate cuts.

Repricing schedules for FRB's banking book

	2013				
	Term to repricing				
R million	**< 3 months**	**> 3 but ≤ 6 months**	**> 6 but within 12 months**	**> 12 months**	**Non-rate sensitive**
Net repricing gap	**5 423**	**6 083**	**49 011**	**20 653**	**(81 170)**
Cumulative repricing gap	**5 423**	**11 506**	**60 517**	**81 170**	**–**

	2012				
	Term to repricing				
R million	< 3 months	> 3 but ≤ 6 months	> 6 but within 12 months	> 12 months	Non–rate sensitive
Net repricing gap	71 077	(4 164)	(5)	15 650	(82 558)
Cumulative repricing gap	71 077	66 913	66 908	82 558	–

This repricing gap analysis excludes the banking books of RMB and the international balance sheet, both of which are managed separately. In the current financial year the disclosed repricing gap has been behaviourally adjusted to align with NII assumptions. For comparability, prior year numbers have been restated to reflect this behavioural adjustment.

Sensitivity analysis

NII sensitivity

NII models are run on a monthly basis to provide a measure of the NII sensitivity of the existing balance sheet to shocks in interest rates. Different scenarios are modelled including parallel and key rate shocks as well as yield curve twists and inversions as appropriate. Underlying transactions are modelled on a contractual basis, assuming a constant balance sheet size and mix. No adjustments are made for prepayments in the underlying book, however, prepayment assumptions are factored into the calculation of hedges for fixed-rate lending. Roll-over assumptions are not applied to off-balance sheet positions.

The following tables show the 12-month NII sensitivity for a 200 bps downward parallel shock to interest rates. The decreased sensitivity in June 2013 from June 2012 is attributable to an increase in the use of derivative positions to manage interest rate risk in line with the macroeconomic outlook. The book was positioned for rate cuts in the current financial year as a result of global growth concerns and domestic challenges.

Assuming no change in the balance sheet and no management action in response to interest rate movements, an instantaneous and sustained parallel decrease in interest rates of 200 bps would result in a reduction in projected 12-month NII of R789 million, a similar increase in interest rates would result in an increase in projected 12-month NII of R676 million.

Sensitivity of the Bank's projected NII

	Change in projected 12-month NII	
R million	**2013**	2012
Downward 200 bps	**(789)**	(1 514)
Upward 200 bps	**676**	1 562

The NII sensitivity analysis excludes the banking books of RMB and the international balance sheet, both of which are managed separately. In terms of pure endowment risk to the Bank, the average endowment book was R88 billion for the 2013 financial year.

Economic value of equity

EVE sensitivity measures are calculated on a monthly basis. The impact on equity is as a result of the net open position after hedging used to manage IRRBB. The impact on equity occurs either as a result of fair value movements on these positions being recognised in the income statement, or movements deferred to the available-for-sale/cash flow hedging reserves.

The following table shows the EVE measures for a -200 bps and +200 bps instantaneous parallel shock to rates on open positions run in Group Treasury. This is shown as a percentage of total Tier 1 and Tier 2 capital for the Bank (which is unaudited). The change in the current year is attributable to growth in the retail fixed book.

Sensitivity of the Bank's reported reserves to interest rate movements

R million	2013	2012
Downward 200 bps		
Available-for-sale	**1 085**	1 008
Cash flow	**(1 486)**	(1 006)
Total sensitivity	**(401)**	2
As % of Tier 1 and Tier 2 capital (%)	**(0.673)**	0.005
Upward 200 bps		
Available-for-sale	**(934)**	(871)
Cash flow	**1 350**	916
Total sensitivity	**416**	45
As % of Tier 1 and Tier 2 capital (%)	**0.698**	0.084

The sensitivity analysis excludes the banking books of RMB and international balance sheet, both of which are managed separately. The majority of the sensitivity originates from the endowment book. The average endowment book was R88 billion for the 2013 financial year.

EQUITY INVESTMENT RISK IN THE BANKING BOOK

Introduction and objectives (audited)

Equity investment risk arises mainly 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 investments risk arises from strategic investments held by WesBank, FNB and the Corporate Centre.

The Bank actively monitors regulatory developments, including amendments to current Basel capital requirements and the impact of Basel III. This has resulted in changes to the risk weighting of certain classes of investments. The overall quality of the investment portfolio remains acceptable and is within risk appetite.

Organisational structure and governance

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

- PIC, chaired by the RMB chief investment officer, and its delegated subcommittees, are responsible for the approval of all portfolio investment transactions in equity, quasi-equity or quasi-debt instruments;
- where the structure of the investments also incorporate significant components of senior debt, approval authority will rest with the respective credit committees and LEC, as appropriate;
- the biannual investment risk oversight committee assesses the quality, size and performance of the investment portfolio across RMB and reviews movements in light of risk appetite;
- the RMB CRO, in consultation with the Group CRO and with support from the deployed and central risk management functions, provides independent oversight and reporting of all investment activities in RMB to the RMB proprietary board, as well as MIRC. FNB and WesBank executive management monitor and manage investments through the financial reporting process; and
- RCC and MIRC committees are responsible for the oversight of investment risk measurement and management across the Bank.

Assessment and management

Management of exposures (audited)

The equity investment risk portfolio is managed through a rigorous evaluation and review process.

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 (audited)

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

The financial statements include assets, liabilities and results of operations of all equity investments in which the Bank, directly or indirectly, has the power to exercise control over the operations for its own benefit.

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

Measurement of risk exposures (audited)

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

Stress testing (audited)

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

Regulatory and economic capital

The Basel simple risk weighted method (300% or 400%) under the market based approach is applied for the quantification of regulatory capital. Under Basel III and *Regulations relating to Banks*, the risk weightings applied to investments in financial institutions are subject to the aggregate value of the Bank's shareholding in these investments and also in relation to the Bank's capital. The shareholdings in the investments are bucketed depending on the size of investment.

For economic capital purposes, an approach using market value shocks to the underlying investments is used to assess economic capital requirements for unlisted investments after taking any unrealised profits not taken to book into account.

Where price discovery is reliable, the risk of listed equity investments is measured based on a 90-day ETL calculated using RMB's internal market risk model. The ETL risk measure is supplemented by a measure of the specific (idiosyncratic) risk of the individual securities per the specific risk measurement methodology.

Equity investment risk profile

Investment risk exposure and sensitivity of investment risk exposure

R million	2013	2012
Listed investment risk exposure included in the equity investment risk ETL process	**339**	286
ETL on above equity investment risk exposures	**132**	56
Estimated sensitivity of remaining investment balances*		
– Sensitivity to 10% movement in market value on investment fair value**	**284**	207
Cumulative gains realised from sale of positions in the banking book during the year	**99**	355

* *These are the investment balances not subject to the equity investment risk ETL process.*
** *Audited.*

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

Investment valuations and associated regulatory capital requirements

	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 losses 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 9.5% of RWA (excluding the bank-specific ICR) and includes capital on investments in financial entities. These investments are included as other assets in the RWA table in the capital section.*

	2012		
R million	Publicly quoted investments	Privately held	Total
Carrying value of investments	575	2 020	2 595
Latent revaluation gains not recognised in the balance sheet*	–	23	23
Fair value**	575	2 043	2 618
Total unrealised gains recognised directly in balance sheet through equity instead of the income statement*	–	44	44
Capital requirement#	164	768	932

* *These unrealised gains or losses are not included in Tier 1 or Tier 2 capital.*
** *The fair values of listed private equity investments were not considered to be materially different from the quoted market prices.*
# *Capital requirement calculated at 9.5% of RWA (excluding the bank-specific ICR).*

FOREIGN EXCHANGE AND TRANSLATION RISK IN THE BANKING BOOK

Introduction and objectives (audited)

Foreign exchange risk arises from on- and off-balance sheet positions whose valuation in rand is subject to currency movements. Key activities giving rise to these positions are foreign currency placements, lending and investing activities, raising of foreign currency funding and 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 that it is overseen and governed in keeping with the risk governance structures.

Translation risk is the risk to the rand-based South African reported earnings from fluctuations in the exchange rate when applied to the value, earnings and assets of foreign operations. Translation risk is, at present, seen as an unavoidable risk which results from having offshore operations. The Bank does not actively hedge this risk.

Organisational structure and governance

Foreign exchange risk results from activities of all the franchises, but management and consolidation of all these positions occur in one of two business units. Client flow and foreign exchange trading, including daily currency mismatch, are consolidated under and executed by RMB Global Markets. Foreign currency funding, foreign assets as well as foreign currency exposure, liquidity and term mismatch are consolidated under and managed by Group Treasury.

Market risk, foreign exposure and mismatch limits are approved by the board and the primary governance body is the RCC committee. Trading risk and NOFP are overseen by MIRC, a subcommittee of the RCC committee and mismatch risk is governed through FirstRand ALCCO and international ALCCO processes. In addition to the committee structures, business units charged with frontline management of these risks have deployed risk managers within their units who assess and report on an ongoing basis.

Assessment and management (audited)

In addition to the regulatory prudential limit on foreign asset exposure (25% of local liabilities), the board has set internal limits on FirstRand's total foreign currency exposure, within the regulatory limit but allowing opportunity for expansion and growth. Internal limits are also set per franchise, taking into account existing foreign asset exposure and future growth plans. Internal limits and utilisation are continuously monitored and reviewed when necessary.

The Bank's NOFP is within the regulatory limit of USD595 million, with the actual exposure ranging at ±USD225 million. Senior management implemented various levels of internal prudential limits, taking into account fluctuating exchange rates and the Group's capital position, again below the regulatory limit but large enough to cater for hedging, settlement and execution positions of business units. Group Treasury is the clearer of all currency positions in FirstRand and is, therefore, tasked with the responsibility for managing the Bank's position within all internal and prudential limits. Any breaches are reported through the risk management structures and corrective action is monitored by both the deployed risk managers and ERM.

Foreign exchange and translation risk profile

Over the past year no significant foreign exchange positions have been run, apart from translation risk in strategic foreign investments. Mismatches have been well contained within regulatory limits at all times. The NOFP internal management limit was recently adjusted upwards to cater for increased (unhedged) currency risk related to foreign investment positions held directly by the Bank and to cater for increased buffer trading for RMB and Group Treasury trading positions. The Bank's NOFP remained well below both regulatory and board limits during the financial year. 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 distinguishes three types of liquidity risk:

- **funding liquidity risk** is the risk that a bank will not be able to effectively meet current and future cash flow and collateral requirements without negatively affecting the normal course of business, financial position or reputation;
- **market liquidity risk** is the risk that market disruptions or lack of market liquidity will cause the bank to be unable (or able, but with difficulty) to trade in specific markets without affecting market prices significantly; and
- mitigation of market and funding liquidity risks is achieved via **contingent liquidity risk** management. Buffer stocks of highly liquid assets are held either to be sold into the market or provide collateral for loans to cover any unforeseen cash shortfall that may arise.

The Bank's principal liquidity risk management objective is to optimally fund itself under normal and stressed conditions.

Funding structure

The banking sector in South Africa is characterised by certain structural features, such as a low discretionary savings rate and a higher degree of contractual savings that are captured by institutions such as pension funds, provident funds and providers of asset management services. A portion of these contractual savings translate into institutional funding for banks which has higher liquidity risk than retail deposits. The structural liquidity risk is therefore higher in South Africa than in most other markets. This risk is, however, to some extent mitigated by the following factors:

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

In the light of the structural funding issues focus is currently placed on a risk-adjusted diversified funding profile in line with Basel III requirements. The release of the updated Basel III LCR reduces the reliance on the SARB committed liquidity facility. The increase in LCR is driven by lower outflow factors for non-operational cash flows, increased availability of qualifying high-quality liquid assets and reduced contingent outflows. In addition, the time frame for compliance has been adjusted to a phased-in approach with a 60% requirement in 2015 and 10% incremental step-ups each year.

Surplus liquidity buffers for cash flow management are amended in line with available liquidity in government debentures, treasury bills and bonds. The current level is considered sufficient relative to current market conditions.

Organisational structure and governance

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

Liquidity risk for Bank solo, i.e. FRB (FNB, RMB, WesBank and Corporate Centre) excluding foreign branches is centrally managed by a dedicated liquidity and funding team in Group Treasury. Governance is provided by an independent risk team responsible for ensuring that the liquidity risk management framework is implemented appropriately.

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

FirstRand has been granted renewable dispensation by the Prudential Regulatory Authority (PRA) for a waiver on a *Whole-firm Liquidity Modification application* basis where the PRA considers local risk reporting and compliance of the parent bank sufficient to waive FSA requirements for FirstRand Bank (London branch). PRA reporting commenced from January 2011.

Liquidity risk management

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

The approach to liquidity risk management distinguishes between structural, daily and contingency liquidity risk across all currencies, and various approaches are employed in the assessment and management of these on a daily, weekly and monthly basis as illustrated in the following chart.

Aspects of liquidity risk management

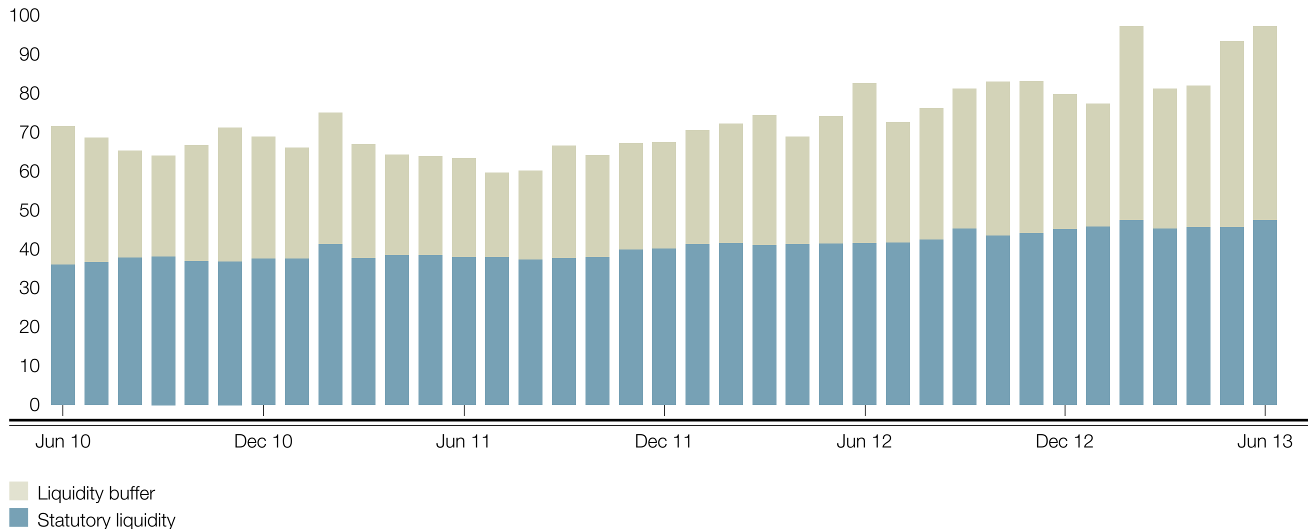
Structural LRM	Daily LRM	Contingency LRM
The risk that structural, long-term on- and off-balance sheet exposures cannot be funded timeously or at a reasonable cost.	Ensuring that intraday and day-to-day anticipated and unforeseen payment obligations can be met by maintaining a sustainable balance between liquidity inflows and outflows.	Maintaining a number of contingency funding sources to draw upon in times of economic stress.
• liquidity risk tolerance; • liquidity strategy; • ensuring substantial diversification across different funding sources; • assessing the impact of future funding and liquidity needs taking into account expected liquidity shortfalls or excesses; • setting the approach to managing liquidity in different currencies and from one country to another; • ensuring adequate liquidity ratios; • ensuring adequate structural liquidity gap; and • maintaining a funds transfer pricing methodology and processes.	• managing intraday liquidity positions; • managing daily payment queue; • monitoring net funding requirements; • forecasting cash flows; • perform short-term cash flow analysis for all currencies individually and in aggregate; • management of intragroup liquidity; • managing central bank clearing; • managing net daily cash positions; • managing and maintaining market access; and • managing and maintaining collateral.	• managing early warning and key risk indicators; • performing stress testing including sensitivity analysis and scenario testing; • maintaining product behaviour and optionality assumptions; • ensuring that an adequate and diversified portfolio of liquid assets and buffers are in place; and • maintaining the contingency funding plan.

Available liquidity

Liquidity buffers are actively managed via high quality, highly liquid assets that are available as protection against unexpected events or market disruptions. The buffer methodology has been defined and linked to regular stress testing and scenario analysis. The methodology is adaptive and will be responsive to Basel III changes on the LCR.

The following chart shows the liquidity buffer and statutory liquidity requirements for the Bank.

The Bank's liquidity buffer and statutory liquidity requirements*



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

In addition to the measurement and management of liquidity profiles, various key risk indicators are defined that highlight potential risks within defined thresholds. Two levels of severity are defined for each indicator. Monitored on a daily and monthly basis, the key risk indicators may trigger immediate action where required. Current status and relevant trends are reported to the FirstRand ALCCO and RCC committee quarterly.

Stress testing and scenario analysis

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

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

Liquidity contingency planning

Frequent volatility in funding markets and the fact that financial institutions can and have experienced liquidity problems even during good economic times have highlighted the relevance of quality liquidity risk and contingency management processes.

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

The objective of LCP is to achieve and maintain funding levels in a manner that allows the Bank to emerge from a potential funding crisis with the best possible reputation and financial condition for continuing operations. The plan is expected to:

- support effective management of liquidity and funding risk under stressed conditions;
- establish clear roles and responsibilities in the event of a liquidity crisis; and
- establish clear invocation and escalation procedures.

The LCP provides a pre-planned response mechanism to facilitate swift and effective responses to contingency funding events. These events may be triggered by financial distress in the market (systemic) or a bank-specific event (idiosyncratic) which may result in the loss of funding sources.

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

Recovery plan

The Bank is currently in the latter stage of the development of its recovery plan per the SARB guidance to ensure that regulatory requirements are met.

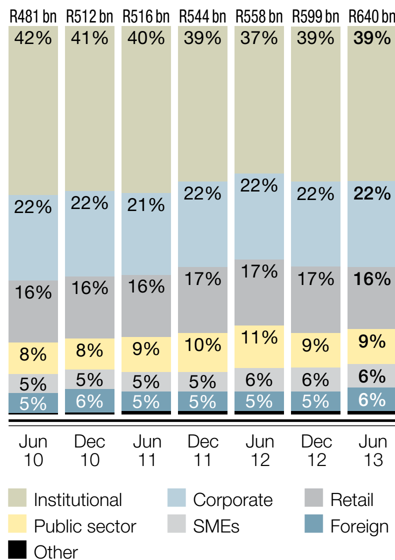
Funding strategy

The 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. The objective is to maintain natural market share of transactional accounts and balances, but also to outperform at the margin, which will provide the Bank with a natural liquidity buffer.

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

The following table illustrates the Bank's sources of funding by counterparty and the total deposit funding base.

FRB's funding analysis by source*

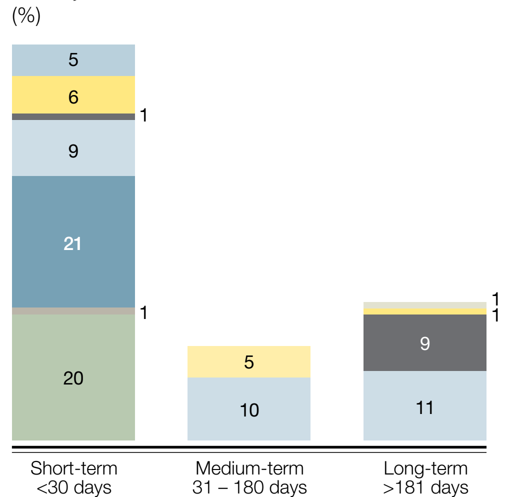


** Reflects solo supervision, i.e. FRB excluding foreign branches.*

The following charts illustrate the Bank's funding instruments by instrument type and term structure of funding.

FRB's funding liabilities by instrument type at 30 June 2013*

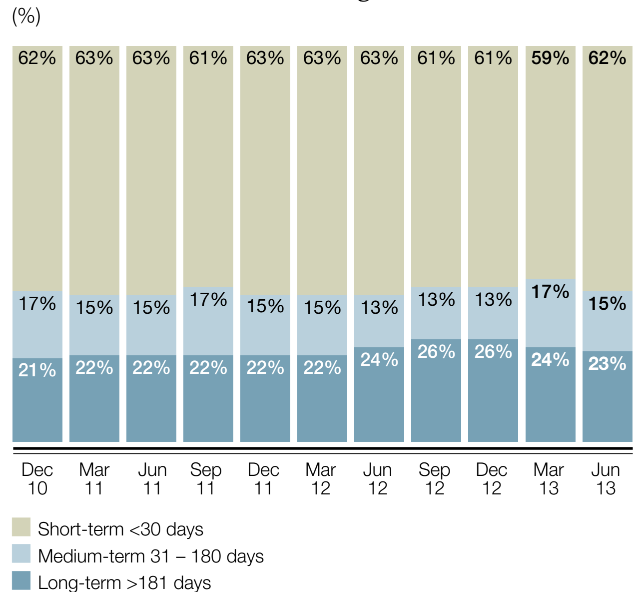
(%)



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

Term structure of FRB's funding liabilities*

(%)



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

The business is incentivised to preserve and enhance funding stability via the funds transfer pricing framework, which ensures the pricing of assets is in line with liquidity risk, liabilities in accordance with funding maturity and contingencies in respect of the potential funding draws on the Bank.

Liquidity risk profile (audited)

Undiscounted cash flow

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

- balances are contractual, undiscounted amounts whereas the balance sheet is prepared using discounted amounts;
- table includes contractual cash flows with respect to items not recognised on the balance sheet;
- all instruments held for trading purposes are included in the call to three-month bucket and not by contractual maturity as trading instruments are typically held for short periods of time; and
- cash flows relating to principal and associated future coupon payments have been included on an undiscounted basis.

Liquidity cash flows (undiscounted cash flows)

	2013			
		Term to maturity		
R million	**Carrying amount**	**Call – 3 months**	**4 – 12 months**	**> 12 months**
Maturity analysis of liabilities based on the undiscounted amount of the contractual payment				
Liabilities				
Deposits and current accounts	**668 094**	**449 691**	**92 214**	**126 189**
Short trading positions	**2 923**	**2 923**	**–**	**–**
Derivative financial instruments	**53 098**	**51 217**	**507**	**1 374**
Creditors and accruals	**8 937**	**8 269**	**319**	**349**
Tier 2 liabilities	**10 632**	**139**	**526**	**9 967**
Other liabilities	**1 169**	**58**	**316**	**795**
Amounts due to holding and fellow subsidiary companies	**14 637**	**13 493**	**464**	**680**
Financial and other guarantees	**36 889**	**34 150**	**1 879**	**860**
Facilities not drawn	**74 054**	**54 464**	**4 348**	**15 242**

	2012			
		Term to maturity		
R million	Carrying amount	Call – 3 months	4 – 12 months	> 12 months
Maturity analysis of liabilities based on the undiscounted amount of the contractual payment				
Liabilities				
Deposits and current accounts	577 760	396 774	68 658	112 328
Short trading positions	4 019	4 019	–	–
Derivative financial instruments	53 858	51 931	442	1 485
Creditors and accruals	6 547	6 072	312	163
Tier 2 liabilities	10 235	–	1 340	8 895
Other liabilities	958	23	40	895
Amounts due to holding and fellow subsidiary companies	13 733	10 016	355	3 362
Financial and other guarantees	28 117	24 539	2 474	1 104
Facilities not drawn	64 872	53 069	3 046	8 757

Contractual discounted cash flow analysis

The following table represents 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 short-term institutional funds which represent a significant proportion of banks' liabilities. These are used to fund long-term assets, e.g. mortgages.

Therefore, in addition to the analysis in the previous table, the 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 (audited)

	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	**782 527**	**287 623**	**88 668**	**406 236**
Total equity and liabilities	**782 527**	**528 179**	**89 622**	**164 726**
Net liquidity gap	**–**	**(240 556)**	**(954)**	**241 510**
Cumulative liquidity gap	**–**	**(240 556)**	**(241 510)**	**–**

	2012			
		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	690 134	267 538	59 783	362 813
Total equity and liabilities	690 134	470 866	70 102	149 166
Net liquidity gap	–	(203 328)	(10 319)	213 647
Cumulative liquidity gap	–	(203 328)	(213 647)	–

As illustrated in the table above, the negative contractual liquidity short-term gap deteriorated slightly in the short end on a cumulative basis. Management continues to align stress funding buffers both locally and offshore, taking into account prevailing economic and market conditions.

OPERATIONAL RISK

Introduction and objectives

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events. The Bank believes that effective management of operational risk is key to the achievement of its business strategy. Accordingly, there is ongoing evaluation of existing frameworks, policies, methodologies, processes, systems and infrastructure for relevance and to ensure that operational risk management practices are in line with regulatory developments and emerging best practices.

Operational risk strategic objectives for the year ahead continue to focus on building an effective and forward-looking operational risk management programme, encompassing, amongst other things, the management and oversight of IT and infrastructure risk, internal and external fraud, litigation, business disruption and process risk. The key operational risk strategic objectives are:

- embedding operational risk management systems and processes implemented in the previous financial year;
- optimising benefits of automated and integrated risk tools;
- embedding and monitoring adherence to operational risk appetite limits;
- ongoing refinements of the maturity of the AMA components and methodologies;
- continuing improvements to the control environment; and
- maintaining the AMA status.

The year under review

The year under review was characterised by a number of initiatives aimed at improving operational risk maturity and driving efficiency in operational risk management processes.

The principal operational risks currently facing the Bank are:

- commercial and violent crime;
- information security risk (the risk of loss or theft of information); this risk is rapidly changing with increasingly sophisticated global attacks by cybercrime groups; and
- execution, delivery and process management risk (risk of process weaknesses and control deficiencies) as the business continues to grow and evolve.

Risk maturity assessments were conducted across the Bank to identify key processes requiring improvements. Projects to address these are tracked and reported at a Group level through the risk governance process.

The integration and automation of the Bank's operational risk management and measurement tools onto a single platform to enhance operational risk management processes is near completion. Business areas within the Bank continued to rollout using a phased-in approach, the process-based risk and control identification and assessment methodology aimed at comprehensive identification and assessment of risks and controls within end-to-end business processes per product/service.

Operational risk appetite at Bank and divisional levels has been set. This enables the Bank and its divisions to measure and monitor operational risk profiles against respective approved operational risk appetite levels, and to set the boundaries for operational risk within which business decisions can be made.

Due to improved controls (e.g. continued deployment of Euro, MasterCard, Visa (EMV) cards, improvement in user authentication processes and fraud detection capabilities at a transaction level) losses from commercial and violent crime decreased compared to the prior year. In the year ahead, focus will be placed on cybercrime which is perceived to be the dominant future threat in the financial services sector globally.

The Bank implemented its own work area recovery facility and upgraded power supply, management equipment and infrastructure for key facilities. A third redundant data centre is being implemented to improve the 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 Group. The Group's IT and related frameworks are being reviewed to ensure alignment with changing business models and technology landscapes.

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.

Key focus has been on the refinement of information governance structures, processes and the improvement of data quality and records management practices. Information governance committees have been established in all divisions and information governance now forms an integral part of the overall risk management framework of the Group.

Looking ahead, the Bank will continue to improve its information management capabilities by embedding governance structures, continuous improvement of the information control environment and rolling out awareness programmes on relevant topics including records management, data quality management and data privacy management.

