ANALYSIS OF FINANCIAL RESULTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2013

FIRSTRAND BANK

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FIRSTRAND BANK

1929/001225/06
Certain entities within the FirstRand Group are Authorised Financial Services and Credit Providers
This analysis is available on the Group's website: www.firstrand.co.za

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INTRODUCTION

This report covers the unaudited financial results of FirstRand Bank Limited (the Bank or FRB) based on International Financial Reporting Standards (IFRS) for the six months ended 31 December 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 IFRS financial results. The prior year numbers have been restated as a result of the adoption of new and revised IFRS requirements (refer to pages 104 to 112).

Normalised results include a condensed income statement, statement of comprehensive income and an abridged statement of financial position. A detailed description of the difference between normalised and IFRS results is provided on page 11. Detailed reconciliations of normalised to IFRS results are provided on pages 24 to 26. Commentary is based on normalised results, unless indicated otherwise.

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

Financial highlights

	Six months ended 31 December			Year ended 30 June
	2013	2012*	% change	2013*
Normalised earnings (R million)	**6 635**	5 620	18	10 952
Normalised return on equity (%)	**24.5**	24.1		22.6
Common Equity Tier 1 ratio (%)	**13.4**	11.9		12.6
Credit loss ratio (%)	**0.78**	0.91		1.01
NPLs (% of advances)	**2.63**	3.24		2.88

* *Refer to restatement of prior year numbers on pages 104 to 112.*

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

KEY FINANCIAL RESULTS, RATIOS AND STATISTICS

	Six months ended 31 December			Year ended 30 June
R million	**2013**	2012*	% change	2013*
Attributable earnings to ordinary equityholders	**6 815**	5 495	24	10 782
Headline earnings	**6 781**	5 673	20	10 867
Normalised earnings	**6 635**	5 620	18	10 952
Normalised net asset value	**57 103**	48 108	19	51 407
Average normalised net asset value	**54 255**	46 713	16	48 363
Gross advances	**586 356**	527 452	11	560 543
Normalised ROE (%)	**24.5**	24.1		22.6
Cost-to-income ratio (%)	**57.0**	57.6		56.6
Net interest margin	**5.17**	4.62		4.70
Capital adequacy**				
Capital adequacy ratio %	**15.7**	14.6		14.9
Tier 1 ratio (%)	**14.1**	12.7		13.3
Common Equity Tier 1 (CET1) ratio (%)	**13.4**	11.9		12.6

* *Refer to restatement of prior year numbers on pages 104 to 112.*

** *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.*

SIMPLIFIED GROUP STRUCTURE

FIRSTRAND

Listed holding company (FirstRand Limited, JSE: FSR)

100%	100%	100%	100%
FIRSTRAND BANK LIMITED JSE bond code: BIFR1	FIRSTRAND EMA HOLDINGS LIMITED (FREMA)	FIRSTRAND INVESTMENT HOLDINGS (PTY) LTD (FRIHL)	ASHBURTON INVESTMENTS HOLDINGS LIMITED
Banking	**Africa and emerging markets**	**Other activities****	**Investment management**
100% First National Bank[1]	**59%** FNB Namibia	**96%** RMB Private Equity Holdings	**100%** Ashburton Fund Managers (Pty) Ltd
100% Rand Merchant Bank[1]	**69%** FNB Botswana	**93%** RMB Private Equity	**100%** Ashburton Investor Services (Pty) Ltd
100% WesBank[1]	**100%** FNB Swaziland	**100%** RMB Securities	**100%** Ashburton Management Company (Pty) Ltd
100% FirstRand Bank India[2]	**90%** FNB Mozambique	**50%** RMB Morgan Stanley	**100%** Ashburton Private Equity GP1 (Pty) Ltd
100% FirstRand Bank London[2,*]	**100%** FNB Zambia	**100%** RentWorks	**100%** FNB International Wealth Management Holdings Ltd
100% FirstRand Bank Kenya[3]	**100%** FNB Lesotho	**66%** Direct Axis	**100%** RMB CIS Management Company (Pty) Ltd
100% FirstRand Bank Angola[3]	**100%** FNB Tanzania	**100%** FirstRand International – Guernsey (includes RMB Australia Holdings)	
100% FirstRand Bank Dubai[3]	**100%** RMB Nigeria		
100% FirstRand Bank Shanghai[3]	**100%** FirstRand International – Mauritius		

Structure shows effective consolidated shareholding.

1. Division
2. Branch
3. Representative office

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

** For segmental analysis purposes, entities included in FRIHL are reported as part of results of the managing franchise. The Group's securitisations and conduits are in FRIHL.

STATEMENT OF HEADLINE EARNINGS – IFRS

R million	Six months ended 31 December 2013	Six months ended 31 December 2012*	% change	Year ended 30 June 2013*
Profit for the period (refer page 12)	**6 911**	5 595	24	10 978
NCNR preference shareholders	**(96)**	(100)	(4)	(196)
Earnings attributable to ordinary equityholders	**6 815**	5 495	24	10 782
Adjusted for:	**(34)**	178	(>100)	85
Gain on disposal of investment securities and other investments of a capital nature	**–**	–		(35)
Gain on disposal of available-for-sale assets	**(66)**	–		(32)
Loss/(gain) on the disposal of property and equipment	**3**	(1)		56
Impairment of assets in terms of IAS 36	**11**	248		260
Other	**–**	–		(127)
Tax effects of adjustments	**18**	(69)		(37)
Headline earnings	**6 781**	5 673	20	10 867

* *Refer to restatement of prior year numbers on pages 104 to 112.*

RECONCILIATION FROM HEADLINE TO NORMALISED EARNINGS

R million	Six months ended 31 December 2013	Six months ended 31 December 2012*	% change	Year ended 30 June 2013*
Headline earnings	**6 781**	5 673	20	10 867
Total return swap (share hedge)	**(146)**	(53)	>100	85
Normalised earnings	**6 635**	5 620	18	10 952

* *Refer to restatement of prior year numbers on pages 104 to 112.*

OVERVIEW OF RESULTS

INTRODUCTION

The macroeconomic environment for the first six months of the financial year continued to be challenging.

The local economy had to contend with a far less favourable global financial environment. Countries such as South Africa, with current account deficits and large financing requirements, were particularly vulnerable to slowing capital flows and the rand continued to weaken. This placed upward pressure on inflation and, in the first quarter of 2014, interest rates started to rise.

These external headwinds, combined with a slowdown in real income growth, resulted in continued pressure on South African households.

GDP growth in South Africa remained subdued as capacity constraints and labour market unrest negatively impacted the supply side of the economy.

OVERVIEW OF RESULTS

FirstRand Bank produced good results for the six months to 31 December 2013, achieving normalised earnings of R6 635 million, an increase of 18% year-on-year and a normalised ROE of 24.5%.

All three operating franchises continued to achieve good operational performances, despite the deteriorating macroeconomic environment. FNB experienced ongoing strong topline growth and profitability due to its consistent strategy to acquire core transactional accounts, grow loans and deposits and drive transactional volumes across all of its platforms, particularly electronic. WesBank grew new business volumes across all portfolios and RMB's diversified corporate and investment banking portfolios delivered strong growth in profits, particularly from its client-centric and investment activities.

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

Sources of normalised earnings

	Six months ended 31 December					Year ended 30 June	
R million	**2013**	**% compo-sition**	2012	% compo-sition	% change	2013	% compo-sition
FNB	**3 836**	**57**	3 167	57	21	6 394	59
RMB	**2 017**	**30**	1 532*	27	32	3 404*	31
WesBank	**703**	**11**	774	14	(9)	1 566	14
Treasury and Corporate Centre**	**175**	**3**	247	4	(29)	(216)	(2)
NCNR preference dividend	**(96)**	**(1)**	(100)	(2)	(4)	(196)	(2)
Normalised earnings	**6 635**	**100**	5 620	100	18	10 952	100

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

** *The year-on-year benefit is primarily due to the unwind of certain accounting timing anomalies recorded by Group Treasury during the financial year ended 30 June 2013, e.g. mark-to-market losses on economic hedges, partially unwinding or not recurring during the six months to December 2013. Refer to margin analysis on page 28 for additional information.*

The Bank's income statement benefited from an increase of 27% in net interest income (NII), driven by good growth in new business at FNB, WesBank and RMB. Asset margins continued to be positively impacted by repricing and growth in advances in higher-yielding asset classes, such as vehicle asset finance (VAF) and unsecured lending. This trend, however, is reducing on a rolling six-month basis.

Total non-interest revenue (NIR) increased 2% year-on-year, with strong contributions from all franchises. FNB's NIR growth continued to be driven by increases in fee and commission income, particularly on the back of the acquisition of core transactional accounts. The strategy to drive customers onto electronic platforms continued to produce strong growth in volumes across cellphone (+27%) and internet (+16%) banking channels. WesBank's NIR benefited from robust levels of new business origination. Knowledge-based fees at RMB were resilient despite muted levels of activity from the local corporate sector, however, client execution revenues remained strong.

Overall operating cost growth was 14% for the period, reflecting the continued investment in FNB's electronic platforms. In addition, costs associated with the strong underlying growth from alliance partnerships (particularly at WesBank) also increased.

Bad debts are currently trending below expectations at 78 bps, but, excluding portfolio overlays, the rand value of portfolio impairments are higher in the core advances book due to the Bank's view that the previously benign credit cycle has bottomed. This is considered prudent given the strong book growth year-on-year. All of the Bank's portfolios are tracking as anticipated, reflecting decisions taken as early as 2011 to exit origination in high-risk segments, particularly in the unsecured lending market.

Overall non-performing loans (NPLs) have continued to trend down, with retail NPLs declining 8% mainly as a result of the continuing significant reductions in residential mortgage NPLs. Unsecured lending NPLs have increased as expected, although all of these loan books are still performing better than expected at this point in the cycle. Corporate NPLs declined 14% as a result of decreases in the WesBank corporate and RMB portfolios.

The Bank's overall balance sheet showed a robust increase in advances year-on-year, with particularly good growth from card, secured affordable housing and overdrafts at FNB. RMB's core advances book posted strong growth. On a rolling six-month basis, growth in certain retail portfolios, such as unsecured lending and VAF, has moderated.

STRATEGY

FirstRand's vision is to be the African financial services group of choice, create long-term franchise value, deliver superior and sustainable economic returns to shareholders within acceptable levels of volatility and maintain balance sheet strength. FirstRand seeks to achieve this with two parallel growth strategies which are executed through its portfolio of operating franchises within a framework set by the Group. The growth strategies are:

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

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

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

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

OVERVIEW OF OPERATING FRANCHISES

Below is a brief overview of 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.

FNB financial highlights

R million	Six months ended 31 December 2013	Six months ended 31 December 2012	% change	Year ended 30 June 2013
Normalised earnings	**3 836**	3 167	21	6 394
Normalised profit before tax	**5 323**	4 310	24	8 698
Total assets	**259 882**	238 836	9	248 628
Total liabilities	**254 531**	234 471	9	239 918
NPLs (%)	**3.78**	4.80		4.21
Credit loss ratio* (%)	**1.01**	1.25		1.25

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

Segment results

Normalised PBT R million	Six months ended 31 December 2013	Six months ended 31 December 2012	% change	Year ended 30 June 2013
Retail	**3 283**	2 552	29	5 253
FNB Africa*	**(52)**	(47)	9	(63)
Commercial	**2 092**	1 805	16	3 508
Total FNB	**5 323**	4 310	24	8 698

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

FNB produced an excellent performance for the period, increasing pre-tax profits 24%, driven by increased NII and NIR and a decrease in bad debts, particularly in residential mortgages. This performance can continue to be attributed to FNB's primary strategy to grow and retain core transactional accounts through offering a compelling value proposition to the customer (innovative products and channels at an acceptable cost) supported by rewards programmes, such as eBucks, SLOW lounges and fuel, data and airtime rewards. Innovations such as the banking app, cellphone banking and eWallet also continue to attract and retain customers.

FNB's NII increased 16% driven by growth in both advances (+8%) and deposits (+12%). The 46 bps improvement in asset margins was driven by good risk pricing across FNB's portfolios, the decrease in interest in suspense and growth year-on-year in higher-margin products, although this latter trend is reducing on a rolling six-month basis. Deposit margins held up well, decreasing only 4 bps. Deposit and advances growth came from across all segments as indicated below.

Segment analysis of advances and deposit growth

Segments	Deposit growth %	Deposit growth **R billion**	Advances growth %	Advances growth **R billion**
	Six months ended 31 December 2013			
Retail	12	**13.9**	7	**12.4**
Commercial	13	**14.8**	14	**5.6**

Residential mortgages grew 5% as FNB continued to originate only in lower risk categories. Card increased 13% on the back of new customer acquisition. Personal loans declined 2% year-on-year and 5% on a rolling six-month basis, reflecting the ongoing adjustments in credit appetite in that segment.

Overall NPLs decreased 15% due to FNB's ongoing proactive workout strategy (particularly in residential mortgages). NPLs in the personal loans portfolio remained flat at R919 million. The year-on-year decrease is mainly attributable to residential mortgages (-22%) and Commercial (-10%).

FNB's NIR increased 11% year-on-year reflecting growth in core transactional banking accounts. There was continued strong growth of 11% in overall transactional volumes with electronic transactional volumes up 15%. An example of how customers are adapting to electronic channels is that year-on-year ATM and ADT deposits increased 27%, whilst branch-based deposits decreased 13%. The adoption of FNB's innovative customer proposition in the commercial and business segments resulted in strong NIR growth of 11% and 19% respectively.

FNB's overall operating expenditure increased 13%, reflecting ongoing investment in its operating footprint. However, the business continues to deliver positive operating jaws.

RMB

RMB represents FirstRand's activities in the corporate and investment banking segments in South Africa and the rest of 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 is delivering a high quality and sustainable earnings profile.

RMB financial highlights

R million	Six months ended 31 December 2013	2012	% change	Year ended 30 June 2013
Normalised earnings	**2 017**	1 532*	32	3 404
Normalised profit before tax	**2 801**	2 090	34	4 648
Total assets	**312 243**	305 433	2	301 636
Total liabilities	**310 449**	304 514	2	298 821
Credit loss ratio (%)	**0.13**	0.33		0.56

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

Divisional performance

Normalised PBT R million	Six months ended 31 December 2013	2012	% change	Year ended 30 June 2013
Investment banking	**2 589**	1 814	43	4 156
– Global Markets	**799**	680	18	1 466
– IBD	**2 000**	1 286	56	2 874
– Private Equity*	**28**	38	26	47
– Other RMB	**(238)**	(190)	25	(231)
Corporate banking	**212**	276**	(23)	492**
Operational performance#	**212**	183	16	399
Normalisation adj (IT enablement for Dec 2012 period)	**–**	93	(100)	93
Total RMB	**2 801**	2 090	34	4 648

* *The majority of private equity activities are in FRIHL.*
** *Includes a normalisation adjustment of R248 million for December 2012 which carries through to June 2013 for IT enablement spend of which R155 million relates to years prior to and including June 2012.*
\# *Dec 2013 operational performance includes IT enablement spend of R73 million (Dec 2012: R93 million; June 2013: R164 million).*

RMB Corporate and Investment Banking (CIB) produced strong results for the six months to December 2013. Pre-tax profits increased 34% to R2.8 billion. This performance reflects the strength of the domestic franchise and momentum from the African expansion strategy.

RMB's revenue mix is diverse and remains extremely solid; it has continued to focus on building scale in the Corporate Banking franchise, strengthening the balance sheet and consolidating market share in the more established business lines.

The Global Markets division delivered a robust performance for the first half of the year across all business lines, notwithstanding challenging market conditions and macroeconomic pressures. Profits grew 18% to R799 million, reflecting the strength of the domestic client franchise, a growing African footprint and enhanced fee-generating capacity.

The Investment Banking Division (IBD) delivered strong results, increasing pre-tax profits 56% to R2 billion. The growth was, to an extent, balance sheet led with core advances up approximately 17% as IBD benefited from continued infrastructure spend (particularly in the renewable energy sector) and strong growth in African cross-border lending. Good growth was also generated from structuring fees.

Other RMB costs relate to an additional impairment in the legacy portfolio and head office costs.

The operational performance of the Corporate Banking division was up 16% year-on-year, with total revenue increasing due to good growth in advances and deposits. Investment in platforms remains a key focus.

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 unsecured lending market in South Africa. WesBank's leading position in its chosen markets is due to its long-standing alliances with leading motor manufacturers, suppliers and dealer groups, and strong point-of-sale presence.

WesBank financial highlights

R million	Six months ended 31 December 2013	2012	% change	Year ended 30 June 2013
Normalised earnings	**703**	774	(9)	1 566
Normalised profit before tax	**957**	1 054	(9)	2 131
Total assets	**142 745**	120 475	18	134 869
Total liabilities	**141 808**	119 421	19	132 765
NPLs (%)	**2.78**	3.33		2.83
Credit loss ratio (%)	**1.28**	1.10		1.24

WesBank's performance was resilient given its sensitivity to the credit cycle. Despite higher credit and operating costs, strong new business volumes continued and for the six months ended 31 December 2013, WesBank's pre-tax profits declined 9%. This performance was underpinned by strict credit discipline and effective and efficient origination channels.