Organisational structure and governance

The board has delegated its approval and review authority for operational risk to the operational risk committee (ORC), a subcommittee of the RCC committee. ORC is responsible for monitoring the implementation of the ORMF and oversight over the management of operational risk across the Bank. The ORMF prescribes the authorities, governance and monitoring structures, duties and responsibilities, processes, methodologies and standards which have to be implemented and adhered to when managing operational risk.

Within operational risk, a number of key risks exist for which specialised teams, frameworks, policies and processes have been established. Fraud and physical security, business resilience, legal, information technology and insurance have dedicated specialist teams who provide oversight which is integrated into the broader operational risk management and governance processes.

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

Measurement

Basel – advanced measurement approach

FirstRand applies AMA under Basel for the 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 on AMA.

Operational risk scenarios (covering key risks that, although low in probability, may result in severe losses) and internal loss data are inputs into this model.

Scenarios are derived through an extensive analysis of the 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 the respective business units and is overseen by the operational risk management team in ERM.

The modelled operational risk scenarios are combined with modelled loss data in a simulation model to derive the annual, aggregate distribution of operational risk losses. Basel Pillar 1 minimum capital requirements are then calculated (for the Group and each franchise) as the operational VaR at the 99.9th percentile of the aggregate loss distribution, excluding the effects of insurance, expected losses and correlation/diversification.

Capital requirements are calculated for each franchise using the AMA capital model and then allocated to the legal entities within the 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 Basel and SARB regulations. No risk-based information is used in these capital calculations and allocations.

Business practices continuously evolve and the operational risk control environment is, therefore, constantly changing as a reflection of the underlying risk profile. The assessment of the operational risk profile and exposures and associated capital requirements take the following into account:

- changes in the operational risk profile, as measured by the various operational risk tools;
- material effects of expansion into new markets, new or substantially changed products or activities as well as the closure of existing operations;
- changes in the control environment – continuous improvement in the control environment is targeted, but deterioration in effectiveness is also possible due to, for example, unforeseen increases in transaction volumes; and
- changes in the external environment which drive certain types of operational risk.

Assessment and management

Operational risk assessment and management tools

The Bank obtains assurance that the principles and standards in the ORMF are being adhered to by the three lines of control model integrated in operational risk management. In this model, business units own the operational risk profile as the first line of control. In the second line of control, ERM is responsible for consolidated operational risk reporting, policy ownership and facilitation and coordination of operational risk management and governance processes. GIA as the third line of control, provides independent assurance of the adequacy and effectiveness of operational risk management processes and practices.

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

Operational risk assessment and management tools

Risk control self assessments and process-based risk and control identification and assessment	**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 Group in all businesses as an early warning measure; • highlight areas of changing trends in exposures to specific key operational risks; and • inform operational risk profiles which are reported periodically to the appropriate management and risk committees and are monitored on a continuous basis.
Internal/external loss data	**Risk scenarios**
• the capturing of internal loss data is well entrenched within the Group; • internal loss data reporting and analyses occur at all levels with specific focus on root cause, process analysis and corrective actions; and • external loss databases are used to learn from loss experiences of other organisations and as inputs to the risk scenario processes.	• risk scenarios are widely used to identify and quantify low frequency extreme loss events; • senior executives of the business actively participate in the biannual reviews; and • results are tabled at the appropriate risk committees and are used as input to the capital modelling process.

As process-based risk and control identification and assessment is rolled out across the Bank over a period, it will replace risk control self assessments to ensure that a comprehensive assessment of risks and controls across end-to-end business processes is conducted.

FirstRand uses an integrated and reputable operational risk system which is well positioned as the core operational risk system and provides a solid platform for automation of all the operational risk tools. The automation and integration of operational risk tools on the operational risk system is near completion.

Operational risk events

As operational risk cannot be avoided or mitigated entirely, frequent operational risk events resulting in small losses are expected as part of business operations (e.g. external fraud) and are budgeted for appropriately. Business areas minimise these losses through continuously monitoring and improving relevant business and control practices and processes. Operational risk events resulting in substantial losses occur much less frequently and the Bank strives to minimise these and contain frequency and severity within its risk appetite levels.

Operational risk management processes

Within operational risk, a number of key risks exist in respect of which specialised teams, frameworks, policies and processes have been established and integrated into the broader operational risk management and governance processes as described for the major operational risks, which includes business resilience management, legal risk, IT risks and information governance, fraud and security risks and risk insurance.

Business resilience management

Business resilience management focuses on ensuring that the 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 ORC, has oversight of business resilience management.

The business resilience practices of the Bank are documented in the Bank's business resilience policy and supporting standards, which are approved at the ORC. The policy, a subframework of the ORMF, requires the development and maintenance of business continuity

strategies and plans. It also requires regular business continuity assessments and testing to be carried out in all business units and the results reported to the business resilience steering committee.

The 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 ORMF, addresses and seeks to guide the operations of the Bank in areas such as the creation and ongoing management of contractual relationships, management of disputes, which do or might lead to litigation, protection and enforcement of property rights (including intellectual property) and failure to account for the impact of the law or changes in the law brought about by legislation or decisions of the courts. Whilst compliance with law is a major element of legal risk, RRM, through the regulatory risk management governance framework and attendant programme, manages this aspect of legal risk. Added to these substantive and direct risks is the management of risk around the procurement of external legal resources.

A legal risk management programme is in place to work towards the goal of ensuring that comprehensive, sound operational risk governance practices and solutions are adopted in respect of legal risk management which represent best practice and align to the Bank's overall risk management programme. The legal risk committee, a subcommittee of the ORC, has oversight of legal risk management.

IT risks and information governance

Information risk is concerned with the quality and protection of information and information systems against unauthorised access, destruction, modification, use and disclosure. The goal is to ensure confidentiality, availability and integrity of all information and systems that maintain, process and disseminate this information. To this end a distinction is made between:

- IT risk management and governance (protection of systems); and
- information governance (accountability for and quality of information).

The Bank's IT risk management framework, acceptable use of information resources policy and information security policy provide the basis for the management of IT risk and information security within the 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, based on the best practices and principles contained in national and international standards, has been tailored to reflect the business and regulatory environment within which FirstRand operates.

Fraud and security risks

Fraud risk is defined as the risk of loss resulting from unlawfully making, with intent to defraud, a misrepresentation which causes actual prejudice or which is potentially prejudicial to another. Fraud incorporates both internal (staff) criminal activities as well as those that emanate from an external source.

Fraud risk is governed by the fraud risk management framework, which is a subframework of the ORMF. The Bank utilises a deployed fraud risk management model that requires businesses to institute processes and controls specific and appropriate to its operations within the constraints of a consistent governance framework. This is overseen by the fraud risk management function reporting to the Group CRO.

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.

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 the various insurance covers are reviewed and benchmarked annually.

The Bank's insurance-buying philosophy is to carry as much risk on its own account as is economically viable and to only protect itself against catastrophic risks through the use of third party insurance providers. Accordingly, the majority of cover is placed into the Group's wholly-owned first party dedicated insurance company, FirstRand Insurance Services Company Limited (FRISCOL). All cover on the main programme is placed with reinsurers with a minimum credit rating of A-. The insurance programme includes, *inter alia*, cover for operational risk exposures such as professional indemnity, directors and officers liability, crime bond, public and general liability, etc. The 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 as an integral part of its business activities. The compliance culture also embraces broader standards of integrity and ethical conduct which concerns all employees.

The objective of the RRM function is to ensure that business practices, policies, frameworks and approaches across the organisation are consistent with applicable laws and that regulatory risks are identified and managed proactively throughout the Bank. This culminates in the maintenance of an effective and efficient regulatory risk management framework with sufficient operational capacity throughout the Bank 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.

The Group seeks to achieve full compliance with statutes and regulations and every effort is made to ensure that governance policies and practices and the implementation thereof appropriately aligns to regulatory requirements and industry best practice requirements. Some non-compliance may potentially have serious consequences, which could lead to both civil and criminal liability, including penalties, claims for loss and damages or restrictions imposed by regulatory bodies. It is of paramount importance that the Bank ensures compliance with laws and regulations applicable to its operations.

These include, among other, the provisions of the Banks Act, 1990, the *Regulations relating to Banks*, the Financial Intelligence Centre Act, 2001, the Financial Advisory and Intermediary Services Act, 2002 and the Consumer Protection Act, 2008. It is important to ensure that all compliance issues identified in this context are effectively and expeditiously resolved by senior management with the assistance of RRM. This requires close cooperation with and interaction between RRM, other functions within the Bank and the various regulatory authorities.

The year under review

Banking legislation

The new Regulations relating to Banks became effective on 1 January 2013. It incorporates, among other, the requirements contained in the Basel III framework which is being phased in. Ongoing amendments to the Regulations are expected to ensure that the South African regulatory framework for banks remains aligned to internationally-agreed regulatory and supervisory standards.

Twin peaks

The most notable development and focus area of regulatory reforms is the anticipated implementation of a twin peaks model of financial regulation in South Africa. In terms of the broad policy objectives, it is expected that these reforms will be implemented in two phases, along with the development of legislation necessary to enable the relevant regulators to deliver on their revised mandates. As a key stakeholder, the Group will continue to foster close interaction and cooperation with the regulators in this regard.

The Group's ethics framework

The Group's Ethics Office is part of RRM and strategically directs an ethics framework which has attained increased maturity and impact during the year under review. Several culture- and people- risk assessments were conducted, some of which resulted in strategic and operational changes in certain areas and the proactive identification and management of several risk types. The focus on promotion of responsible business conduct was maintained and included intensified training on whistle blowing, conflict of interests avoidance, anti-bribery and corruption. Another focus area is the promotion of responsible market conduct and ensuring that the Group remains compliant with market conduct regulations and related industry best practice. Further enhancements to the robustness of the Group's responsible competitive practice programme are expected to mitigate related risks.

Protection of Personal Information (PoPI) Bill

The PoPI Bill is applicable to all personal information held by the Group in respect of employees, customers and suppliers. The Group is, in preparation of the anticipated legislation, devoting attention and resources to aspects such as security safeguards, processing and purpose specification of personal information, quality of personal information held, customer notification and consent, third-party processors of personal information and complaints handling, to ensure compliance with the legislation, once enacted.

Greenhouse gas protocol guidance (GHG)

The Group has actively participated in the climate change technical advisory group on the development of GHG for financed GHG emissions through the United Nations Environment Program – finance initiative.

Carbon disclosure project (CDP)

As an investor signatory to the CDP, the Group submits, on an annual basis, a carbon disclosure report. The Group received a platinum rating for its carbon performance management and a gold award for its carbon disclosure with an overall rating of 96 per cent during 2012, which placed the Group amongst the top JSE-listed companies. The report contains information on carbon and climate change strategy and provides insight on how regulatory, physical and other related risks are managed. It also provides commentary on issues such as opportunities relating to carbon management and climate change, the Group's annual global carbon footprint and disclosure of performance against carbon emission reduction targets.

Organisational structure and governance

Responsibility for compliance with all relevant laws, related internal policies, regulations and supervisory requirements is delegated by the board to senior management and RRM. In order to assist board members to make 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, including monitoring, assessing and reporting on the level of compliance to senior management and the board. RRM complies with the prescribed requirements in terms of regulation 49 of the Regulations and its mandate is formalised in the Group's compliance risk management framework.

Governance oversight of the RRM function is conducted by a number of committees such as RRM, RCC and audit committees, all of which receive regular detailed reports from RRM on the level of compliance and instances of material non-compliance.

In addition to the centralised RRM function, each of the operating franchises have dedicated compliance officers responsible for implementing and monitoring compliance policies and procedures related to the respective franchises.

FirstRand has a formal social and ethics committee to exercise oversight over the governance and functioning of the Group-wide ethics programme. The FirstRand Group code of ethics is the cornerstone of FirstRand's ethics management framework.

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

Assessment and management

RRM's board mandate is to ensure full compliance with statutes and regulations. To achieve this, RRM has implemented appropriate structures, policies, processes and procedures to identify regulatory and supervisory risks. RRM monitors the management of these risks and reports on the level of compliance risk management to both the board and the Registrar of Banks. These include:

- risk identification through documenting which laws, regulations and supervisory requirements are applicable to FirstRand;
- risk measurement through the development of risk management plans;
- risk monitoring and review of remedial actions;
- risk reporting; and
- providing advice on compliance-related matters.

Although independent of other risk management and governance functions, the RRM function works closely with GIA, ERM, external audit, internal and external legal advisors and the company secretary's office to ensure effective functioning of the compliance processes.

Public Policy and Regulatory Affairs Office

The Group's Public Policy and Regulatory Affairs Office (PPRAO) provides the Group with a central point of engagement, representation and coordination in respect of relevant regulatory and public policy-related matters at a strategic level. The PPRAO's function is differentiated from the existing and continuing engagement with regulators at an operational level (i.e. regulatory reporting, compliance and audit) with its main objective to ensure that Group executives and the franchises are aware of key developments relating to public policy, legislation and regulation, which are considered pertinent to the Group's business activities and to support executives in developing the Group's position on issues pertaining to government policy, proposed and existing legislation and regulation.

The PPRAO reports directly to the Group CEO and indirectly, through designated subcommittees, to the board. The PPRAO maintains close working relationships with RRM, ERM and the business units where specific technical expertise reside.

REMUNERATION AND COMPENSATION

FirstRand's compensation policies and practices observe international best practice and comply with the requirements of the Banks Act, 1990 (Act No. 94 of 1990) and *FSB Principles for Sound Compensation Practices*. In accordance with the requirements of regulation 43 of the revised *Regulations relating to Banks* and the Basel requirements, full disclosure of the Group's compensation policies, practices and performance are included in the *Remuneration committee* report that forms part of the Group's annual integrated report, and is published on FirstRand's website, www.firstrand.co.za.

Annual financial statements

ANNUAL FINANCIAL STATEMENTS

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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 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, however, there were no changes to accounting policies during the financial year. The financial statements incorporate full and responsible disclosure in line with the Bank's philosophy on corporate governance.

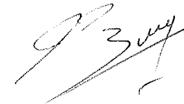
The directors are responsible for the Bank's system of internal control. To enable the directors to meet these responsibilities, the directors set the standards for internal control to reduce the risk of error or loss in a cost effective manner. The standards include the appropriate delegation of responsibilities 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 International Financial Reporting Standards 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. Alan Hedding, 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 175.

The separate annual financial statements of the Bank, which appear on pages 176 to 319 and specified sections of the risk and capital management report were approved by the board of directors on 9 September, 2013 and are signed on its behalf by:



SE Nxasana
Chief executive officer

JP Burger
Financial director

Sandton

9 September 2013

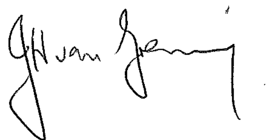
AUDIT COMMITTEE REPORT

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 Group audit committee.



JH van Greuning
Chairman, audit committee

Sandton

9 September 2013

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDER OF FIRSTRAND BANK LIMITED

We have audited the financial statements of FirstRand Bank Limited, set out on pages 178 to 319 which comprise the statement of financial position as at 30 June 2013, 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.

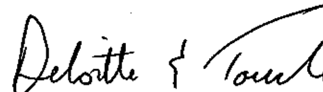
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements fairly present, in all material respects, the financial position of FirstRand Bank Limited as at 30 June 2013 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 2013, we have read the directors' report, the audit committee's report and the company secretary's certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited 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
Registered auditor
Per: Kevin Black
Partner

PricewaterhouseCoopers Inc.
Registered auditor
Director: Tom Winterboer

Sandton

9 September 2013

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 27 of the financial statements.

DIVIDENDS

Ordinary cash dividends of R5 710 million were paid during the 2013 financial year (2012: R5 235 million).

Dividends of R196 million were paid on NCNR preference shares (2012: R183 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 R10 793 million (2012: R9 717 million).

FINANCIAL REPORTS

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

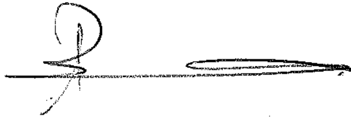
LONG-TERM INCENTIVE SCHEMES

Details of the long-term incentive schemes established for the benefit of employees of the Bank by FirstRand Limited can be found in note 28 of the financial statements.

COMPANY SECRETARY'S CERTIFICATE

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

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



BW Unser
Company secretary

Sandton

9 September 2013

ACCOUNTING POLICIES

1 INTRODUCTION

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

2 BASIS OF PRESENTATION

The Bank's financial statements have been prepared in accordance with 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 (Bank Ltd Group).

In the consolidated financial statements, subsidiary undertakings (which are companies that Bank Ltd Group, directly or indirectly, has an interest of more than half of the voting rights or has power to exercise control over the operations) have been consolidated. The consolidated financial statements are available on the Group's website, www.firstrand.co.za.

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

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

- *IAS 1 Presentation of Financial Statements* was amended in June 2011 to require that items presented in other comprehensive income be classified based on whether the items will subsequently be reclassified to profit or loss or not. The amendment also requires that if an entity presents items of other comprehensive income before the related tax effects with the aggregated tax shown separately, the associated tax should also be presented separately for each type of other comprehensive income item. This amendment is effective for annual periods beginning 1 July 2012. The Bank has adopted the amendments. This amendment addresses presentation in the annual financial statements and does not affect recognition and measurement. Therefore this amendment does not have a significant impact on the Bank. The statement of other comprehensive income for the current year, including the comparative period, has been presented in accordance with the amended requirements.
- *IAS 12 Deferred Tax: Recovery of Underlying Assets*. This amendment to IAS 12 requires that deferred tax on investment property be measured at fair value and non-depreciable assets measured at revalued amounts be calculated based on the tax consequences that would arise on the sale of the property. As a result of the amendment, SIC 21 Income Taxes – Recovery of Revalued Non-Depreciable Assets has been withdrawn. It is not the Bank's policy to measure non-depreciable assets at revalued amounts. This amendment, therefore, has had no impact on the Bank nor has it resulted in the restatement of prior year numbers.

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

- financial assets and liabilities held for trading;
- financial assets classified as available-for-sale;
- derivative financial instruments;
- financial instruments elected to be carried at fair value through profit 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.

There have been no restatements to prior year numbers. All monetary information and figures presented in these financial statements are stated in millions of South African rand (R million), unless otherwise indicated.

3 SUBSIDIARY COMPANIES

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

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

4 ASSOCIATES AND JOINT VENTURES

Associates are entities in which the Bank has significant influence but does not control or jointly control. The Bank is presumed to have significant influence where it holds an equity interest of between 20% and 50%. Joint ventures are entities in which the Bank has joint control over the economic activity of the joint venture through a contractual agreement.

Investments in associates and joint ventures acquired and held exclusively with the view to dispose of in the near future (within 12 months) are not accounted for using the equity accounting method, but are measured at fair value less costs to sell in terms of the requirements of IFRS 5.

The Bank recognises its interest in associates and joint ventures at cost less impairments.

5 INTEREST INCOME AND EXPENSE

The Bank recognises interest income and expense in profit or loss for instruments measured at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability 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;
- where hedge accounting is applied; and
- interest on intercompany balances.

From an operational perspective, the Bank suspends the accrual of contractual interest on non-recoverable advances, subject to certain curing assumptions. However, in terms of IAS 39, interest income on impaired advances is recognised 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.

6 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.

7 NET FEE AND COMMISSION INCOME

7.1 Fee and commission income

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

7.2 Fee and commission expenses

Fee and commission expenses are expenses that are incremental or directly attributable to the generation of fee and commission income and are recognised in non-interest income. Fee and commission expenses include transaction and service fees, which are expensed as the services are received. Fee and commission expenses that

form an integral part of the effective interest rate of a financial instrument are recognised as part of net interest income.

8 DIVIDEND INCOME

The 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.

8.1 Distribution of non-cash assets to owners

A dividend payable is recognised when the distributions are appropriately authorised by the shareholders and is no longer at the discretion of the entity. The Bank measures the liability to distribute the non-cash assets as a dividend to owners at the fair value of the asset to be distributed. The carrying amount of the dividend payable is remeasured at the end of each reporting period and the settlement date, with changes recognised in equity as an adjustment to the distribution. The difference between the carrying amount of the assets distributed and the fair value of the assets on the date of settlement is recognised in profit or loss for the period.

Distributions of non-cash assets under common control are specifically excluded from the scope of IFRIC 17 and are measured at the carrying amount of the assets to be distributed.

9 FOREIGN CURRENCY TRANSLATION

9.1 Functional and presentation currency

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

9.2 Transactions and balances

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

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

Translation differences on 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 profit or loss for the year. Translation differences on non-monetary items, such as equities, classified as available-for-sale, are reported as part of the fair value adjustment and are included in other comprehensive income. Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost and other changes in the fair value of the security. Translation differences relating to changes in the amortised cost are recognised in profit or loss and other changes in fair value are recognised in other comprehensive income.

Foreign exchange gains or losses on monetary items carried at amortised cost are recognised in profit or loss as part of foreign exchange differences, within non-interest income.

10 BORROWING COSTS

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

11 TAXATION

11.1 Indirect tax

Indirect taxes are disclosed separately from income taxes in the income statement. Indirect taxes include other taxes paid to central and local governments, and include value added and securities transfer tax.

11.2 Income tax

Income tax includes South African and foreign corporate tax payable and where applicable, this includes capital gains tax.

The current income tax expense is calculated by adjusting the net profit for the year for items that are non-taxable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted at the reporting date, in each particular jurisdiction within which the Bank operates.

12 RECOGNITION OF ASSETS

12.1 Assets

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

12.2 Contingent assets

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

12.3 Fiduciary activities

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

13 LIABILITIES, PROVISIONS AND CONTINGENT LIABILITIES

13.1 Liabilities and provisions

The Bank recognises liabilities, including provisions, when:

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

Where there are a number of similar obligations, the likelihood that an outflow will be required 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.

13.2 Contingent liabilities

The Bank discloses a contingent liability when:

- it has a possible obligation arising from past events, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- it has a present obligation that arises from past events but is not recognised because:
  - it is not probable that an outflow of resources will be required to settle an obligation; or
  - the amount of the obligation cannot be measured with sufficient reliability.

14 CASH AND CASH EQUIVALENTS

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

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

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

15 FINANCIAL INSTRUMENTS

15.1 General

Financial instruments carried on the statement of financial position include all assets and liabilities, including derivative instruments, but exclude investments in associates and joint ventures, commodities, property and equipment, deferred income tax, tax payable, intangible assets and employee liabilities. The Bank 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 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.

15.1.1 Financial instruments at fair value through profit or loss

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

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

Financial assets and liabilities are designated on initial recognition as at fair value through profit 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 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 to eliminate the accounting mismatch between these assets and the underlying derivatives used to manage the risk arising from these assets and funding instruments. If these assets were not designated at fair value through profit or loss, a mismatch would arise as a result of the assets being recognised at amortised cost and the related derivatives and funding instruments being recognised at fair value.

Financial instruments designated under (ii) include certain private equity and other investment securities and other investments.

Different methods are used to determine the current period and cumulative changes in fair value attributable to credit risk for investment securities and advances. This is due to the differing inherent credit risk of these instruments. The current and cumulative change in the fair value of designated loans and receivables, and designated financial liabilities that is attributable to changes in credit risk, is determined as the amount of change in fair value that is not attributable to changes in market conditions that give rise to market risk, i.e. currency, interest rate and other price risk. The current and cumulative change in the fair value of designated advances that is attributable to changes in credit risk is the difference between the fair value of the advances based on the original credit spreads and the fair value of the advances based on the most recent market observable credit spreads.

Gains and losses arising from changes in the fair value of the financial instruments at fair value through profit or loss are included in profit or loss as fair value income in the period in which they arise.

15.1.2 Loans and receivables

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

- those that the 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.

15.1.3 Held-to-maturity investments

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

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

15.1.4 Available-for-sale financial assets

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

The 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 investment activities.

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

15.1.5 Financial liabilities

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.

Financial liabilities are measured at amortised cost, except for certain liabilities that are designated as at fair value through profit or loss. Interest expense is recognised in profit or loss over the period of the borrowing using the effective interest method.

15.1.6 Compound financial instruments

The Bank separately measures and recognises the debt component of a compound financial instrument, such as an issued convertible bond, as a financial liability with the residual value separately allocated to equity. The initial fair value of the debt component is recognised at the fair value of a similar non-convertible instrument. The equity component is recognised initially as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their carrying values.

15.2 Offsetting of financial instruments

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

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

15.3 Embedded derivatives

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

- 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.

15.4 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.

15.5 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 the requirements of IAS 39.

Securities purchased under agreements to resell (reverse repos) are not recorded but the related advances relating to the repurchase transactions are recognised as advances under agreements to resell. These financial assets are either measured at fair value or amortised cost in line with the requirements of IAS 39. The difference between purchase and resale price is treated as interest and accrued over the life of the reverse repos using the effective interest method.

Securities lent to counterparties under securities lending arrangements are retained as trading and investment securities. Any deposits arising from collateral provided by the counterparties are recognised as deposits under securities lending arrangements and are measured at either fair value or amortised cost in accordance with the requirements of IAS 39.

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

15.6 Impairments of financial assets

15.6.1 General

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

15.6.2 Assets carried at amortised cost

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event(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 renegotiated unless the arrears balance has been repaid. Renegotiated but current financial assets are considered as part of the collective evaluation of impairment where financial assets are grouped on the basis of similar credit risk characteristics.

Repossessed assets

In certain circumstances, assets are repossessed following the foreclosure on loans that are in default. Repossessed assets are measured at the lower of cost or net realisable value. The Bank recognises repossessed assets as part of accounts receivable in the statement of financial position.

15.6.3 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.

15.7 Derivative financial instruments and hedging

The Bank initially recognises derivative financial instruments, including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options (both written and purchased) and other derivative financial instruments, 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 or liabilities or firm commitments (fair value hedge); or
- hedge of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge).

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

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

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

15.7.1 Fair value 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 fair value gain or loss relating to the effective portion of interest rate swaps and related hedged items are reflected in interest income or interest expense. Effective changes in fair value of currency futures are reflected in non-interest income. The gains or losses relating to the ineffective portion are recorded as fair value income in non-interest income.

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

15.7.2 Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated as hedging instruments in effective cash flow hedges is recognised in the cash flow hedge reserve in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately as part of fair value income in non-interest income 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 liabilities, if the risk being hedged is interest rate risk, the amounts are included in interest income or interest expense when reclassified to profit or loss. The amount recognised in profit or loss for other risks relating to financial assets and liabilities is recognised in non-interest income as fair value income.

16 COMMODITIES AND BASE METALS

Where the Bank has a short-term trading intention, commodities are measured at fair value less costs to sell in accordance with the broker trader exemption in IAS 2. Changes in fair value are recognised in non-interest income as fair value income.

Where the 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 and fair valued.

17 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 measured reliably. The carrying amount of any replacement part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Leasehold improvements are all improvements made to property which the 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 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 written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

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

18 LEASES

18.1 The Bank is the lessee

18.1.1 Finance leases

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

Finance leases are capitalised as assets at the fair value of the leased asset at the inception of the lease, or, if lower, at the estimated present value of the underlying lease payments. The Bank allocates each lease payment between the liability and finance charges to achieve a constant rate on the 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.

18.1.2 Operating leases

The Bank classifies leases as operating leases where the lessor effectively retains the risks and benefits of ownership. It recognises operating lease payments 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.

18.2 The Bank is the lessor

18.2.1 Finance leases

The Bank recognises as advances, assets sold under a finance lease at the present value of the lease payments. The difference between the gross receivable and the present value of the receivable represents unearned finance income. 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.

18.2.2 Operating leases

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

18.3 Instalment credit agreements

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

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

19 INTANGIBLE ASSETS

19.1 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.

19.2 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.

19.3 Impairment of intangible assets

Management reviews the carrying value whenever objective evidence of impairment exists. Carrying value is written down to estimated recoverable amount when a permanent decrease in value occurs. The recoverable amount is the higher of fair value less costs to sell and value in use. Any impairment is recognised in profit or loss when incurred.

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

19.4 Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, 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.

20 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. In respect of temporary differences arising from fair value adjustments on

investment properties, deferred income tax is provided at the rate that would apply on the sale of the property i.e. the capital gains tax rate.

The 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-retirement 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.

21 EMPLOYEE BENEFITS

21.1 Post-employment benefits

The Bank operates defined benefit and defined contribution schemes, the assets of which are held in separate trustee administered funds. The defined benefit plans are funded by contributions from employees and the Bank, taking into account the recommendations of independent qualified actuaries. For defined benefit plans the expenses are measured using the projected unit credit method.

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

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds, or in the absence of a deep and liquid corporate bond market the yield on government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

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

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

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

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

The Bank does not recognise actuarial gains or losses in profit or loss in the period under review, but defers such gains or losses to future periods, unless the net cumulative unrecognised actuarial gains or losses at the end of the previous reporting period exceed the greater of:

- 10% of the present value of the defined benefit obligation at that date (before deducting plan assets); and
- 10% of the fair value of any plan assets at that date.

The portion of actuarial gains or losses recognised is the excess above the corridor as calculated above, divided by the expected average remaining working lives of the participating employees.

The Bank recognises current service costs immediately in accordance with the projected unit credit method. Past service costs are recognised over the vesting period attributable to the past service costs. Experience adjustments, changes in actuarial assumptions and plan amendments are recognised as expenses over the expected remaining working lives of employees in accordance with the corridor approach allowed by IAS 19. For retired employees all costs are recognised as an expense immediately.

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

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

21.2 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 when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without the possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

21.3 Leave pay provision

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

21.4 Bonuses

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

22 SHARE CAPITAL

22.1 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.

22.2 Dividends paid

Dividends on ordinary shares and non-cumulative non-redeemable 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.

22.3 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.

22.4 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.

For purposes of the earnings per share calculation, the weighted average number of shares in issue is reduced by the number of shares held by the share trusts.

23 SEGMENT REPORTING

An operating segment is a component of the Bank that engages in business activities from which the Bank may earn revenues and incur expenses. An operating segment is also a component of the Bank whose operating results are regularly reviewed by the chief operating decision maker in allocating resources, assessing its performance and for which discrete financial information is available. The 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.

24 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.

24.1 Equity settled share-based compensation plans

The Bank expenses the fair value of 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 equity in the statement of changes in equity. The total value of services received is calculated with reference to the fair value of 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.

24.2 Cash settled share-based payment compensation plans

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

25 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.

26 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; or
- 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.

27 CUSTOMER LOYALTY PROGRAMMES

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

Expenses relating to the provision of the reward credits are recognised as fee and commission expenses as they are incurred.

28 SERVICE CONCESSION ARRANGEMENTS

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

INCOME STATEMENT

for the year ended 30 June

R million	Notes	2013	2012
Interest and similar income	1.1	**39 654**	37 644
Interest expense and similar charges	1.2	**(24 188)**	(22 428)
Net interest income before impairment of advances		**15 466**	15 216
Impairment of advances	11	**(4 441)**	(4 885)
Net interest income after impairment of advances		**11 025**	10 331
Non-interest income	2	**30 346**	27 164
Income from operations		**41 371**	37 495
Operating expenses	3	**(26 928)**	(24 818)
Income before tax		**14 443**	12 677
Indirect tax	4.1	**(579)**	(496)
Profit before tax		**13 864**	12 181
Income tax expense	4.2	**(3 071)**	(2 464)
Profit for the year		**10 793**	9 717
Attributable to:			
Ordinary equityholders		**10 597**	9 534
NCNR preference equityholders		**196**	183
Profit for the year		**10 793**	9 717

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June

R million	**2013**	2012
Profit for the year	**10 793**	9 717
Items that may subsequently be reclassified to profit or loss	**976**	129
Cash flow hedges	**853**	(301)
Gains/(losses) arising during the year	**417**	(1 213)
Reclassification adjustments for amounts included in profit or loss	**768**	794
Deferred income tax	**(332)**	118
Available-for-sale financial assets	**(117)**	253
Fair value (losses)/gains arising during the year	**(134)**	833
Reclassification adjustments for amounts included in profit or loss	**(32)**	(445)
Deferred income tax	**49**	(135)
Exchange differences on translating foreign operations	**240**	177
Gains arising during the year	**240**	177
Other comprehensive income for the year	**976**	129
Total comprehensive income for the year	**11 769**	9 846
Attributable to:		
Ordinary equityholders	**11 573**	9 663
NCNR preference equityholders	**196**	183
Total comprehensive income for the year	**11 769**	9 846

STATEMENT OF FINANCIAL POSITION

at 30 June

R million	Notes	2013	2012
ASSETS			
Cash and cash equivalents	6	**42 296**	31 557
Derivative financial instruments	7	**51 755**	52 392
Commodities	8	**6 016**	5 108
Accounts receivable	9	**4 564**	3 301
Current tax asset		**144**	253
Advances	10	**548 226**	482 745
Amounts due by holding company and fellow subsidiary companies	12	**20 882**	23 307
Investment securities and other investments	13	**95 025**	78 809
Investments in subsidiary companies	14	**5**	*
Investments in associates	15	**44**	243
Property and equipment	16	**10 421**	8 882
Intangible assets	17	**154**	336
Post-employment benefit asset	18	**2 995**	2 986
Non-current assets and disposal groups held for sale	20	**–**	215
Total assets		**782 527**	690 134
EQUITY AND LIABILITIES			
Liabilities			
Short trading positions	21	**2 923**	4 019
Derivative financial instruments	7	**52 940**	53 666
Creditors and accruals	22	**8 935**	6 473
Deposits	23	**629 842**	545 796
Provisions	24	**246**	234
Employee liabilities	18	**9 239**	8 480
Other liabilities	25	**1 062**	922
Amounts due to holding company and fellow subsidiary companies	12	**14 586**	13 341
Deferred income tax liability	19	**250**	769
Tier 2 liabilities	26	**7 625**	7 437
Total liabilities		**727 648**	641 137
Equity			
Ordinary shares	27	**4**	4
Share premium	27	**15 304**	15 304
Reserves		**36 571**	30 689
Capital and reserves attributable to ordinary equityholders		**51 879**	45 997
NCNR preference shares	27	**3 000**	3 000
Total equity		**54 879**	48 997
Total equity and liabilities		**782 527**	690 134

* *Denotes amounts less than R500 000.*

STATEMENT OF CHANGES IN EQUITY
for the year ended 30 June

R million	Notes	Ordinary share capital and ordinary equityholders' funds				
		Share capital	Share premium	**Share capital and share premium**	Cash flow hedge reserve	
Balance as at 1 July 2011		4	11 455	**11 459**	(452)	
Issue of share capital	27	–	3 849	**3 849**	–	
Movement in other reserves		–	–	**–**	–	
Ordinary dividends		–	–	**–**	–	
Preference dividends		–	–	**–**	–	
Total comprehensive income for the year		–	–	**–**	(301)	
Balance as at 30 June 2012		4	15 304	**15 308**	(753)	
Issue of share capital	27	–	–	**–**	–	
Movement in other reserves		–	–	**–**	–	
Ordinary dividends		–	–	**–**	–	
Preference dividends		–	–	**–**	–	
Total comprehensive income for the year		–	–	**–**	853	
Balance as at 30 June 2013		4	15 304	**15 308**	100	

Ordinary share capital and ordinary equityholders' funds							
Share-based payment reserve	Available-for-sale reserve	Foreign currency translation reserve	Other reserves	Retained earnings	**Reserves attributable to ordinary equityholders**	**NCNR preference shares**	**Total equity**
342	443	(424)	1 345	24 929	**26 183**	**3 000**	**40 642**
–	–	–	–	–	**–**	**–**	**3 849**
78	–	–	–	–	**78**	**–**	**78**
–	–	–	–	(5 235)	**(5 235)**	**–**	**(5 235)**
–	–	–	–	–	**–**	**(183)**	**(183)**
–	253	177	–	9 534	**9 663**	**183**	**9 846**
420	696	(247)	1 345	29 228	**30 689**	**3 000**	**48 997**
–	–	–	–	–	**–**	**–**	**–**
19	–	–	–	–	**19**	**–**	**19**
–	–	–	–	(5 710)	**(5 710)**	**–**	**(5 710)**
–	–	–	–	–	**–**	**(196)**	**(196)**
–	(117)	240	–	10 597	**11 573**	**196**	**11 769**
439	579	(7)	1 345	34 115	**36 571**	**3 000**	**54 879**

STATEMENT OF CASH FLOWS

for the year ended 30 June

R million	Notes	2013	2012
Cash flows from operating activities			
Cash receipts from customers	29.2	**57 367**	62 854
Cash paid to customers, suppliers and employees	29.3	**(42 680)**	(41 603)
Dividends received		**3 148**	2 589
Dividends paid	29.4	**(5 906)**	(5 418)
Cash generated from operating activities	29.1	**11 929**	18 422
Increase in income-earning assets	29.5	**(75 288)**	(51 458)
Increase in deposits and other liabilities	29.6	**81 399**	36 711
Cash generated/(utilised) by operations		**6 111**	(14 747)
Taxation paid	29.7	**(4 432)**	(3 941)
Net cash generated/(utilised) from operating activities		**13 608**	(266)
Cash flows from investing activities			
Acquisition of associates*		**(349)**	(205)
Proceeds on disposal of associates*		**550**	159
Acquisition of subsidiaries*		**(5)**	–
Acquisition of property and equipment		**(3 644)**	(2 704)
Proceeds on disposal of property and equipment		**431**	510
Acquisition of intangible assets		**(171)**	(217)
Proceeds on disposal of intangible assets		**3**	17
Net cash outflow from investing activities		**(3 185)**	(2 440)
Cash flows from financing activities			
Proceeds from other liabilities		**97**	391
Proceeds from Tier 2 liabilities		**188**	987
Proceeds from issue of ordinary shares		**–**	3 849
Net cash inflow from financing activities		**285**	5 227
Net increase in cash and cash equivalents		**10 708**	2 521
Cash and cash equivalents at the beginning of the year		**31 557**	29 012
Effect of exchange rate changes on cash and cash equivalents		**31**	24
Cash and cash equivalents at the end of the year	29.10	**42 296**	31 557

* *Refer to note 29 for information on the cash flows arising from acquisition and disposal of significant subsidiaries and associates.*

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

R million	Fair value	Amortised cost	Hedging instruments	Non-financial instruments	Total
	2013				
Advances	**–**	**35 199**	**–**	**–**	**35 199**
Cash and cash equivalents	**–**	**879**	**–**	**–**	**879**
Investment securities and other investments	**2 055**	**–**	**–**	**–**	**2 055**
Unwinding of discounted present value on non-performing loans	**–**	**157**	**–**	**–**	**157**
Amounts due by holding company and fellow subsidiary companies	**282**	**482**	**–**	**–**	**764**
Other	**–**	**–**	**586**	**14**	**600**
Interest and similar income	**2 337**	**36 717**	**586**	**14**	**39 654**

R million	Fair value	Amortised cost	Hedging instruments	Non-financial instruments	Total
	2012				
Advances	–	31 921	–	–	31 921
Cash and cash equivalents	–	853	–	–	853
Investment securities and other investments	3 169	9	–	–	3 178
Unwinding of discounted present value on non-performing loans	–	122	–	–	122
Amounts due by holding company and fellow subsidiary companies	317	718	–	–	1 035
Other	–	–	533	2	535
Interest and similar income	3 486	33 623	533	2	37 644

1 ANALYSIS OF INTEREST INCOME AND INTEREST EXPENSE continued

1.2 Interest expense and similar charges

R million	2013 Fair value	Amortised cost	Hedging instruments	Non-financial instruments	Total
Current accounts	**–**	**(6 890)**	**–**	**–**	**(6 890)**
Savings deposits	**–**	**(58)**	**–**	**–**	**(58)**
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 subsidiary companies	**(153)**	**(387)**	**–**	**–**	**(540)**
Other	**(11)**	**(67)**	**(1 354)**	**(21)**	**(1 453)**
Interest expense and similar charges	**(919)**	**(21 894)**	**(1 354)**	**(21)**	**(24 188)**

R million	2012 Fair value	Amortised cost	Hedging instruments	Non-financial instruments	Total
Current accounts	–	(7 239)	–	–	(7 239)
Savings deposits	–	(43)	–	–	(43)
Fixed and notice deposits	(532)	(6 374)	–	–	(6 906)
Negotiable certificates of deposit	(94)	(2 759)	–	–	(2 853)
Repurchase agreements	–	(351)	–	–	(351)
Securities lending	–	(249)	–	–	(249)
Cash collateral and credit-linked notes	–	(365)	–	–	(365)
Fixed and floating rate notes	(391)	(1 304)	–	–	(1 695)
Tier 2 liabilities	–	(657)	–	–	(657)
Amounts due to holding company and fellow subsidiary companies	(171)	(526)	–	–	(697)
Other	(13)	(29)	(1 327)	(4)	(1 373)
Interest expense and similar charges	(1 201)	(19 896)	(1 327)	(4)	(22 428)

2 NON-INTEREST INCOME

R million	2013	2012
Fee and commission income	**20 159**	17 990
– Instruments at amortised cost	**15 749**	13 835
– Instruments at fair value	**159**	78
– Non-financial instruments	**4 251**	4 077
Fee and commission expenses	**(2 785)**	(2 538)
Net fee and commission income	**17 374**	15 452
Fair value gains and losses		
Held for trading	**2 604**	2 528
Designated at fair value through profit or loss	**8 834**	7 397
Other	**(16)**	–
Fair value gains and losses	**11 422**	9 925
Gains less losses from investing activities		
Designated at fair value through profit or loss	**36**	2
Available-for-sale	**16**	454
Other	**(37)**	142
Gains less losses from investing activities	**15**	598
Other non-interest income	**1 535**	1 189
Total non-interest income	**30 346**	27 164

2 NON-INTEREST INCOME continued

R million	2013	2012
Fee and commission income		
Banking fee and commission income	**17 020**	14 873
– Card commissions	**2 618**	2 184
– Cash deposit fees	**1 623**	1 653
– Commitment fees	**679**	371
– Commissions: bills, drafts and cheques	**471**	424
– Exchange commissions	**757**	708
– Brokerage income	**44**	4
– Bank charges	**10 828**	9 529
Knowledge-based fee and commission income	**1 054**	844
Non-banking fee and commission income*	**1 263**	1 535
Insurance commission income	**822**	738
Fee and commission income	**20 159**	17 990
Fee and commission expenses		
Transaction processing fees	**(766)**	(709)
Commission paid	**(242)**	(197)
Customer loyalty programmes	**(626)**	(425)
Cash sorting, handling and transportation charges	**(498)**	(548)
Card and cheque book related	**(204)**	(131)
ATM commissions paid	**(22)**	(23)
Other	**(427)**	(505)
Fee and commission expenses	**(2 785)**	(2 538)
Net fee and commission income	**17 374**	15 452
Fair value gains or losses**	**11 422**	9 925
Gains less losses from investing activities		
Gain/(loss) on investment securities and other investments	**35**	(17)
Impairment of investment securities and other investments	**(23)**	–
Reclassification from other comprehensive income on the derecognition/sale of available-for-sale assets	**32**	445
Dividends from unlisted subsidiaries	**5**	37
Other unlisted dividends received	**7**	18
Gain on disposal of investments in associates	**27**	81
Other (losses)/gains from investing activities	**(68)**	34
Gains less losses from investing activities	**15**	598
Other non-interest income		
Loss on disposal of property and equipment	**(56)**	(75)
Recoveries from holding company and fellow subsidiary companies	**576**	424
Other income	**1 015**	840
Other non-interest income	**1 535**	1 189
Total non-interest income	**30 346**	27 164

* *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.*

** *Included in fair value gains and losses is dividend income of R3 136 million (2012: R2 535 million).*

3 OPERATING EXPENSES

R million	2013	2012
Auditors' remuneration		
Audit fees (note 24)	**(132)**	(113)
Fees for other services	**(42)**	(37)
Prior year under provision	**(11)**	–
Auditors' remuneration	**(185)**	(150)
Operating lease charges		
Property	**(849)**	(781)
Equipment	**(99)**	(114)
Motor vehicles	**(12)**	(9)
Operating lease charges	**(960)**	(904)
Staff costs		
Salaries, wages and allowances	**(9 144)**	(8 419)
Contributions to employee benefit funds	**(1 632)**	(1 407)
– Defined contribution schemes	**(1 322)**	(1 196)
– Defined benefit schemes (note 18)	**(310)**	(211)
Social security levies	**(147)**	(137)
Share-based payments (note 28)	**(1 532)**	(2 166)
Movement in staff related provisions (note 18)	**(2 709)**	(2 209)
Other	**(275)**	(386)
Staff costs	**(15 439)**	(14 724)
Other operating costs		
Amortisation of intangible assets (note 17)	**(94)**	(149)
Depreciation of property and equipment (note 16)	**(1 627)**	(1 728)
Impairments incurred	**(272)**	(26)
– Property and equipment (note 16)	**(4)**	–
– Intangible assets (note 17)	**(256)**	–
– Other	**(12)**	(26)
Insurance	**(209)**	(191)
Advertising and marketing	**(957)**	(817)
Maintenance	**(751)**	(670)
Property	**(687)**	(587)
Computer	**(1 088)**	(804)
Stationery	**(138)**	(156)
Telecommunications	**(293)**	(261)
Other operating expenditure	**(2 526)**	(2 168)
Professional fees	**(967)**	(837)
Expenses paid to holding company and fellow subsidiary companies (note 37)	**(735)**	(646)
Other operating costs	**(10 344)**	(9 040)
Total operating expenses	**(26 928)**	(24 818)

3 OPERATING EXPENSES continued

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

Directors and prescribed officers' emoluments

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

	2013			2012		
R thousand	Services as directors of the FirstRand Bank Ltd Group*	Services as directors of subsidiaries of the FirstRand Group*	Total	Services as directors of the FirstRand Bank Ltd Group*	Services as directors of subsidiaries of the FirstRand Group*	Total
Executive directors						
D Premnarayen**†	**99**	**852**	**951**	29	787	816
Non-executive directors						
LL Dippenaar	**206**	**3 402**	**3 608**	125	2 865	2 990
VW Bartlett#	**631**	**884**	**1 515**	238	707	945
JH Bester#	**2 266**	**1 330**	**3 596**	1 624	1 270	2 894
MS Bomela# (appointed September 2011)	**76**	**607**	**683**	29	371	400
L Crouse	**50**	**843**	**893**	11	771	782
JJ Durand (appointed October 2012)	**50**	**485**	**535**	–	–	–
PM Goss#	**122**	**677**	**799**	116	615	731
NN Gwagwa#	**50**	**541**	**591**	56	484	540
GG Gelink (appointed 1 January 2013)	**–**	**502**	**502**	–	–	–
PK Harris	**50**	**426**	**476**	5	396	401
WR Jardine#	**62**	**582**	**644**	29	453	482
EG Matenge-Sebesho#	**303**	**639**	**942**	213	584	797
AP Nkuna (resigned 31 July 2011)	**–**	**–**	**–**	15	35	50
AT Nzimande	**50**	**600**	**650**	44	548	592
KB Schoeman	**62**	**483**	**545**	29	440	469
RK Store# (retired 31 May 2013)	**267**	**1 014**	**1 281**	387	803	1 190
BJ van der Ross#	**402**	**711**	**1 113**	262	564	826
JH van Greuning#†	**2 782**	**1 183**	**3 965**	1 605	1 052	2 657
MH Visser (deceased April 2012)	**–**	**–**	**–**	11	504	515
Total non-executive directors	**7 429**	**14 909**	**22 338**	4 799	12 462	17 261

* *Fees earned by South African-based executive directors from FirstRand and its subsidiaries are waived and ceded to companies in the FirstRand Group and do not accrue to them in their private capacity. These fees are not reflected in the above schedule.*

** *D Premnarayen is classified as an executive director due to his participation in FirstRand's share scheme and does not participate in other executive remuneration arrangements.*

Independent non-executive director.

† *Foreign-domiciled director (denominated in USD).*

3 OPERATING EXPENSES continued

Prescribed officers emoluments

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

Notes

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

1. *These prescribed officers in terms of the Companies Act 71 of 2008 are also executive directors. A prescribed officer is a person who exercises general executive control over and management of the whole or a significant portion of the business and activities of FirstRand.*
2. *Other allowances includes travel and medical.*
3. *Performance-related payments are in respect of the year ended 30 June, but are paid (with an interest factor) in three tranches, during the following year ending 30 June.*
4. *Performance payments deferred in FirstRand shares vest in September two years after the award date. Refer to the share option schemes disclosed in note 28.*
5. *Appointed COO effective 6 June 2008.*

3 OPERATING EXPENSES continued

Prescribed officers emoluments

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

Notes

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

1. *These prescribed officers in terms of the Companies Act 71 of 2008 are also executive directors. A prescribed officer is a person who exercises general executive control over and management of the whole or a significant portion of the business and activities of FirstRand.*
2. *Other allowances includes travel and medical.*
3. *Performance-related payments are in respect of the year ended 30 June, but are paid (with an interest factor) in three tranches, during the following year ending 30 June.*
4. *Performance payments deferred in FirstRand shares vest in September two years after the award date. Refer to the share option schemes disclosed in note 28.*
5. *Appointed COO effective 6 June 2008.*
6. *Appointed CEO of RMB on 19 August 2008.*
7. *Appointed CEO of WesBank on 27 November 2006.*

3 OPERATING EXPENSES continued

Co-investment scheme*

R thousand	2013	2012
JP Burger**	**670**	1 928
M Jordaan	**335**	964
SE Nxasana**	**149**	428
A Pullinger	**894**	2 570
Total	**2 048**	5 890

* *Co-investment scheme comprises the profit share entitlement from the Group co-investment scheme (see note 28). Profit share is based on the capital contribution by an employee into the scheme which is at risk.*

** *These executive directors are also prescribed officers in terms of the Companies Act 71 of 2008. A prescribed officer is a person who exercises general executive control over and management of the whole or a significant portion of the business and activities of FirstRand Bank.*

Benefits derived by executive directors in terms of their share option schemes are disclosed in the FirstRand Limited annual integrated report. No options are granted to executive directors who have attained the age of 57 by September of each year. Compensation is paid for the loss of this benefit and is included under other benefits.

All the executive directors and prescribed officers have a notice period of one month. Non-executive directors are appointed for a period of three years and are subject to the Companies Act 71 of 2008 provisions relating to removal. The retirement age of directors is set at age 70.

The following non-executive directors are eligible for re-election at the next annual general meeting:
PK Harris
WR Jardine
EG Matenge-Sebesho
AT Nzimande

The following directors were appointed by the board during the year and are recommended for election at the next annual general meeting.
JJ Durand
GG Gelink
P Cooper (appointed 9 July 2013)

The following directors reached the board's retirement age of 70. The board has the discretion to extend the tenure for an additional year and has unanimously approved the extension of their tenure. Accordingly, they offer themselves for re-election.
VW Bartlett
JH Bester

Refer to the report from the chairman of the remuneration committee in FirstRand Limited's annual integrated report for detailed remuneration disclosures in terms of Regulation 43 of the South African Banks Act (94 of 1990).

4 INDIRECT TAX AND INCOME TAX EXPENSE

	R million	2013	2012
4.1	**Indirect tax**		
	Value added tax (net)	**(579)**	(495)
	Securities transfer tax	**–**	(1)
	Total indirect tax	**(579)**	(496)
4.2	**Income tax expense**		
	South African income tax		
	Current	**(3 865)**	(3 021)
	– Current year	**(3 376)**	(3 367)
	– Prior year adjustment	**(489)**	346
	Deferred income tax	**741**	812
	– Current year	**386**	1 005
	– Prior year adjustment	**355**	(193)
	Total South African income tax	**(3 124)**	(2 209)

4 INDIRECT TAX AND INCOME TAX EXPENSE continued

R million	2013	2012
Secondary tax on companies		
Deferred income tax	**–**	(216)
– Current year	**–**	(216)
Total secondary tax on companies	**–**	(216)
Capital gains tax	**69**	(76)
– Current	**–**	(76)
– Deferred income tax	**69**	–
Tax rate adjustment	**(8)**	–
Total capital gains tax	**61**	(76)
Customer tax adjustment account	**(8)**	37
Total income tax expense	**(3 071)**	(2 464)

Tax rate reconciliation – %	2013	2012
Standard rate of income tax	**28.0**	28.0
Total tax has been affected by:		
Non-taxable income	**(7.8)**	(7.7)
Prior year adjustments	**1.0**	(1.3)
Effect of income at capital gains tax rate	**(0.4)**	0.6
Other non-deductible items	**1.4**	(1.2)
Other taxes	**–**	1.8
Effective rate of tax	**22.2**	20.2

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 page 178 to page 192 describe how the classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised.

The following table analyses the assets and liabilities in the statement of financial position per category of financial instrument and therefore by measurement basis and according to when the assets are expected to be realised and liabilities settled:

		2013		
R million	Notes	Held for trading	Designated at fair value through profit or loss	Held-to-maturity
ASSETS				
Cash and cash equivalents	6	**–**	**–**	**–**
Derivative financial instruments	7	**50 893**	**–**	**–**
Commodities	8	**–**	**–**	**–**
Accounts receivable	9	**–**	**–**	**–**
Current tax asset		**–**	**–**	**–**
Advances	10	**–**	**152 272**	**42**
Amounts due by holding company and fellow subsidiary companies	12	**516**	**–**	**–**
Investment securities and other investments	13	**28 285**	**49 560**	**–**
Investments in subsidiary companies	14	**–**	**–**	**–**
Investments in associates	15	**–**	**–**	**–**
Property and equipment	16	**–**	**–**	**–**
Intangible assets	17	**–**	**–**	**–**
Post-employment benefit asset	18	**–**	**–**	**–**
Non-current assets and disposal groups held for sale	20	**–**	**–**	**–**
Total assets		**79 694**	**201 832**	**42**
Fair value of assets held or placed on behalf of customers in a fiduciary capacity				
LIABILITIES				
Short trading positions	21	**2 923**	**–**	**–**
Derivative financial instruments	7	**52 124**	**–**	**–**
Creditors and accruals	22	**–**	**–**	**–**
Deposits	23	**–**	**83 077**	**–**
Provisions	24	**–**	**–**	**–**
Employee liabilities	18	**–**	**–**	**–**
Other liabilities	25	**–**	**171**	**–**
Amounts due to holding company and fellow subsidiary companies	12	**255**	**–**	**–**
Deferred income tax liability	19	**–**	**–**	**–**
Tier 2 liabilities	26	**–**	**1 049**	**–**
Total liabilities		**55 302**	**84 297**	**–**

The risk and capital management report on pages 81 to 170 contains further information about the risk associated with various financial assets and financial liabilities recognised in the statement of financial position.

Refer to note 33 for information about changes in the Bank's own credit risk and the impact on the financial liabilities of the Bank.

Refer to note 35 for additional information relating to the fair value of financial assets and financial liabilities carried at fair value.