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

Breakdown of profit contribution by activity

Normalised PBT R million	Six months ended 31 December **2013**	Six months ended 31 December 2012	% change	Year ended 30 June 2013
VAF				
– Local retail	**519**	558	(7)	1 070
– International (MotoNovo)	**(159)**	(74)	>100	(195)
– Corporate and commercial	**214**	203	5	506
Personal loans	**383**	367	4	750
Total WesBank	**957**	1 054	(9)	2 131

New business continued to reflect a good risk profile across all portfolios, with systemic tightening in credit appetite for higher risk segments. Production was up 14% year-on-year, although trends in new business growth in the local retail portfolios are slowing. From a divisional perspective, motor, corporate, personal loans and MotoNovo origination volumes were up 7%, 24%, 19% and 31% (GBP), respectively.

Total advances increased 19% to R142.4 billion driven by all of the underlying portfolios, with the retail motor, personal loans, corporate and commercial and MotoNovo businesses reflecting advances growth of 18%, 27%, 14% and 61%, respectively. In addition, the corporate division increased the value of the full maintenance rental asset book to R1.6 billion.

Interest margins were maintained despite increased competition across all portfolios with origination well within agreed risk thresholds. As key macro inputs indicate upside risk to impairment ratios, credit appetite continues to be critically and regularly assessed and performance closely monitored.

NPLs continued to reduce (2.78% at December 2013 compared to 2.83% at June 2013 and 3.33% 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 period under review, represented 22% of NPLs, compared to 18% at June 2013.

NIR increased 36% year-on-year, reflective of the growth in the advances book and in rental assets, offset by continued pricing pressure on the auto card business.

Core operating costs increased 13%, however, total expenses grew 22% when including the impact of the increase in profit share payments to alliance partners (which now total R247 million and are up 20% year-on-year), investment in platforms and strategic initiatives, and the increase in depreciation of full maintenance rental assets.

FINANCIAL RESOURCE MANAGEMENT

The Group believes a strong balance sheet is key to growth, particularly when entering 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 77% of total assets. In terms of credit quality, 90% of advances are rated B upper or better. Cash, cash equivalents and liquid assets represent 15% 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 months in 2009 to 23 months at 31 December 2013.

Capital

The Group's capital management strategy is aligned to its overall objective to deliver sustainable returns to shareholders within appropriate levels of volatility. The Group's 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 actual ratios are summarised in the following 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
Actual**	**13.4**	**14.1**	**15.7**

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

BASIS OF PRESENTATION

The Bank prepares its condensed interim financial results in accordance with:

- recognition and measurement requirements of IFRS;
- presentation and disclosure requirements of IAS 34;
- SAICA Financial Reporting Guide as issued by the Accounting Practices Committee;
- Financial Reporting Pronouncements as issued by Financial Reporting Standards Council; and
- the requirements of the Companies Act 71 of 2008 applicable to summary financial statements.

The results are prepared in accordance with the going concern principle under the historical cost basis as modified by the fair value accounting of certain assets and liabilities where required or permitted by IFRS.

The accounting policies applied in the preparation of the condensed interim financial statements are in terms of IFRS and are consistent with those accounting policies applied in the preparation of the previous annual financial statements, except for the adoption of new and revised IFRS requirements and a voluntary change in the Bank's presentation of loans to associates. The details of these are set out below.

New and revised IFRS requirements

The following new and revised IFRS requirements were adopted by the Bank for the first time for the six months ended 31 December 2013. Unless stated otherwise, these requirements are applied retrospectively and the previously reported financial results have been restated.

- IFRS 10, IFRS 11, IFRS 12, IAS 27R and IAS 28R. These standards prescribe new and amended requirements for assessing whether control or joint control exists. The disclosure requirements for all interests in other entities, including unconsolidated structured entities, are now contained in a single standard. The impact of these new standards on the Bank's previously reported financial position and performance is presented on pages 104 to 112.
- IFRS 13 establishes a single framework for measuring and disclosing fair value. The standard requires prospective implementation and does not require comparative information to be presented for disclosures in the year of adoption. The standard, therefore, has had no impact on amounts previously reported. The additional disclosures are provided on pages 86 to 97.
- Amendments to IFRS 7 require disclosures about the effect or potential effects of netting arrangements on the Bank's financial position. The amendment does not impact recognition or measurement of amounts but requires additional disclosure in respect of financial instruments that are subject to an enforceable master netting arrangement or similar agreement. These additional disclosures, along with the comparative information, are presented on pages 98 to 103.
- Amendments to IAS 19 have resulted in changes to the recognition, measurement and presentation of amounts in respect of defined benefit plans. The impact of these amendments on the Bank's previously reported financial position and performance is presented on pages 104 to 112.

All comparative information impacted by the new accounting policies has been restated.

Voluntary change in presentation

The Bank has changed the manner in which it presents certain loans to associates and joint ventures. The change in presentation has had no impact on the net asset value of the Bank and only affects the classification of items on the statement of financial position. The impact on previously reported results is set out on pages 104 to 112.

The condensed interim results for the six months ended 31 December 2013 have not been audited or independently reviewed by the Bank's external auditors.

The Bank believes normalised earnings more accurately reflect operational performance. Headline earnings are adjusted to take into account non-operational items and accounting anomalies. Details of the nature of these adjustments and the reasons therefore can be found on page 11.

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

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.

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. For the purposes of calculating normalised results, the Bank reclassifies fair value changes on these hedging instruments from NIR to NII to reflect the economic substance of these hedges.

FAIR VALUE ANNUITY INCOME – LENDING

For the purposes of calculating normalised results, the Bank accounts for the majority of its wholesale advances book in RMB on a fair value basis in terms of IFRS. As a result, the margin on these advances is reflected as part of NIR.

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

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

CONDENSED INCOME STATEMENT – IFRS

R million	Six months ended 31 December 2013	Six months ended 31 December 2012*	% change	Year ended 30 June 2013*
Net interest income before impairment of advances	**12 457**	10 703	16	21 683
Impairment of advances	**(2 213)**	(2 061)	7	(4 441)
Net interest income after impairment of advances	**10 244**	8 642	19	17 242
Non-interest income	**14 647**	12 540	17	24 123
Income from operations	**24 891**	21 182	18	41 365
Operating expenses	**(15 319)**	(13 734)	12	(26 673)
Income before tax	**9 572**	7 448	29	14 692
Indirect tax	**(429)**	(429)	–	(579)
Profit before tax	**9 143**	7 019	30	14 113
Income tax expense	**(2 232)**	(1 424)	57	(3 135)
Profit for the period	**6 911**	5 595	24	10 978
Attributable to:				
Ordinary equityholders	**6 815**	5 495	24	10 782
NCNR preference shareholders	**96**	100	(4)	196
Profit for the period	**6 911**	5 595	24	10 978

* *Refer to restatement of prior year numbers on pages 104 to 112.*

CONDENSED STATEMENT OF COMPREHENSIVE INCOME – IFRS

	Six months ended 31 December			Year ended 30 June
R million	**2013**	2012*	% change	2013*
Profit for the period	**6 911**	5 595	24	10 978
Items that may subsequently be reclassified to profit or loss				
Cash flow hedges	**75**	(89)	(>100)	853
(Losses)/gains arising during the period	**(260)**	(451)	(42)	417
Reclassification adjustments for amounts included in profit or loss	**364**	328	11	768
Deferred income tax	**(29)**	34	(>100)	(332)
Available-for-sale financial assets	**(126)**	349	(>100)	(117)
(Losses)/gains arising during the period	**(110)**	479	(>100)	(134)
Reclassification adjustments for amounts included in profit or loss	**(66)**	–	>100	(32)
Deferred income tax	**50**	(130)	(>100)	49
Exchange differences on translating foreign operations	**156**	75	>100	240
Gains arising during the period	**156**	75	>100	240
Items that may not subsequently be reclassified to profit or loss				
Actuarial losses on defined benefit post-employment plans	**(18)**	(23)	(22)	22
(Losses)/gains arising during the period	**(25)**	(32)	(22)	30
Deferred income tax	**7**	9	(22)	(8)
Other comprehensive income for the period	**87**	312	(72)	998
Total comprehensive income for the period	**6 998**	5 907	18	11 976
Attributable to:				
Ordinary equityholders	**6 902**	5 807	19	11 780
NCNR preference shareholders	**96**	100	(4)	196
Total comprehensive income for the period	**6 998**	5 907	18	11 976

* *Refer to restatement of prior year numbers on pages 104 to 112.*

CONDENSED STATEMENT OF FINANCIAL POSITION – IFRS

	As at 31 December		As at 30 June
R million	**2013**	2012*	2013*
ASSETS			
Cash and cash equivalents	**41 298**	44 743	42 296
Derivative financial instruments	**43 684**	55 907	51 755
Commodities	**6 894**	8 003	6 016
Accounts receivable	**3 632**	3 419	4 574
Current tax asset	**471**	497	140
Advances	**574 360**	516 251	548 581
Amounts due by holding company and fellow subsidiary companies	**24 281**	21 267	20 628
Investment securities and other investments	**92 134**	79 100	94 961
Investment in subsidiary companies	**–**	–	5
Investments in associates	**29**	409	44
Property and equipment	**10 965**	9 928	10 421
Intangible assets	**233**	152	154
Total assets	**797 981**	739 676	779 575
EQUITY AND LIABILITIES			
Liabilities			
Short trading positions	**5 489**	9 184	2 923
Derivative financial instruments	**48 775**	58 209	52 940
Creditors and accruals	**7 821**	6 437	8 920
Deposits	**649 971**	586 666	629 872
Provisions	**278**	222	246
Employee liabilities	**5 531**	5 729	7 002
Other liabilities	**1 147**	1 042	1 062
Amounts due to holding company and fellow subsidiary companies	**10 829**	13 158	14 528
Deferred income tax liability	**412**	279	50
Tier 2 liabilities	**7 625**	7 642	7 625
Total liabilities	**737 878**	688 568	725 168
Equity			
Ordinary shares	**4**	4	4
Share premium	**15 304**	15 304	15 304
Reserves	**41 795**	32 800	36 099
Capital and reserves attributable to ordinary equityholders	**57 103**	48 108	51 407
NCNR preference shareholders	**3 000**	3 000	3 000
Total equity	**60 103**	51 108	54 407
Total equity and liabilities	**797 981**	739 676	779 575

* *Refer to restatement of prior year numbers on pages 104 to 112.*

CONDENSED STATEMENT OF CASH FLOWS – IFRS

	Six months ended 31 December		Year ended 30 June
R million	**2013**	2012	2013
Net cash flows from operating activities	**11 935**	8 491	18 425
Net cash (utilised)/generated from operations	**(9 232)**	8 841	(385)
Taxation paid	**(2 484)**	(2 420)	(4 432)
Net cash inflow from operating activities	**219**	14 912	13 608
Net cash outflow from investing activities	**(1 360)**	(2 058)	(3 185)
Net cash inflow from financing activities	**136**	325	285
Net (decrease)/increase in cash and cash equivalents from operations	**(1 005)**	13 179	10 708
Cash and cash equivalents at the beginning of the year	**42 296**	31 557	31 557
Cash and cash equivalents at the end of the period	**41 291**	44 736	42 265
Effect of exchange rate changes on cash and cash equivalents	**7**	7	31
Cash and cash equivalents at the end of the period	**41 298**	44 743	42 296
Mandatory reserve balances included above*	**14 924**	13 439	14 322

* *Banks are required to deposit a minimum average balance calculated monthly with the central bank, which is not available for use in the Bank's day-to-day operations. The deposit bears no or low interest. Money at short notice constitutes amounts withdrawable in 32 days or less.*

CONDENSED STATEMENT OF CHANGES IN EQUITY – IFRS

for the six months ended 31 December

	Ordinary share capital and ordinary equityholders' funds				
R million	Share capital	Share premium	**Share capital and share premium**	Defined benefit post-employment reserve	Cash flow hedge reserve
Balance as reported at 30 June 2012	4	15 304	**15 308**	–	(753)
Prior period restatements	–	–	**–**	(581)	–
Restated balance as at 1 July 2012	4	15 304	**15 308**	(581)	(753)
Movement in other reserves	–	–	**–**	–	–
Ordinary dividends	–	–	**–**	–	–
Preference dividends	–	–	**–**	–	–
Total comprehensive income for the period	–	–	**–**	(23)	(89)
Balance as at 31 December 2012	4	15 304	**15 308**	(604)	(842)
Balance as reported at 30 June 2013	4	15 304	**15 308**	–	100
Prior period restatements	–	–	**–**	(559)	–
Balance as at 1 July 2013	4	15 304	**15 308**	(559)	100
Movement in other reserves	–	–	**–**	–	–
Ordinary dividends	–	–	**–**	–	–
Preference dividends	–	–	**–**	–	–
Total comprehensive income for the period	–	–	**–**	(18)	75
Balance as at 31 December 2013	4	15 304	**15 308**	(577)	175

Ordinary share capital and ordinary equityholders' funds							
Share-based payment reserve	Available-for-sale reserve	Foreign currency translation reserve	Other reserves	Retained earnings	**Reserves attributable to ordinary equity-holders**	**Non-cumulative non-redeemable preference shares**	**Total equity**
420	696	(247)	1 345	29 228	**30 689**	**3 000**	**48 997**
–	–	–	–	(98)	**(679)**	**–**	**(679)**
420	696	(247)	1 345	29 130	**30 010**	**3 000**	**48 318**
19	–	–	–	–	**19**	**–**	**19**
–	–	–	–	(3 036)	**(3 036)**	**–**	**(3 036)**
–	–	–	–	–	**–**	**(100)**	**(100)**
–	349	75	–	5 495	**5 807**	**100**	**5 907**
439	1 045	(172)	1 345	31 589	**32 800**	**3 000**	**51 108**
439	579	(7)	1 345	34 115	**36 571**	**3 000**	**54 879**
–	–	–	–	87	**(472)**	**–**	**(472)**
439	579	(7)	1 345	34 202	**36 099**	**3 000**	**54 407**
11	–	–	–	(37)	**(26)**	**–**	**(26)**
–	–	–	–	(1 180)	**(1 180)**	**–**	**(1 180)**
–	–	–	–	–	**–**	**(96)**	**(96)**
–	(126)	156	–	6 815	**6 902**	**96**	**6 998**
450	453	149	1 345	39 800	**41 795**	**3 000**	**60 103**

Detailed financial analysis

This section is based on normalised earnings from the Bank. A detailed reconciliation between IFRS and normalised results is set out on pages 24 to 26.

KEY FINANCIAL RESULTS, RATIOS AND STATISTICS – NORMALISED

	Six months ended 31 December			Year ended 30 June
R million	**2013**	2012	% change	2013
Earnings performance				
Normalised earnings contribution by franchise	**6 635**	5 620	18	10 952
FNB	**3 836**	3 167	21	6 394
RMB	**2 017**	1 532	32	3 404
WesBank	**703**	774	(9)	1 566
Treasury and Corporate Centre	**175**	247	(29)	(216)
NCNR preference dividend	**(96)**	(100)	(4)	(196)
Attributable earnings – IFRS (refer page 12)	**6 815**	5 495	24	10 782
Headline earnings	**6 781**	5 673	20	10 867
Normalised earnings	**6 635**	5 620	18	10 952
Normalised net asset value	**57 103**	48 108	19	51 407
Tangible normalised net asset value	**56 870**	47 956	19	51 253
Average normalised net asset value	**54 255**	46 713	16	48 363
Balance sheet				
Normalised total assets	**797 981**	739 676	8	779 575
Loans and advances (net of credit impairment)	**574 360**	516 251	11	548 581
Ratios and key statistics				
ROE (%)	**24.5**	24.1		22.6
Return on assets (%)	**1.68**	1.58		1.49
Average loan-to-deposit ratio (%)	**89.6**	90.0		89.2
Diversity ratio (%)	**44.6**	50.1		47.6
Credit impairment charge	**2 225**	2 320	(4)	5 334
NPLs as % of advances	**2.63**	3.24		2.88
Credit loss ratio (%)	**0.78**	0.91		1.01
Credit loss ratio (%) excluding impact of merchant acquiring event	**0.78**	0.91		0.97
Specific coverage ratio (%)	**40.0**	35.9		39.8
Total impairment coverage ratio (%)	**77.8**	65.6		74.2
Performing book coverage ratio (%)	**1.02**	0.99		1.02
Cost-to-income ratio (%)	**57.0**	57.6		56.6
Effective tax rate (%)	**24.3**	20.5		22.3

CONDENSED INCOME STATEMENT – NORMALISED

	Six months ended 31 December			Year ended 30 June
R million	**2013**	2012*	% change	2013*
Net interest income before impairment of advances	**14 873**	11 700	27	24 437
Impairment of advances	**(2 225)**	(2 320)	(4)	(5 334)
Net interest income after impairment of advances	**12 648**	9 380	35	19 103
Non-interest revenue	**11 977**	11 728	2	22 242
Income from operations	**24 625**	21 108	17	41 345
Operating expenses	**(15 308)**	(13 486)	14	(26 413)
Income before tax	**9 317**	7 622	22	14 932
Indirect tax	**(429)**	(429)	–	(579)
Profit before tax	**8 888**	7 193	24	14 353
Income tax expense	**(2 157)**	(1 473)	46	(3 205)
Profit for the period	**6 731**	5 720	18	11 148
NCNR preference shareholders	**(96)**	(100)	(4)	(196)
Normalised earnings attributable to ordinary equityholders	**6 635**	5 620	18	10 952