	2013							
	Loans and receivables	Available-for-sale financial assets	Financial liabilities at amortised cost	Derivatives designated as hedging instruments	Non-financial instruments	Total carrying value	Current	Non-current
	42 296	–	–	–	–	42 296	42 296	–
	–	–	–	862	–	51 755	50 193	1 562
	–	–	–	–	6 016	6 016	6 016	–
	4 564	–	–	–	–	4 564	4 434	130
	–	–	–	–	144	144	–	144
	395 840	72	–	–	–	548 226	189 123	359 103
	20 366	–	–	–	–	20 882	10 516	10 366
	415	16 765	–	–	–	95 025	73 713	21 312
	–	–	–	–	5	5	–	5
	–	–	–	–	44	44	–	44
	–	–	–	–	10 421	10 421	–	10 421
	–	–	–	–	154	154	–	154
	–	–	–	–	2 995	2 995	–	2 995
	–	–	–	–	–	–	–	–
	463 481	16 837	–	862	19 779	782 527	376 291	406 236
						57 133		
	–	–	–	–	–	2 923	2 923	–
	–	–	–	816	–	52 940	51 313	1 627
	–	–	8 935	–	–	8 935	8 586	349
	–	–	546 765	–	–	629 842	535 720	94 122
	–	–	–	–	246	246	195	51
	–	–	–	–	9 239	9 239	4 808	4 431
	–	–	891	–	–	1 062	325	737
	–	–	14 331	–	–	14 586	13 931	655
	–	–	–	–	250	250	–	250
	–	–	6 576	–	–	7 625	–	7 625
	–	–	577 498	816	9 735	727 648	617 801	109 847

5 ANALYSIS OF ASSETS AND LIABILITIES continued

R million	Notes	2012 Held for trading	Designated at fair value through profit or loss	Held-to-maturity
ASSETS				
Cash and cash equivalents	6	–	–	–
Derivative financial instruments	7	51 755	–	–
Commodities	8	–	–	–
Accounts receivable	9	–	–	–
Current tax asset		–	–	–
Advances	10	–	135 744	60
Amounts due by holding company and fellow subsidiary companies	12	809	–	–
Investment securities and other investments	13	27 181	33 606	–
Investments in subsidiary companies	14	–	–	–
Investments in associates	15	–	–	–
Property and equipment	16	–	–	–
Intangible assets	17	–	–	–
Post-employment benefit asset	18	–	–	–
Non-current assets and disposal groups held for sale	20	–	215	–
Total assets		79 745	169 565	60
Fair value of assets held or placed on behalf of customers in a fiduciary capacity				
LIABILITIES				
Short trading positions	21	4 019	–	–
Derivative financial instruments	7	52 218	–	–
Creditors and accruals	22	–	–	–
Deposits	23	–	79 520	–
Provisions	24	–	–	–
Employee liabilities	18	–	–	–
Other liabilities	25	–	195	–
Amounts due to holding company and fellow subsidiary companies	12	234	–	–
Deferred income tax liability	19	–	–	–
Tier 2 liabilities	26	–	1 067	–
Total liabilities		56 471	80 782	–

2012							
Loans and receivables	Available-for-sale financial assets	Financial liabilities at amortised cost	Derivatives designated as hedging instruments	Non-financial instruments	Total carrying value	Current	Non-current
31 557	–	–	–	–	31 557	31 557	–
–	–	–	637	–	52 392	49 223	3 169
–	–	–	–	5 108	5 108	5 108	–
3 301	–	–	–	–	3 301	3 245	56
–	–	–	–	253	253	–	253
346 833	108	–	–	–	482 745	161 355	321 390
22 498	–	–	–	–	23 307	14 102	9 205
–	18 022	–	–	–	78 809	62 516	16 293
–	–	–	–	–	–	–	–
–	–	–	–	243	243	–	243
–	–	–	–	8 882	8 882	–	8 882
–	–	–	–	336	336	–	336
–	–	–	–	2 986	2 986	–	2 986
–	–	–	–	–	215	215	–
404 189	18 130	–	637	17 808	690 134	327 321	362 813
					34 766		
–	–	–	–	–	4 019	4 019	–
–	–	–	1 448	–	53 666	52 298	1 368
–	–	6 473	–	–	6 473	6 373	100
–	–	466 276	–	–	545 796	462 601	83 195
–	–	–	–	234	234	165	69
–	–	–	–	8 480	8 480	3 771	4 709
–	–	727	–	–	922	62	860
–	–	13 107	–	–	13 341	10 368	2 973
–	–	–	–	769	769	–	769
–	–	6 370	–	–	7 437	1 311	6 126
–	–	492 953	1 448	9 483	641 137	540 968	100 169

6 CASH AND CASH EQUIVALENTS

R million	2013	2012
Coins and bank notes	**5 058**	4 210
Money at call and short notice	**22 882**	14 926
Balances with central banks	**14 356**	12 421
Cash and cash equivalents	**42 296**	31 557
Mandatory reserve balances included above	**14 322**	12 395

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 managed constantly 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 on pages 81 to 170 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 principally consist 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 in respect of fair value hedges:

R million	2013	2012
Gains/(losses) for the year arising from the change in fair value of fair value hedges		
On hedging instrument	**(25)**	(348)
On hedged items attributable to the hedged risk	**21**	348
Total	**(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 the market interest rates have an impact on the Bank's profit or loss. The Bank has hedges in place to manage this risk. These hedges are accounted for as cash flow hedges.

The Bank hedges this risk using separate portfolios. These portfolios are managed under separate mandates, which take into account the underlying risk inherent in each portfolio.

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 more than the changes on the hedged items, there was ineffectiveness recognised in profit or loss.

R million	**2013**	2012
Hedge ineffectiveness recognised in profit or loss (net of tax)	**(44)**	(18)

The cash flows (gross of tax) on the underlying hedged items are expected to impact profit or loss as follows:

	2013		2012	
R million	**Assets**	**Liabilities**	Assets	Liabilities
0 – 3 months	**87**	**(28)**	1 897	(1 518)
4 – 12 months	**432**	**(98)**	3 664	(2 639)
1 – 5 years	**139**	**(684)**	914	(1 497)
Over 5 years	**2**	**(37)**	2	(17)
Total	**660**	**(847)**	6 477	(5 671)

The cash flows (gross of tax) on the hedging instruments are expected to be released to profit or loss as follows:

	2013		2012	
R million	**Assets**	**Liabilities**	Assets	Liabilities
0 – 3 months	**(56)**	**83**	(174)	331
4 – 12 months	**(77)**	**468**	(323)	687
1 – 5 years	**(685)**	**164**	(121)	640
Over 5 years	**(38)**	**2**	(1)	8
Total	**(856)**	**717**	(619)	1 666

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
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	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	–
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
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**

7 DERIVATIVE FINANCIAL INSTRUMENTS continued

	2012			
	Assets		Liabilities	
R million	Notional	Fair value	Notional	Fair value
Qualifying for hedge accounting				
Cash flow hedges				
Interest rate derivatives	32 390	515	52 646	1 448
– Forward rate agreements	11 400	135	12 005	134
– Swaps	20 990	380	40 641	1 314
Total cash flow hedges	32 390	515	52 646	1 448
Fair value hedges				
Interest rate derivatives	2 863	122	–	–
– Swaps	2 863	122	–	–
Commodity derivatives	2 207	–	–	–
– Futures	2 207	–	–	–
Total fair value hedges	5 070	122	–	–
Total qualifying for hedge accounting	37 460	637	52 646	1 448
Held for trading				
Currency derivatives	472 074	13 034	399 046	11 186
– Swaps	289 459	8 500	245 915	7 186
– Options	17 024	754	17 142	460
– Futures	165 591	3 780	135 989	3 540
Interest rate derivatives	6 757 901	36 811	6 763 687	39 784
– Forward rate agreements	4 863 768	7 121	4 822 810	7 507
– Swaps	1 357 118	29 071	1 351 007	31 277
– Options	528 033	562	571 337	871
– Futures	8 982	57	18 533	129
Equity derivatives	14 367	1 701	13 314	1 013
– Swaps	3 907	1 379	–	–
– Options	3 103	109	6 313	931
– Futures	7 357	213	7 001	82
Commodity derivatives	19 158	199	10 310	147
– Swaps	802	93	3 763	97
– Options	107	24	49	–
– Futures	18 249	82	6 498	50
Credit derivatives	1 139	10	5 920	88
Total held for trading	7 264 639	51 755	7 192 277	52 218
Total	7 302 099	52 392	7 244 923	53 666

7 DERIVATIVE FINANCIAL INSTRUMENTS continued

R million	2012					
	Assets: Derivative instruments					
	Exchange traded		Over the counter		Total	
	Notional	Fair value	Notional	Fair value	Notional	Fair value
Qualifying for hedge accounting						
Cash flow hedges	–	–	32 390	515	32 390	515
– Interest rate derivatives	–	–	32 390	515	32 390	515
Fair value hedges	2 207	–	2 863	122	5 070	122
– Interest rate derivatives	–	–	2 863	122	2 863	122
– Commodity derivatives	2 207	–	–	–	2 207	–
Held for trading	47 680	–	7 216 959	51 755	7 264 639	51 755
– Currency derivatives	25 080	–	446 994	13 034	472 074	13 034
– Interest rate derivatives	5 621	–	6 752 280	36 811	6 757 901	36 811
– Equity derivatives	387	–	13 980	1 701	14 367	1 701
– Commodity derivatives	16 592	–	2 566	199	19 158	199
– Credit derivatives	–	–	1 139	10	1 139	10
Total	49 887	–	7 252 212	52 392	7 302 099	52 392

R million	2012					
	Liabilities: Derivative instruments					
	Exchange traded		Over the counter		Total	
	Notional	Fair value	Notional	Fair value	Notional	Fair value
Qualifying for hedge accounting						
Cash flow hedges	–	–	52 646	1 448	52 646	1 448
– Interest rate derivatives	–	–	52 646	1 448	52 646	1 448
Fair value hedges	–	–	–	–	–	–
– Interest rate derivatives	–	–	–	–	–	–
Held for trading	20 971	–	7 171 306	52 218	7 192 277	52 218
– Currency derivatives	–	–	399 046	11 186	399 046	11 186
– Interest rate derivatives	11 314	–	6 752 373	39 784	6 763 687	39 784
– Equity derivatives	4 335	–	8 979	1 013	13 314	1 013
– Commodity derivatives	5 322	–	4 988	147	10 310	147
– Credit derivatives	–	–	5 920	88	5 920	88
Total	20 971	–	7 223 952	53 666	7 244 923	53 666

Refer to note 37 for information on related party derivatives.

8 COMMODITIES

R million	2013	2012
Agricultural commodities	**1 729**	1 474
Gold	**4 287**	3 634
Total commodities	**6 016**	5 108

9 ACCOUNTS RECEIVABLE

R million	2013	2012
Items in transit	**1 881**	643
Interest and commission accrued	**49**	33
Prepayments	**549**	395
Other accounts receivable	**2 085**	2 230
Total accounts receivable	**4 564**	3 301

9 ACCOUNTS RECEIVABLE continued

The credit quality of accounts receivable is provided in the table below:

	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	**1 881**	**–**	**–**	**–**	**–**	**–**	**1 881**
Interest and commission accrued	**49**	**–**	**–**	**–**	**–**	**–**	**49**
Prepayments	**549**	**–**	**–**	**–**	**–**	**–**	**549**
Other accounts receivable	**2 022**	**–**	**26**	**3**	**4**	**30**	**2 085**
Total accounts receivable	**4 501**	**–**	**26**	**3**	**4**	**30**	**4 564**

	2012						
			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	639	–	4	–	–	–	643
Interest and commission accrued	33	–	–	–	–	–	33
Prepayments	395	–	–	–	–	–	395
Other accounts receivable	1 965	–	107	4	57	97	2 230
Total accounts receivable	3 032	–	111	4	57	97	3 301

10 ADVANCES

R million	Designated at fair value through profit or loss	Held-to-maturity	Loans and receivables	Available-for-sale	Total
	2013				
Notional value of advances	**152 272**	**47**	**406 314**	**72**	**558 705**
Contractual interest suspended	**–**	**(4)**	**(1 763)**	**–**	**(1 767)**
Gross value of advances	**152 272**	**43**	**404 551**	**72**	**556 938**
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	**14 491**	**–**	**1 234**	**–**	**15 725**
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	**9 164**	**–**	**4 686**	**–**	**13 850**
Other services	**14 471**	**–**	**13 772**	**–**	**28 243**
Gross value of advances	**152 272**	**43**	**404 551**	**72**	**556 938**
Impairment of advances (note 11)	**–**	**(1)**	**(8 711)**	**–**	**(8 712)**
Net advances	**152 272**	**42**	**395 840**	**72**	**548 226**
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	**87 272**	**–**	**–**	**–**	**87 272**
Other	**578**	**–**	**17 265**	**–**	**17 843**
Gross value of advances	**152 272**	**43**	**404 551**	**72**	**556 938**
Impairment of advances (note 11)	**–**	**(1)**	**(8 711)**	**–**	**(8 712)**
Net advances	**152 272**	**42**	**395 840**	**72**	**548 226**

10 ADVANCES continued

R million	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	**141 646**	**43**	**388 184**	**72**	**529 945**
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	**152 272**	**43**	**404 551**	**72**	**556 938**
Impairment of advances (note 11)	**–**	**(1)**	**(8 711)**	**–**	**(8 712)**
Net advances	**152 272**	**42**	**395 840**	**72**	**548 226**

10 ADVANCES continued

R million	Designated at fair value through profit or loss	Held-to-maturity	Loans and receivables	Available-for-sale	Total
	2012				
Notional value of advances	135 744	67	356 979	108	492 898
Contractual interest suspended	–	(6)	(1 926)	–	(1 932)
Gross value of advances	135 744	61	355 053	108	490 966
Sector analysis					
Agriculture	549	–	14 601	108	15 258
Banks	9 365	–	4 533	–	13 898
Financial institutions	45 637	–	13 730	–	59 367
Building and property development	20 285	–	5 886	–	26 171
Government, Land Bank and public authorities	13 408	–	1 910	–	15 318
Individuals	431	61	263 431	–	263 923
Manufacturing and commerce	14 840	–	34 463	–	49 303
Mining	11 597	–	2 855	–	14 452
Transport and communication	9 701	–	4 045	–	13 746
Other services	9 931	–	9 599	–	19 530
Gross value of advances	135 744	61	355 053	108	490 966
Impairment of advances (note 11)	–	(1)	(8 220)	–	(8 221)
Net advances	135 744	60	346 833	108	482 745
Category analysis					
Overdrafts and cash management accounts	–	–	29 761	–	29 761
Term loans	1 014	–	14 241	–	15 255
Card loans	–	–	11 996	–	11 996
Instalment sales and hire purchase agreements	–	–	84 758	–	84 758
Lease payments receivable	–	–	11 349	–	11 349
Property finance	3 072	61	167 446	–	170 579
– Home loans	–	61	157 375	–	157 436
– Commercial property finance	3 072	–	10 071	–	13 143
Personal loans	–	–	17 889	–	17 889
Preference share agreements	24 474	–	578	–	25 052
Assets under agreement to resell	37 690	–	792	–	38 482
Investment bank term loans	68 826	–	–	–	68 826
Other	668	–	16 243	108	17 019
Gross value of advances	135 744	61	355 053	108	490 966
Impairment of advances (note 11)	–	(1)	(8 220)	–	(8 221)
Net advances	135 744	60	346 833	108	482 745

10 ADVANCES continued

R million	2012				
	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	125 825	61	342 861	108	468 855
Other Africa	2 578	–	2 089	–	4 667
United Kingdom	5 376	–	5 447	–	10 823
Other	1 965	–	4 656	–	6 621
– Europe	544	–	1 686	–	2 230
– North America	64	–	1	–	65
– South America	95	–	–	–	95
– Australasia	393	–	2	–	395
– Asia	869	–	2 967	–	3 836
Gross value of advances	135 744	61	355 053	108	490 966
Impairment of advances (note 11)	–	(1)	(8 220)	–	(8 221)
Net advances	135 744	60	346 833	108	482 745

10 ADVANCES continued

R million	Within 1 year	Between 1 and 5 years	More than 5 years	Total
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**
2012				
Analysis of instalment sales and lease payments receivable				
Lease payments receivable	4 345	11 106	537	15 988
Suspensive sale instalments receivable	27 516	69 506	4 788	101 810
Subtotal	31 861	80 612	5 325	117 798
Less: Unearned finance charges	(5 779)	(14 598)	(1 006)	(21 383)
Total gross instalment sales and lease payments receivable	26 082	66 014	4 319	96 415
Less: Interest in suspense				(308)
Total net instalment sales and lease payments receivable				96 107

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 R162 million (2012: R200 million).

Advances relating to synthetic securitisations

Fresco II is a synthetic securitisation transaction amounting to R5 billion (2012: R20 billion) of the Bank'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.

10 ADVANCES continued

Credit risk mitigation

Collateral is an important mitigant of credit risk. Refer to the risk and capital management report on page 111 to page 139 of the annual 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	2013	2012
FNB Retail	**6 321**	6 763
FNB Commercial	**455**	441
Total FNB	**6 776**	7 204
RMB Investment Banking	**1 420**	1 054
RMB Corporate Banking	**24**	23
Total RMB	**1 444**	1 077
WesBank	**1 695**	1 860
Corporate Centre and other	**2**	1
Total	**9 917**	10 142

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:

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

Where objective evidence of impairment exists, impairment testing is performed based on the LGD, PD and EAD.

	2013			
	FNB		RMB	
R million	Retail	Commercial	Investment Banking	Corporate Banking
Analysis of movement in impairment of advances per class of advance				
Opening balance	4 149	884	160	210
Amounts written off	(2 864)	(199)	(25)	(33)
Transfers from/(to) other divisions	2	(3)	1	–
Reclassifications	–	–	–	–
Exchange rate difference	–	2	1	–
Unwinding of discounted present value on non-performing loans	(124)	(13)	–	–
Net new impairments created/(released)*	3 227	336	19	55
Closing balance	**4 390**	**1 007**	**156**	**232**
Increase in impairment*	(3 227)	(336)	(19)	(55)
Recoveries of bad debts previously written off	682	18	–	12
Impairment loss recognised in profit or loss	**(2 545)**	**(318)**	**(19)**	**(43)**

* *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.

2013				
WesBank	Other	Total impairment	Specific impairment	Portfolio impairment
2 018	800	8 221	5 119	3 102
(1 796)	–	(4 917)	(4 917)	–
–	–	–	–	–
–	–	–	146	(146)
5	–	8	5	3
(20)	–	(157)	(157)	–
1 920	–	5 557	5 032	525
2 127	800	8 712	5 228	3 484
(1 920)	–	(5 557)	(5 032)	(525)
404	–	1 116	1 116	–
(1 516)	–	(4 441)	(3 916)	(525)

11 IMPAIRMENT OF ADVANCES continued

	2012			
	FNB		RMB	
R million	Retail	Commercial	Investment Banking	Corporate Banking
Opening balance	3 736	1 013	146	239
Amounts written off	(2 908)	(306)	(2)	(301)
Acquisitions/(disposals) of advances	4	–	–	–
Transfers (to)/from other divisions	(11)	12	–	(1)
Reclassifications	–	–	–	–
Exchange rate difference	–	–	–	–
Unwinding of discounted present value on non-performing loans	(113)	(10)	–	–
Net new impairments created/(released)	3 441	175	16	273
Closing balance	4 149	884	160	210
Increase in impairment	(3 441)	(175)	(16)	(273)
Recoveries of bad debts previously written off	831	8	–	–
Impairment loss recognised in profit or loss	(2 610)	(167)	(16)	(273)

2012				
WesBank	Other	Total impairment	Specific impairment	Portfolio impairment
2 377	–	7 511	5 527	1 984
(1 823)	–	(5 340)	(5 340)	–
–	–	4	3	1
–	–	–	–	–
–	–	–	(33)	33
4	–	4	2	2
–	1	(122)	(122)	–
1 460	799	6 164	5 082	1 082
2 018	800	8 221	5 119	3 102
(1 460)	(799)	(6 164)	(5 082)	(1 082)
441	(1)	1 279	1 279	–
(1 019)	(800)	(4 885)	(3 803)	(1 082)

11 IMPAIRMENT OF ADVANCES continued

R million	2013		
	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**
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**

11 IMPAIRMENT OF ADVANCES continued

R million	2012 Total value net of interest in suspense	2012 Security held and expected recoveries	2012 Specific impairment
Non-performing loans by sector			
Agriculture	562	458	104
Financial institutions	369	211	158
Building and property development	2 299	1 946	353
Government, Land Bank and public authorities	36	20	16
Individuals	12 654	8 898	3 756
Manufacturing and commerce	849	479	370
Mining	165	137	28
Transport and communication	239	171	68
Other	494	228	266
Total non-performing loans	17 667	12 548	5 119
Non-performing loans by category			
Overdrafts and cash management accounts	804	225	579
Term loans	226	176	50
Card loans	271	79	192
Instalment sales and hire purchase agreements	3 326	2 055	1 271
Lease payments receivable	414	225	189
Property finance	9 564	7 469	2 095
– Home loans	8 690	6 971	1 719
– Commercial property finance	874	498	376
Personal loans	1 020	291	729
Preference share agreements	14	2	12
Investment bank term loans	2 028	2 026	2
Total non-performing loans	17 667	12 548	5 119
Non-performing loans by class			
FNB Retail	9 940	7 208	2 732
FNB Commercial	1 665	879	786
Total FNB	11 605	8 087	3 518
RMB Investment Banking	2 028	2 026	2
RMB Corporate Banking	9	–	9
Total RMB	2 037	2 026	11
WesBank	4 025	2 435	1 590
Total non-performing loans	17 667	12 548	5 119
Non-performing loans by geographical area			
South Africa	17 322	12 215	5 107
Other Africa	33	33	–
United Kingdom	22	10	12
South America	290	290	–
Total non-performing loans	17 667	12 548	5 119

12 AMOUNTS DUE (TO)/BY HOLDING COMPANY AND FELLOW SUBSIDIARY COMPANIES

R million	**2013**	2012
Amounts due to holding company	**(766)**	(247)
Amounts due to fellow subsidiary companies	**(13 820)**	(13 094)
Amounts due to holding company and fellow subsidiary companies	**(14 586)**	(13 341)
Amounts due by holding company	**–**	–
Amounts due by fellow subsidiary companies	**20 882**	23 307
Amounts due by holding company and fellow subsidiary companies	**20 882**	23 307
Net amounts due by holding company and fellow subsidiary companies	**6 296**	9 966

These loans have no fixed terms of repayment and carry varying rates of interest. Loans to fellow subsidiary companies amounting to R189 million (2012: R190 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**
2013				
Derivative instruments	**37 185**	**516**	**(25 353)**	**(255)**
2012				
Derivative instruments	44 197	809	(7 336)	(234)

13 INVESTMENT SECURITIES AND OTHER INVESTMENTS

	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**	**–**	**574**	**7 276**
Other	**–**	**–**	**–**	**2**	**2**
Total investment securities and other investments	**28 285**	**49 560**	**415**	**16 765**	**95 025**

	2012				
R million	Held for trading	Designated at fair value through profit or loss	Loans and receivables	Available-for-sale	Total
Negotiable certificates of deposit	1 252	–	–	484	1 736
Treasury bills	1 114	17 556	–	2 961	21 631
Other government and government guaranteed stock	20 228	3 925	–	12 886	37 039
Other dated securities	4 562	7 764	–	1 179	13 505
Other undated securities	–	20	–	–	20
Equities	25	4 341	–	474	4 840
Other	–	–	–	38	38
Total investment securities and other investments	27 181	33 606	–	18 022	78 809

R33 866 million (2012: R29 476 million) of the financial instruments form part of the Bank's liquid asset portfolio in terms of the SARB and other foreign banking regulator's requirements.

13 INVESTMENT SECURITIES AND OTHER INVESTMENTS continued

Analysis of investment securities and other investments

R million	**2013**	2012
Listed	**58 763**	46 823
– Equities	**1 040**	786
– Debt	**57 723**	46 037
Unlisted	**36 262**	31 986
– Equities	**6 236**	4 054
– Debt	**30 026**	27 932
Total	**95 025**	78 809

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

R million	**2013**	2012
Shares at cost less amounts written off	**5**	*

* *Less than R500 000.*

2013	**Nature of business**	**Issued capital (rand)**	**Effective holding %**	**Investment in subsidiaries (rand)**
FRB Representacoes E Participacoes LTDA	**Financial services**	**28 364 513**	**100**	**383 669**
Brait Raptor Hedge Fund*	**Financial services**	**6 987 474**	**72**	**5 000 000**
Other	**Various**	**Various**	**Various**	**100**
Total investments in subsidiary companies				**5 383 769**

2012	Nature of business	Issued capital (rand)	Effective holding %	Investment in subsidiaries (rand)
FRB Representacoes E Participacoes LTDA	Financial services	28 364 513	100	383 669
Other	Various	Various	Various	110
Total investments in subsidiary companies				383 779

* *Relates to units held in the hedge fund in the form of seed capital and not shares.*

15 INVESTMENTS IN ASSOCIATES

R million	2013	2012
Unlisted investments		
Investments at cost less amounts written off	**44**	243
Total investments in associates carrying value	**44**	243
Valuation		
Fair value of unlisted investments in associates	**60**	266
Total fair value of investments in associates	**60**	266

	2013			
	Nature of business	Issued ordinary share capital	Number of ordinary shares held	Year end
Unlisted				
Weston Atlas Funds	**Payment finance**	**33% of fund**	**–**	**30 June**
Capricon Fund Managers	**Hedge funding**	**21% of fund**	**–**	**28 February**
Truffle Asset Management	**Hedge funding**	**44% of fund**	**–**	**30 June**

	Effective holding %		Market value or valuation amount		Carrying value	
R million	2013	2012	2013	2012	2013	2012
Unlisted						
New Seasons Investments	**–**	29	**–**	26	**–**	19
Weston Atlas Funds	**33**	33	**44**	69	**29**	55
Sutter Gold	**–**	50	**–**	164	**–**	164
Capricon Fund Managers	**21**	–	**11**	–	**10**	–
Truffle Asset Management	**44**	–	**5**	–	**5**	–
Other	**–**	Various	**–**	7	**–**	5
Total unlisted			**60**	266	**44**	243
Total investments in associates			**60**	266	**44**	243

15 INVESTMENTS IN ASSOCIATES continued

15.1 Significant disposals of associates during the 2013 financial year

Cash flow information

	2013			
R million	Total	New Seasons Investments	Sutter Gold	Other
Carrying amount at date of disposal	**214**	**19**	**164**	**31**
Fair value of consideration received	**245**	**26**	**186**	**33**
– Discharged of by cash	**239**	**26**	**186**	**27**
– Non-cash consideration	**6**	**–**	**–**	**6**
Gain on disposal of associates*	**31**	**7**	**22**	**2**

* *Excludes loss on the disposal of investment in Mvelaphanda Group.*

New Seasons Investments

On 18 December 2012, New Seasons Investments was sold to New Seasons Investment Holdings Limited.

Sutter Gold

During the prior year, the Bank acquired a shareholding in Sutter Gold from FRIHL for a consideration of R164 million. Sutter Gold was subsequently sold to RMB Investments and Advisory Proprietary Limited on 3 September 2012 for a consideration of R186 million.

Mvelaphanda Group

During the year, the Bank acquired a 28.3% shareholding in Mvelaphanda Group for a consideration of R334 million. Subsequently, Mvelaphanda Group was sold, resulting in a loss of R4 million. The consideration on disposal includes cash and non-cash consideration.

Other insignificant disposals

In addition to the above disposals, the Bank disposed of a number of individually insignificant associates in the current year.

15 INVESTMENTS IN ASSOCIATES continued

15.2 Significant acquisitions of associates during the 2013 financial year

Cash flow information

R million	2013 Total	2013 Capricon Fund Managers	2013 Truffle Asset Management
Total consideration transferred	**15**	**10**	**5**
– Discharged by cash consideration	**15**	**10**	**5**
– Non-cash consideration	**–**	**–**	**–**

Capricon Fund Managers

On 30 November 2012, the Bank acquired a 21% shareholding in Capricon Fund Managers for a consideration of R10 million.

Truffle Asset Management

On 30 September 2012, the Bank acquired a 44% shareholding in Truffle Asset Management for a consideration of R5 million.

15.3 Significant disposals of associates during the 2012 financial year

Cash flow information

R million	2012 Total	2012 Home Choice Holdings Limited	2012 Weston Atlas Fund
Carrying amount at date of disposal	78	36	42
Fair value of consideration received	159	104	55
– Discharged of by cash	159	104	55
– Non-cash consideration	–	–	–
Gain on disposal of associates	81	68	13

Home Choice Holdings Limited

This associate was acquired during the financial year and disposed of on 30 June 2012. The Bank disposed of its shareholding in Home Choice Holdings Limited to FirstRand Investment Holdings Proprietary Limited for a consideration of R104 million.

Weston Atlas Fund

On 30 January 2012, the Bank disposed of its shareholding in Weston Atlas Fund to third parties for a consideration of R55 million.

15.4 Significant acquisitions of associates during the 2012 financial year

Cash flow information

	2012			
R million	Total	Sutter Gold	Home Choice Holdings Limited	Other insignificant associates
Total consideration transferred	205	164	36	5
– Discharged by cash consideration	205	164	36	5

Sutter Gold

On 30 June 2012, Bank acquired the shareholding in Sutter Gold from the FRIHL Group. As a result of the acquisition, the Bank has significant influence over Sutter Gold

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

	2013			2012		
R million	**Cost**	**Accumulated depreciation and impairments**	**Carrying amount**	Cost	Accumulated depreciation and impairments**	Carrying amount
Property*	**8 509**	**(2 086)**	**6 423**	7 537	(1 821)	5 716
Freehold property	**5 251**	**(696)**	**4 555**	4 212	(514)	3 698
Leasehold premises	**3 258**	**(1 390)**	**1 868**	3 325	(1 307)	2 018
Equipment*	**9 005**	**(5 007)**	**3 998**	7 692	(4 526)	3 166
Computer equipment	**4 855**	**(3 296)**	**1 559**	4 480	(3 070)	1 410
Furniture and fittings	**1 301**	**(702)**	**599**	1 277	(619)	658
Motor vehicles	**1 924**	**(410)**	**1 514**	1 066	(272)	794
Office equipment	**925**	**(599)**	**326**	868	(565)	303
Capitalised leased assets	**–**	**–**	**–**	1	–	1
Total property and equipment	**17 514**	**(7 093)**	**10 421**	15 229	(6 347)	8 882

* *Assets utilised by the Bank in the normal course of operations to provide services.*

** *During the prior reporting period the Bank reassessed the useful lives of small item fixed assets. Small item fixed assets are those items of property and equipment with a cost of less than R7 000. The Bank has determined that from the 2012 financial year all small item fixed assets will no longer be capitalised but rather written off through the income statement when acquired. This change in estimate has been applied prospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. The change in estimate resulted in accelerated depreciation of R245 million being recognised in the prior period relating to small item fixed assets that had been previously capitalised.*

16 PROPERTY AND EQUIPMENT continued

R million	Property	
	Freehold property	Leasehold premises
Carrying amount at 1 July 2011	3 301	2 097
Acquisitions	640	226
Disposals	(67)	(21)
Exchange rate difference	–	7
Depreciation charge for the period	(176)	(291)
Impairments recognised	–	–
Other	–	–
Carrying amount at 30 June 2012	**3 698**	**2 018**
Acquisitions	**1 137**	**168**
Disposals	**(70)**	**(65)**
Exchange rate difference	**–**	**7**
Depreciation charge for the period	**(210)**	**(261)**
Impairments recognised*	**–**	**–**
Other	**–**	**1**
Carrying amount at 30 June 2013	**4 555**	**1 868**

* *During the current 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 year.*

Information regarding land and buildings is kept at the Bank's registered offices. This information will be open for inspection in terms of section 26 of the Companies Act 71 of 2008.

Equipment					
Computer equipment	Furniture and fittings	Motor vehicles	Office equipment	Capitalised leased assets	Total
1 404	725	642	304	7	8 480
836	176	670	156	–	2 704
(75)	(49)	(348)	(18)	(7)	(585)
3	–	–	–	–	10
(758)	(194)	(170)	(139)	–	(1 728)
–	–	–	–	–	–
–	–	–	–	1	1
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**

17 INTANGIBLE ASSETS

The useful life of each intangible asset is assessed individually. The table below provides information on the benchmarks used when assessing the useful lives of the individual intangible assets:

Software and development costs	3 years
Trademarks	10 to 20 years
Other	3 to 10 years

R million	2013 Cost	2013 Accumulated amortisation and impairments	2013 Carrying amount	2012 Cost	2012 Accumulated amortisation and impairments	2012 Carrying amount
Software and development costs						
Opening balance	**824**	**(510)**	**314**	635	(406)	229
Acquisitions	**171**	**–**	**171**	205	–	205
Disposals	**(47)**	**44**	**(3)**	(17)	–	(17)
Exchange rate difference	**1**	**(1)**	**–**	–	–	–
Amortisation for the period	**–**	**(90)**	**(90)**	–	(105)	(105)
Impairments recognised*	**–**	**(248)**	**(248)**	–	–	–
Other	**–**	**–**	**–**	1	1	2
Closing balance	**949**	**(805)**	**144**	824	(510)	314
Trademarks						
Opening balance	**50**	**(50)**	**–**	31	(22)	9
Acquisitions	**–**	**–**	**–**	12	–	12
Exchange rate difference	**9**	**(9)**	**–**	6	(5)	1
Amortisation for the period	**–**	**–**	**–**	–	(22)	(22)
Other	**–**	**–**	**–**	1	(1)	–
Closing balance	**59**	**(59)**	**–**	50	(50)	–
Other						
Opening balance	**102**	**(80)**	**22**	99	(56)	43
Disposals	**(14)**	**14**	**–**	–	–	–
Exchange rate difference	**4**	**(4)**	**–**	3	(2)	1
Amortisation for the period	**–**	**(4)**	**(4)**	–	(22)	(22)
Impairments recognised**	**–**	**(8)**	**(8)**	–	–	–
Closing balance	**92**	**(82)**	**10**	102	(80)	22
Total intangible assets						
Software and development costs	**949**	**(805)**	**144**	824	(510)	314
Trademarks	**59**	**(59)**	**–**	50	(50)	–
Other	**92**	**(82)**	**10**	102	(80)	22
Total intangible assets	**1 100**	**(946)**	**154**	976	(640)	336

* *During the current year, RMB Corporate Banking recognised an impairment of R248 million against previously capitalised internally generated software. Subsequent assessments indicated that the software was not capable of generating future economic benefits in its current state without major modifications or alterations. The software was written down to its recoverable amount.*

** *The amount of R8 million recognised in the current year relates to insurance books that were impaired because their revenue trends were lower than the revenue trends inherent at acquisition.*

There were no reversals of previously recognised impairments in the current year.

18 EMPLOYEE LIABILITIES AND RELATED ASSETS

R million	Notes	2013	2012
Staff-related provision	18.1	**3 894**	3 215
Cash settled share-based payment liability*		**2 701**	2 837
Defined benefit post-employment liability	18.2	**2 557**	2 357
Other long-term employee liability		**87**	71
Total employee liabilities		**9 239**	8 480

* *Included in the cash settled share-based payment liability is an amount of R207 million (2012: R109 million) that relates to options that have already vested but have not yet been exercised by staff.*

Refer to note 28 for more detail on the cash settled share-based payment schemes.

18.1 Staff-related provision

The staff-related provision consists mainly of the provision for leave pay, staff bonuses and the liability relating to the MMI shares that the participants in the BEE schemes will receive as a result of the unbundling of Momentum. Further details of this scheme and the vesting conditions related to the scheme are provided in note 28.

R million	2013	2012
Opening balance	**3 215**	2 813
Exchange rate differences	**20**	8
Charge to profit or loss	**2 709**	2 209
– Additional provisions created	**2 709**	2 231
– Unused provisions reversed	**–**	(22)
Utilised	**(2 050)**	(1 815)
Closing balance	**3 894**	3 215

18 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

18.2 Defined benefit post-employment liability

The Bank operates two defined benefit plans, a plan that provides post-employment medical benefits and a pension plan. The pension plan provides retired employees with annuity income after their service. The medical scheme provides retired employees with medical benefits after their service. In terms of these plans, the Bank is liable to the employees for specific payments on retirement and for any deficit in the provision of these benefits from the plan assets. The liabilities and assets of these pension plans are reflected as a net asset or liability in the statement of financial position.

Details of the defined benefit plan assets and fund liability are as follows:

	2013			2012		
R million	**Pension**	**Medical***	**Total**	Pension	Medical*	Total
Post-employment benefit fund liability						
Present value of funded obligation	**9 150**	**2 791**	**11 941**	8 842	2 647	11 489
Fair value of plan assets	**(8 886)**	**–**	**(8 886)**	(8 478)	–	(8 478)
Pension fund deficit	**264**	**2 791**	**3 055**	364	2 647	3 011
Unrecognised actuarial losses	**(70)**	**(428)**	**(498)**	(187)	(467)	(654)
Total post-employment liability	**194**	**2 363**	**2 557**	177	2 180	2 357
The amounts recognised in the income statement are as follows:						
Current service cost	**3**	**44**	**47**	4	42	46
Interest cost	**747**	**231**	**978**	680	190	870
Actuarial gains recognised	**–**	**15**	**15**	–	–	–
Expected return on plan assets	**(730)**	**–**	**(730)**	(705)	–	(705)
Total included in staff costs (note 3)	**20**	**290**	**310**	(21)	232	211
Movement in post-employment benefit fund liability						
Present value at the beginning of the year	**177**	**2 180**	**2 357**	203	2 049	2 252
Amounts recognised in staff costs (note 3)	**20**	**290**	**310**	(21)	232	211
Benefits paid	**–**	**(107)**	**(107)**	–	(101)	(101)
Employer contributions	**(2)**	**–**	**(2)**	(4)	–	(4)
Employee contributions	**(1)**	**–**	**(1)**	(1)	–	(1)
Present value at the end of the year	**194**	**2 363**	**2 557**	177	2 180	2 357

* *The Bank has set aside certain assets against the medical liabilities. The assets are managed and invested to achieve a return that reflects growth in the underlying liability. Refer to note 18.3 for information about these assets.*

18 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

18.2 Defined benefit post-employment liability continued

	2013			2012		
R million	Pension	Medical	Total	Pension	Medical	Total
Movement in the fair value of plan assets						
Opening balance	**8 478**	**–**	**8 478**	8 096	–	8 096
Expected return on plan assets	**730**	**–**	**730**	705	–	705
Actuarial gains	**236**	**–**	**236**	196	–	196
Benefits paid and settlements	**(561)**	**–**	**(561)**	(524)	–	(524)
Employer contributions	**2**	**–**	**2**	4	–	4
Employee contributions	**1**	**–**	**1**	1	–	1
Closing balance	**8 886**	**–**	**8 886**	8 478	–	8 478
The actual return on plan assets was:	**11%**	**–**		10%	–	
Plan assets comprise the following:						
Equity	**1 561**	**–**	**1 561**	1 552	–	1 552
Debt	**6 882**	**–**	**6 882**	6 812	–	6 812
Other	**443**	**–**	**443**	114	–	114
Total	**8 886**	**–**	**8 886**	8 478	–	8 478
Included in plan assets were the following:						
Buildings occupied by the Bank with a fair value of	**56**	**–**	**56**	56	–	56
Total	**56**	**–**	**56**	56	–	56
Experience adjustments arising on plan assets	**236**	**–**	**236**	196	–	196
Experience adjustments arising on plan liabilities	**(119)**	**24**	**(95)**	(244)	(236)	(480)

18 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

18.2 Defined benefit post-employment liability continued

	2013		2012	
%	Pension	Medical	Pension	Medical
The principal actuarial assumptions used for accounting purposes were:				
Expected return on plan assets	**8.7**	**–**	8.9	–
Discount rate	**8.7**	**8.7**	8.9	8.9
Expected rates of salary increases	**8.0**	**–**	8.1	–
Long-term increase in health cost	**–**	**7.5**	–	7.6
The effects of a 1% movement in the assumed health cost rate were as follows:				
Increase of 1%				
– Effect on the aggregate of the current service cost and interest cost (R million)	**–**	**51.1**	–	59.5
– Effect on the defined benefit obligation (R million)	**–**	**460.5**	–	439.0
Decrease of 1%				
– Effect on the aggregate of the current service cost and interest cost (R million)	**–**	**40.5**	–	40.5
– Effect on the defined benefit obligation (R million)	**–**	**371.2**	–	354.0
Estimated contributions expected to be paid to the plan in the next annual period (R million)	**1 147**	**–**	1 047	–
Net increase in rate used to value pensions, allowing for pension increases (%)	**6.5**	**–**	6.6	–

18 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

18.2 Defined benefit post-employment liability continued

The expected rate of return over the year is a weighted average of the expected rate of return of the asset classes at the beginning of the year. The weights are based on the actual proportions of market value of assets in each asset class. The net increase in the rate used to value pensions is 8.7% (2012: 8.9%). The expected return per class of assets is:

%	**2013**	2012
Equities	**10.2**	11.4
Other	**10.2**	11.4
Bonds	**8.7**	8.9
Cash	**7.2**	7.4

	2013		2012	
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 3 years for females)				
Active	**SA 85-90**	**–**	SA 85-90	–
Retired	**PA(90)-2**	**PA(90)-2**	PA(90)-2	PA(90)-2

SA 85-90 refers to standard actuarial mortality tables for active members on a defined benefit plan where the chance of dying before normal retirement is expressed at each age for each gender.

PA(90)-2 refers to standard actuarial mortality tables for current and prospective pensioners on a defined benefit plan where the chance of dying after early or normal retirement is expressed at each age for each gender.

	2013		2012	
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

18 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

18.2 Defined benefit post-employment liability continued

Five year analysis on total pension and medical post-employment plans

R million	2013	2012	2011	2010	2009
Present value of defined benefit obligation	**11 941**	11 489	10 719	9 854	9 287
Fair value of plan assets	**(8 886)**	(8 478)	(8 096)	(7 332)	(7 099)
Deficit	**3 055**	3 011	2 623	2 522	2 188
Experience adjustments arising on plan assets	**236**	196	706	169	285
Experience adjustments arising on plan liabilities	**(95)**	(480)	(653)	(402)	(128)

The pension fund provides a pension that can be purchased with the member's fund credit (equal to member and employer contributions of 7.5% of pensionable salary each year, plus net investment returns). Death, ill health and withdrawal benefits are also provided.

The number of employees covered by the two schemes (defined contribution and defined benefit schemes)

	2013	2012
Pension		
Active members	**29 495**	28 345
Pensioners	**6 761**	6 865
Total	**36 256**	35 210
Medical		
Active members	**5 824**	6 399
Pensioners	**5 017**	4 964
Total	**10 841**	11 363

The employer's post-employment health care liability consists of a commitment to pay a portion of the members' post-employment medical scheme contributions. This liability is also generated in respect of dependants who are offered continued membership of the medical scheme on the death of the primary member. Members employed on or after the 1st of December 1998 do not qualify for a post-employment medical subsidy.

A full actuarial valuation of the pension fund submission to the Financial Services Board is completed every three years, with the last valuation being in 2011. Annual interim actuarial valuations are performed for the trustees and for IAS 19 purposes.

At the last valuation date the fund was financially sound.

18 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

18.3 Post-employment benefit asset

The following assets are held in order to fund the Bank's liability towards employees relating to defined benefit post-employment medical aid benefits:

R million	2013	2012
Post-employment medical aid asset	**2 995**	2 986
Total post-employment benefit asset	**2 995**	2 986

The post-employment benefit asset comprises the following underlying assets:

R million	2013	2012
Cash and cash equivalents*	**174**	136
Derivative financial instruments**	**–**	1
Investment securities and other investments	**2 813**	2 839
– Held-to-maturity	**79**	79
– Designated at fair value through profit or loss	**2 734**	2 760
Accounts receivable#	**8**	10
Total post-employment benefit asset	**2 995**	2 986

* *The cash and cash equivalents represent balances with other banks. The carrying value of cash and cash equivalents approximates the fair value. Included in cash and cash equivalents are intercompany deposits of R145 million (2012: R110 million).*

** *The derivatives are interest rate futures with a nominal value of R332 million (2012: R364 million) and a fair value of R nil (2012: R1 million). These derivatives are classified as held for trading.*

Accounts receivable is made up of investment debtors.

18 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

18.3 Post-employment benefit asset continued

Investment securities and other investments can be analysed as follows:

	2013			2012		
R million	**Designated at fair value through profit or loss**	**Held-to-maturity**	**Total**	Designated at fair value through profit or loss	Held-to-maturity	Total
Other government and government guaranteed stock	**1 482**	**–**	**1 482**	1 439	–	1 439
Other securities	**1 252**	**79**	**1 331**	1 321	79	1 400
Total	**2 734**	**79**	**2 813**	2 760	79	2 839

18.3.1 Information about the credit quality of post-employment assets

The following table provides an overview of the credit quality of the Bank's post-employment assets that are neither past due nor impaired.

	2013			
R million	**Investment securities**	**Derivatives**	**Cash and cash equivalents**	**Total**
Credit quality of financial assets (neither past due nor impaired) AAA to BBB	**1 665**	**–**	**174**	**1 839**
Total	**1 665**	**–**	**174**	**1 839**

	2012			
R million	Investment securities	Derivatives	Cash and cash equivalents	Total
Credit quality of financial assets (neither past due nor impaired) AAA to BBB	1 619	1	136	1 756
Total	1 619	1	136	1 756

18 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

18.3 Post-employment benefit asset continued

18.3.1 Information about the credit quality of post-employment assets continued

The following table provides a breakdown of credit exposure across geographies:

Concentration risk of significant credit exposures

R million	2013 South Africa	2013 Other	2013 Total	2012 South Africa	2012 Other	2012 Total
Cash and cash equivalents	**164**	**10**	**174**	136	–	136
Derivative financial instruments	**–**	**–**	**–**	1	–	1
Debt securities	**1 665**	**–**	**1 665**	1 619	–	1 619
Total	**1 829**	**10**	**1 839**	1 756	–	1 756

All of the R8 million (2012: R10 million) accounts receivable balance included in assets is considered to be neither past due nor impaired.

18.3.2 Post-employment assets recognised at fair value

The following table presents the post-employment assets recognised at fair value in the statement of financial position of the Bank.

R million	**2013**			
	Level 1	**Level 2**	**Level 3**	**Total carrying amount**
Assets				
Investment securities and other investments	**2 005**	**729**	**–**	**2 734**
Derivative financial instruments	**–**	**–**	**–**	**–**
Total financial assets recognised at fair value	**2 005**	**729**	**–**	**2 734**

R million	2012			
	Level 1	Level 2	Level 3	Total carrying amount
Assets				
Investment securities and other investments	1 990	770	–	2 760
Derivative financial instruments	–	1	–	1
Total financial assets recognised at fair value	1 990	771	–	2 761

There were no transfers of financial instruments between the different levels during the year ended 30 June 2013. Transfers from level 1 into level 2 during the year ended 30 June 2012 amounted to R770 million. This transfer relates to bonds which are listed but not actively traded and therefore form part of level 2. The fair value was calculated based on quoted market prices from an inactive market.

19 DEFERRED INCOME TAX

The movement on the deferred income tax account:

R million	2013	2012
Deferred income tax liability		
Opening balance	**(769)**	(1 348)
Release to profit or loss	**810**	812
STC charged to profit or loss	**–**	(216)
Tax rate adjustment	**(8)**	–
Deferred income tax on amounts charged directly to other comprehensive income	**(283)**	(17)
Total deferred income tax liability	**(250)**	(769)

Deferred income tax assets and liabilities and deferred income tax charged/released to profit or loss are attributable to the following items:

	2013				
R million	**Opening balance**	**Tax (charge)/ release**	**Tax rate adjustment**	**Other**	**Closing balance**
Deferred income tax liability					
Provision for loan impairment	**578**	**(9)**	**–**	**–**	**569**
Provision for post-employment benefits	**(139)**	**53**	**–**	**–**	**(86)**
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**
STC	**–**	**–**	**–**	**–**	**–**
Other	**(122)**	**16**	**(8)**	**–**	**(114)**
Total deferred income tax liability	**(769)**	**810**	**(8)**	**(283)**	**(250)**

	2012				
R million	Opening balance	Tax (charge)/ release	Tax rate adjustment	Other	Closing balance
Deferred income tax liability					
Provision for loan impairment	490	87	–	1	578
Provision for post-employment benefits	(125)	(14)	–	–	(139)
Other provisions	154	432	–	–	586
Cash flow hedge*	175	–	–	118	293
Instalment credit assets	(1 719)	173	–	–	(1 546)
Accruals	(283)	114	–	–	(169)
Available-for-sale securities*	(115)	–	–	(135)	(250)
Capital gains tax	–	–	–	–	–
STC	211	(216)	–	5	–
Other	(136)	20	–	(6)	(122)
Total deferred income tax liability	(1 348)	596	–	(17)	(769)

* *Amounts reported under the other column have been charged directly to other comprehensive income.*

19 DEFERRED INCOME TAX continued

R million	2013	2012
Secondary tax on companies (STC)		
Deferred income tax asset released through profit and loss	–	216

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.

20 NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE

R million	2013	2012
Non-current assets held for sale	–	215
Total non-current assets held for sale	–	215

Kagiso Tiso Holdings Proprietary Limited

During the prior year, the Bank took a decision to sell their 3.21% investment in Kagiso Tiso Holdings Proprietary Limited, which was previously classified as investment securities and other investments. The sales transaction was completed by RMB in August 2012.

21 SHORT TRADING POSITIONS

R million	2013	2012
Government and government guaranteed stock	2 908	4 019
Other dated securities	15	–
Total short trading positions	**2 923**	4 019
Analysed as follows:		
Listed	2 923	4 019
Total short trading positions	**2 923**	4 019

22 CREDITORS AND ACCRUALS

R million	2013	2012
Accrued interest	51	43
Accounts payable and accrued liabilities	7 873	5 357
Deferred income	793	699
Operating lease liability arising from straight lining of lease payments	87	86
Payments received in advance	131	39
Withholding tax on dividends paid	–	249
Total creditors and accruals	**8 935**	6 473

23 DEPOSITS

R million	2013		
	Designated at fair value through profit or loss	**At amortised cost**	**Total**
Category analysis			
Current accounts	**1 181**	**249 382**	**250 563**
Savings accounts	**–**	**4 673**	**4 673**
Fixed and notice deposits	**40 079**	**159 948**	**200 027**
Negotiable certificates of deposit	**1 729**	**26 448**	**28 177**
Repurchase 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	**83 077**	**546 765**	**629 842**

R million	2012		
	Designated at fair value through profit or loss	At amortised cost	Total
Category analysis			
Current accounts	715	226 645	227 360
Savings accounts	–	3 622	3 622
Fixed and notice deposits	32 433	129 261	161 694
Negotiable certificates of deposit	2 001	42 911	44 912
Repurchases agreements	25 280	2 997	28 277
Securities lending	–	3 192	3 192
Cash collateral and credit linked notes	9 078	11 984	21 062
Fixed and floating rate notes	5 977	19 821	25 798
Other	4 036	25 843	29 879
Total deposits	79 520	466 276	545 796

24 PROVISIONS

R million	2013	2012
Audit fees		
Opening balance	**24**	13
Charge to profit or loss (note 3)	**132**	113
– Additional provisions created	**195**	115
– Unused provisions reversed	**(63)**	(2)
Utilised	**(105)**	(102)
Closing balance	**51**	24
Other*		
Opening balance	**210**	119
Exchange rate difference	**2**	1
Charge to profit or loss	**41**	136
– Additional provisions created	**59**	149
– Unused provisions reversed	**(18)**	(13)
Utilised	**(58)**	(46)
Closing balance	**195**	210
Total provisions	**246**	234

* *Other provisions include provisions for litigation and fraud.*

25 OTHER LIABILITIES

R million	2013	2012
Other funding liabilities*	**1 062**	922
Total other liabilities	**1 062**	922

* *Other funding liabilities include funding liabilities not directly related to banking activities, including preference shares not qualifying as Tier 2 capital.*

26 TIER 2 LIABILITIES

R million	2013	2012
Fixed rate bonds*	**4 464**	4 411
Floating rate bonds**	**3 161**	3 026
Total Tier 2 liabilities	**7 625**	7 437

* *The fixed rate bonds mature between 15 September 2014 and 21 December 2018 and bear interest at between 8.5% and 12%.*
** *The floating rate bonds mature between 10 June 2016 and 21 December 2018 and the interest varies between 70 bps and 300 bps above the three-month JIBAR rate.*

27 SHARE CAPITAL AND SHARE PREMIUM

R million	2013	2012
Ordinary shares		
Authorised		
2 000 000 shares with a par value of R2 per share	**4**	4
Issued – fully paid up		
1 866 835 (2012: 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 (2012: 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
Preference shares that are classified as financial liabilities have been included in deposits (note 23) or other liabilities (note 25) 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		
1 670 (2012: 1 905) redeemable preference shares with a par value of R0.0001 per share	*****	*
Redeemable preference share premium	**167**	191
Redeemable class R preference shares		
Authorised		
50 000 redeemable preference shares with a par value of R0.0001 per share	*****	*
Issued – fully paid up		
8 905 (2012: 7 270) redeemable preference shares with a par value of R0.0001 per share	*****	*
Redeemable R class share premium	**891**	727

* *Denotes amounts less than R500 000.*

1 635 (2012: 4 890) class R redeemable preference shares were issued and no shares were redeemed during the year (2012: 26 shares). These preference shares bear interest at 66.67% of FNB prime lending rate from time to time and are redeemable after three years and one day of issue.

27 SHARE CAPITAL AND SHARE PREMIUM 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 2011	1 866 833	3 000 000	2 385	2 406
Issued/(redeemed) during the year	2	–	(480)	4 864
Shares at 30 June 2012	1 866 835	3 000 000	1 905	7 270
Issued/(redeemed) during the year	**–**	**–**	**(235)**	**1 635**
Shares at 30 June 2013	**1 866 835**	**3 000 000**	**1 670**	**8 905**

For detail on capital management of the Bank please refer to the capital management section from page 106 to page 110 of the annual report.

The unissued ordinary shares are under the control of the directors until the next annual general meeting.

28 REMUNERATION SCHEMES

R million	2013	2012
The charge to profit or loss for share-based payments is as follows:		
FirstRand black employee trust	**16**	61
FirstRand black non-executive directors trust	**1**	20
FirstRand share appreciation rights scheme	**284**	681
Conditional share plan	**1 229**	1 352
Forfeitable share plan	**2**	52
Amount included in profit or loss (note 3)	**1 532**	2 166

The purpose of these schemes is to appropriately attract, incentivise and retain managers within the Bank.

28 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 trust	Equity settled	This trust was set up specifically for the benefit of black employees. The issue of participation rights in the trust were on the following dates – 20 July 2005, 1 November 2006, 3 December 2007 and 14 May 2010.	Distribution to beneficiaries will take place during December 2014.
FirstRand black non-executive directors trust	Equity settled	This trust was set up specifically for the benefit of black non-executive directors and those executive directors who were non-executives 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 will vest 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 264.