* *Refer to restatement of prior year numbers on pages 104 to 112.*

CONDENSED STATEMENT OF COMPREHENSIVE INCOME – NORMALISED

R million	Six months ended 31 December 2013	Six months ended 31 December 2012	% change	Year ended 30 June 2013
Profit for the period	**6 731**	5 720	18	11 148
Items that may subsequently be reclassified to profit or loss				
Cash flow hedges	**75**	(89)	(>100)	853
(Losses)/gains arising during the period	**(260)**	(451)	(42)	417
Reclassification adjustments for amounts included in profit or loss	**364**	328	11	768
Deferred income tax	**(29)**	34	(>100)	(332)
Available-for-sale financial assets	**(126)**	349	(>100)	(117)
(Losses)/gains arising during the period	**(110)**	479	(>100)	(134)
Reclassification adjustments for amounts included in profit or loss	**(66)**	–	>100	(32)
Deferred income tax	**50**	(130)	(>100)	49
Exchange differences on translating foreign operations	**156**	75	>100	240
Gains arising during the period	**156**	75	>100	240
Items that may not subsequently be reclassified to profit or loss				
Actuarial gains on defined benefit post-employment plans	**(18)**	(23)	(22)	22
(Losses)/gains arising during the period	**(25)**	(32)	(22)	30
Deferred income tax	**7**	9	(22)	(8)
Other comprehensive income for the period	**87**	312	(72)	998
Total comprehensive income for the period	**6 818**	6 032	13	12 146
Attributable to:				
Ordinary equityholders	**6 722**	5 932	13	11 950
NCNR preference shareholders	**96**	100	(4)	196
Total comprehensive income for the period	**6 818**	6 032	13	12 146

STATEMENT OF HEADLINE EARNINGS

R million	Six months ended 31 December 2013	Six months ended 31 December 2012	% change	Year ended 30 June 2013
IFRS profit (refer page 12)	**6 911**	5 595	24	10 978
NCNR preference shareholders	**(96)**	(100)	(4)	(196)
IFRS earnings attributable to ordinary equityholders	**6 815**	5 495	24	10 782
Headline earnings adjustments	**(34)**	178	(>100)	85
Headline earnings	**6 781**	5 673	20	10 867

STATEMENT OF NORMALISED EARNINGS

R million	Six months ended 31 December 2013	Six months ended 31 December 2012	% change	Year ended 30 June 2013
Headline earnings	**6 781**	5 673	20	10 867
TRS adjustment	**(146)**	(53)	>100	85
Normalised earnings	**6 635**	5 620	18	10 952

RECONCILIATION OF NORMALISED TO IFRS CONDENSED INCOME STATEMENT

for the six months ended 31 December 2013

R million	Normalised	Economic hedges	Fair value annuity income (lending)	Other headline earnings adjustments	TRS adjustment	IFRS
Net interest income before impairment of advances	**14 873**	(99)	(2 317)	–	–	**12 457**
Impairment of advances	**(2 225)**	–	12	–	–	**(2 213)**
Net interest income after impairment of advances	**12 648**	(99)	(2 305)	–	–	**10 244**
Non-interest revenue	**11 977**	99	2 305	63	203	**14 647**
Income from operations	**24 625**	–	–	63	203	**24 891**
Operating expenses	**(15 308)**	–	–	(11)	–	**(15 319)**
Income before tax	**9 317**	–	–	52	203	**9 572**
Indirect tax	**(429)**	–	–	–	–	**(429)**
Profit before tax	**8 888**	–	–	52	203	**9 143**
Income tax expense	**(2 157)**	–	–	(18)	(57)	**(2 232)**
Profit for the year	**6 731**	–	–	34	146	**6 911**
Attributable to:						
NCNR preference shareholders	**(96)**	–	–	–	–	**(96)**
Ordinary equityholders	**6 635**	–	–	34	146	**6 815**
Headline and normalised earnings adjustments	**–**	–	–	(34)	(146)	**(180)**
Normalised earnings	**6 635**	–	–	–	–	**6 635**

RECONCILIATION OF NORMALISED TO IFRS CONDENSED INCOME STATEMENT

for the six months ended 31 December 2012

	Normalised	Economic hedges	Fair value annuity income (lending)	Other headline earnings adjustments	TRS adjustment	IFRS
Net interest income before impairment of advances	11 700	(109)	(888)	–	–	10 703
Impairment of advances	(2 320)	–	259	–	–	(2 061)
Net interest income after impairment of advances	9 380	(109)	(629)	–	–	8 642
Non-interest revenue	11 728	109	629	1	73	12 540
Income from operations	21 108	–	–	1	73	21 182
Operating expenses	(13 486)	–	–	(248)	–	(13 734)
Income before tax	7 622	–	–	(247)	73	7 448
Indirect tax	(429)	–	–	–	–	(429)
Profit before tax	7 193	–	–	(247)	73	7 019
Income tax expense	(1 473)	–	–	69	(20)	(1 424)
Profit for the year	5 720	–	–	(178)	53	5 595
Attributable to:						
NCNR preference shareholders	(100)	–	–	–	–	(100)
Ordinary equityholders	5 620	–	–	(178)	53	5 495
Headline and normalised earnings adjustments	–	–	–	178	(53)	125
Normalised earnings	5 620	–	–	–	–	5 620

RECONCILIATION OF NORMALISED TO IFRS CONDENSED INCOME STATEMENT

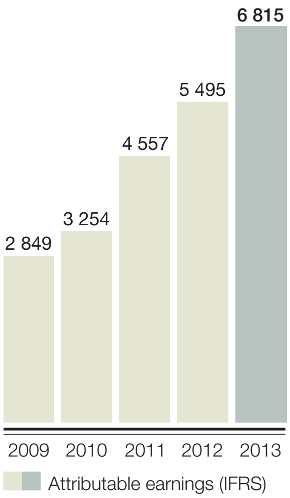
for the year ended 30 June 2013

R million	Normalised	Economic hedges	Fair value annuity income (lending)	Other headline earnings adjustments	TRS adjustment	IFRS
Net interest income before impairment of advances	24 437	(166)	(2 588)	–	–	21 683
Impairment of advances	(5 334)	–	893	–	–	(4 441)
Net interest income after impairment of advances	19 103	(166)	(1 695)	–	–	17 242
Non-interest revenue	22 242	166	1 695	138	(118)	24 123
Income from operations	41 345	–	–	138	(118)	41 365
Operating expenses	(26 413)	–	–	(260)	–	(26 673)
Income before tax	14 932	–	–	(122)	(118)	14 692
Indirect tax	(579)	–	–	–	–	(579)
Profit before tax	14 353	–	–	(122)	(118)	14 113
Income tax expense	(3 205)	–	–	37	33	(3 135)
Profit for the year	11 148	–	–	(85)	(85)	10 978
Attributable to:						
NCNR preference shareholders	(196)	–	–	–	–	(196)
Ordinary equityholders	10 952	–	–	(85)	(85)	10 782
Headline and normalised earnings adjustments	–	–	–	85	85	170
Normalised earnings	10 952	–	–	–	–	10 952

OVERVIEW OF RESULTS

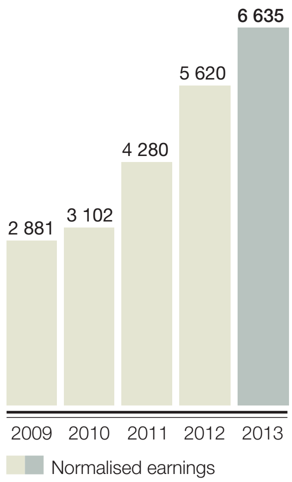
Earnings performance (R million)

CAGR 24%



Normalised earnings (R million)

CAGR 23%



Note: 2009 figures presented on an IFRS-continuing basis, figures from 2010 to 2012 presented on a continuing normalised basis. 2012 and 2013 figures have been prepared in terms of IFRS 10 and 11, and the restated IAS 19.

These results are characterised by the following themes.

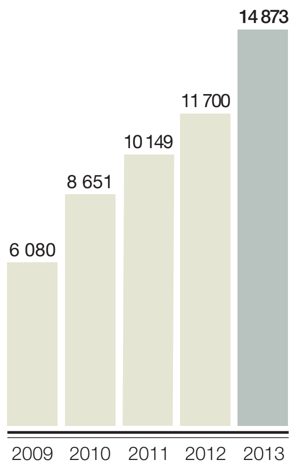
Positives

- Strong advances growth of 11%, driven by:
  - year-on-year growth in higher-yielding asset classes such as VAF, WesBank personal loans and card;
  - sustained wholesale advances book growth from RMB Investment Banking; and
  - good growth in commercial advances, primarily in the agricultural and commercial property finance segments.
- Higher risk-adjusted pricing maintained on new business, specifically in residential mortgages.
- Strong fee and commission income growth of 7%, on the back of:
  - continued growth in the active account base in FNB; and
  - strong new business volumes at WesBank.
- Higher capital levels in the current reporting period.
- Resilient levels of investment banking income, underpinned by RMB's client-centric activities and business lines, driven by:
  - robust balance sheet growth, particularly relating to infrastructure activities, creating hedging and structuring opportunities; and
  - resilient results from the flow trading and residual risk businesses, due to client demand and volatility in the currency markets.

NET INTEREST INCOME (BEFORE IMPAIRMENT OF ADVANCES) – UP 27%

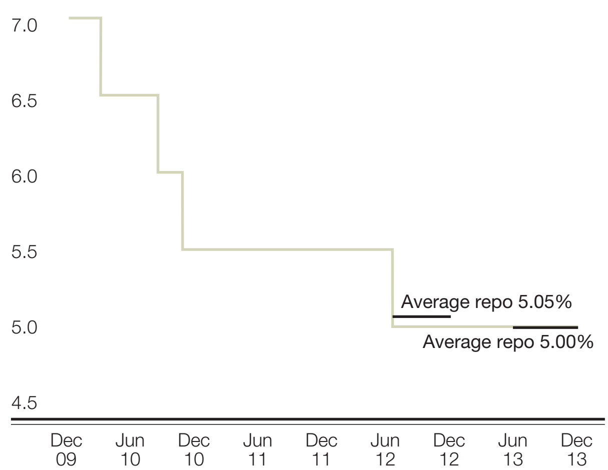
Net interest income (R million)

CAGR 25%



Note: 2009 figures presented on an IFRS-continuing basis, figures from 2010 to 2012 presented on a continuing normalised basis. 2012 and 2013 figures have been prepared in terms of IFRS 10 and 11, and the restated IAS 19.

Repo rate (%)



Note: R100 billion = average endowment book for the period. Rates were lower by 5 bps on average in the current period, which translates into a negative endowment impact of approximately R25 million for the period.

Margin cascade table

Percentage of average interest-earning banking assets	%
December 2012 normalised margin	**4.62**
Capital and deposit endowment	(0.01)
Advances	0.06
– Changes in balance sheet mix	0.00
– Asset pricing	0.06
Liabilities	0.05
– Changes in balance sheet mix (deposits)	(0.01)
– Changes in balance sheet mix (capital)	0.01
– Term funding cost	0.08
– Deposit pricing	(0.03)
Group Treasury and other movements	0.20
– Foreign currency liquidity buffer carry cost	(0.01)
– Interest rate risk hedges	0.08
– Intergroup funding and advances eliminated at Group level	0.11
– Accounting mismatches	0.02
December 2013 normalised margin excluding impact of securitisations	**4.92**
Impact of securitisation transactions	0.25
December 2013 normalised margin	**5.17**

Segmental analysis of net interest income before impairment of advances

R million	Six months ended 31 December 2013	Six months ended 31 December 2012	% change	Year ended 30 June 2013
FNB	**7 308**	6 289	16	13 145
Retail	**4 985**	4 214	18	8 891
– Residential mortgages	**1 570**	1 245	26	2 477
– Card	**657**	591	11	1 215
– Personal loans	**1 046**	958	9	2 194
– Retail other	**1 712**	1 420	21	3 005
Commercial	**2 326**	2 078	12	4 261
FNB Africa	**(3)**	(3)	–	(7)
RMB	**2 380**	1 398	70	3 664
Investment banking	**2 040**	1 112	83	3 061
Corporate banking	**340**	286	19	603
WesBank	**3 250**	2 926	11	6 080
Corporate Centre	**1 922**	1 071	79	1 544
Net interest income – banking activities	**14 860**	11 684	27	24 433
Other*	**13**	16	(19)	4
Net interest income	**14 873**	11 700	27	24 437

* *Includes consolidation adjustments.*

Positives	Negatives
⋗ Strong advances growth in the wholesale and commercial segments. ⋗ Continued benefit from growth in higher-yielding asset classes. ⋗ Further interest in suspense unwind benefit from a continued decline in absolute levels of NPLs, specifically in residential mortgages. ⋗ Reduced mark-to-market losses on specific term funding instruments resulting from the narrowing of funding spreads year-on-year – these losses will pull to par over the duration of the instruments. ⋗ The upfront recognition of profit on the Turbo 4 securitisation resulted in a R709 million increase in NII. This will unwind over the term of the transaction and is eliminated at a Group level.	⋗ Dollar funding carry costs associated with USD1 billion of excess liquidity raised and invested in US treasury bills, amounting to R124 million. ⋗ Increased pricing pressure on retail and commercial deposits.

Average balance sheet

		As at 31 December					
		2013			2012		
R million	Notes	**Average balance**	**Interest income/ (expense)**	**Average rate %**	Average balance	Interest income/ (expense)	Average rate %
INTEREST-EARNING ASSETS							
Average prime rate				**8.50**			8.55
Balances with central banks		**14 777**	**–**	**–**	12 326	–	–
Cash and cash equivalents		**14 021**	**182**	**2.56**	17 798	230	2.58
Statutory liquid asset portfolio		**44 910**	**1 290**	**5.70**	35 621	1 033	5.75
Loans and advances to customers	1	**496 492**	**22 748**	**9.09**	436 644	19 891	9.04
Interest-earning assets		**570 200**	**24 220**	**8.43**	502 389	21 154	8.35
INTEREST-BEARING LIABILITIES							
Average JIBAR				**5.14**			5.25
Deposits due to customers	2	**(341 853)**	**(5 738)**	**3.33**	(301 214)	(5 075)	3.34
Group Treasury funding		**(205 980)**	**(4 525)**	**4.36**	(194 868)	(4 319)	4.40
Interest-bearing liabilities		**(547 833)**	**(10 263)**	**3.72**	(496 082)	(9 394)	3.76
ENDOWMENT AND TRADING BOOK							
Other assets*		**126 588**	**916**	**1.44**	130 926	(60)	(0.09)
Other liabilities**		**(91 052)**	**–**	**–**	(90 451)	–	–
NCNR preference shareholders		**(3 000)**	**–**	**–**	(3 000)	–	–
Equity		**(54 903)**	**–**	**–**	(43 782)	–	–
Endowment and trading book		**(22 367)**	**916**	**(8.12)**	(6 307)	(60)	1.91
Total interest-earning liabilities, endowment and trading book		**(570 200)**	**(9 347)**	**3.25**	(502 389)	(9 454)	3.73
Net interest margin on average interest-earning assets		**570 200**	**14 873**	**5.17**	502 389	11 700	4.62

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

Note 1 – Margin analysis on loans and advances to customers

R million	December 2013 Average balance	December 2013 Average margin %	December 2012 Average balance	December 2012 Average margin* %
Average prime rate (RSA)		**8.50**		8.55
ADVANCES				
Retail – secured	**259 422**	**2.60**	237 665	2.43
Residential mortgages	**164 661**	**1.81**	158 365	1.48
VAF	**94 761**	**3.98**	79 300	4.35
Retail – unsecured	**39 711**	**13.04**	34 510	12.87
Card	**13 347**	**9.03**	11 839	8.91
Personal loans	**20 324**	**17.29**	18 663	16.62
FNB loans	**12 741**	**15.60**	12 461	14.58
WesBank loans	**7 583**	**20.12**	6 202	20.71
Overdrafts	**6 040**	**7.60**	4 008	7.13
Corporate	**197 359**	**2.78**	164 469	2.57
FNB Commercial	**42 796**	**3.76**	36 796	3.72
– Mortgages	**12 060**	**2.73**	10 560	1.96
– Overdrafts	**17 864**	**4.91**	15 230	5.37
– Term loans	**12 872**	**3.12**	11 006	3.12
WesBank Corporate	**33 880**	**3.11**	29 094	3.29
RMB Investment Banking	**118 034**	**2.35**	96 594	1.92
RMB Corporate Banking	**2 649**	**1.58**	1 985	2.19
Total advances**	**496 492**	**3.51**	436 644	3.31

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

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

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

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); the average margin is, therefore, net of funds transfer pricing.

The Bank operates a transfer pricing framework that incorporates liquidity cost benefits and risks into product pricing, including any regulatory 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 within the liquidity risk exposure this activity creates for the Bank as a whole.