28 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 264.
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 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 have been included in note 37.	The scheme encourages executives to remain in the employ of the FirstRand Group companies for more than three years, as the value of the underlying investments are expected to realise over a longer time frame.

28 REMUNERATION SCHEMES continued

Valuation methodologies:

Scheme	Valuation methodology	
FirstRand black employee trust	Black Scholes option pricing model	Economically, FirstRand has granted European call options and is repurchasing shares. The strike price equates to the expected outstanding amount of the funding. The value of the implicit options is determined using the Black Scholes option pricing model.
FirstRand black non-executive directors trust	Black Scholes option pricing model	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 as there are only 10 participants (2012: 10 participants).
FirstRand share appreciation rights scheme	Cox Rubenstein binomial model	The scheme is cash settled and is therefore 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 is therefore 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 (extra-polated 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.
Management's estimates of future discrete dividends.		The weighted average forfeiture rate used is based on historical forfeiture data over all schemes and takes cognisance of whether the shares are in or out the money and the vesting date.
		No forfeiture rate is used due to the short duration of the scheme.

28 REMUNERATION SCHEMES continued

Corporate performance targets

The FirstRand Limited Group remuneration committee (remco) 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, share appreciation rights scheme and conditional share plan. These criteria, which must be met or exceeded to enable vesting, vary from year-to-year, depending on the macro conditions expected to prevail over the vesting period.

In terms of the scheme rules, participants are not entitled to any dividends on awards until their participations in the scheme have vested. No dividends accrue to participants prior to vesting.

The criteria for the schemes are as follows:

2007 (performance criteria not met) – FirstRand's normalised earnings per share (EPS) must grow at a rate per annum which equals or exceeds CPIX plus 10%, measured on a cumulative basis from base year end 30 June 2007, for the five-year performance period to enable 100% vesting. Should CPIX plus 10% not be achieved, remco may sanction partial vesting of the appreciation right, which is calculated *pro rata* to the performance which exceeds CPIX.

2008 (performance criteria 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 NIACC must be positive over the five-year performance period.

2009 (vested) – 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 (performance criteria 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.

2011 – FirstRand's normalised EPS growth must equal or exceed South African nominal GDP (defined as South African GDP plus CPIX) plus 1.5%, measured on a cumulative basis from base year end 30 June 2011 to enable 100% vesting. In addition NIACC must be positive over the three-year performance period. Should nominal GDP plus 1.5% not be achieved, remco may sanction a partial vesting of conditional shares, which is calculated *pro rata* to the performance which exceeds nominal GDP.

2012 – FirstRand 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 – 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.

28 REMUNERATION SCHEMES 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 trust	FirstRand black non-executive directors trust	FirstRand share appreciation rights scheme	Conditional share plan	Forfeitable share plan
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 (%)	**–**	**–**	**–**	**–**	**–**
2012					
Range of exercise prices (rand)	12.05 – 24.60	12.28 – 17.60	7.85 – 17.00	–	–
Expected volatility (%)	24 – 29	23 – 33	25	25	25
Expected option life (years)	5 – 10	10	5	3	2 – 3
Expected risk free rate (%)	6.91 – 9.90	6.91	5.35 – 5.53	5.35 – 5.77	5.51
Expected dividend yield (%)	3.50	3.50	3.50	3.50	3.50
Expected dividend growth (%)	–	–	–	–	–

28 REMUNERATION SCHEMES continued

	2013				
	FirstRand share appreciation rights scheme (FSR shares)	FirstRand black employee trust (FSR shares)	FirstRand black non-executive directors trust (FSR shares)	Conditional share plan (FSR shares)	Forfeitable share plan (FSR shares)
Number of options and share awards in force at the beginning of the year (millions)	**102.2**	**105.6**	**8.5**	**130.2**	**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**	**–**
Granted at prices ranging between (cents)	**–**	**–**	**–**	**–**	**–**
Weighted average (cents)	**–**	**–**	**–**	**–**	**–**
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**	**117.5**	**–**
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**	**–**	**–**
Fair value at grant date	**–**	**–**	**–**	**–**	**–**

* *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.*

28 REMUNERATION SCHEMES continued

	2012				
Options and share awards outstanding	FirstRand share appreciation rights scheme (FSR shares)	FirstRand black employee trust (FSR shares)	FirstRand black non-executive directors trust (FSR shares)	Conditional share plan (FSR shares)	Forfeitable share plan (FSR shares)
Number of options and share awards in force at the beginning of the year (millions)	168.9	110.7	4.0	84.3	13.9
Granted at prices ranging between (cents)	855 – 2 022	1 205 – 2 460	1 228 – 1 760	–	–
Weighted average (cents)	1 335	1 664	1 361	–	–
Number of options and share awards granted during the year (millions)	–	–	–	49.4	–
Granted at prices ranging between (cents)	–	–	–	–	–
Weighted average (cents)	–	–	–	–	–
Fair value per share on grant date	–	–	–	*	–
Number of options and share awards exercised/ released during the year (millions)	(22.5)	–	4.5	1.7	(13.3)
Market value range at date of exercise/release (cents)	1 837 – 2 716	–	1 228 – 1 760	–	–
Weighted average (cents)	2 048	–	1 361	–	–
Number of options and share awards cancelled/ lapsed during the year (millions)	(44.2)	(5.1)	–	(5.2)	–
Granted at prices ranging between (cents)	1 048 – 1 952	1 228 – 2 335	–	–	–
Weighted average (cents)	1 365	1 803	–	–	–
Number of options and share awards in force at the end of the year (millions)	102.2	105.6	8.5	130.2	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	–	–

* *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.*

28 REMUNERATION SCHEMES continued

	2013						
	FirstRand share appreciation rights scheme (FSR shares)			FirstRand black non-executive directors trust (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 – 10.48	0.4	37.8	12.05 – 14.00	1.5	7.5	
	10.49 – 14.46	0.4	0.1	16.57 – 19.89	1.5	1.0	
			37.9			8.5	
Total options and share awards outstanding – in the money (millions)			37.9			8.5	
Total options and share awards outstanding – out of the money (millions)			–			–	
Total options and share awards (millions)			37.9			8.5	
Value of company loans to share option trust at the beginning of the year (R million)			268			213	
Value of company loans to share option trust at the end of the year (R million)			–			205	
Number of participants			1 066			9	

* *Some share appreciation rights are subject to other vesting conditions that are highly unlikely to be achieved.*

** *The employees are awarded these shares, there is therefore no strike price associated with awards made under the conditional or forteitable share plan.*

	2013						
	FirstRand black employee trust			Conditional share plan (FSR shares)**		Forfeitable 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)	Weighted average remaining life (years)	Out-standing options (millions)
	12.05 – 14.00	1.5	48.5	0.3	43.7	–	–
	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		117.5		–
			102.6		117.5		
			–		–		*
			102.6		117.5		–
			1 793		–		(8)
			1 715		–		–
			10 970		2 253		–

28 REMUNERATION SCHEMES continued

	2012			
	FirstRand share scheme (FSR shares)			
Options and share awards outstanding	Range of exercise prices (rand)**	Weighted average remaining life (years)	Outstanding options (millions)	
			–	
Total options and share awards outstanding – in the money (millions)			*	
Total options and share awards outstanding – out of the money (millions)			*	
Total options and share awards (millions)			–	
Value of company loans to share option trust at the beginning of the year (R million)			–	
Value of company loans to share option trust at the end of the year (R million)			–	
Number of participants			–	

* *Denotes amounts of less than 50 000.*
** *Some share appreciation rights are subject to other vesting conditions that are highly unlikely to be achieved.*

	2012					
	FirstRand share appreciation rights scheme (FSR shares)			FirstRand black non-executive directors' trust (FSR shares)		
	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 – 10.48	1.4	62.9	12.05 – 14.00	2.5	7.5
	10.49 – 14.46	1.4	0.3	16.57 – 19.89	2.5	1.0
	14.47 – 17.00	0.3	39.0			
			102.2			8.5
			63.1			8.5
			39.1			*
			102.2			8.5
			4			224
			268			213
			1 312			9

28 REMUNERATION SCHEMES continued

	2012		
	FirstRand black employee trust		
Options and share awards outstanding	Range of exercise prices (rand)	Weighted average remaining life (years)	Outstanding options (millions)
	12.05 – 14.00	2.5	49.1
	14.01 – 16.56	2.5	1.4
	16.57 – 19.89	2.5	38.4
	19.90 – 24.60	2.5	16.7
			105.6
Total options and share awards outstanding – in the money (millions)			105.6
Total options and share awards outstanding – out of the money (millions)			–
Total options and share awards (millions)			105.6
Value of company loans to share option trust at the beginning of the year (R million)			1 906
Value of company loans to share option trust at the end of the year (R million)			1 793
Number of participants			11 211

* *The employees are awarded the shares, there is therefore no strike price associated with the awards made under the conditional or forfeitable share plan.*

2012			
Conditional share plan (FSR shares)*		Forfeitable share plan (FSR shares)*	
Weighted average remaining life (years)	Outstanding options (millions)	Weighted average remaining life (years)	Outstanding options (millions)
0.30	44.6	0.2	0.6
1.29	45.9		
2.28	39.3		
2.76	0.4		
	130.2		0.6
	130.2		0.6
	–		–
	130.2		0.6
	–		21
	–		(8)
	2 376		1

29 CASH FLOW INFORMATION

	R million	2013	2012
29.1	**Reconciliation of operating profit before income tax to cash generated from operating activities**		
	Operating profit before tax	**14 443**	12 677
	Adjusted for:		
	Depreciation, amortisation and impairment charges	**1 993**	1 903
	Impairment of advances	**4 441**	4 885
	Unrealised profit on assets held against employee liabilities	**(27)**	–
	Movement in provisions and employee liabilities	**2 882**	2 458
	Loss on disposal of property and equipment	**56**	75
	Gain on disposal of investments securities and other investments	**(35)**	(17)
	Gain on disposal of associates	**(27)**	(81)
	Deferred expenses and income	**(489)**	(241)
	Share-based payment expense	**1 532**	2 166
	Net fair value (gains)/losses on financial assets through profit or loss	**(8 309)**	59
	Accruals	**750**	497
	Present value adjustments	**(157)**	(122)
	Dividends paid	**(5 906)**	(5 418)
	Losses on foreign currency translation reserve	**22**	1
	Impairment of investment securities and other investments	**23**	–
	Reclassification from other comprehensive income in respect of available-for-sale assets and cash flow hedges	**737**	(420)
	Net cash generated from operating activities	**11 929**	18 422
29.2	**Cash receipts from customers**		
	Interest income	**38 406**	38 090
	Fee and commission income	**17 374**	15 452
	Trading and other income	**1 587**	9 312
	Cash receipts from customers	**57 367**	62 854
29.3	**Cash paid to customers, suppliers and employees**		
	Interest expense	**(22 782)**	(23 189)
	Other operating expenses	**(19 898)**	(18 414)
	Cash paid to customers, suppliers and employees	**(42 680)**	(41 603)
29.4	**Dividends paid**		
	Charged to retained earnings	**(5 906)**	(5 418)
	Total dividends paid	**(5 906)**	(5 418)
29.5	**Increase in income-earning assets**		
	Liquid assets and trading securities	**(7 130)**	5 877
	Advances	**(68 158)**	(57 335)
	Increase in income-earning assets	**(75 288)**	(51 458)
29.6	**Increase in deposits and other liabilities**		
	Deposits	**82 491**	51 984
	Employee liabilities	**(3 488)**	(2 319)
	Creditors (net of debtors)	**577**	4
	Other	**1 819**	(12 958)
	Increase in deposits and other liabilities	**81 399**	36 711

29 CASH FLOW INFORMATION continued

	R million	Notes	2013	2012
29.7	**Taxation paid**			
	Indirect tax paid		**(676)**	(496)
	Tax refundable/(payable) at beginning of the year		**253**	(95)
	Charge to profit or loss		**(3 071)**	(2 464)
	Tax refundable at year end		**(144)**	(253)
	Deferred income tax charged to profit and loss		**(802)**	(596)
	Other*		**8**	(37)
	Total taxation paid		**(4 432)**	(3 941)
29.8	**Proceeds on disposal of significant associates**		**550**	159
	– Cash inflow on disposal of associates	15.1	**523**	159
	– Cash inflow on the partial disposal of associates	15.1	**27**	–
29.9	**Acquisition of significant associates and subsidiaries**		**(354)**	(205)
	– Cash outflow on the acquisition of subsidiaries		**(5)**	–
	– Cash outflow on the acquisition of associates	15.2	**(349)**	(205)
29.10	**Cash and cash equivalents**			
	Cash and cash equivalents consist of cash on hand and balances with banks. Cash and cash equivalents included in the statement of cash flows comprise the following statement of financial position amounts:			
	Cash and cash equivalents (note 6)		**42 296**	31 557
	Total cash and cash equivalents		**42 296**	31 557

* *Other includes acquisitions/disposals of subsidiaries and customer tax adjustments.*

30 CONTINGENCIES AND COMMITMENTS

R million	2013	2012
Guarantees*	**28 515**	21 446
Acceptances	**270**	293
Letters of credit	**8 658**	7 301
Total contingencies	**37 443**	29 040
Irrevocable commitments	**74 054**	64 872
Committed capital expenditure	**2 971**	3 096
Operating lease commitments	**2 052**	2 394
Other	**129**	58
Total contingencies and commitments	**116 649**	99 460
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 that are expected to materialise.	**60**	91
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	**1 166**	1 347
– Capital commitments not yet contracted for at reporting date but have been approved by the directors:		
Property and equipment and intangible assets	**1 805**	1 749

* *Guarantees consist predominantly of endorsements and performance guarantees. Guarantees reported above include guarantees of R658 million (2012: R917 million) granted to other FirstRand Group companies.*

Funds to meet these commitments will be provided from the Bank's resources.

30 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.

	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**

	2012			
R million	Within 1 year	Between 1 and 5 years	More than 5 years	Total
Office premises	755	1 418	9	2 182
Equipment and motor vehicles	67	145	–	212
Total operating lease commitments	822	1 563	9	2 394

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 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 is the lessor:

	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**

	2012			
R million	Within 1 year	Between 1 and 5 years	More than 5 years	Total
Property	45	55	–	100
Motor vehicles	288	383	–	671
Total receivable under non-cancellable operating leases	333	438	–	771

31 COLLATERAL PLEDGED AND HELD

31.1 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	2013	2012
Short trading positions	**2 923**	4 019
Creditors and accruals	**128**	–
Total deposits	**37 775**	31 469
– Deposits under repurchase agreements	**31 359**	28 277
– Deposits in securities lending transactions*	**6 414**	3 192
– Other secured deposits	**2**	–
Liabilities to holding company and fellow subsidiary companies	**2**	688
Other	**931**	4 768
Total collateral pledged	**41 759**	40 944

* *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	2013	2012
Cash and cash equivalents	**949**	4 577
Advances	**153**	–
Investment securities and other investments – held under repurchase agreements	**16 229**	13 463
Investment securities and other investments – other	**92**	191
Total assets pledged	**17 423**	18 231

31 COLLATERAL PLEDGED AND HELD continued

31.2 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:

R million	**2013**		2012	
	Fair value	**Fair value of collateral sold or repledged**	Fair value	Fair value of collateral sold or repledged
Cash and cash equivalents	**10 846**	**–**	–	–
Investment securities and other investments – held under reverse repurchase agreements	**40 501**	**18 136**	38 482	18 912
Investment securities and other investments – other*	**6 971**	**6 763**	2 782	2 782
Total collateral held	**58 318**	**24 899**	41 264	21 694

* *The prior year amount excludes securities lending transactions where securities are obtained as collateral for securities lent; this is in line with developing industry practice.*

When the 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	**2013**	
	Property	**Total**
Opening balance	**100**	**100**
Additions	**207**	**207**
Disposals	**(153)**	**(153)**
Closing balance	**154**	**154**

R million	2012	
	Property	Total
Opening balance	255	255
Additions	32	32
Disposals	(187)	(187)
Closing balance	100	100

32 LOANS AND RECEIVABLES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

Certain instruments designated at fair value meet the definition for classification as loans and receivables in terms of IAS 39 were it not for the fair value designation i.e. unquoted debt instruments. The table below contains details on the change in credit risk attributable to these instruments:

	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	**152 272**	**1 563**	**(221)**	**(580)**	**(965)**	**(2 740)**
Included in investment securities and other investments	**49 560**	**–**	**–**	**–**	**(50)**	**(50)**
Total	**201 832**	**1 563**	**(221)**	**(580)**	**(1 015)**	**(2 790)**

	2012					
			Change in fair value			
			Of mitigating instruments		Due to credit risk	
R million	Carrying value	Mitigated credit risk*	Current period	Cumulative	Current period	Cumulative
Included in advances	135 744	3 179	(379)	(399)	(499)	(1 821)
Included in investment securities and other investments	33 606	–	–	–	–	–
Total	169 350	3 179	(379)	(399)	(499)	(1 821)

* *The notional amount by which any credit derivatives or similar instruments mitigate the maximum exposure to credit risk.*

Losses are indicated with ( ).

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. The Bank uses its own annual credit review process to determine if there has been a change in the credit rating or LGD of the counterparty.

Investment securities and other investments

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.

33 FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

The following financial liabilities have been designated at fair value through profit and loss:

	2013			
			Change in fair value due to credit risk	
R million	**Fair value**	**Contractually payable at maturity**	**Current period**	**Cumulative**
Deposits	**83 077**	**90 784**	**–**	**–**
Other liabilities	**171**	**167**	**–**	**–**
Tier 2 liabilities	**1 049**	**1 045**	**6**	**18**
Total	**84 297**	**91 996**	**6**	**18**

	2012			
			Change in fair value due to credit risk	
R million	Fair value	Contractually payable at maturity	Current period	Cumulative
Deposits	79 520	87 981	–	–
Other liabilities	195	195	–	–
Tier 2 liabilities	1 067	1 045	6	12
Total	80 782	89 221	6	12

The current and cumulative change in fair value that is attributable to credit risk of financial liabilities designated at fair value through profit or loss is determined with reference to changes in the Bank's published credit rating.

34 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 special purpose entities (SPE). 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 34.1.
- 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 is detailed below. Disclosures relating to these transferred financial assets that are partially derecognised are included under point 34.1 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, for example, 90% of all the cash flows or interest payments of a financial asset. This is not partial derecognition as is detailed above. The majority of transferred financial assets of the 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 34.2.

34 TRANSFERS AND DERECOGNITION OF FINANCIAL ASSETS

34.1 Transferred financial assets that are not derecognised in their entirety

Repurchase agreements

The Bank enters into repurchase agreements in terms of which the Bank 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 R16 229 million (2012: R13 463 million) have been transferred in terms of repurchase transactions. Associated liabilities with a carrying amount of R16 146 million (2012: R13 383 million) have been recognised for cash received from counterparties and have been included in deposits.

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.

34 TRANSFERS AND DERECOGNITION OF FINANCIAL ASSETS continued

34.2 Transferred financial assets that are derecognised in their entirety

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 SPE, 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 SPE, 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 SPE 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, for example, the Bank may be required to take up some of the notes issued by the SPE that it is unable to issue into the market or enter into an interest rate swap with the securitisation SPE. 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 SPEs 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 facilitated a securitisation transaction amounting to GBP 340 million of retail instalment sale advances in the United Kingdom relating to the Bank's MotoNovo Finance division. The transaction was wound up during the year and all the notes issued were called/settled.
- Turbo Finance 2 facilitated a securitisation transaction amounting to GBP 320 million of retail instalment sale advances in the United Kingdom relating to the Bank's MotoNovo Finance division and was established in January 2012.
- Turbo Finance 3 facilitated a securitisation transaction amounting to GBP 327 million of retail instalment sale advances in the United Kingdom relating to the Bank's MotoNovo Finance division and was established in November 2012.

In the prior year, two securitisation transactions relating to FNB home loans were wound up and the notes were called and settled.

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 SPEs.

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).

34 TRANSFERS AND DERECOGNITION OF FINANCIAL ASSETS continued

34.2 Transferred financial assets that are derecognised in their entirety continued

The table below sets out the financial information about the continuing involvement in transferred financial assets which have been derecognised in their entirety:

Type of continuing involvement R million	2013 Carrying amount of continuing involvement recognised in the statement of financial position Assets	Liabilities	Fair value of continuing involvement Assets	Liabilities	Maximum exposure to loss*
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**

Type of continuing involvement R million	2012 Carrying amount of continuing involvement recognised in the statement of financial position Assets	Liabilities	Fair value of continuing involvement Assets	Liabilities	Maximum exposure to loss*
Traditional securitisation transactions					
Derivative financial instruments	15	–	15	–	1 120**
Investment securities and other investments	–	–	–	–	–
Other structured transactions					
Investment securities and other investments	75**	–	75 **	–	75**
Total	90	–	90	–	1 195

* *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 obligated 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.*

** *Amounts relate to the Bank's net exposure to assets derecognised in securitisation and other long-term structured transactions. Industry best practice is used to determine the fair value of such exposures.*

34 TRANSFERS AND DERECOGNITION OF FINANCIAL ASSETS continued

34.2 Transferred financial assets that are derecognised in their entirety continued

The table below sets out the profit or loss impact of transfers of financial assets which are derecognised in full:

Type of continuing involvement R million	**2013**		
		Income recognised from continuing involvement	
	Gain at date of transfer	**For the current period**	**Cumulative**
Traditional securitisation transactions	**875**	**82**	**240**
Other structured transactions	**–**	**3**	**7**
Total	**875**	**85**	**247**

* *Amounts relate to the Bank's net exposure to assets derecognised in securitisation and other long-term structured transactions. Industry best practice is used to determine the fair value of such exposures.*

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 2013. It also sets out the maturity analysis of these undiscounted cash flows.

Type of continuing involvement R million	**2013**					
	Total undis-counted cash outflows	**Call**	**1 to 3 months**	**4 to 12 months**	**1 to 5 years**	**Over 5 years**
Traditional securitisation transactions	**7 021**	**28**	**25**	**497**	**6 456**	**15**
Total	**7 021**	**28**	**25**	**497**	**6 456**	**15**

* *Denotes amounts of less than R500 000.*

2012		
	Income recognised from continuing involvement	
Gain at date of transfer	For the current period*	Cumulative*
592	462	898
–	4	4
592	466	902

2012					
Total undis-counted cash outflows	Call	1 to 3 months	4 to 12 months	1 to 5 years	Over 5 years
8 758	7	904	3 304	4 543	*
8 758	7	904	3 304	4 543	*

35 FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of a financial instrument is defined as the amount at which the instrument could be exchanged in a market transaction between knowledgeable willing parties. When determining the fair value of a financial instrument, preference is given to prices quoted in an active market. 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.

An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Bank recognises profits or losses on day one. Where fair value is determined using valuation techniques whose variables include non-observable market data, the difference between the fair value and the transaction price (the day one profit or loss) is not recognised in the statement of financial position. These differences are however monitored for disclosure purposes. If observable market factors that market participants would consider in setting a price subsequently become available, the balance of the deferred day one profit or loss is released to profit or loss.

Subsequently the fair values of financial assets quoted in active markets are based on current bid prices. The fair values of financial liabilities quoted in active markets are based on current ask/offer prices. When the Bank has assets and liabilities with offsetting market risks, it uses mid-market prices as a basis for establishing fair values for the offsetting risk positions and applies the ask/offer price to the net open position as appropriate. An active market is a market where willing buyers and willing sellers regularly exchange financial instruments and where the market price is representative of fair value.

If a particular instrument is not traded in an active market the Bank uses a valuation technique to determine the fair value of the financial instrument. The valuation techniques employed by the Bank include, *inter alia*, quoted prices for similar assets or liabilities in an active market, quoted prices for the same asset or liability in an inactive market, adjusted prices from recent arm’s length transactions, option-pricing models and discounted cash flow techniques.

The objective of using a valuation technique is to determine what the transaction price would have been at the measurement date. Therefore, maximum use is made of inputs that are observable in the market and entity-specific inputs are only used when there is no market information available. All valuation techniques take into account the relevant factors that other market participants would have considered in setting a price for the financial instrument and are consistent with accepted methodologies for pricing financial instruments.

The Bank classifies instruments measured at fair value using a fair value hierarchy that reflects the significance of the inputs used. The Bank’s fair value hierarchy has the following levels:

Level 1 – Fair value is determined using unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Fair value is determined using inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 – Fair value is determined using a valuation technique and inputs that are not based on observable market data (i.e. unobservable inputs).

35 FAIR VALUE OF FINANCIAL INSTRUMENTS continued

The table below sets out the valuation techniques used for instruments for which there are no quoted prices in active markets or recent arm's length transactions:

Instrument	Valuation technique	Description
Investment securities and other investments		
Unlisted equities	Price earnings (P/E) model or discounted cash flows	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.
Negotiable certificates of deposit	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.
Treasury bills	BESA bond pricing model	The BESA bond pricing model uses the BESA mark-to-market bond yield.
Other dated securities	Discounted cash flows	The future cash flows are discounted using a market-related interest rate. The discount curve is derived from similar market-quoted instruments.
Derivative financial instruments		
Credit derivatives	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.
Option contracts	Option pricing model	The Black Scholes model is used.
Futures	Discounted cash flows	The projected cash flows are discounted using a market-related interest rate. Projected cash flows are obtained by subtracting the strike price of the forward contract from the market projected forward value.
Forward rate agreements	Discounted cash flows	The discount rate is determined using a yield curve for similar market traded instruments. The reset date is determined in terms of the legal agreement.
Swaps	Discounted cash flows	The discount and forward rates are determined from similar market traded instruments. The reset date of each swaplet is determined in terms of legal documents pertaining to the swap.
Commodity-linked instruments	Based on quoted market prices for similar assets	Measured by taking into account the price, location differential, grade differential, silo differential and the discount factor of the most liquidly-traded futures linked to the commodity.

35 FAIR VALUE OF FINANCIAL INSTRUMENTS continued

Instrument	Valuation technique	Description
Deposits		
▸ Current accounts	Undiscounted amount	The undiscounted amount is considered to approximate fair value because of the short-term nature of the instruments.
▸ Other	Discounted cash flows	The swap curve adjusted for liquidity premiums and business unit margins. The valuation methodology does not take early withdrawals and other behavioural aspects into account.
Short trading positions – unlisted	Directors valuation	Short trading positions are valued with reference to the underlying instruments.
Loans and advances to customers		
▸ Investment banking book	Discounted cash flows	The Bank has elected to designate the investment banking book of advances at fair value through profit or loss.
▸ Other loans and advances to customers	Discounted cash flows	The Bank determines the fair value of the amortised cost book for disclosure purposes. The future cash flows are discounted using a market-related interest rate.
Other liabilities and Tier 2 liabilities	Discounted cash flows	The future cash flows are discounted using a market-related interest rate.

35 FAIR VALUE OF FINANCIAL INSTRUMENTS continued

The following table presents the financial instruments recognised at fair value in the statement of financial position of the Bank:

R million	**2013** Level 1	Level 2	Level 3	Total carrying amount
Assets				
Derivative financial instruments	**180**	**51 574**	**1**	**51 755**
Advances*	**–**	**40 267**	**112 077**	**152 344**
Investment securities and other investments	**52 322**	**37 394**	**4 894**	**94 610**
Amounts due by holding company and fellow subsidiaries	**–**	**516**	**–**	**516**
Total financial assets at fair value	**52 502**	**129 751**	**116 972**	**299 225**
Liabilities				
Short trading positions	**2 923**	**–**	**–**	**2 923**
Derivative financial instruments	**75**	**52 865**	**–**	**52 940**
Deposits	**–**	**81 775**	**1 302**	**83 077**
Other liabilities	**–**	**171**	**–**	**171**
Tier 2 liabilities	**–**	**1 049**	**–**	**1 049**
Amounts due to holding company and fellow subsidiaries	**–**	**255**	**–**	**255**
Total financial liabilities at fair value	**2 998**	**136 115**	**1 302**	**140 415**

There were no transfers of financial instruments between level 1 and level 2 during the current year.