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

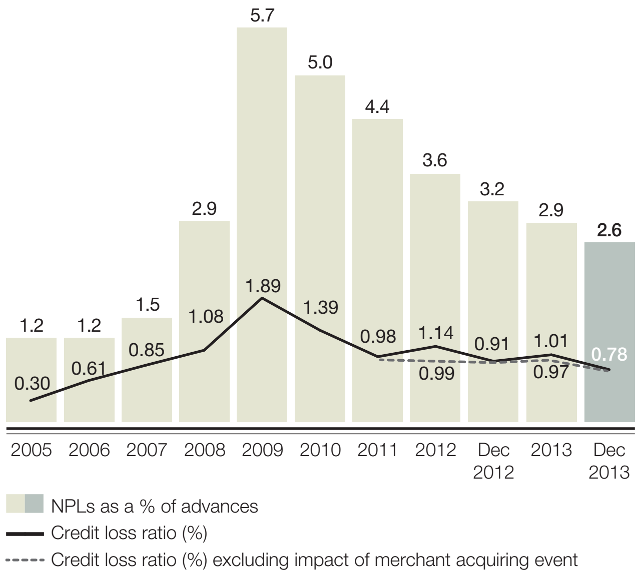
Note 2 – Margin analysis on deposits due to customers

	December 2013		December 2012	
R million	**Average balance**	**Average margin %**	Average balance	Average margin* %
Average prime rate (RSA)		**8.50**		8.55
DEPOSITS				
Retail	**116 983**	**2.53**	105 601	2.55
Current and savings	**40 733**	**4.74**	35 386	4.77
Call	**3 068**	**2.57**	3 115	2.63
Money market	**27 642**	**1.57**	27 389	1.69
Term	**45 540**	**1.13**	39 711	1.15
Commercial	**126 346**	**2.29**	113 061	2.35
Current and savings	**48 431**	**4.24**	42 077	4.36
Call	**29 199**	**1.30**	26 466	1.37
Money market	**18 078**	**1.83**	17 485	1.88
Term	**30 638**	**0.42**	27 033	0.50
Corporate and investment banking	**98 524**	**0.68**	82 552	0.78
Current and savings	**38 549**	**1.23**	29 168	1.54
Call	**30 795**	**0.35**	31 748	0.39
Term	**29 180**	**0.31**	21 636	0.32
Total deposits	**341 853**	**1.91**	301 214	1.99

Average balances are daily averages for FNB and WesBank and monthly averages for RMB.
Institutional funding is excluded from deposits due to customers.
** 2012 margins have been restated for changes in the Group's transfer pricing methodology and segment changes.*

IMPAIRMENT OF ADVANCES – DOWN 4% (UP 10% EXCLUDING OVERLAYS)

NPLs and impairment history



CREDIT HIGHLIGHTS

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

	Six months ended 31 December			Year ended 30 June
R million	**2013**	2012	% change	2013
Total gross advances*	**586 356**	527 452	11	560 543
NPLs*	**15 419**	17 074	(10)	16 125
NPLs as a % of advances	**2.63**	3.24		2.88
Impairment charge – total	**2 225**	2 320	(4)	5 334
– Business as usual	**2 225**	2 320	(4)	5 104
– Special impairment**	**–**	–		230
Impairment charge as a % of average advances	**0.78**	0.91		1.01
– Business as usual	**0.78**	0.91		0.97
– Special impairment	**–**	–		0.04
Total impairments*	**11 996**	11 201	7	11 962
– Portfolio impairments	**5 829**	5 064	15	5 540
– Specific impairments	**6 167**	6 137	–	6 422
Implied loss given default (coverage)#	**40.0**	35.9		39.8
Total impairments coverage ratio†	**77.8**	65.6		74.2
Performing book coverage ratio‡	**1.02**	0.99		1.02

* *Includes cumulative credit fair value adjustments.*

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

Amortised cost-specific impairments and non-performing book cumulative credit fair value adjustments as a percentage of NPLs.

† *Total amortised cost impairments and total cumulative credit fair value adjustments as a percentage of NPLs.*

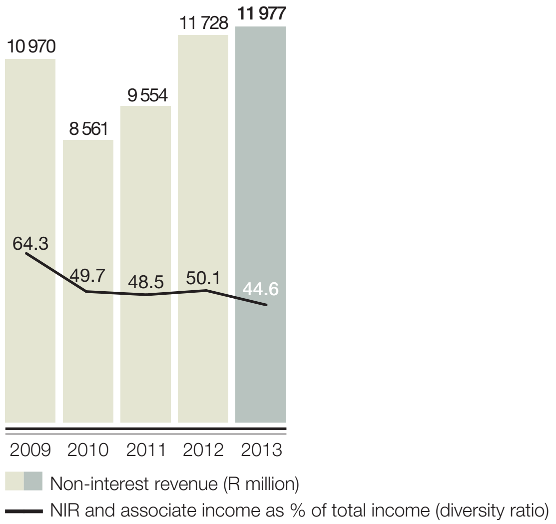
‡ *Portfolio impairments as a percentage of the performing book.*

Positives	Negatives
• A further reduction in absolute NPL levels, driven by reductions in residential mortgages, FNB Commercial, WesBank Corporate and RMB IBD. • Robust post write-off recoveries, especially in the card, personal loans and VAF books.	• Higher levels of portfolio impairments on the core advances book, reflecting: – the bottoming of the credit cycle; – strong book growth year-on-year; – increasing levels of arrears in VAF and unsecured lending, although in line with expectations; and – additional portfolio overlays created in the current year, albeit at lower levels than the comparative period.

NON-INTEREST REVENUE – UP 2%

Non-interest revenue and diversity ratio

CAGR 2%



Note: 2009 figures presented on an IFRS-continuing basis, figures from 2010 to 2012 presented on a continuing normalised basis. 2012 and 2013 figures have been prepared in terms of IFRS 10 and 11, and the restated IAS 19.

Non-interest revenue

R million	Notes	Six months ended 31 December 2013	Six months ended 31 December 2012	% change	Year ended 30 June 2013
Fee and commission income	1	**9 524**	8 896	7	17 428
Fair value income	2	**1 541**	2 246	(31)	3 316
Investment income	3	**(92)**	(59)	56	(69)
Other non-interest revenue		**1 004**	645	56	1 567
Total non-interest revenue		**11 977**	11 728	2	22 242

Note 1 – Fee and commission income – up 7%

	Six months ended 31 December			Year ended 30 June
R million	**2013**	2012	% change	2013
Bank commissions and fee income	**9 164**	8 193	12	16 612
– Card commissions	**1 580**	1 287	23	2 618
– Cash deposit fees	**867**	848	2	1 623
– Commissions on bills, drafts and cheques	**749**	582	29	1 228
– Bank charges	**5 968**	5 476	9	11 143
Knowledge-based fees	**513**	689	(26)	1 054
Insurance income	**473**	439	8	893
Other non-bank commissions	**923**	940	(2)	1 654
Gross fee and commission income	**11 073**	10 261	8	20 213
Fee and commission expenditure	**(1 549)**	(1 365)	13	(2 785)
Total fee and commission income	**9 524**	8 896	7	17 428

Positives

- Growth in fee and commission income was underpinned by growth in core transactional accounts at FNB, and 11% growth in transaction volumes.
- Total electronic volumes increased 15%:
  - cellphone banking transactions up 27%;
  - internet banking transactions up 16%; and
  - over 20% growth in both cheque and debit card transactions.
- 36% growth in WesBank's NIR, driven by strong new business volumes across all lending portfolios as well as ongoing growth in the full maintenance rental book.
- The insurance businesses' growth was underpinned by good new business volumes, although lapse rates have increased.
- Resilient levels of knowledge-based fee income, albeit down from the high base produced in the comparative period, reflecting:
  - lower levels of debt capital market fees on the back of a slow-down in debt capital market activity year-on-year;
  - more subdued M&A deal flow, resulting directly from significantly reduced levels of corporate activity; and
  - reduced levels of structuring and origination fees given the high base in the comparative period.

Note 2 – Fair value income – down 31%

Negatives

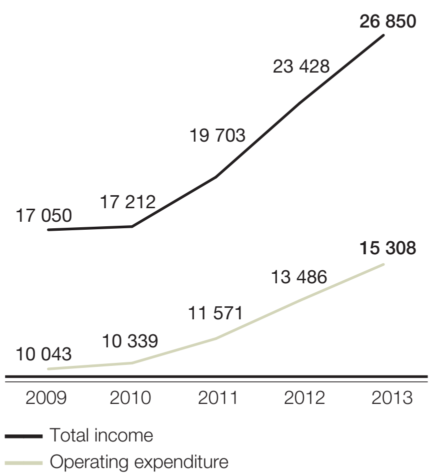
- Muted performance from the South African client execution business, in part due to increased competition and commoditisation of products, leading to tightening margins.

Note 3 – Investment income – down 56%

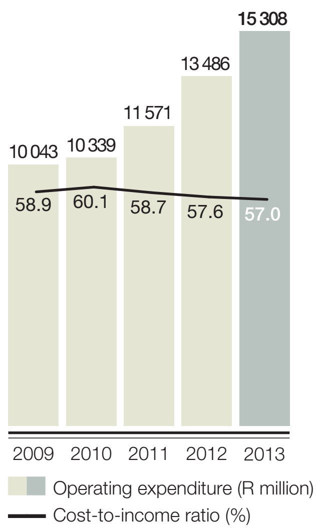
	Six months ended 31 December			Year ended 30 June
R million	**2013**	2012	% change	2013
Profit on disposal of investments in associates	**–**	29	(100)	27
Other investment income	**(92)**	(88)	5	(96)
Total investment income	**(92)**	(59)	56	(69)

OPERATING EXPENSES – UP 14%

Operating jaws (R million)



Operating efficiency



Note: 2009 figures presented on an IFRS-continuing basis, figures from 2010 to 2012 presented on a continuing normalised basis. 2012 and 2013 figures have been prepared in terms of IFRS 10 and 11, and the restated IAS 19.

Operating expenses

	Six months ended 31 December			Year ended 30 June
R million	**2013**	2012	% change	2013
Staff expenditure	**9 269**	7 993	16	15 188
– Direct staff expenditure	**5 195**	4 576	14	9 144
– Other staff-related expenditure	**4 074**	3 417	19	6 044
Depreciation	**805**	771	4	1 627
Amortisation of other intangible assets	**28**	47	(40)	94
Advertising and marketing	**573**	482	19	957
Insurance	**102**	101	1	209
Lease charges	**511**	492	4	960
Professional fees	**449**	470	(4)	967
Audit fees	**99**	102	(3)	185
Computer expenses	**632**	497	27	1 088
Maintenance	**362**	328	10	751
Telecommunications	**152**	149	2	293
Cooperation agreements and joint ventures	**410**	345	19	764
Property	**334**	304	10	687
Business travel	**146**	126	16	262
Other expenditure	**1 436**	1 279	12	2 381
Total operating expenses	**15 308**	13 486	14	26 413

STAFF COSTS – UP 16%

- Direct staff costs increased 14%, due in part to above inflation unionised salary increases in excess of 8% for the year, as well as an increase in staff complement across the Bank.
- Other staff costs were up 19%, impacted by:
  - an increase of 26% in variable staff costs, directly related to the increase in the Bank's profitability; and
  - 18% increase in IFRS 2 Share-based payment expenses, reflecting the strong growth in the Group's share price during the reporting period. The related income on the TRS used to hedge this expense is reflected in fair value income.

OTHER OPERATING EXPENSES

- Strong growth in costs associated with various cooperation agreements and joint ventures, indicative of the underlying revenue growth of the alliance relationships.
- Increased spend on advertising and marketing campaigns across the Bank.
- A significant increase in computer expenses, partly associated with the ongoing investment in the Bank's electronic platforms and related infrastructure.

DIRECT TAXATION – UP 46%

Impacted by:

- The higher level of profitability during the current period.
- A relative change in income mix, with strong growth in NII and standard rate taxable NIR (e.g. fee and commission income).

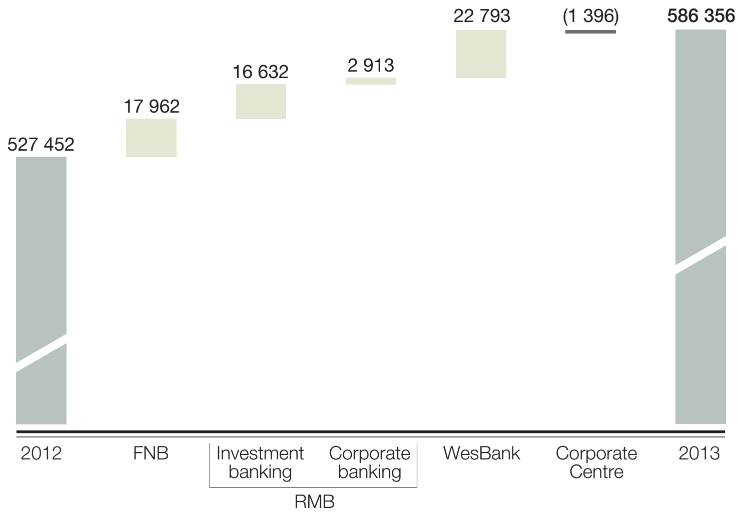
ABRIDGED STATEMENT OF FINANCIAL POSITION – NORMALISED

	As at 31 December			As at 30 June
R million	**2013**	2012	% change	2013
ASSETS				
Derivative financial instruments	**43 684**	55 907	(22)	51 755
Advances	**574 360**	516 251	11	548 581
Investment securities and other investments	**92 134**	79 100	16	94 961
Other assets	**87 803**	88 418	(1)	84 278
Total assets	**797 981**	739 676	8	779 575
EQUITY AND LIABILITIES				
Liabilities				
Deposits	**649 971**	586 666	11	629 872
Short trading positions and derivative financial instruments	**54 264**	67 393	(19)	55 863
Other liabilities	**33 643**	34 509	(3)	39 433
Total liabilities	**737 878**	688 568	7	725 168
Total equity	**60 103**	51 108	18	54 407
Total equity and liabilities	**797 981**	739 676	8	779 575

ADVANCES – UP 11%

	As at 31 December			As at 30 June
R million	**2013**	2012	% change	2013
Normalised gross advances	**586 356**	527 452	11	560 543
Normalised impairment of advances	**(11 996)**	(11 201)	7	(11 962)
Normalised net advances	**574 360**	516 251	11	548 581

Gross advances by franchise (R million)

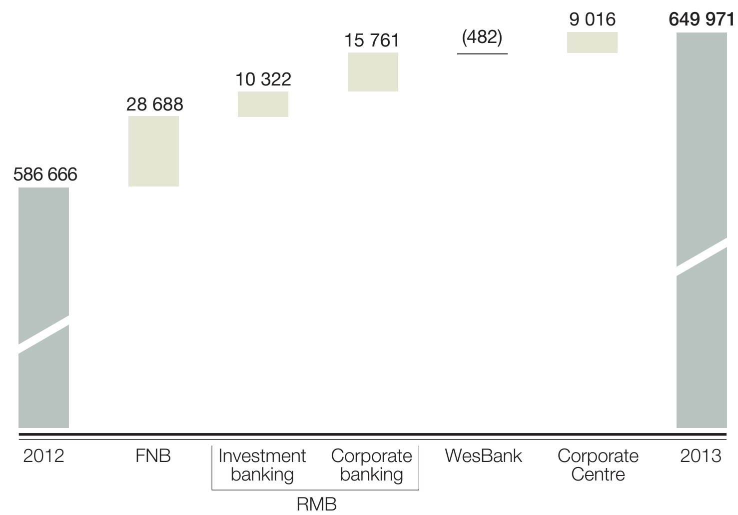


Positives

- Satisfactory growth of 7% from FNB retail resulting from:
  - 13% growth in card advances, supported by new customer acquisition;
  - 21% growth in secured affordable housing advances, underpinned by client demand and affordability levels;
  - contraction of 2% in personal loans, moderating from the 34% growth rate in the comparative period, indicative of a more conservative approach to unsecured term credit extension; and
  - strong growth of 68% from other retail.
- Growth of 5% from FNB HomeLoans, despite a deliberate strategy to focus new business origination on low-risk customers.
- Robust growth of 19% in RMB's investment banking core advances book (excluding repos), underpinned by drawdowns relating to infrastructure development initiatives in South Africa around renewable energy.
- Excellent growth of 19% from WesBank, driven by strong new business volumes across all portfolios.

DEPOSITS – UP 11%

Gross deposits by franchise (R million)



Positives

- Strong growth of 11% year-on-year, with FNB's retail and commercial segments growing 12% and 13% respectively, and RMB CIB deposits growing 18%.
- Current, savings and transmission, call deposits and notice deposits grew 10%, 24%, 15% and 24% respectively, due to FNB's focus on product innovation as well as attracting a larger share of the retail and commercial deposit pool.