R million	2012 Level 1	Level 2	Level 3	Total carrying amount
Assets				
Derivative financial instruments	–	52 297	95	52 392
Advances*	–	38 481	97 371	135 852
Investment securities and other investments	45 538	29 070	4 201	78 809
Amounts due by holding company and fellow subsidiaries	–	809	–	809
Total financial assets at fair value	45 538	120 657	101 667	267 862
Liabilities				
Short trading positions	4 019	–	–	4 019
Derivative financial instruments	–	53 519	147	53 666
Deposits	–	76 490	3 030	79 520
Other liabilities	–	195	–	195
Tier 2 liabilities	–	1 067	–	1 067
Amounts due to holding company and fellow subsidiaries	–	234	–	234
Total financial liabilities at fair value	4 019	131 505	3 177	138 701

* *Although the fair value of credit is not significant year-on-year it may become significant in the future. For this reason, together with the fact that the majority of South African counterparties do not have actively traded or observable credit spreads, the 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, these loans and advances to customers are classified in level 2 of the fair value hierarchy.*

There were no transfers between any of the levels during the prior year.

35 FAIR VALUE OF FINANCIAL INSTRUMENTS continued

Level 3 fair value instruments

The Bank classifies financial instruments in level 3 of the fair value hierarchy when the significant inputs into the valuation model are not observable. In addition to these unobservable inputs, the valuation models for level 3 financial instruments also rely on a number of inputs that are readily observable either directly or indirectly. Thus, the gains and losses presented below include changes in the fair value related to both observable and unobservable inputs.

The following table shows a reconciliation of the opening and closing balances for financial instruments classified as level 3 in terms of the fair value hierarchy.

	2013	
R million	**Fair value at 30 June 2012**	**Gains/ losses recognised in profit or loss**
Assets		
Derivative financial instruments	**95**	**3**
Advances	**97 371**	**2 063**
Investment securities and other investments	**4 201**	**(782)**
Total financial assets at fair value	**101 667**	**1 284**
Liabilities		
Derivative financial instruments	**147**	**72**
Deposits	**3 030**	**(228)**
Total financial liabilities at fair value	**3 177**	**(156)**

During the year, an amount of R201 million relating to derivative financial liabilities was transferred out of level 3 and into level 2 as a result of a change in inputs into the valuation techniques used to value these derivatives. The inputs around volatility are based on observable market inputs.

	2012	
R million	Fair value at 30 June 2011	Gains/ losses recognised in profit or loss
Assets		
Derivative financial instruments	62	43
Advances	83 829	6 279
Investment securities and other investments	3 170	243
Total financial assets at fair value	87 061	6 565
Liabilities		
Derivative financial instruments	131	6
Deposits	3 138	(297)
Total financial liabilities at fair value	3 269	(291)

Decreases in the value of level 3 assets and liabilities are indicated with ( ). Decreases in the value of assets may be as a result of losses recognised in profit or loss or other comprehensive income, sales, settlements and disposals of subsidiaries. Decreases in the value of liabilities may be as a result of gains recognised in profit or loss, settlements and disposals of subsidiaries.

2013					
Gains recognised in other comprehensive income	**Purchases, sales, issues and settlements**	**Acquisitions/ disposals of subsidiaries**	**Transfers out of level 3**	**Exchange rate difference**	**Fair value at 30 June 2013**
–	**(97)**	**–**	**–**	**–**	**1**
–	**11 993**	**–**	**–**	**650**	**112 077**
84	**1 364**	**(3)**	**–**	**30**	**4 894**
84	**13 260**	**(3)**	**–**	**680**	**116 972**
–	**(18)**	**–**	**(201)**	**–**	**–**
–	**(1 606)**	**–**	**–**	**106**	**1 302**
–	**(1 624)**	**–**	**(201)**	**106**	**1 302**

2012					
Gains recognised in other comprehensive income	Purchases, sales, issues and settlements	Acquisitions/ disposals of subsidiaries	Transfers out of level 3	Exchange rate difference	Fair value at 30 June 2012
–	(10)	–	–	–	95
–	7 009	114	–	140	97 371
13	975	(208)	–	8	4 201
13	7 974	(94)	–	148	101 667
–	10	–	–	–	147
–	164	–	–	25	3 030
–	174	–	–	25	3 177

35 FAIR VALUE OF FINANCIAL INSTRUMENTS continued

The table below presents the total gains/(losses) relating to financial instruments classified in level 3 that are still held on 30 June 2013. The Bank includes these gains/(losses), including derivative instruments that do not qualify for hedge accounting in terms of IAS 39, as well as trading related financial instruments designated at fair value through profit or loss, as fair value income in non-interest income. Trading related financial instruments designated at fair value through profit or loss exclude instruments relating to the Bank's insurance operations and the Bank's funding requirements.

	2013		
R million	Gains/losses recognised in profit or loss	Gains/losses recognised in other comprehensive income	Total gains/losses
Assets			
Derivative financial instruments	**–**	**–**	**–**
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)**
Total	**(131)**	**–**	**(131)**

Decreases recognised for level 3 assets and liabilities are indicated with ( ). Decreases in the value of assets include losses recognised in profit or loss and other comprehensive income. Decreases in the value of liabilities include gains recognised in profit or loss.

35 FAIR VALUE OF FINANCIAL INSTRUMENTS continued

	2012		
R million	Gains/losses recognised in profit or loss	Gains/losses recognised in other comprehensive income	Total gains/losses
Assets			
Derivative financial instruments	43	–	43
Advances	5 915	–	5 915
Investment securities and other investments	191	3	194
Total	6 149	3	6 152
Liabilities			
Derivative financial instruments	1	–	1
Deposits	(383)	–	(383)
Total	(382)	–	(382)

Decreases recognised for level 3 assets and liabilities are indicated with ( ). Decreases in the value of assets include losses recognised in profit or loss and other comprehensive income. Decreases in the value of liabilities include gains recognised in profit or loss.

35 FAIR VALUE OF FINANCIAL INSTRUMENTS continued

Effect of changes in significant unobservable assumptions in the reasonably possible alternatives

The fair value of instruments that are classified in level 3 of the fair value hierarchy is determined using valuation techniques that make use of significant inputs that are not based on observable market data. The inputs into these valuation techniques are derived from all available information and management's judgement. While management believes that these fair values are appropriate, the values could be sensitive to changes in the assumptions used to derive the inputs. The table below illustrates the sensitivity of the significant inputs when changed to reasonably possible alternative inputs:

R million	Significant unobservable inputs	Reasonably possible changes to significant unobservable inputs	
Assets			
Derivative financial instrument	**Volatilities**	**Volatilities are increased and decreased by 10%.**	
Advances	**Credit**	**Credit migration matrix***	
Investment securities and other investments	**Growth rates and P/E ratios of unlisted investments**	**Unobservable inputs are increased and decreased by 10%.**	
Total financial assets at fair value			
Liabilities			
Derivative financial instruments	**Volatilities**	**Volatilities are increased and decreased by 10%.**	
Deposits	**Credit risk of the cash collateral leg of credit linked notes**	**Credit migration matrix****	
Total financial liabilities at fair value			

* *The credit migration matrix is used as part of the 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 fair value hierarchy represent the collateral leg of credit linked notes. The most significant unobservable input in determining the fair value of the credit linked notes is the credit risk component. The sensitivity to credit risk has been assessed in the same way as for advances using the credit migration matrix with the deposit representing the cash collateral component thereof.*

	2013			2012		
		Reasonably possible alternative fair value			Reasonably possible alternative fair value	
	Fair value	**Using more positive assumptions**	**Using more negative assumptions**	Fair value	Using more positive assumptions	Using more negative assumptions
	1	**1**	**1**	95	103	85
	112 077	**113 254**	**111 679**	97 371	97 843	97 271
	4 894	**5 411**	**4 173**	4 201	4 473	3 682
	116 972	**118 666**	**115 853**	101 667	102 419	101 038
	–	**–**	**–**	147	142	150
	1 302	**1 172**	**1 433**	3 030	2 727	3 333
	1 302	**1 172**	**1 433**	3 177	2 869	3 483

35 FAIR VALUE OF FINANCIAL INSTRUMENTS continued

The following represents the fair values of financial instruments not carried at fair value on the statement of financial position. For all other instruments the carrying value is equal to or a reasonable approximation of the fair value.

	2013		2012	
R million	Carrying value	Fair value	Carrying value	Fair Value
Assets				
Advances	**395 882**	**390 516**	346 893	341 736
Investment securities and other investments	**415**	**415**	–	–
Total financial assets at amortised cost	**396 297**	**390 931**	346 893	341 736
Liabilities				
Deposits	**546 765**	**548 202**	466 276	466 756
Other liabilities	**891**	**889**	727	727
Tier 2 liabilities	**6 576**	**6 693**	6 370	6 546
Total financial liabilities at amortised cost	**554 232**	**555 784**	473 373	474 029

For all assets and liabilities not included above, the carrying amount approximates the fair value.

Day 1 profit or loss

Day 1 profit and loss arises on the initial recognition of a financial instrument when the fair value of an instrument is determined using a valuation technique that makes use of inputs that are not observable in an active market. In terms of IAS 39, if the fair value determined in accordance with such a valuation technique differs from the transaction price, the initial recognition should take place at the transaction price as the transaction price is considered the best evidence of fair value at initial recognition. The day 1 profits or losses arising as a result of the difference between the two values should only be recognised over the life of the instrument as a result of changes that would also be considered by market participants.

The following table represents the aggregate difference between transaction price and fair value based on a valuation technique yet to be recognised in profit or loss:

R million	2013	2012
Opening balance	**21**	–
Day 1 profits or losses not recognised on financial instruments initially recognised in the current reporting period	**–**	22
Amount recognised in profit or loss as a result of changes which would be considered by market participants	**(5)**	(1)
Closing balance	**16**	21

36 SEGMENT INFORMATION

36.1 Reportable segments

Set out below is information about the reportable segments of the Bank, the details of the various products and services provided by each of the reportable segments, its major customers and the basis of preparation of segment information.

FNB

FNB represents 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, cellphone and internet). FNB's primary segments are Retail and Commercial.

FNB Africa

FNB Africa comprises a support division acting as the strategic enabler, facilitator and coordinator for African expansion.

RMB

RMB is the corporate and investment banking arm of the Bank and offers advisory, funding, 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 in South Africa. WesBank also has a vehicle finance business in the UK, MotoNovo.

Corporate Centre

The Corporate Centre includes various centralised risk and finance functions, including Group Treasury (capital and liquidity), Financial Resource Management, Group Finance, IT, Enterprise Risk Management, Regulatory Risk Management and Group Internal Audit.

Major customers

In terms of IFRS 8, a customer is regarded as a major customer if the revenue from transactions with this customer exceeds 10% or more of the entity's revenue. The Bank has no major customer as defined and is therefore not reliant on the revenue from one or more major customers.

Basis of preparation of segment information

The segmental analysis is based on the information reported to management for the respective segments. The information is prepared in terms of IFRS with the exception of certain adjustments that are made to 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.

36 SEGMENT INFORMATION continued

36.1 Reportable segments continued

Description of normalised adjustments

Share-based payments and employee benefits

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

In 2005 the Bank concluded a BEE transaction. As part of this transaction, rights were granted to the Bank's black South African employees and black non-executive directors. These rights are accounted for as expenses in accordance with IFRS 2. FirstRand hedged itself against the price risk of the FirstRand share price inherent in these schemes by buying in the open market the FirstRand shares required to settle these schemes.

The economic cost to the Bank for the IFRS 2 expense is the net funding cost paid by the Bank on the funding required to buy these shares, and is reflected in normalised earnings.

Economic hedge against share-based payment obligations

The Bank entered into a Total Return Swap (TRS) with external parties in order to economically hedge itself against the cost 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 profit and loss.

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

For purposes of calculating normalised earnings, the 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.

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 Investment Banking RMB Corporate Banking WesBank Corporate Centre
United Kingdom	England	FNB RMB Investment Banking WesBank
Asia	India	FNB RMB Investment Banking
Other	Middle East (U.A.E) Mauritius Brazil	FNB RMB Investment Banking

The following significant exchange rates were used to convert the statement of financial position. Foreign-denominated assets and liabilities are converted at the closing rate of exchange.

	2013	2012
GBP	**15.22**	12.83
EUR	**13.04**	10.37
USD	**10.01**	8.19
AUD	**9.17**	8.38
BRL	**4.50**	4.06
INR	**0.17**	0.15

36 SEGMENT INFORMATION continued

36.3 Reportable segments

R million	2013 FNB	2013 FNB Africa
Net interest income before impairment of advances	13 139	(7)
Impairment of advances	(2 863)	–
Net interest income after impairment of advances	10 276	(7)
Non-interest income	14 497	303
Net income from operations	24 773	296
Operating expenses	(15 625)	(358)
Income before tax	9 148	(62)
Indirect tax	(389)	(1)
Profit before tax	8 759	(63)
Income tax expense	(2 322)	17
Profit for the year	6 437	(46)
The income statement includes:		
Depreciation	(1 144)	–
Amortisation	(61)	–
Impairment charges	(22)	–
The statement of financial position includes:		
Investments in associates	–	–
Total assets	248 431	123
Total liabilities	239 713	186

Geographical segments

R million	2013 South Africa	United Kingdom	Asia	Other	Total
Net interest income	10 824	183	18	–	11 025
Non-interest income	29 547	726	72	1	30 346
Total assets	765 828	14 493	2 206	–	782 527
Non-current assets*	10 704	31	27	–	10 762
Total liabilities	710 723	15 201	1 723	1	727 648

* *Excludes financial instruments, deferred income tax assets, post-employment benefit assets and rights arising under insurance contracts.*

	2013					
	RMB					
	Investment Banking	Corporate Banking	WesBank	Corporate Centre	Consolidation and IFRS adjustments	Total
	473	603	6 080	1 372	(6 194)	15 466
	(19)	(43)	(1 516)	–	–	(4 441)
	454	560	4 564	1 372	(6 194)	11 025
	7 297	1 039	1 575	1 320	4 315	30 346
	7 751	1 599	6 139	2 692	(1 879)	41 371
	(3 509)	(1 323)	(3 789)	(2 890)	566	(26 928)
	4 242	276	2 350	(198)	(1 313)	14 443
	(49)	(32)	(219)	111	–	(579)
	4 193	244	2 131	(87)	(1 313)	13 864
	(1 111)	(65)	(565)	23	952	(3 071)
	3 082	179	1 566	(64)	(361)	10 793
	(62)	(33)	(297)	(89)	(2)	(1 627)
	(13)	–	(15)	(5)	–	(94)
	(2)	(248)	–	–	–	(272)
	44	–	–	–	–	44
	296 531	5 106	134 869	98 722	(1 255)	782 527
	294 020	4 801	132 765	57 388	(1 225)	727 648

Reconciliation of profit for the year to normalised earnings

R million	2013
Profit for the year (per above)	10 793
NCNR preference shareholders	(196)
Attributable earnings to ordinary equity holders	10 597
Headline earnings adjustments	102
Headline earnings to ordinary equityholders	10 699
TRS adjustment	85
Normalised earnings	10 784

36 SEGMENT INFORMATION continued

36.3 Reportable segments continued

R million	2012 FNB	2012 FNB Africa
Net interest income before impairment of advances	11 059	(5)
Impairment of advances	(2 777)	–
Net interest income after impairment of advances	8 282	(5)
Non-interest income	12 982	206
Net income from operations	21 264	201
Operating expenses	(13 916)	(257)
Income before tax	7 348	(56)
Indirect tax	(385)	1
Profit before tax	6 963	(55)
Income tax expense	(1 844)	–
Profit for the year	5 119	(55)
The income statement includes:		
Depreciation	(1 307)	–
Amortisation	(75)	–
Impairment charges	–	–
The statement of financial position includes:		
Investments in associates	–	–
Total assets	227 262	126
Total liabilities	220 311	182

As a result of ongoing internal reorganisation, certain businesses were moved from FNB to Corporate Banking. The comparative information has been restated accordingly.

Geographical segments

	2012				
R million	South Africa	United Kingdom	Asia	Other	Total
Net interest income	10 082	205	43	1	10 331
Non-interest income	26 727	392	44	1	27 164
Total assets	680 394	8 448	1 289	3	690 134
Non-current assets*	9 617	70	27	–	9 714
Total liabilities	631 440	8 925	772	–	641 137

* *Excludes financial instruments, deferred income tax assets, post-employment benefit assets and rights arising under insurance contracts.*

2012					
RMB					
Investment Banking	Corporate Banking	WesBank	Corporate Centre	Consolidation and IFRS adjustments	Total
430	511	5 318	1 542	(3 639)	15 216
(16)	(273)	(1 019)	–	(800)	(4 885)
414	238	4 299	1 542	(4 439)	10 331
6 288	1 119	1 368	3 501	1 700	27 164
6 702	1 357	5 667	5 043	(2 739)	37 495
(3 118)	(1 141)	(3 376)	(3 401)	391	(24 818)
3 584	216	2 291	1 642	(2 348)	12 677
(57)	(15)	(205)	167	(2)	(496)
3 527	201	2 086	1 809	(2 350)	12 181
(933)	(53)	(552)	(479)	1 397	(2 464)
2 594	148	1 534	1 330	(953)	9 717
(67)	(42)	(210)	(101)	(1)	(1 728)
(30)	–	(42)	(3)	1	(149)
–	–	–	(26)	–	(26)
243	–	–	1	(1)	243
271 067	2 870	111 037	78 815	(1 043)	690 134
269 171	2 604	108 959	39 805	105	641 137

Reconciliation of profit for the year to normalised earnings

R million	2012
Profit for the year (per above)	9 717
NCNR preference shareholders	(183)
Attributable earnings to ordinary equity holders	9 534
Headline earnings adjustments	(343)
Headline earnings to ordinary equityholders	9 191
Normalised adjustments	(159)
– IFRS 2 Share-based payment expenses	81
– TRS adjustment	(240)
Normalised earnings	9 032

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.

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 terms that are not more favourable than those arranged with third parties.

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
Loans and advances						
Opening balance	–	1 311	–	–	1 242	2
Acquisitions/(disposals) of associates and joint ventures	–	–	–	–	(211)	–
Advanced during the year	–	–	–	–	963	5 154
Repayments during the year	–	(161)	–	–	(695)	(2 327)
Interest income	–	–	–	–	46	94
Fair value movements during the year	–	87	–	–	69	–
Provision for impairment loss	–	–	–	–	33	–
Closing balance	–	1 237	–	–	1 447	2 923
Accounts receivable						
Opening balance	–	–	–	–	73	63
Acquisitions/(disposals) of associates and joint ventures	–	–	–	–	(117)	–
Accrued during the year	–	–	–	–	311	115
Repayments during the year	–	–	–	–	(150)	(142)
Exchange rate differences	–	–	–	–	–	–
Closing balance	–	–	–	–	117	36
Amounts due by holding company and fellow subsidiary companies						
Opening balance	–	–	23 307	–	–	–
Issued during the year	–		–	–	–	–
Repayments during the year	–	–	(2 425)	–	–	–
Closing balance	–	–	20 882	–	–	–
Derivative assets						
Notional amount	–	11	–	–	667	14 507
Fair value		–	–	–	19	79

37 RELATED PARTIES continued

37.3 Details of transactions with relevant related parties continued

R million	2013					
	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	–	26	411	443
Acquisitions/(disposals) of associates and joint ventures	–	–	–	–	(83)	–
Received during the year	–	–	–	10	1 431	–
Redeemed during the year	–	(40)	–	(32)	(1 511)	(412)
Interest expense	–	–	–	–	6	–
Closing balance	–	3	–	4	254	31
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	–	13 094	–	–	–
Issued during the year	519	–	726	–	–	–
Repayments during the year	–	–	–	–	–	–
Closing balance	766	–	13 820	–	–	–
Derivative liabilities						
Notional amount	–	27	–	–	1	–
Fair value	–	–	–	–	–	–
Commitments	–	–	–	–	–	–
Interest received	–	–	764	–	13	94
Interest paid	–	–	540	–	7	132
Non-interest income	–	92	576	–	475	1 277
Operating expenditure (note 3)	–	–	735	–	448	–
Dividends paid	(5 710)	–	–	–	–	–

37 RELATED PARTIES continued

37.3 Details of transactions with relevant related parties continued

R million	2012					
	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
Loans and advances						
Opening balance	–	1 360	–	9	1 010	45
Advanced during the year	–	117	–	–	511	2
Repayments during the year	–	(266)	–	(10)	(247)	(45)
Interest income	–	–	–	–	11	–
Fair value movements during the year	–	100	–	1	118	–
Provision for impairment loss	–	–	–	–	(161)	–
Closing balance	–	1 311	–	–	1 242	2
Accounts receivable						
Opening balance	–	–	–	–	73	5
Accrued during the year	–	–	–	–	163	61
Repayments during the year	–	–	–	–	(163)	(12)
Exchange rate differences	–	–	–	–	–	9
Closing balance	–	–	–	–	73	63
Amounts due by holding company and fellow subsidiary companies						
Opening balance	3 348	–	15 886	–	–	–
Issued during the year	–	–	7 421	–	–	–
Repayments during the year	(3 348)	–	–	–	–	–
Closing balance	–	–	23 307	–	–	–
Derivative assets						
Notional amount	–	–	–	–	–	–
Fair value	–	–	–	–	–	–

37 RELATED PARTIES continued

37.3 Details of transactions with relevant related parties 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
	2012					
Deposits						
Opening balance	–	43	–	10	892	33
Received during the year	–	1	–	16	599	1 040
Repayments during the year	–	(1)	–	–	(1 086)	(633)
Interest expense	–	–	–	–	6	3
Closing balance	–	43	–	26	411	443
Accounts payable						
Opening balance	–	–	–	–	–	–
Accrued during the year	–	–	–	–	470	19
Repayments during the year	–	–	–	–	(439)	–
Closing balance	–	–	–	–	31	19
Amounts due to holding company and fellow subsidiary companies						
Opening balance	–	–	20 841	–	–	–
Issued during the year	247	–	(7 747)	–	–	–
Repayments during the year	–	–	–	–	–	–
Closing balance	247	–	13 094	–	–	–
Derivative liabilities						
Notional amount	–	–	–	–	–	21
Fair value	–	–	–	–	–	1
Commitments	–	–	–	–	14	2
Interest received	–	–	1 035	–	4	–
Interest paid	–	–	697	–	5	3
Non-interest income	–	127	424	6	343	93
Operating expenditure (note 3)	–	–	646	–	1 045	–
Dividends (paid)/received	(5 235)	–	–	5	–	–

37 RELATED PARTIES continued

37.4 Key management personnel

R million	2013	2012
Total advances		
Opening balance	**37**	151
Advanced during the year	**251**	276
Repayments during the year	**(244)**	(398)
Interest earned	**4**	8
Closing balance	**48**	37
The amounts advanced to key management personnel consists of mortgages, instalment finance agreements, credit cards and other loans.		
Total deposits		
Opening balance	**211**	190
Net withdrawals/(deposits)	**(89)**	14
Net interest and service cost	**7**	7
Closing balance	**129**	211
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	**23**	20
Withdrawals	**–**	–
Net investment return credited	**2**	3
Closing balance	**25**	23
Other fees		
Financial consulting fees and commissions	**4**	5
Key management compensation*		
Salaries and other short-term benefits	**203**	174
Share-based payments	**225**	75
Total compensation	**428**	249
* *Deferred compensation is included in the above and is payable in FirstRand Limited shares in October 2013/2014.*	**38**	30

A list of the board of directors of the Bank is on page 4 of the annual report.
Details of the key management compensation are provided in note 3.

37.5 Post-employment benefit plan

Details of transactions between the Bank and the Bank's post-employment benefit plan are listed below:

R million	2013	2012
Dividend income	**1**	3
Fee income	**4**	3
Deposits and current accounts held with the Bank	**145**	110
Interest expenses	**6**	9
Value of assets under management	**2 995**	2 986

38 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In preparing the financial statements, the Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

38.1 Credit impairment losses on loans and advances

The Bank 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 FNB Retail and WesBank portfolios the account status, namely arrears versus non-arrears status, is taken as a primary indicator of an impairment event. In the FNB Commercial portfolios other indicators such as the existence of high risk accounts, based on internally assigned risk ratings and management judgement, are used, while the wholesale (includes RMB Investment Banking and RMB Corporate Banking) portfolio assessment includes a judgemental review of individual industries for objective signs of distress.

(b) Non-performing loans

FNB Retail loans are individually impaired if amounts are due and unpaid for three or more months, or if there is evidence before this that the customer is unlikely to repay his obligations in full. Commercial and Wholesale loans are analysed on a case-by-case basis taking into account breaches of key loan conditions, excesses and similar risk indicators.

Management's estimates of future cash flows on individually impaired loans are based on internal historical loss experience, supplemented by analysis of comparable external data (for FNB Commercial and Wholesale loans) for assets with similar credit risk characteristics. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Refer to note 11 for a detailed analysis of impairment of advances and 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 as such in profit or loss when there has been a significant or prolonged decline in the fair value below cost. The determination of what is significant or prolonged requires judgement. In making this judgement, the Bank evaluates factors such as, *inter alia*, the normal volatility in share prices, evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

38 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES continued

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 4.2 and 19 for more information regarding the direct and deferred income tax charges, assets and liabilities.

38.4 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.

38.5 Fair value of commodities recognised in accordance with the broker trader exception in IAS 2

The Bank is long on certain commodities through the outright purchase of the specific commodity. The most recent transactions between market participants in a market-related transaction that does not represent a forced or distressed sale is used to calculate the fair value of the physical commodity positions.

39 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The Bank will comply with the following new standards and interpretations from the stated effective date.