Segment report

SEGMENT REPORT
for the period ended 31 December 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	1 570	657	1 046	1 712	**4 985**	2 326	(3)	**7 308**
Impairment of advances	(83)	(10)	(604)	(415)	**(1 112)**	(111)	–	**(1 223)**
Net interest income after impairment of advances	1 487	647	442	1 297	**3 873**	2 215	(3)	**6 085**
Non-interest revenue	113	651	445	4 071	**5 280**	2 684	161	**8 125**
Income from operations	1 600	1 298	887	5 368	**9 153**	4 899	158	**14 210**
Operating expenses	(722)	(638)	(392)	(3 898)	**(5 650)**	(2 792)	(209)	**(8 651)**
Income before tax	878	660	495	1 470	**3 503**	2 107	(51)	**5 559**
Indirect tax	(20)	(18)	(17)	(165)	**(220)**	(15)	(1)	**(236)**
Profit for the period before tax	858	642	478	1 305	**3 283**	2 092	(52)	**5 323**
Income tax expense	(240)	(180)	(134)	(363)	**(917)**	(585)	15	**(1 487)**
Profit for the year	618	462	344	942	**2 366**	1 507	(37)	**3 836**
Attributable to:								
Ordinary equityholders	618	462	344	942	**2 366**	1 507	(37)	**3 836**
NCNR preference shareholders	–	–	–	–	**–**	–	–	**–**
Profit for the year	618	462	344	942	**2 366**	1 507	(37)	**3 836**
Attributable earnings to ordinary equityholders	618	462	344	942	**2 366**	1 507	(37)	**3 836**
Headline earnings adjustments	–	–	–	–	**–**	–	–	**–**
Headline earnings	618	462	344	942	**2 366**	1 507	(37)	**3 836**
TRS adjustment	–	–	–	–	**–**	–	–	**–**
Normalised earnings	618	462	344	942	**2 366**	1 507	(37)	**3 836**

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

RMB									
Investment banking	Corporate banking	**Total RMB**	**WesBank**	Corporate Centre	Consolidation and IFRS adjustments	**FRB – normalised**	Normalised and headline earnings adjustments	**FRB – IFRS**
2 040	340	**2 380**	**3 250**	1 922	13	**14 873**	(2 416)	**12 457**
(112)	(8)	**(120)**	**(882)**	–	–	**(2 225)**	12	**(2 213)**
1 928	332	**2 260**	**2 368**	1 922	13	**12 648**	(2 404)	**10 244**
2 519	543	**3 062**	**944**	915	(1 069)	**11 977**	2 670	**14 647**
4 447	875	**5 322**	**3 312**	2 837	(1 056)	**24 625**	266	**24 891**
(1 829)	(648)	**(2 477)**	**(2 213)**	(2 001)	34	**(15 308)**	(11)	**(15 319)**
2 618	227	**2 845**	**1 099**	836	(1 022)	**9 317**	255	**9 572**
(29)	(15)	**(44)**	**(142)**	(8)	1	**(429)**	–	**(429)**
2 589	212	**2 801**	**957**	828	(1 021)	**8 888**	255	**9 143**
(725)	(59)	**(784)**	**(254)**	(273)	641	**(2 157)**	(75)	**(2 232)**
1 864	153	**2 017**	**703**	555	(380)	**6 731**	180	**6 911**
1 864	153	**2 017**	**703**	555	(476)	**6 635**	180	**6 815**
–	–	**–**	**–**	–	96	**96**	–	**96**
1 864	153	**2 017**	**703**	555	(380)	**6 731**	180	**6 911**
1 864	153	**2 017**	**703**	555	(476)	**6 635**	180	**6 815**
–	–	**–**	**–**	–	–	**–**	(34)	**(34)**
1 864	153	**2 017**	**703**	555	(476)	**6 635**	146	**6 781**
–	–	**–**	**–**	–	–	**–**	(146)	**(146)**
1 864	153	**2 017**	**703**	555	(476)	**6 635**	–	**6 635**

	FNB							
	Retail segment							
R million	Residential mortgages	Card	Personal loans	Retail other	**Retail segment**	Commercial	FNB Africa*	**Total FNB**
Cost-to-income ratio (%)	42.9	48.8	26.3	67.4	**55.0**	55.7	>100	**56.1**
Diversity ratio (%)	6.7	49.8	29.8	70.4	**51.4**	53.6	>100	**52.6**
Credit loss ratio (%)	0.10	0.15	9.60	10.59	**1.12**	0.51	–	**1.01**
NPLs as a percentage of advances (%)	3.65	2.58	7.48	5.01	**3.87**	3.39	–	**3.78**
Income statement includes:								
Depreciation	(3)	(2)	(1)	(516)	**(522)**	(36)	–	**(558)**
Amortisation	–	–	–	(5)	**(5)**	(6)	–	**(11)**
Impairment charges	–	–	–	(11)	**(11)**	–	–	**(11)**
Statement of financial position includes:								
Advances (after ISP – before impairments)	166 846	13 458	12 280	8 768	**201 352**	44 902	–	**246 254**
NPLs	6 089	347	919	439	**7 794**	1 523	–	**9 317**
Investments in associates and joint ventures	19	–	–	(19)	**–**	–	–	**–**
Total deposits (including non-recourse deposits)	127	1 305	–	132 007	**133 439**	131 263	–	**264 702**
Total assets	165 325	12 911	11 003	24 960	**214 199**	45 565	118	**259 882**
Total liabilities	164 484	12 270	10 525	23 605	**210 884**	43 477	170	**254 531**
Capital expenditure	1	2	–	919	**922**	76	–	**998**

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

RMB								
Investment banking	Corporate banking	**Total RMB**	**WesBank**	Corporate Centre	Consolidation and IFRS adjustments	**FRB – normalised**	Normalised and headline earnings adjustments	**FRB – IFRS**
40.1	73.4	**45.5**	**52.8**	70.5	3.2	**57.0**	–	**56.5**
55.3	61.5	**56.3**	**22.5**	32.3	>100	**44.6**	–	**54.0**
0.12	0.28	**0.13**	**1.28**	–	–	**0.78**	–	**0.78**
1.13	0.12	**1.10**	**2.78**	–	–	**2.63**	–	**2.64**
(34)	(3)	**(37)**	**(184)**	(27)	1	**(805)**	–	**(805)**
(3)	–	**(3)**	**(12)**	(1)	(1)	**(28)**	–	**(28)**
(1)	–	**(1)**	**–**	2	–	**(10)**	–	**(10)**
189 375	6 425	**195 800**	**142 410**	1 912	(20)	**586 356**	(3 059)	**583 297**
2 138	8	**2 146**	**3 956**	–	–	**15 419**	–	**15 419**
29	–	**29**	**–**	–	–	**29**	–	**29**
111 156	59 847	**171 003**	**20**	215 177	(931)	**649 971**	–	**649 971**
305 187	7 056	**312 243**	**142 745**	84 394	(1 283)	**797 981**	–	**797 981**
303 669	6 780	**310 449**	**141 808**	32 067	(977)	**737 878**	–	**737 878**
26	2	**28**	**219**	23	177	**1 445**	–	**1 445**

SEGMENT REPORT
for the period ended 31 December 2012

R million	FNB							
	Retail segment							
	Residential mortgages	Card	Personal loans	Retail other	**Retail segment**	Commercial	FNB Africa*	**Total FNB**
Net interest income before impairment of advances	1 245	591	958	1 420	**4 214**	2 078	(3)	**6 289**
Impairment of advances	(309)	2	(742)	(243)	**(1 292)**	(114)	–	**(1 406)**
Net interest income after impairment of advances	936	593	216	1 177	**2 922**	1 964	(3)	**4 883**
Non-interest revenue	152	601	591	3 490	**4 834**	2 335	137	**7 306**
Income from operations	1 088	1 194	807	4 667	**7 756**	4 299	134	**12 189**
Operating expenses	(620)	(572)	(397)	(3 410)	**(4 999)**	(2 473)	(181)	**(7 653)**
Income before tax	468	622	410	1 257	**2 757**	1 826	(47)	**4 536**
Indirect tax	(16)	(16)	(17)	(156)	**(205)**	(21)	–	**(226)**
Profit for the period before tax	452	606	393	1 101	**2 552**	1 805	(47)	**4 310**
Income tax expense	(120)	(161)	(104)	(292)	**(677)**	(478)	12	**(1 143)**
Profit for the year	332	445	289	809	**1 875**	1 327	(35)	**3 167**
Attributable to:								
Ordinary equityholders	332	445	289	809	**1 875**	1 327	(35)	**3 167**
NCNR preference shareholders	–	–	–	–	**–**	–	–	**–**
Profit for the year	332	445	289	809	**1 875**	1 327	(35)	**3 167**
Attributable earnings to ordinary shareholders	332	445	289	809	**1 875**	1 327	(35)	**3 167**
Headline earnings adjustments	–	–	–	–	**–**	–	–	**–**
Headline earnings	332	445	289	809	**1 875**	1 327	(35)	**3 167**
TRS adjustment	–	–	–	–	**–**	–	–	**–**
Normalised earnings	332	445	289	809	**1 875**	1 327	(35)	**3 167**

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

RMB								
Investment banking	Corporate banking	**Total RMB**	**WesBank**	Corporate Centre	Consolidation and IFRS adjustments	**FRB – normalised**	Normalised and headline earnings adjustments	**FRB – IFRS**
1 112	286	**1 398**	**2 926**	1 071	16	**11 700**	(997)	**10 703**
(275)	(5)	**(280)**	**(634)**	–	–	**(2 320)**	259	**(2 061)**
837	281	**1 118**	**2 292**	1 071	16	**9 380**	(738)	**8 642**
2 741	508	**3 249**	**696**	1 347	(870)	**11 728**	812	**12 540**
3 578	789	**4 367**	**2 988**	2 418	(854)	**21 108**	74	**21 182**
(1 733)	(498)	**(2 231)**	**(1 819)**	(1 868)	85	**(13 486)**	(248)	**(13 734)**
1 845	291	**2 136**	**1 169**	550	(769)	**7 622**	(174)	**7 448**
(31)	(15)	**(46)**	**(115)**	(41)	(1)	**(429)**	–	**(429)**
1 814	276	**2 090**	**1 054**	509	(770)	**7 193**	(174)	**7 019**
(481)	(77)	**(558)**	**(280)**	(132)	640	**(1 473)**	49	**(1 424)**
1 333	199	**1 532**	**774**	377	(130)	**5 720**	(125)	**5 595**
1 333	199	**1 532**	**774**	377	(230)	**5 620**	(125)	**5 495**
–	–	**–**	**–**	–	100	**100**	–	**100**
1 333	199	**1 532**	**774**	377	(130)	**5 720**	(125)	**5 595**
1 333	199	**1 532**	**774**	377	(230)	**5 620**	(125)	**5 495**
–	–	**–**	**–**	–	–	**–**	178	**178**
1 333	199	**1 532**	**774**	377	(230)	**5 620**	53	**5 673**
–	–	**–**	**–**	–	–	**–**	(53)	**(53)**
1 333	199	**1 532**	**774**	377	(230)	**5 620**	–	**5 620**

R million	FNB							
	Retail segment							
	Residential mortgages	Card	Personal loans	Retail other	**Retail segment**	Commercial	FNB Africa*	**Total FNB**
Cost-to-income ratio (%)	44.4	48.0	25.6	69.5	**55.2**	56.0	>100	**56.3**
Diversity ratio (%)	10.9	50.4	38.2	71.1	**53.4**	52.9	>100	**53.7**
Credit loss ratio (%)	0.39	(0.03)	12.21	10.89	**1.38**	0.61	–	**1.25**
NPLs as a percentage of advances (%)	4.89	2.25	7.26	6.00	**4.91**	4.28	–	**4.80**
Income statement includes:								
Depreciation	(5)	(1)	(1)	(498)	**(505)**	(32)	–	**(537)**
Amortisation	–	–	–	(25)	**(25)**	(7)	–	**(32)**
Impairment charges	–	–	–	(6)	**(6)**	–	–	**(6)**
Statement of financial position includes:								
Advances (after ISP – before impairments)	159 324	11 877	12 587	5 204	**188 992**	39 300	–	**228 292**
NPLs	7 786	267	914	312	**9 279**	1 684	–	**10 963**
Investments in associates and joint ventures	–	–	–	–	**–**	–	–	**–**
Total deposits (including non-recourse deposits)	135	1 157	1	118 242	**119 535**	116 479	–	**236 014**
Total assets	157 551	11 392	11 548	18 658	**199 149**	39 514	173	**238 836**
Total liabilities	156 916	10 787	11 154	17 683	**196 540**	37 710	221	**234 471**
Capital expenditure	4	–	–	1 349	**1 353**	4	–	**1 357**

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

RMB								
Investment banking	Corporate banking	**Total RMB**	**WesBank**	Corporate Centre	Consolidation and IFRS adjustments	**FRB – normalised**	Normalised and headline earnings adjustments	**FRB – IFRS**
45.0	62.7	**48.0**	**50.2**	77.3	10.0	**57.6**	–	**59.1**
71.1	64.0	**69.9**	**19.2**	55.7	>100	**50.1**	–	**54.0**
0.33	0.32	**0.33**	**1.10**	–	–	**0.91**	–	**0.81**
1.23	0.23	**1.21**	**3.33**	–	–	**3.24**	–	**3.25**
(33)	(29)	**(62)**	**(125)**	(47)	–	**(771)**	–	**(771)**
(6)	–	**(6)**	**(7)**	(2)	–	**(47)**	–	**(47)**
–	(248)	**(248)**	**–**	–	–	**(254)**	–	**(254)**
172 743	3 512	**176 255**	**119 617**	3 633	(345)	**527 452**	(2 614)	**524 838**
2 120	8	**2 128**	**3 983**	–	–	**17 074**	–	**17 074**
409	–	**409**	**–**	–	–	**409**	–	**409**
100 834	44 086	**144 920**	**502**	205 604	(374)	**586 666**	–	**586 666**
301 898	3 535	**305 433**	**120 475**	76 458	(1 526)	**739 676**	–	**739 676**
301 070	3 444	**304 514**	**119 421**	31 529	(1 367)	**688 568**	–	**688 568**
23	97	**120**	**566**	7	–	**2 050**	–	**2 050**

SEGMENT REPORT

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	3 005	**8 891**	4 261	(7)	**13 145**
Impairment of advances	(507)	(23)	(1 402)	(613)	**(2 545)**	(317)	–	**(2 862)**
Net interest income after impairment of advances	1 970	1 192	792	2 392	**6 346**	3 944	(7)	**10 283**
Non-interest revenue	293	1 182	1 031	7 148	**9 654**	4 732	303	**14 689**
Income from operations	2 263	2 374	1 823	9 540	**16 000**	8 676	296	**24 972**
Operating expenses	(1 358)	(1 169)	(834)	(7 036)	**(10 397)**	(5 130)	(358)	**(15 885)**
Income before tax	905	1 205	989	2 504	**5 603**	3 546	(62)	**9 087**
Indirect tax	(34)	(38)	(34)	(244)	**(350)**	(38)	(1)	**(389)**
Profit for the period before tax	871	1 167	955	2 260	**5 253**	3 508	(63)	**8 698**
Income tax expense	(231)	(309)	(253)	(597)	**(1 390)**	(931)	17	**(2 304)**
Profit for the year	640	858	702	1 663	**3 863**	2 577	(46)	**6 394**
Attributable to:								
Ordinary equityholders	640	858	702	1 663	**3 863**	2 577	(46)	**6 394**
NCNR preference shareholders	–	–	–	–	**–**	–	–	**–**
Profit for the year	640	858	702	1 663	**3 863**	2 577	(46)	**6 394**
Attributable earnings to ordinary equityholders	640	858	702	1 663	**3 863**	2 577	(46)	**6 394**
Headline earnings adjustments	–	–	–	–	**–**	–	–	**–**
Headline earnings	640	858	702	1 663	**3 863**	2 577	(46)	**6 394**
TRS adjustment	–	–	–	–	**–**	–	–	**–**
Normalised earnings	640	858	702	1 663	**3 863**	2 577	(46)	**6 394**

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

RMB								
Investment banking	Corporate banking	**Total RMB**	**WesBank**	Corporate Centre	Consolidation and IFRS adjustments	**FRB – normalised**	Normalised and headline earnings adjustments	**FRB – IFRS**
3 061	603	**3 664**	**6 080**	1 544	4	**24 437**	(2 754)	**21 683**
(912)	(43)	**(955)**	**(1 517)**	–	–	**(5 334)**	893	**(4 441)**
2 149	560	**2 709**	**4 563**	1 544	4	**19 103**	(1 861)	**17 242**
5 562	1 039	**6 601**	**1 576**	1 261	(1 885)	**22 242**	1 881	**24 123**
7 711	1 599	**9 310**	**6 139**	2 805	(1 881)	**41 345**	20	**41 365**
(3 506)	(1 075)	**(4 581)**	**(3 789)**	(2 725)	567	**(26 413)**	(260)	**(26 673)**
4 205	524	**4 729**	**2 350**	80	(1 314)	**14 932**	(240)	**14 692**
(49)	(32)	**(81)**	**(219)**	110	–	**(579)**	–	**(579)**
4 156	492	**4 648**	**2 131**	190	(1 314)	**14 353**	(240)	**14 113**
(1 111)	(133)	**(1 244)**	**(565)**	(38)	946	**(3 205)**	70	**(3 135)**
3 045	359	**3 404**	**1 566**	152	(368)	**11 148**	(170)	**10 978**
3 045	359	**3 404**	**1 566**	152	(564)	**10 952**	(170)	**10 782**
–	–	**–**	**–**	–	196	**196**	–	**196**
3 045	359	**3 404**	**1 566**	152	(368)	**11 148**	(170)	**10 978**
3 045	359	**3 404**	**1 566**	152	(564)	**10 952**	(170)	**10 782**
–	–	**–**	**–**	–	–	**–**	85	**85**
3 045	359	**3 404**	**1 566**	152	(564)	**10 952**	(85)	**10 867**
–	–	**–**	**–**	–	–	**–**	85	**85**
3 045	359	**3 404**	**1 566**	152	(564)	**10 952**	–	**10 952**

R million	FNB							
	Retail segment							
	Residential mortgages	Card	Personal loans	Retail other	**Retail segment**	Commercial	FNB Africa*	**Total FNB**
Cost-to-income ratio (%)	49.0	48.8	25.9	69.3	**56.1**	57.0	>100	**57.1**
Diversity ratio (%)	10.6	49.3	32.0	70.4	**52.1**	52.6	>100	**52.8**
Credit loss ratio (%)	0.32	0.19	11.39	11.54	**1.34**	0.80	–	**1.25**
NPLs as a percentage of advances (%)	4.24	2.32	7.32	6.64	**4.40**	3.34	–	**4.21**
Income statement includes:								
Depreciation	(9)	(4)	(2)	(1 007)	**(1 022)**	(122)	–	**(1 144)**
Amortisation	–	–	–	(48)	**(48)**	(13)	–	**(61)**
Impairment charges	–	–	–	(22)	**(22)**	–	–	**(22)**
Statement of financial position includes:								
Advances (after ISP – before impairments)	163 046	13 001	12 885	6 909	**195 841**	42 834	–	**238 675**
NPLs	6 911	302	943	459	**8 615**	1 429	–	**10 044**
Investments in associates and joint ventures	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	18 869	**204 383**	44 122	123	**248 628**
Total liabilities	160 495	11 333	10 758	16 522	**199 108**	40 624	186	**239 918**
Capital expenditure	7	7	1	2 172	**2 187**	102	–	**2 289**

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

	RMB								
	Investment banking	Corporate banking	**Total RMB**	**WesBank**	Corporate Centre	Consolidation and IFRS adjustments	**FRB – normalised**	Normalised and headline earnings adjustments	**FRB – IFRS**
	40.7	65.5	**44.6**	**49.5**	97.1	30.1	**56.6**	–	**58.2**
	64.5	63.3	**64.3**	**20.6**	45.0	>100	**47.6**	–	**52.7**
	0.54	1.11	**0.56**	**1.24**	–	–	**1.01**	–	**0.85**
	1.28	0.18	**1.25**	**2.83**	–	–	**2.88**	–	**2.89**
	(62)	(33)	**(95)**	**(297)**	(89)	(2)	**(1 627)**	–	**(1 627)**
	(13)	–	**(13)**	**(15)**	(5)	–	**(94)**	–	**(94)**
	(2)	(248)	**(250)**	**–**	–	–	**(272)**	–	**(272)**
	179 065	5 101	**184 166**	**133 599**	4 028	75	**560 543**	(3 250)	**557 293**
	2 296	9	**2 305**	**3 776**	–	–	**16 125**	–	**16 125**
	44	–	**44**	**–**	–	–	**44**	–	**44**
	117 400	45 855	**163 255**	**811**	224 520	(1 286)	**629 872**	–	**629 872**
	296 530	5 106	**301 636**	**134 869**	98 677	(4 235)	**779 575**	–	**779 575**
	294 020	4 801	**298 821**	**132 765**	57 398	(3 734)	**725 168**	–	**725 168**
	57	13	**70**	**1 333**	60	63	**3 815**	–	**3 815**

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 77% of total assets. The composition of the net advances portfolio consists of retail secured (46%), retail unsecured (7%) and corporate and commercial (47%). Total NPLs were R15.4 billion (2.63% as a percentage of advances) with a credit loss ratio of 0.78% and 90% of advances are rated B upper or better.