		Effective date
IAS 19 (revised)	**Employee Benefits** The accounting requirements relating to defined benefit post-employment plans were amended. The main changes include the removal of the corridor approach, which allowed entities the option to defer the recognition of actuarial gains and losses on these plans. The revised standard requires that all remeasurements arising from defined benefit plans be recognised in other comprehensive income. The standard also contains revisions to the calculation of the amount included in profit or loss in respect of the return on plan assets. It also includes enhanced disclosure requirements for defined benefits plans. Based on our assessment of the effect of the amendments on the financial statements for the year ended 30 June 2013, the changes would have resulted in an increase in employee liabilities and a decrease in reserves of an amount equal to the unrecognised actuarial gains or losses. The impact on staff costs relating to a decrease on return on plan assets included in profit or loss is not expected to be material.	Annual periods commencing on or after 1 January 2013
IAS 27 (amended)	**Separate Financial Statements** The accounting and disclosure requirements for consolidated financial statements have been removed from IAS 27 as a result of the issue of IFRS 10 and IFRS 12, which establish new consolidation and disclosure standards. IAS 27 (as amended in 2011) contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. This amendment is not expected to have a significant impact on the Bank's results.	Annual periods commencing on or after 1 January 2013
Other amendments	Amendments issued in October 2012 provide investment entities an exemption from the consolidation of particular subsidiaries. If this exemption is applied, the amendments require an investment entity to account for its investment in a relevant subsidiary in the same way in its consolidated and separate financial statements (or to only provide separate financial statements if all subsidiaries are unconsolidated). The Bank does not meet the definition of an investment entity and, as such, 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
IAS 28 (amended)	**Investments in Associates and Joint ventures** IAS 28 Investments in Associates and Joint Ventures (amended) supersedes IAS 28 Investments in Associates as a result of the issue of IFRS 11 and IFRS 12. The new IAS 28 prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The disclosure requirements relating to these investments are now contained in IFRS 12. The amendment is not expected to have a significant impact on the Bank's results.	Annual periods commencing on or after 1 January 2013

39 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE continued

		Effective date
IAS 32	**Financial Instruments: Presentation** The amendments issued to IAS 32 clarifies the existing requirements related to offsetting of financial assets and financial liabilities. The application guidance to the standard has been amended to clarify the practical application of the offsetting requirements. The amendments relate to presentation and as such will not have an impact on the net asset value or results of the Bank. The Bank has performed a preliminary assessment of the potential impact of the amendments and the results of this indicate that the effect is unlikely to result in significant changes in presentation for the Bank.	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. The amendment has also introduced an explicit requirement for an entity to disclose the discount rates that have been used in determining impairment or impairment loss, if the recoverable amount of the asset based on fair value less costs of disposal, is determined using a present value technique. The amendment addresses disclosure in the annual financial statements and not recognition and measurement. The amendment will therefore have no impact on the Bank's results but may result in additional disclosure.	Annual periods commencing on or after 1 January 2014
IAS 39 (amended)	**Financial Instruments: Recognition and Measurement** IAS 39 Financial Instruments: Recognition and Measurement has been amended to clarify that there is no need to discontinue hedge accounting if a derivative that has been designated as a hedging instrument is novated, provided certain criteria are met. A novation indicates an event where the original parties to a derivative agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties. In order to apply the amendments and continue hedge accounting, novation to a central counterparty must happen as a consequence of laws or regulations or the introduction of laws or regulations. The amendments are not expected to have a significant impact on the Bank.	Annual periods commencing on or after 1 January 2014
IFRS 1 (amended)	**First-time Adoption of International Financial Reporting Standards** On 13 March 2012 the IASB published an amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment, dealing with loans received from governments at a below market rate of interest, gives 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 amended standard will therefore have no impact.	Annual periods commencing on or after 1 January 2013

39 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE continued

		Effective date
IFRS 7	**Financial Instruments: Disclosures** The amendment requires information about all recognised financial instruments that are set off in accordance with paragraph 42 of IAS 32. Information includes the gross amounts subject to rights of set off, amounts set off in accordance with the accounting standards followed, and the related net credit exposure. This information will help investors understand the extent to which an entity has set off in its statement of financial position and the effects of set off on the entity's rights and obligations. This amendment addresses disclosure in the annual financial statements not recognition and measurement. The amendment will therefore have no impact on the Bank's results but will result in significant additional disclosure for financial instruments where set off is applied or where there is a master netting arrangement in place with the counterparty.	Annual periods commencing on or after 1 January 2013
IFRS 9	**Financial Instruments** IFRS 9 is the first phase in the IASB's three-part project to replace IAS 39 Financial Instruments: Recognition and Measurement. This phase deals with the classification and measurement of financial assets and financial liabilities. Financial assets can be classified as financial assets at amortised cost or fair value. The classification is based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Financial liabilities can also be classified as financial liabilities at amortised cost or fair value in line with the existing requirements of IAS 39. If an entity elects to measure its financial liabilities at fair value, it should present the portion of the change in fair value due to changes in its own credit risk in other comprehensive income. A decision was reached by the IASB on 7 November 2011 to change the effective date to annual reporting periods commencing on or after 1 January 2015. The requirement to restate comparatives and disclosures required on transition has also been modified. Subsequent to issuing IFRS 9, the IASB has issued exposure drafts to amend the classification and measurement guidance, expected credit losses and hedge accounting. Given the uncertainty around the final classification and measurement rules that will be applied and the date at which the entire IFRS 9 will be completed it is impracticable for the Bank to quantify the expected impact of the standard on the Bank.	Annual periods commencing on or after 1 January 2015

39 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE continued

		Effective date
IFRS 10	**Consolidated Financial Statements** IFRS 10 establishes a new control model for determining which entities should be included in consolidated financial statements. The standard also provides guidance on how to apply the principle of control to specific situations in order to identify whether an investor controls an investee. Consolidation principles have remained unchanged and are now incorporated as part of IFRS 10. IFRS 10 supersedes a portion of IAS 27 Separate and Consolidated Financial Statements and SIC 12 Consolidation – Special Purpose Entities. Transitional guidance issued in June 2012 amends IFRS 10 to provide additional transitional relief by limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The Bank is in the process of assessing the impact that IFRS 10 would have on the financial statements. Until the process is completed, the Bank is unable to determine the significance of the impact of IFRS 10.	Annual periods commencing on or after 1 January 2013
Amendments	Amendments issued in October 2012 provide investment entities an exemption from the consolidation of particular subsidiaries and instead require that an investment entity measure the investment in each eligible subsidiary at fair value through profit or loss in accordance with IFRS 9 Financial Instruments or IAS 39 Financial Instruments: Recognition and Measurement. The exemption is not applicable to the Bank as the Bank prepares separate financial statements. As a result the exemption will have no impact on the Bank's results.	Annual periods commencing on or after 1 January 2014
IFRS 11	**Joint Arrangements** The standard supersedes IAS 31 Joint Ventures and aims to improve on IAS 31 by establishing accounting principles that are applicable to all joint arrangements. The standard distinguishes between two types of joint arrangements; joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. Transitional guidance issued in June 2012 amends IFRS 11 to provide additional transitional relief by limiting the requirement to provide adjusted comparative information to only the preceding comparative period. Amendments to IFRS 11 also eliminate the requirement to provide comparative information for periods prior to the immediately preceding period. The standard is not expected to have a significant impact on the Bank.	Annual periods commencing on or after 1 January 2013

39 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE continued

		Effective date
IFRS 12	**Disclosure of Interests in Other Entities** The standard aims to provide consistent disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off-balance sheet vehicles. IFRS 12 requires disclosure of information that will enable users to evaluate the nature of the risks associated with the interest and the effect of the interest on the financial position, performance and cash flows of the reporting entity. Transitional guidance issued in June 2012 amends IFRS 12 to provide additional transitional relief by limiting the requirement to provide adjusted comparative information to only the preceding comparative period. Amendments to IFRS 12 also eliminate the requirement to provide comparative information for periods prior to the immediately preceding period. The Bank falls outside the scope of IFRS 12. The standard is not expected to have an impact on the Bank.	Annual periods commencing on or after 1 January 2013
Amendments	Amendments issued in October 2012 provide investment entities an exemption from the consolidation of particular subsidiaries. If this exemption is applied, the amendments require additional disclosure about why the entity is considered an investment entity, details of the entity's unconsolidated subsidiaries and the nature of relationship and certain transactions between the investment entity and its subsidiaries. The exemption is not applicable to the Bank as the Bank prepares separate financial statements and as a result will have no impact on the Bank's results.	Annual periods commencing on or after 1 January 2014
IFRS 13	**Fair Value Measurement** IFRS 13 was issued in order to eliminate inconsistencies in the guidance on how to measure fair value and disclosure requirements that currently exist under the different IFRS that require or permit fair value measurement. It provides a single source of guidance to prescribe how fair value should be measured. It provides a fair value hierarchy, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The standard requires entities to make various disclosures depending on the nature and level of the fair value measurement. The measurement requirements are not expected to have a significant impact on the net asset value of the Bank. The standard is however likely to have an impact on the disclosures provided by the Bank in respect of fair value measurements, particularly for non-financial assets and in the interim financial statements.	Annual periods commencing on or after 1 January 2013

39 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE continued

		Effective date
IFRIC 20	**Stripping Costs in the Production Phase of a Surface Mine** This interpretation applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine (production stripping costs). The interpretation falls outside the scope of the Bank's operations and will have no impact on the Bank.	Annual periods commencing on or after 1 January 2013
IFRIC 21	**Levies** This interpretation provides guidance on when to recognise a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37 and those where the timing and amount of the levy is certain. The interpretation identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation. Guidance provided indicates that the liability is recognised progressively if the obligating event occurs over a period of time and if an obligation is triggered on reaching a minimum threshold, the liability is recognised when that minimum threshold is reached. The interpretation is not expected to have a significant impact on the Bank.	Annual periods beginning on or after 1 January 2014
Annual Improvements	**Improvements to IFRS** The IASB issued Annual Improvements 2009 – 2011 Cycle in May 2012, as its latest set of annual improvements to various accounting standards. The annual improvement project's aim is to clarify and improve accounting standards. The improvements include terminology or editorial changes with minimal effect on recognition and measurement. The amendments have been assessed and are not expected to have a significant impact on the Bank.	Annual periods commencing on or after 1 January 2013

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 R2 million (2012: R20 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.

Supplementary information

COMPANY INFORMATION

FIRSTRAND BANK LIMITED

Registration no. 1929/001225/06

COMPANY SECRETARY AND REGISTERED OFFICE

BW Unser
4 Merchant Place
Corner Fredman Drive and Rivonia Road
Sandton
2196

PO Box 650149
Benmore
2010

Tel: +27 11 282 1808
Fax: +27 11 282 8088
Website: www.firstrand.co.za

SPONSOR

(In terms of JSE debt listing requirements)
Rand Merchant Bank (a division of FirstRand Bank Limited)
Debt Capital Markets
1 Merchant Place
Corner Fredman Drive and Rivonia Road
Sandton 2196
Tel: +27 11 282 8118

AUDITORS

PricewaterhouseCoopers Inc.

2 Eglin Road
Sunninghill
2157

Executive

Africa senior partner: SP Kana
Management committee: H Boegman, TP Blandin de Chalain, BM Deegan, JG Louw, PJ Mothibe, NV Mtetwa, TD Shango, S Subramoney, AR Tilakdari, F Tonelli

Deloitte & Touche

Building 8
Deloitte Place
The Woodlands
Woodlands Drive
Woodmead, Sandton
Docex 10 Johannesburg

National Executive

TJ Brown (chairman), MJ Comber (deputy chairman), LL Bam (CEO), AE Swiegers, CR Beukman, GM Pinnock, DL Kennedy, NB Kader, JK Mazzocco, TM Jordan, S Gwala,T Pillay, K Black

LISTED FINANCIAL INSTRUMENTS

LISTED DEBT INSTRUMENTS

JSE

	Issuer	Bond code	ISIN code
Subordinated debt	FirstRand Bank Limited	FRB03	ZAG000026774
	FirstRand Bank Limited	FRB05	ZAG000031337
	FirstRand Bank Limited	FRB08	ZAG000047796
	FirstRand Bank Limited	FRB09	ZAG000047804
	FirstRand Bank Limited	FRB10	ZAG000092487
	FirstRand Bank Limited	FRB11	ZAG000102054
Upper Tier 2	FirstRand Bank Limited	FRBC21	ZAG000052283
	FirstRand Bank Limited	FRBC22	ZAG000052390
Senior unsecured	FirstRand Bank Limited	FRBI07	ZAG000055849
	FirstRand Bank Limited	FRBN04	ZAG000041005
	FirstRand Bank Limited	FRBN05	ZAG000042169
	FirstRand Bank Limited	FRBZ01	ZAG000049255
	FirstRand Bank Limited	FRBZ02	ZAG000072711
	FirstRand Bank Limited	FRBZ03	ZAG000080029
	FirstRand Bank Limited	FRJ13	ZAG000079823
	FirstRand Bank Limited	FRJ14	ZAG000069683
	FirstRand Bank Limited	FRJ15	ZAG000094368
	FirstRand Bank Limited	FRJ16	ZAG000073826
	FirstRand Bank Limited	FRJ17	ZAG000094343
	FirstRand Bank Limited	FRJ18	ZAG000084187
	FirstRand Bank Limited	FRJ19	ZAG000104563
	FirstRand Bank Limited	FRS36	ZAG000077397
	FirstRand Bank Limited	FRS37	ZAG000077793
	FirstRand Bank Limited	FRS43	ZAG000078643
	FirstRand Bank Limited	FRS46	ZAG000079807
	FirstRand Bank Limited	FRS49	ZAG000081787
	FirstRand Bank Limited	FRS51	ZAG000086117
	FirstRand Bank Limited	FRS56	ZAG000087271
	FirstRand Bank Limited	FRS59	ZAG000089855
	FirstRand Bank Limited	FRS61	ZAG000090523
	FirstRand Bank Limited	FRS62	ZAG000090614
	FirstRand Bank Limited	FRS63	ZAG000091513
	FirstRand Bank Limited	FRS64	ZAG000092529
	FirstRand Bank Limited	FRS72	ZAG000096033
	FirstRand Bank Limited	FRS75	ZAG000096363
	FirstRand Bank Limited	FRS77	ZAG000097361
	FirstRand Bank Limited	FRS78	ZAG000097916
	FirstRand Bank Limited	FRS79	ZAG000100397
	FirstRand Bank Limited	FRS80	ZAG000100801
	FirstRand Bank Limited	FRS81	ZAG000100892
	FirstRand Bank Limited	FRS82	ZAG000101601
	FirstRand Bank Limited	FRS83	ZAG000102112
	FirstRand Bank Limited	FRS84	ZAG000104514
	FirstRand Bank Limited	FRS85	ZAG000104985
Senior unsecured	FirstRand Bank Limited	FRS86	ZAG000105008
	FirstRand Bank Limited	FRS87	ZAG000105420
	FirstRand Bank Limited	FRS88	ZAG000106154
	FirstRand Bank Limited	FRS89	ZAG000106337
	FirstRand Bank Limited	FRS90	ZAG000106410
	FirstRand Bank Limited	FRS91	ZAG000106477
	FirstRand Bank Limited	FRS92	ZAG000106709
	FirstRand Bank Limited	FRX14	ZAG000079815
	FirstRand Bank Limited	FRX15	ZAG000051103
	FirstRand Bank Limited	FRX16	ZAG000084203
	FirstRand Bank Limited	FRX17	ZAG000094376
	FirstRand Bank Limited	FRX18	ZAG000076472
	FirstRand Bank Limited	FRX19	ZAG000073685
	FirstRand Bank Limited	FRX23	ZAG000104969
	FirstRand Bank Limited	FRX24	ZAG000073693
	FirstRand Bank Limited	FRX31	ZAG000084195
	FirstRand Bank Limited	FRX45	ZAG000076480
Inflation-linked bonds	FirstRand Bank Limited	FRBI22	ZAG000079666
	FirstRand Bank Limited	FRBI23	ZAG000076498
	FirstRand Bank Limited	FRBI28	ZAG000079237
	FirstRand Bank Limited	FRBI33	ZAG000079245
	FirstRand Bank Limited	FRI15	ZAG000051137
Credit-linked notes	FirstRand Bank Limited	FRC29	ZAG000069857
	FirstRand Bank Limited	FRC37	ZAG000076712
	FirstRand Bank Limited	FRC40	ZAG000081027
	FirstRand Bank Limited	FRC41	ZAG000081670
	FirstRand Bank Limited	FRC46	ZAG000082959
	FirstRand Bank Limited	FRC57	ZAG000086414
	FirstRand Bank Limited	FRC61	ZAG000087347
	FirstRand Bank Limited	FRC66	ZAG000088485
	FirstRand Bank Limited	FRC67	ZAG000088741
	FirstRand Bank Limited	FRC68	ZAG000088758
	FirstRand Bank Limited	FRC69	ZAG000088766
	FirstRand Bank Limited	FRC70	ZAG000088840
	FirstRand Bank Limited	FRC71	ZAG000088923
	FirstRand Bank Limited	FRC72	ZAG000088956
	FirstRand Bank Limited	FRC74	ZAG000089178
	FirstRand Bank Limited	FRC76	ZAG000089574
	FirstRand Bank Limited	FRC78	ZAG000089806
	FirstRand Bank Limited	FRC79	ZAG000089947
	FirstRand Bank Limited	FRC82	ZAG000090796
	FirstRand Bank Limited	FRC83	ZAG000090952
	FirstRand Bank Limited	FRC84	ZAG000090986
	FirstRand Bank Limited	FRC85	ZAG000091109
	FirstRand Bank Limited	FRC86	ZAG000091182

	Issuer	Bond code	ISIN code
Credit-linked notes	FirstRand Bank Limited	FRC87	ZAG000091570
	FirstRand Bank Limited	FRC94A	ZAG000106725
	FirstRand Bank Limited	FRC95	ZAG000092792
	FirstRand Bank Limited	FRC96A	ZAG000106733
	FirstRand Bank Limited	FRC97	ZAG000093212
	FirstRand Bank Limited	FRC98	ZAG000093220
	FirstRand Bank Limited	FRC99	ZAG000093501
	FirstRand Bank Limited	FRC101	ZAG000093576
	FirstRand Bank Limited	FRC103	ZAG000093840
	FirstRand Bank Limited	FRC104	ZAG000093857
	FirstRand Bank Limited	FRC105	ZAG000093998
	FirstRand Bank Limited	FRC106	ZAG000093956
	FirstRand Bank Limited	FRC107	ZAG000094574
	FirstRand Bank Limited	FRC108	ZAG000094871
	FirstRand Bank Limited	FRC109	ZAG000094889
	FirstRand Bank Limited	FRC110	ZAG000094954
	FirstRand Bank Limited	FRC112	ZAG000095621
	FirstRand Bank Limited	FRC113	ZAG000095761
	FirstRand Bank Limited	FRC114	ZAG000095837
	FirstRand Bank Limited	FRC115	ZAG000095852
	FirstRand Bank Limited	FRC116	ZAG000095860
	FirstRand Bank Limited	FRC117	ZAG000095928
	FirstRand Bank Limited	FRC118	ZAG000096280
	FirstRand Bank Limited	FRC119	ZAG000096298
	FirstRand Bank Limited	FRC120	ZAG000096306
	FirstRand Bank Limited	FRC121	ZAG000096314
	FirstRand Bank Limited	FRC122	ZAG000096322
	FirstRand Bank Limited	FRC123	ZAG000096272
	FirstRand Bank Limited	FRC124	ZAG000096579
	FirstRand Bank Limited	FRC125	ZAG000096678
	FirstRand Bank Limited	FRC126	ZAG000096934
	FirstRand Bank Limited	FRC127	ZAG000096942
	FirstRand Bank Limited	FRC128	ZAG000096959
	FirstRand Bank Limited	FRC129	ZAG000096967
	FirstRand Bank Limited	FRC130	ZAG000096975
	FirstRand Bank Limited	FRC131	ZAG000096983
	FirstRand Bank Limited	FRC132	ZAG000096991
	FirstRand Bank Limited	FRC133	ZAG000097007
	FirstRand Bank Limited	FRC134	ZAG000097056
	FirstRand Bank Limited	FRC135	ZAG000097122
	FirstRand Bank Limited	FRC136	ZAG000097106
	FirstRand Bank Limited	FRC137	ZAG000097114
	FirstRand Bank Limited	FRC138	ZAG000097130
	FirstRand Bank Limited	FRC139	ZAG000097148
	FirstRand Bank Limited	FRC140	ZAG000097155
	FirstRand Bank Limited	FRC141	ZAG000097189
	FirstRand Bank Limited	FRC142	ZAG000097445
	FirstRand Bank Limited	FRC144	ZAG000097569
	FirstRand Bank Limited	FRC145	ZAG000097627
	FirstRand Bank Limited	FRC146	ZAG000099425

	Issuer	Bond code	ISIN code
Credit-linked notes	FirstRand Bank Limited	FRC147	ZAG000099433
	FirstRand Bank Limited	FRC148	ZAG000099466
	FirstRand Bank Limited	FRC149	ZAG000099607
	FirstRand Bank Limited	FRC150	ZAG000099821
	FirstRand Bank Limited	FRC151	ZAG000099904
	FirstRand Bank Limited	FRC152	ZAG000100330
	FirstRand Bank Limited	FRC153	ZAG000100348
	FirstRand Bank Limited	FRC154	ZAG000100694
	FirstRand Bank Limited	FRC155	ZAG000101643
	FirstRand Bank Limited	FRC157	ZAG000101973
	FirstRand Bank Limited	FRC158	ZAG000101981
	FirstRand Bank Limited	FRC159	ZAG000101999
	FirstRand Bank Limited	FRC160	ZAG000102013
	FirstRand Bank Limited	FRC161	ZAG000102260
	FirstRand Bank Limited	FRC162	ZAG000102286
	FirstRand Bank Limited	FRC163	ZAG000102898
	FirstRand Bank Limited	FRC164	ZAG000103110
	FirstRand Bank Limited	FRC165	ZAG000103128
	FirstRand Bank Limited	FRC166	ZAG000103573
	FirstRand Bank Limited	FRC167	ZAG000104019
	FirstRand Bank Limited	FRC168	ZAG000104753
	FirstRand Bank Limited	FRC169	*ZAG000104852*
	FirstRand Bank Limited	FRC170	*ZAG000105586*
	FirstRand Bank Limited	FRC171	*ZAG000105719*
	FirstRand Bank Limited	FRC172	*ZAG000105818*
	FirstRand Bank Limited	FRC173	ZAG000105826
	FirstRand Bank Limited	FRC174	ZAG000105891
	FirstRand Bank Limited	FRC175	ZAG000106527
Senior unsecured callable bonds	FirstRand Bank Limited	FR002U	ZAG000042748
	FirstRand Bank Limited	FR003U	ZAG000042755
Investment security index contracts	Rand Merchant Bank	RMBI01	ZAG000050865
	Rand Merchant Bank	RMBI02	ZAG000052986
	Rand Merchant Bank	RMBI03	ZAG000054032
	Rand Merchant Bank	RMBI04	ZAG000055013
	Rand Merchant Bank	RMBI05	ZAG000055864
	Rand Merchant Bank	RMBI06	ZAG000056722
	Rand Merchant Bank	RMBI07	ZAG000057910
	Rand Merchant Bank	RMBI08	ZAG000072265
Structured notes	FirstRand Bank Limited	OILRMB	ZAG000152732
	FirstRand Bank Limited	COLRMB	ZAE000155222

London Stock Exchange (LSE)
European medium term note (EMTN) programme

	Issuer	ISIN code
Senior unsecured	FirstRand Bank Limited	XS0610341967
	FirstRand Bank Limited	XS0595260141
	FirstRand Bank Limited	XS0635404477

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 9 September 2013

	FirstRand Bank Limited	Sovereign rating South Africa
Foreign currency counterparty credit ratings		
Long-term	**BBB**	BBB
Outlook	**Negative**	Negative
Short-term	**A-2**	A-2
Local currency counterparty credit ratings		
Long-term	**BBB**	A-
Outlook	**Negative**	Negative
Short-term	**A-2**	A-2
National scale		
Long-term	**zaAA**	
Short-term	**zaA-1**	

Summary of rating actions:

- On 12 October 2012, S&P lowered the long-term foreign currency sovereign rating on South Africa to BBB from BBB+ and the long-term local currency rating to A- from A. The agency also lowered the short-term local currency rating to A-2 from A-1 and affirmed the short-term foreign currency rating at A-2. The outlook remained negative.
- Consequently, FRB's long-term foreign and local currency ratings were lowered to BBB from BBB+ with the short-term foreign and local currency ratings affirmed at A-2. The South Africa national scale ratings on FRB were affirmed at zaAA/zaA-1.

Credit ratings assigned by Moody's Investors Service (Moody's) as at 9 September 2013

	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	**A3**	Baa1
Outlook	**Negative**	Negative
Short-term	**P-2**	
National scale		
Long-term	**Aa2.za**	
Short-term	**P-1.za**	
Bank financial strength rating	**C-**	
Outlook	**Stable**	

Summary of rating actions:

- On 27 September 2012, Moody's lowered the government bond rating by one notch to Baa1 from A3. The outlook remained negative.
- Consequently on 4 October 2012, FRB's foreign currency deposit rating was lowered to Baa1 from A3. Local currency deposit and debt ratings were assigned a negative outlook in line with the sovereign rating outlook. The national scale deposit ratings of Aa2.za/P-1.za remained unaffected.
- On 27 April 2013, Moody's affirmed the Bank's ratings.

Credit ratings assigned by Fitch Ratings (Fitch) as at 9 September 2013

	FirstRand Bank Limited	Sovereign rating South Africa
Foreign currency issuer default ratings (IDR)		
Long-term	**BBB**	BBB
Outlook	**Stable**	Stable
Short-term	**F3**	F3
Local currency IDR		
Long-term	**BBB**	BBB+
Outlook	**Stable**	Stable
National ratings		
Long-term	**AA(zaf)**	
Outlook	**Stable**	
Short-term	**F1+(zaf)**	
Viability rating	**bbb**	
Support rating	**3**	
Support rating floor	**BB+**	

Summary of rating actions:

- On 10 January 2013, Fitch downgraded South Africa's long-term foreign currency IDR to BBB from BBB+ and long-term local currency IDR to BBB+ from A. The agency also downgraded the short-term IDR to F3 from F2. The outlooks are stable.
- Consequently, on 15 January 2013, FRB's long-term foreign currency IDR was downgraded to BBB from BBB+, short-term foreign currency IDR downgraded to F3 from F2, long-term local currency IDR downgraded to BBB from BBB+, viability rating downgraded to bbb from bbb+, support rating downgraded to 3 from 2 and the support rating floor downgraded to BB+ from BBB-. The national ratings remained unaffected.
- On 1 August 2013, Fitch affirmed the Bank's ratings.

DEFINITIONS

Term	Definition
Additional Tier 1 (AT1) capital	NCNR preference share capital plus qualifying capital instruments issued out of fully consolidated subsidiaries to third parties less specified regulatory deductions.
CAGR	Compound annual growth rate.
Capital adequacy ratio (CAR)	Total qualifying capital and reserves divided by RWA.
Common Equity Tier 1 (CET1) capital	Share capital and premium plus accumulated comprehensive income and reserves plus qualifying capital instruments issued out of fully consolidated subsidiaries to third parties less specified regulatory deductions.
Cost-to-income ratio	Operating expenses excluding indirect taxes expressed as a percentage of total income including share of profits from associates and joint ventures.
Credit loss ratio	Total impairment charge per the income statement expressed as a percentage of average advances (average between the opening and closing balance for the year).
Diversity ratio	Non-interest revenue expressed as a percentage of total income.
Effective tax rate	Tax per the income statement divided by the profit before tax per the income statement.
Exposure at default (EAD)	Gross exposure of a facility upon default of a counterparty.
Loan-to-deposit ratio	Average advances expressed as a percentage of average deposits.
Loss given default (LGD)	Economic loss that will be suffered on an exposure following default of the counterparty, expressed as a percentage of the amount outstanding at the time of default.
Normalised earnings	The Group believes normalised earnings more accurately reflect its economic performance. Headline earnings are adjusted to take into account non-operational and accounting anomalies. Refer to page 17 for a detailed description of the difference between normalised and IFRS results.
Probability of default (PD)	Probability that a counterparty will default within the next year (considering the ability and willingness of the counterparty to repay).
Return on assets (ROA)	Normalised earnings divided by average assets.
Return on equity (ROE)	Normalised earnings divided by average normalised ordinary shareholders' equity.
Risk weighted assets (RWA)	Prescribed risk weightings relative to the credit risk of counterparties, operational risk, market risk, equity investment risk and other risk multiplied by on- and off-balance sheet assets.
Tier 1 ratio	Tier 1 capital divided by RWA.
Tier 1 capital	Common Equity Tier 1 capital plus Additional Tier 1 capital.
Tier 2 capital	Qualifying subordinated debt instruments plus qualifying capital instruments issued out of fully consolidated subsidiaries to third parties plus general provisions for entities on the standardised approach less specified regulatory deductions.
Total qualifying capital and reserves	Tier 1 capital plus Tier 2 capital.

STUDIO⑤

www.firstrand.co.za

FIRSTRAND BANK