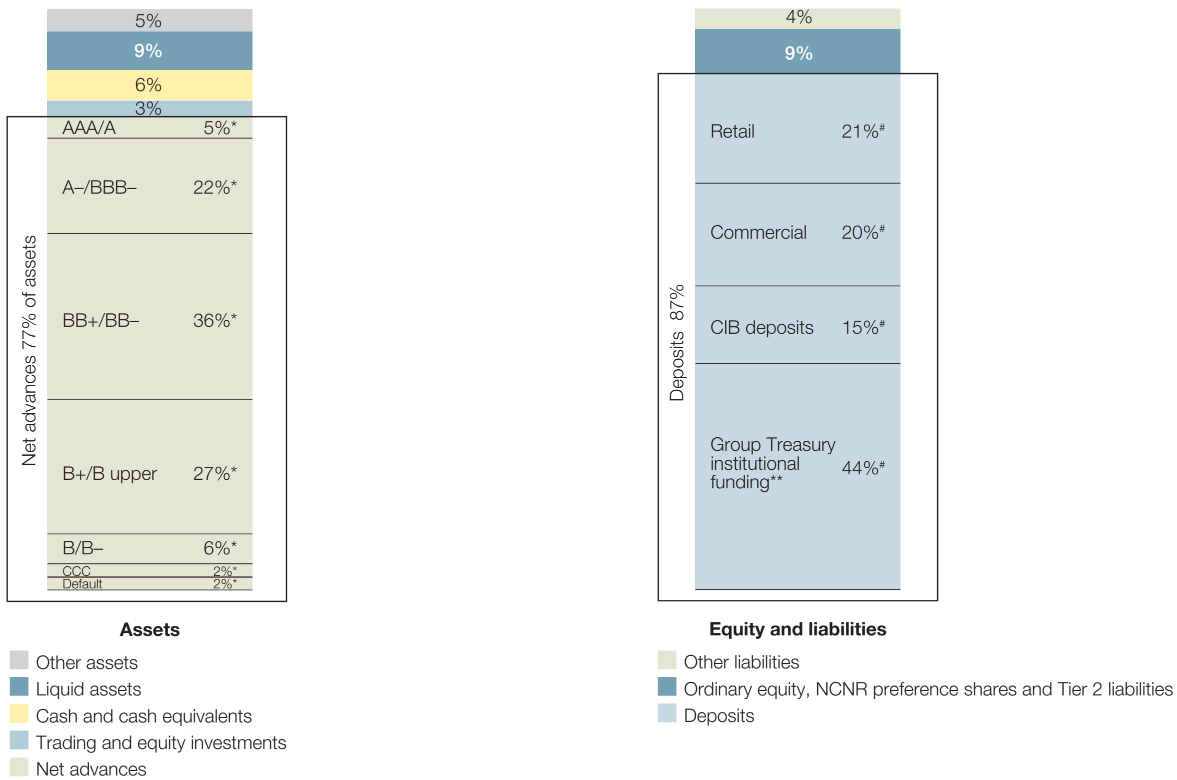
Cash and cash equivalents and liquid assets represent 6% and 9% respectively of total assets. Only a small portion of assets relates to the investment and trading businesses. Market risk arising from trading activities has remained low.

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 months in 2009 to 23 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 at 13.4%, Tier 1 ratio at 14.1% and total capital adequacy ratio at 15.7%. Financial gearing reduced to 15 times (2012: 16 times).

Economic view of the balance sheet as at 31 December 2013 (%)



* *Of net advances.*

Of deposits.

** *Includes consolidation and IFRS adjustments.*

Note: Derivative and short trading position assets and liabilities have been netted off.

CAPITAL

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;
- stress testing scenarios;
- appropriate buffers in excess of minimum requirements;
- rating agencies' considerations;
- investor expectations;
- proposed regulatory changes; and
- risk appetite of management and board.

PERIOD UNDER REVIEW

The capital planning process ensures that the total capital adequacy and CET1 ratios remain within the approved ranges or above target levels across economic and business cycles. The Bank is appropriately capitalised under a range of normal and severe scenarios as well as a range of stress events.

The targeted capital levels, as well as the actual ratios at 31 December 2013 are summarised in the table below.

Capital adequacy position

%	CET1	Tier 1	Total
Regulatory minimum*	4.5	6.0	9.5
Target	9.5 – 11.0	11.0	12.0 – 13.5
Actual**	**13.4**	**14.1**	**15.7**

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

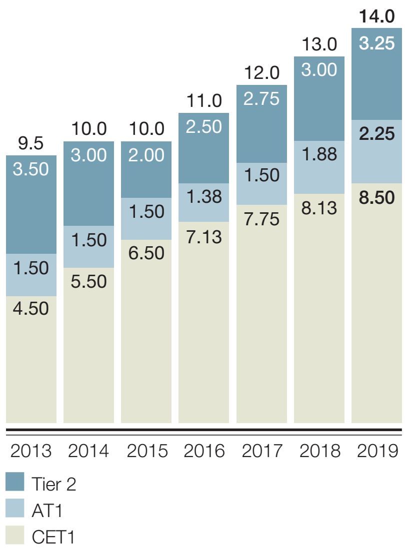
Throughout the period under review, FRB comfortably exceeded its target ranges with a total capital adequacy ratio of 15.7% and CET1 ratio of 13.4%. The Bank continues to follow a conservative approach to capital levels and prefers to maintain capital ratios at the higher end of its targeted capitalisation range, particularly given the current macro conditions and ongoing regulatory developments.

The Bank aims to back all economic risk with CET1 capital adjusted for volatile reserves and remains well capitalised in the current environment.

Basel III

Given the transitional period to comply with the final Basel III capital framework, the Group remains focused on meeting the end state minimum CET1 requirement, while looking at ways to optimise the overall capital mix. The final add-on for domestic systemically important banks (D-SIB) in South Africa has been communicated but is confidential. The graph below demonstrates the minimum requirement assuming a maximum D-SIB add-on.

Minimum capital requirements* (%)



* *Excludes the bank-specific individual capital requirement.*

The Basel Committee on Banking Supervision (BCBS) has issued a number of consultative documents over the past six months. These papers cover various topics and are at different stages of testing, finalisation and implementation.

The Bank continues to participate in the BCBS's quantitative impact studies to assess the effect of Basel III developments on capital adequacy ratios, as well as monitor the impact of leverage for the industry. The Bank's current leverage ratio continues to comfortably exceed the SARB's existing minimum requirement of 4%.

CAPITAL ADEQUACY

Composition of capital

The table below shows the composition of regulatory capital.

Composition of qualifying capital

	FRB*		
	31 December 2013	31 December 2012**	30 June 2013**
R million	**Basel III**	Basel 2.5	Basel III
CET1 capital	**54 094**	45 489	50 173
Tier 1 capital	**56 794**	48 489	52 873
Total qualifying capital and reserves	**63 486**	55 855	59 572

* *Reflects solo supervision, i.e. FRB excluding foreign branches.*
** *Comparative numbers have not been restated for IFRS changes.*

Supply of capital – Tier 1 capital

CET1 capitalisation ratios benefited from strong internal capitalisation through earnings. All profits were appropriated at 31 December 2013.

Supply of capital – Tier 2 capital

Given recent SARB guidance on the loss absorbency requirements for Additional Tier 1 and Tier 2 capital instruments, the Bank continues to focus on the most optimal capital mix and pricing.

For more detail on the Basel III additional capital disclosure templates (as required per *SARB Directive 8 of 2013*), refer to www.firstrand.co.za/investorcentre/pages/capitaldisclosures.aspx

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

Demand for capital

The table below shows the breakdown of RWA per risk type as per current SARB regulations.

Composition of RWA

	FRB**		
	31 December 2013	31 December 2012	30 June 2013
R million	**Basel III**	Basel 2.5	Basel III
Credit risk*	**300 152**	285 289	297 863
Operational risk	**63 417**	56 390	62 748
Market risk	**9 466**	10 735	7 855
Equity investment risk	**6 529**	13 513	10 511
Other risk	**23 900**	15 492	19 542
Total RWA	**403 464**	381 419	398 519

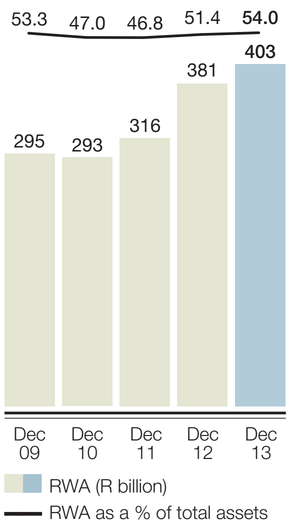
* *Includes counterparty credit risk.*
** *Reflects solo supervision, i.e. FRB excluding foreign branches.*

Overall movement in RWA from June 2013 to December 2013 can be attributed to the following:

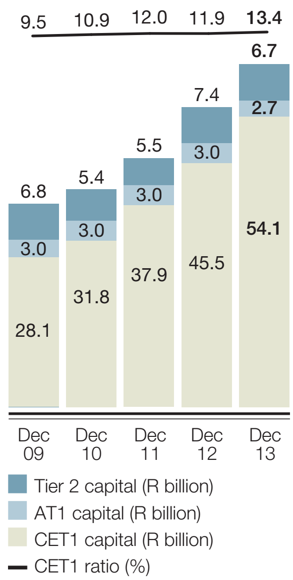
- credit risk – increase in organic growth was partly offset by model risk recalibrations. Counterparty credit risk decreased due to higher collateralisation and improved internal methodologies;
- operational risk – increase due to recalibration of risk scenarios;
- market risk – increase in general risk capital requirement as a result of a higher capital multiplier; and
- equity investment risk – decrease mainly due to the change in the IFRS reporting for post-retirement assets.

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

RWA history



Capital adequacy



FUNDING AND LIQUIDITY

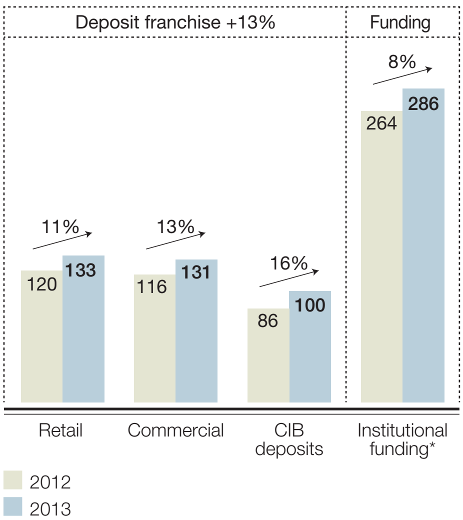
FUNDING STRATEGY

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.

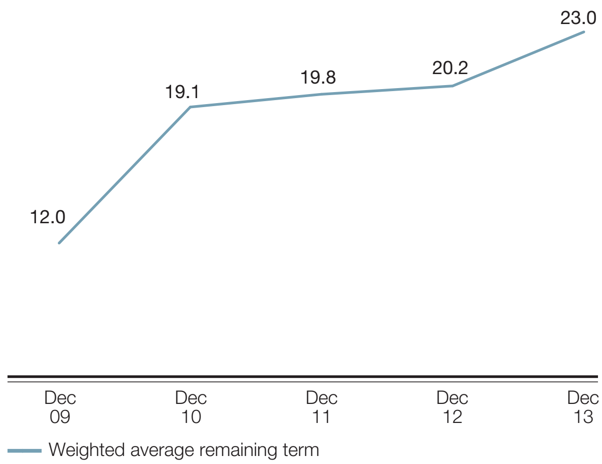
Compliance with the Basel III Liquidity Coverage Ratio (LCR) influences the Bank's funding strategy, in particular as it seeks to restore the correct risk-adjusted pricing of deposits. FRB is actively building its deposit franchise through innovative and competitive products and pricing, while improving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

FRB's funding by segment (R billion)



* *Includes CIB institutional funding.*

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 31 December 2013			
% of funding liabilities	Total	Short-term	Medium-term	Long-term
Institutional	**39.8**	**13.1**	**10.3**	**16.4**
Corporate	**22.2**	**18.1**	**1.7**	**2.4**
Retail	**16.8**	**12.7**	**2.4**	**1.7**
SMEs	**5.0**	**4.3**	**0.5**	**0.2**
Government and parastatals	**8.0**	**6.4**	**1.3**	**0.3**
Foreign	**7.4**	**3.9**	**1.0**	**2.5**
Other	**0.8**	**0.2**	**–**	**0.6**
Total	**100**	**58.7**	**17.2**	**24.1**

Source: SA banking sector aggregate SARB BA900 returns (31 December 2013), FirstRand research.

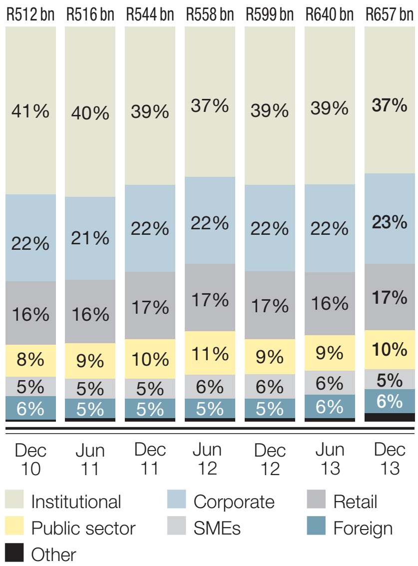
FRB generates a larger proportion of its funding from the deposit franchise in comparison to the SA aggregate, but its funding profile also reflects the structural features described above. Emphasis is placed on improving the profile of institutional funding and developing products that better meet the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

FRB's funding sources

	As at 31 December 2013			
% of funding liabilities	Total	Short-term	Medium-term	Long-term
Institutional	**36.8**	**13.8**	**8.1**	**14.9**
Deposit franchise	**63.2**	**49.3**	**6.1**	**7.8**
Corporate	**23.0**	**19.9**	**1.4**	**1.7**
Retail	**17.5**	**13.1**	**3.0**	**1.4**
SMEs	**5.3**	**4.7**	**0.4**	**0.2**
Government and parastatals	**9.8**	**8.4**	**1.0**	**0.4**
Foreign	**5.6**	**3.1**	**0.2**	**2.3**
Other	**2.0**	**0.1**	**0.1**	**1.8**
Total	**100.0**	**63.1**	**14.2**	**22.7**

The chart below provides a historic analysis of FRB's funding sources and reflects the stability of funding sources with an improvement in the deposit franchise.

FRB funding analysis by source

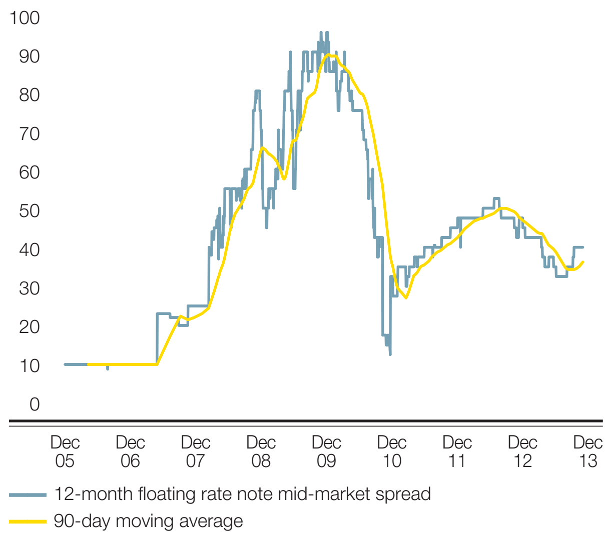


The Bank's aim is to fund the balance sheet in the most efficient manner, taking into account the liquidity risk management framework, as well as regulatory and rating agency requirements.

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. During the six months to December 2013, liquidity premiums initially dropped, but subsequently started to increase in October 2013. This was due to banks extending their maturities into 2014, while investors were increasingly uncertain about the interest rate environment and preferred to maintain shorter duration.

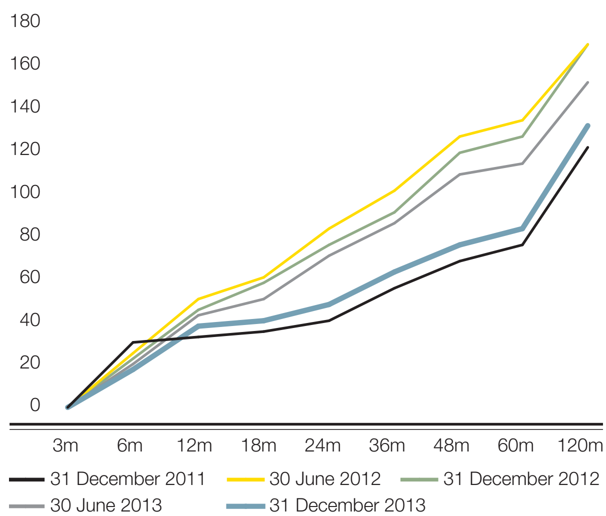
12-month liquidity spread (bps)



Source: Bloomberg (RMBP screen) and Reuters.

Long-term funding spreads are elevated from a historical perspective, however, these have reduced considerably year-on-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 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. The Bank is consistently able to raise funds in the capital markets in line with its funding curve.

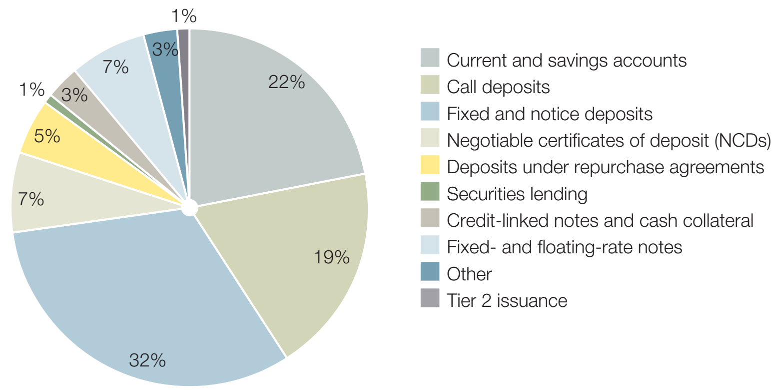
Long-term funding spreads (bps)



Source: Bloomberg (RMBP screen) and Reuters.

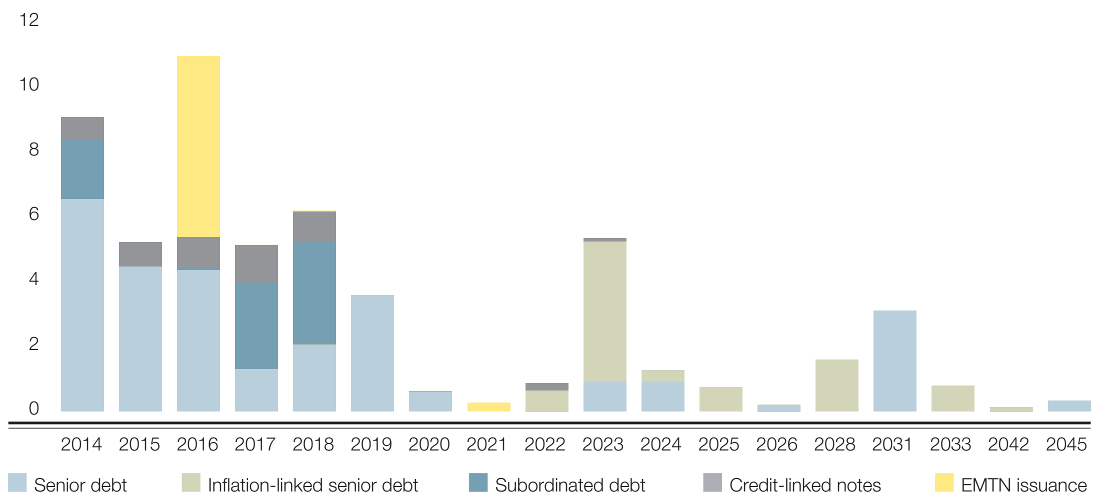
The chart below shows that the Bank has well-diversified instruments funding the balance sheet.

Instrument type (including senior debt and securitisation)



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

Maturity profile of 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.

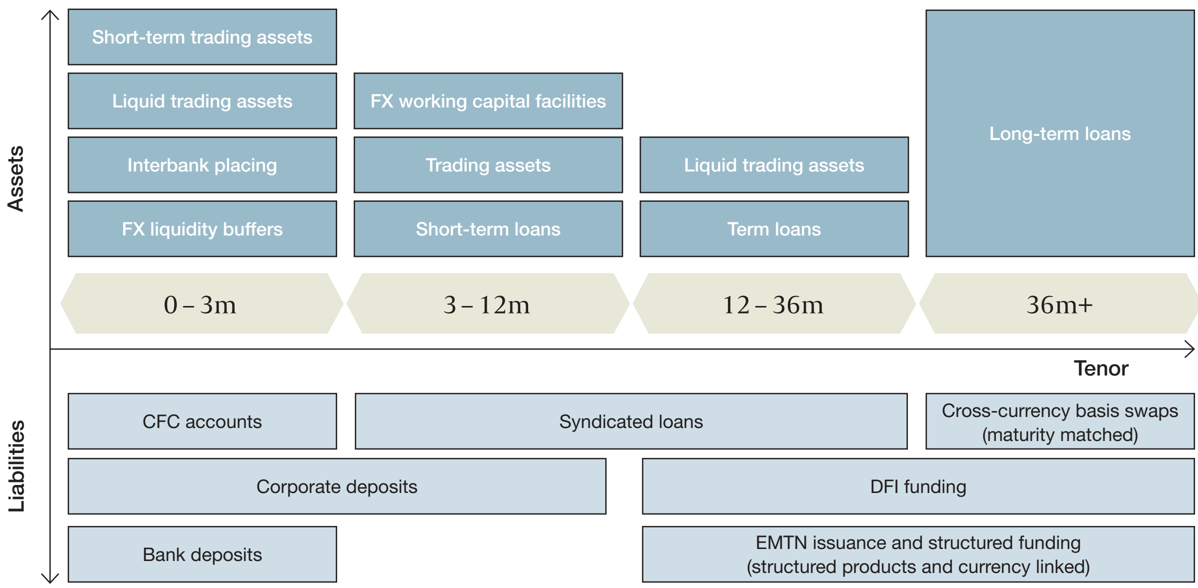
FirstRand's expansion strategy means that its foreign currency activities, in particular lending and trade finance, have increased. It is, therefore, important to have a sound framework for the assessment and management of foreign currency external debt, given the inherent vulnerabilities and liquidity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

Graphical representation of the foreign currency balance sheet



BASEL III UPDATE

The liquidity reforms under Basel III seek to address two aspects of liquidity risk:

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

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

The BCBS released an update on the NSFR in January 2014. The consultative paper proposes a better alignment between the LCR and NSFR, which will allow for balance sheet improvements between LCR and NSFR. The Group believes that the calibration and LCR alignment has improved.

FirstRand will continue to participate in the consultative process on the NSFR.

Liquidity Coverage Ratio

The LCR has been fully adopted by the SARB with the inclusion of a committed liquidity facility (CLF) and will be phased in from 2015 to 2019. 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.

Eligible collateral will include levels 2A and 2B with qualifying criteria and ratings requirements now reference to national scale ratings for liquidity risk in that local currency.

Committed liquidity facility

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

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

Eligible collateral for the CLF 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 banks' available liquidity resources, a considerable amount of work is first required to appropriately structure and prepare the bank's assets 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.

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

Net Stable Funding Ratio

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

In assessing the amount of stable funding, the calibration reflects the stability of liabilities across two dimensions:

- funding type and counterparty; and
- funding tenor.

The BCBS explicitly considered the following criteria in determining the amounts of required stable funding for assets and off-balance sheet commitments:

- resilient credit creation – ensuring continuity of lending to the real economy;
- bank behaviour – assuming that banks seek to preserve customer relationships;
- asset tenor – short-dated assets require less stable funding as banks could allow a proportion of these assets to mature instead of rolling over; and
- asset quality and liquidity value – recognition that high quality assets can be securitised or traded, and, therefore, be readily used as collateral to secure additional funding, or sold in the market, and, therefore, do not need to be wholly financed with stable funding.

CREDIT

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

The Bank's total gross advances increased 11% year-on-year underpinned by 11% and 12% growth in the retail and corporate portfolios respectively.

NPLs have continued to trend down since the peak in June 2009. Retail NPLs declined 8% mainly as a result of a sizeable decrease in residential mortgages with unsecured lending NPLs increasing as expected.

Corporate and commercial NPLs declined 14% primarily as a result of decreases in WesBank Corporate and RMB Investment Banking.

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

		Six months ended 31 December			Year ended 30 June
R million	Notes	**2013**	2012	% change	2013
Total gross advances*	1	**586 356**	527 452	11	560 543
NPLs*	2	**15 419**	17 074	(10)	16 125
NPLs as a % of advances		**2.63**	3.24		2.88
Impairment charge – total	3	**2 225**	2 320	(4)	5 334
– Business as usual		**2 225**	2 320	(4)	5 104
– Special impairment**		**–**	–		230
Impairment charge as a % of average advances		**0.78**	0.91		1.01
– Business as usual		**0.78**	0.91		0.97
– Special impairment		**–**	–		0.04
Total impairments*	4	**11 996**	11 201	7	11 962
– Portfolio impairments		**5 829**	5 064	15	5 540
– Specific impairments		**6 167**	6 137	–	6 422
Implied loss given default (coverage)#	4	**40.0**	35.9		39.8
Total impairments coverage ratio†		**77.8**	65.6		74.2
Performing book coverage ratio‡		**1.02**	0.99		1.02

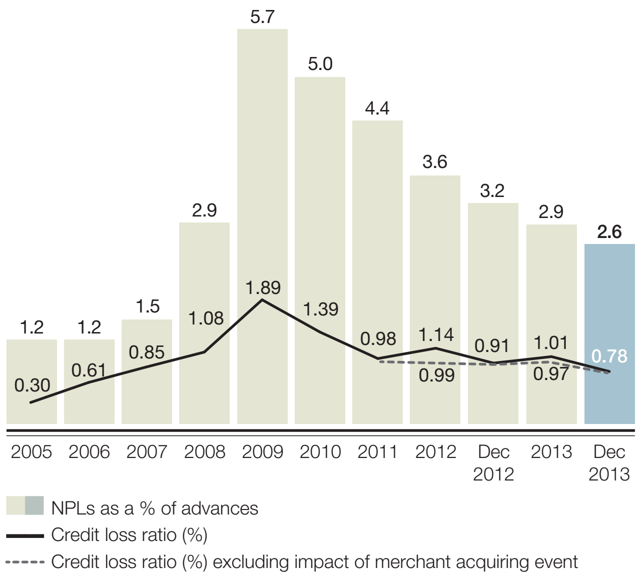
* *Includes cumulative credit fair value adjustments.*
** *This impairment relates to the discovery during the year ended June 2012 of the deliberate concealment by employees of unrecovered amounts in FNB's merchant acquiring business unit. This was classified as a boundary event.*
# *Amortised cost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

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

The credit information in this section is presented on a normalised basis. The normalised basis differs from IFRS in that the credit fair value adjustments on fair value advances were reversed to reflect 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 adjustments of R3 059 million (Dec 2012: R2 614 million; June 2013: R3 250 million); and
- IFRS credit impairments in the income statement were adjusted to include the credit fair value adjustment impact of R12 million (Dec 2012: R259 million; June 2013: R893 million). Under IFRS, these would have been accounted for under NIR.

FRB NPLs and impairments



Retail credit portfolios

- NPLs as a percentage of advances continue to trend downwards and were 3.61% at December 2013 compared to 4.37% at December 2012. As expected VAF and unsecured lending NPLs are contributing a higher proportion of the NPL balance.
- The impairment charge as a percentage of average advances for retail was 1.26% (December 2012: 1.36%). The absolute charge for the portfolio reflects a higher proportion of specific impairments emanating mainly from the retail other portfolio (overdrafts and revolving loans), VAF and personal loans. The FNB Card impairment charge remains low and continues to benefit from good post write-off recoveries.

Corporate credit portfolios

- NPLs in the corporate and commercial portfolios declined to 1.54% from 2.0% year-on-year with a significant reduction from WesBank's corporate portfolio.
- The impairment charge decreased to 0.24% from 0.41%.

NOTE 1: ANALYSIS OF ADVANCES

The table below provides a segmental analysis of advances.

Segmental analysis of advances

R million	As at 31 December 2013	As at 31 December 2012	% change	2013 % composition	As at 30 June 2013
Retail	**308 785**	277 807	11	53	296 535
Retail – secured	**266 088**	241 665	10	46	256 493
Residential mortgages	**166 846**	159 324	5	29	163 046
Vehicle and asset finance	**99 242**	82 341	21	17	93 447
Retail – unsecured	**42 697**	36 142	18	7	40 042
Card	**13 458**	11 877	13	2	13 001
Personal loans	**20 471**	19 061	7	3	20 132
– FNB loans	**12 280**	12 587	(2)	2	12 885
– WesBank loans	**8 191**	6 474	27	1	7 247
Retail other	**8 768**	5 204	68	2	6 909
Corporate and commercial	**275 679**	246 357	12	47	259 905
FNB Commercial	**44 902**	39 300	14	8	42 834
WesBank Corporate	**34 977**	30 802	14	6	32 905
RMB Investment Banking	**189 375**	172 743	10	32	179 065
RMB Corporate Banking	**6 425**	3 512	83	1	5 101
Corporate Centre	**1 892**	3 288	(42)	–	4 103
Total advances	**586 356**	527 452	11	100	560 543
Of which:					
Accrual book	**424 369**	375 188	13	72	404 695
Fair value book*	**161 987**	152 264	6	28	155 848

* *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.

R million	As at 31 December 2013	As at 31 December 2012	% change	2013 % composition	As at 30 June 2013
Investment banking advances	**189 375**	172 743	10	100	179 065
Less: assets under agreements to resell	**(36 599)**	(44 205)	(17)	(19)	(40 502)
Investment banking advances net of assets under agreements to resell	**152 776**	128 538	19	81	138 563

Sector and geographic analysis of advances

R million	As at 31 December 2013	As at 31 December 2012	% change	2013 % composition	As at 30 June 2013
Gross advances	**588 028**	529 435	11	100	562 310
Less: interest in suspense	**(1 672)**	(1 983)	(16)	–	(1 767)
Advances net of interest in suspense	**586 356**	527 452	11	100	560 543
Sector analysis					
Agriculture	**20 487**	16 134	27	3	18 756
Banks	**7 901**	9 111	(13)	1	6 981
Financial services	**70 391**	70 410	–	12	65 505
Building and property development	**28 509**	28 237	1	5	31 745
Government, Land Bank and public authorities	**14 034**	14 764	(5)	2	15 945
Individuals	**309 074**	277 796	11	54	296 769
Manufacturing and commerce	**68 835**	56 223	22	12	62 606
Mining	**20 237**	16 587	22	3	19 868
Transport and communication	**18 772**	15 437	22	3	13 929
Other services	**28 116**	22 753	24	5	28 439
Total advances	**586 356**	527 452	11	100	560 543
Geographic analysis					
South Africa	**550 627**	505 089	9	94	533 259
Other Africa	**17 856**	8 386	>100	3	10 885
UK	**9 674**	7 023	38	2	10 358
Other Europe	**5 649**	3 730	51	1	3 379
North America	**680**	77	>100	–	402
South America	**331**	288	15	–	318
Australasia	**435**	430	1	–	501
Asia	**1 104**	2 429	(55)	–	1 441
Total advances	**586 356**	527 452	11	100	560 543

NOTE 2: ANALYSIS OF NPLs

Segment analysis of NPLs

	NPLs					NPLs as a % of advances		
	As at 31 December			2013 % composition	As at 30 June	As at 31 December		As at 30 June
R million	**2013**	2012	% change		2013	**2013**	2012	2013
Retail	**11 160**	12 137	(8)	72	11 527	**3.61**	4.37	3.89
Retail – secured	**8 935**	10 272	(13)	58	9 379	**3.36**	4.25	3.66
Residential mortgages	**6 089**	7 786	(22)	40	6 911	**3.65**	4.89	4.24
Vehicle and asset finance	**2 846**	2 486	14	18	2 468	**2.87**	3.02	2.64
Retail – unsecured	**2 225**	1 865	19	14	2 148	**5.21**	5.16	5.36
Card	**347**	267	30	2	302	**2.58**	2.25	2.32
Personal loans	**1 439**	1 286	12	9	1 387	**7.03**	6.75	6.89
– FNB loans	**919**	914	1	6	943	**7.48**	7.26	7.32
– WesBank loans	**520**	372	40	3	444	**6.35**	5.75	6.13
Retail other	**439**	312	41	3	459	**5.01**	6.00	6.64
Corporate and commercial	**4 259**	4 937	(14)	28	4 598	**1.54**	2.00	1.77
FNB Commercial	**1 523**	1 684	(10)	10	1 429	**3.39**	4.28	3.34
WesBank Corporate	**590**	1 125	(48)	4	864	**1.69**	3.65	2.63
RMB Investment Banking	**2 138**	2 120	1	14	2 296	**1.13**	1.23	1.28
RMB Corporate Banking	**8**	8	–	–	9	**0.12**	0.23	0.18
Total NPLs	**15 419**	17 074	(10)	100	16 125	**2.63**	3.24	2.88
Of which:								
Accrual book	**13 306**	14 965	(11)	86	13 835	**3.14**	3.99	3.42
Fair value book	**2 113**	2 109	–	14	2 290	**1.30**	1.39	1.47

Sector and geographic analysis of NPLs

R million	NPLs					NPLs as a % of advances		
	As at 31 December		% change	2013 % composition	As at 30 June	As at 31 December		As at 30 June
	2013	2012			2013	**2013**	2012	2013
Sector analysis								
Agriculture	**599**	556	8	4	603	**2.92**	3.45	3.21
Financial services	**231**	399	(42)	1	244	**0.33**	0.57	0.37
Building and property development	**1 988**	2 413	(18)	13	2 488	**6.97**	8.55	7.84
Government, Land Bank and public authorities	**26**	23	13	–	13	**0.19**	0.16	0.08
Individuals	**11 144**	12 107	(8)	72	11 540	**3.61**	4.36	3.89
Manufacturing and commerce	**852**	860	(1)	6	580	**1.24**	1.53	0.93
Mining	**43**	89	(52)	–	95	**0.21**	0.54	0.48
Transport and communication	**99**	214	(54)	1	115	**0.53**	1.39	0.83
Other services	**437**	413	6	3	447	**1.55**	1.82	1.57
Total NPLs	**15 419**	17 074	(10)	100	16 125	**2.63**	3.24	2.88
Geographic analysis								
South Africa	**14 895**	16 704	(11)	98	15 708	**2.71**	3.31	2.95
Other Africa	**67**	5	>100	–	1	**0.38**	0.06	0.01
UK	**33**	30	10	–	29	**0.34**	0.43	0.28
Other Europe	**–**	–	–	–	–	**–**	–	–
North America	**35**	28	25	–	34	**5.15**	36.36	8.46
South America	**331**	273	21	2	315	**100**	94.79	99.06
Australasia	**–**	–	–	–	–	**–**	–	–
Asia	**58**	34	71	–	38	**5.25**	1.40	2.64
Total NPLs	**15 419**	17 074	(10)	100	16 125	**2.63**	3.24	2.88

Security and recoverable amounts

	As at 31 December						As at 30 June		
	2013			2012			2013		
R million	**NPLs**	**Security held and expected recoveries**	**Specific impairment***	NPLs	Security held and expected recoveries	Specific impairment*	NPLs	Security held and expected recoveries	Specific impairment*
Retail	**11 160**	**7 340**	**3 820**	12 137	8 200	3 937	11 527	7 579	3 948
Retail – secured	**8 935**	**6 733**	**2 202**	10 272	7 851	2 421	9 379	7 053	2 326
Residential mortgages	**6 089**	**4 809**	**1 280**	7 786	6 196	1 590	6 911	5 408	1 503
Vehicle and asset finance	**2 846**	**1 924**	**922**	2 486	1 655	831	2 468	1 645	823
Retail – unsecured	**2 225**	**607**	**1 618**	1 865	349	1 516	2 148	526	1 622
Card	**347**	**99**	**248**	267	80	187	302	85	217
Personal loans	**1 439**	**394**	**1 045**	1 286	257	1 029	1 387	353	1 034
– FNB loans	**919**	**169**	**750**	914	178	736	943	173	770
– WesBank loans	**520**	**225**	**295**	372	79	293	444	180	264
Retail other	**439**	**114**	**325**	312	12	300	459	88	371
Corporate and commercial	**4 259**	**1 912**	**2 347**	4 937	2 737	2 200	4 598	2 124	2 474
FNB Commercial	**1 523**	**703**	**820**	1 684	889	795	1 429	647	782
WesBank Corporate	**590**	**236**	**354**	1 125	694	431	864	381	483
RMB Investment Banking	**2 138**	**973**	**1 165**	2 120	1 154	966	2 296	1 096	1 200
RMB Corporate Banking	**8**	**–**	**8**	8	–	8	9	–	9
Total	**15 419**	**9 252**	**6 167**	17 074	10 937	6 137	16 125	9 703	6 422

* *Specific impairment includes cumulative credit fair value adjustments.*

NOTE 3: ANALYSIS OF INCOME STATEMENT CREDIT IMPAIRMENTS

The bad debt charge decreased from 91 bps at December 2012 to 78 bps at December 2013 (June 2013: 101 bps).

Income statement impairments

	Total impairment charge				As a % of average advances			
	For the six months ended 31 December			For the year ended 30 June	As at 31 December**		As at 30 June	Six months ended 30 June**
R million	**2013**	2012	% change	2013	**2013**	2012	2013	2013
Retail	**1 901**	1 840	3	3 717	**1.26**	1.36	1.32	1.31
Retail – secured	**627**	698	(10)	1 464	**0.48**	0.59	0.60	0.62
Residential mortgages	**83**	309	(73)	507	**0.10**	0.39	0.32	0.25
Vehicle and asset finance	**544**	389	40	957	**1.13**	0.99	1.14	1.29
Retail – unsecured	**1 274**	1 142	12	2 253	**6.16**	6.64	6.20	5.83
Card	**10**	(2)	(>100)	23	**0.15**	(0.03)	0.19	0.40
Personal loans	**849**	901	(6)	1 832	**8.36**	9.82	9.70	9.50
– FNB loans	**604**	742	(19)	1 402	**9.60**	12.21	11.39	10.36
– WesBank loans	**245**	159	54	430	**6.35**	5.14	6.54	7.90
Retail other	**415**	243	71	398	**10.59**	10.89	7.49	5.12
Corporate and commercial	**324**	480	(33)	1 387	**0.24**	0.41	0.57	0.72
FNB Commercial	**111**	114	(3)	317	**0.51**	0.61	0.80	0.99
WesBank Corporate	**93**	86	8	130	**0.55**	0.56	0.41	0.28
RMB Investment Banking	**112**	275	(59)	912	**0.12**	0.33	0.54	0.72
RMB Corporate Banking	**8**	5	60	28	**0.28**	0.32	0.72	1.07
Business as usual impairment charge*	**2 225**	2 320	(4)	5 104	**0.78**	0.91	0.97	1.02
Special impairment*	**–**	–	–	230	**–**	–	0.04	0.09
Total impairment charge	**2 225**	2 320	(4)	5 334	**0.78**	0.91	1.01	1.11
Of which:								
Portfolio impairment charge	**289**	413	(30)	1 211	**0.10**	0.16	0.23	0.30
Specific impairment charge	**1 936**	1 907	2	4 123	**0.68**	0.75	0.78	0.81

* *Percentages calculated on total average advances.*
** *Annualised.*

NOTE 4: ANALYSIS OF BALANCE SHEET IMPAIRMENTS AND COVERAGE RATIOS

Implied loss given default and total impairment coverage ratios

	Balance sheet impairments				Coverage ratios (% of NPLs)		
	As at 31 December			As at 30 June	As at 31 December		As at 30 June
R million	**2013**	2012	% change	2013	**2013**	2012	2013
Specific impairments*							
Retail	**3 820**	3 937	(3)	3 948	**34.2**	32.4	34.3
Retail – secured	**2 202**	2 421	(9)	2 326	**24.6**	23.6	24.8
Residential mortgages	**1 280**	1 590	(19)	1 503	**21.0**	20.4	21.7
VAF**	**922**	831	11	823	**32.4**	33.4	33.3
Retail – unsecured	**1 618**	1 516	7	1 622	**72.7**	81.3	75.5
Card	**248**	187	33	217	**71.5**	70.0	71.9
Personal loans	**1 045**	1 029	2	1 034	**72.6**	80.0	74.5
– FNB loans	**750**	736	2	770	**81.6**	80.5	81.7
– WesBank loans	**295**	293	1	264	**56.7**	78.8	59.5
Retail other	**325**	300	8	371	**74.0**	96.2	80.8
Corporate	**2 347**	2 200	7	2 474	**55.1**	44.6	53.8
FNB Commercial	**820**	795	3	782	**53.8**	47.2	54.7
WesBank Corporate	**354**	431	(18)	483	**60.0**	38.3	55.9
RMB Investment Banking	**1 165**	966	21	1 200	**54.5**	45.6	52.3
RMB Corporate Banking	**8**	8	–	9	**100**	100	100
Total specific impairments/ implied loss given default#	**6 167**	6 137	–	6 422	**40.0**	35.9	39.8
Portfolio impairments†	**5 829**	5 064	15	5 540	**37.8**	29.7	34.4
Total impairments/total impairment coverage ratio‡	**11 996**	11 201	7	11 962	**77.8**	65.6	74.2

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

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

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

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

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

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

	Amortised cost book			Fair value book			Total book		
	As at 31 December		As at 30 June	As at 31 December		As at 30 June	As at 31 December		As at 30 June
R million	**2013**	2012	2013	**2013**	2012	2013	**2013**	2012	2013
Non-performing book	**5 002**	5 183	5 228	**1 165**	954	1 194	**6 167**	6 137	6 422
Performing book	**5 935**	3 404	3 484	**1 894**	1 660	2 056	**5 829**	5 064	5 540
Total impairments	**8 937**	8 587	8 712	**3 059**	2 614	3 250	**11 996**	11 201	11 962

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

Balance sheet specific impairments – amortised cost

	As at 31 December			As at 30 June
R million	**2013**	2012	% change	2013
Opening balance	**5 228**	5 119	2	5 119
Reclassifications and transfers	**–**	26	(100)	145
Exchange rate difference	**4**	1	>100	5
Unwinding and discounted present value on NPLs	**(82)**	(100)	(18)	(157)
Bad debts written off	**(2 736)**	(2 234)	22	(4 917)
Net new impairments created	**2 588**	2 371	9	5 033
Closing balance	**5 002**	5 183	(3)	5 228

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

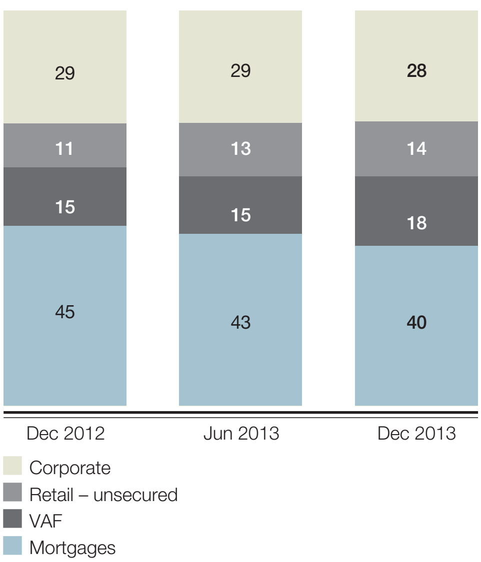
Income statement impairments

	Six months ended 31 December			Year ended 30 June
R million	**2013**	2012	% change	2013
Specific impairment charge	**2 588**	2 371	9	5 033
Recoveries of bad debts written off	**(825)**	(637)	30	(1 117)
Net specific impairment charge (amortised cost)	**1 763**	1 734	2	3 916
Portfolio impairment charge (amortised cost)	**450**	327	38	525
Credit fair value adjustments	**12**	259	(95)	893
– Non-performing book	**173**	173	–	207
– Performing book	**(161)**	86	(>100)	686
Total impairments	**2 225**	2 320	(4)	5 334

NPL DISTRIBUTION

The graph below provides the NPL distribution across product categories, showing a decrease in the proportion of residential mortgage NPLs since December 2012 and increases in VAF and Retail unsecured lending.

NPL distribution (%)



RETAIL PROPERTIES IN POSSESSION

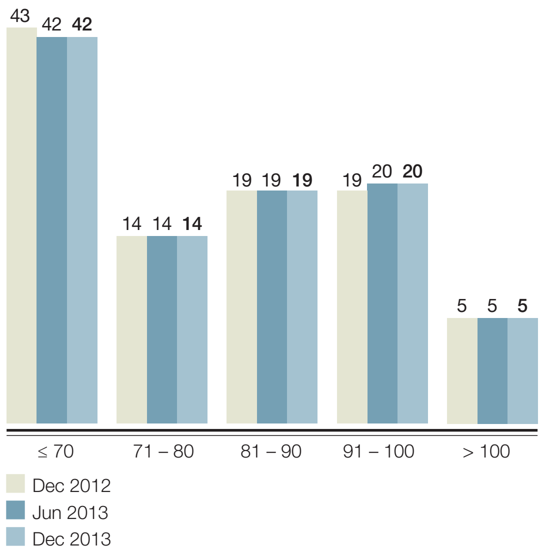
The Bank took a decision to write off the carrying value of retail properties in possession. At December 2013, 221 properties were part of the Bank's portfolio (December 2012: 391).

RISK ANALYSES

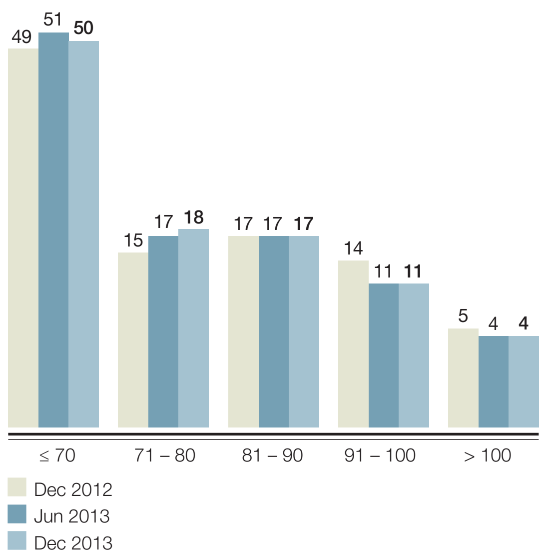
This section provides further information on selected risk analyses of the credit portfolios.

The focus on loan-to-value ratios for new business forms part of a broader strategy which places more emphasis on counterparty creditworthiness as opposed to only on the underlying security. The stability of the distribution based on original value reflects the conservative lending strategy that has been in place over the last five years. Pressures on property market values have negatively impacted the balance-to-market value distribution. Approximately 85% of the loan book has a loan-to-value (market value) below 90%.

Residential mortgages balance-to-original value (%)

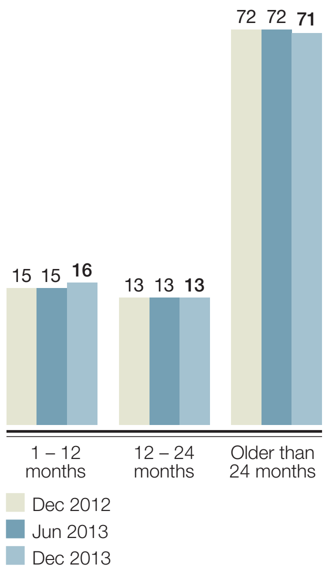


Residential mortgages balance-to-market value (%)



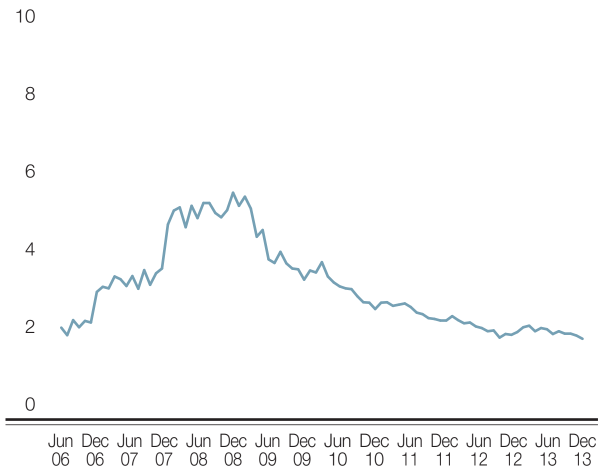
The increase in the twelve-month age category reflects the 5% advances growth.

Residential mortgages age distribution (%)



The graph below shows 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.

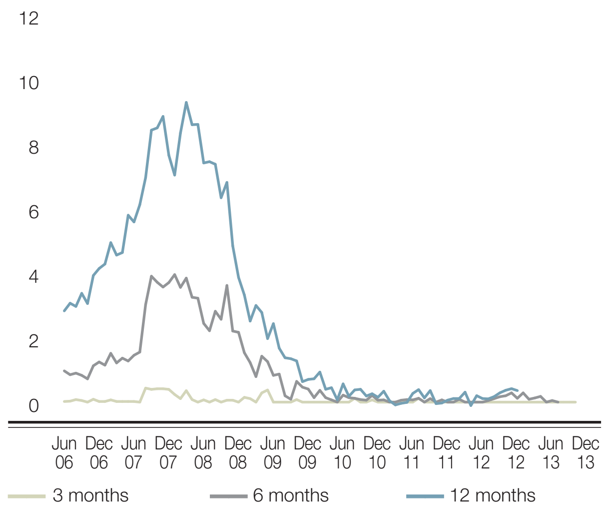
FNB HomeLoans arrears (%)



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

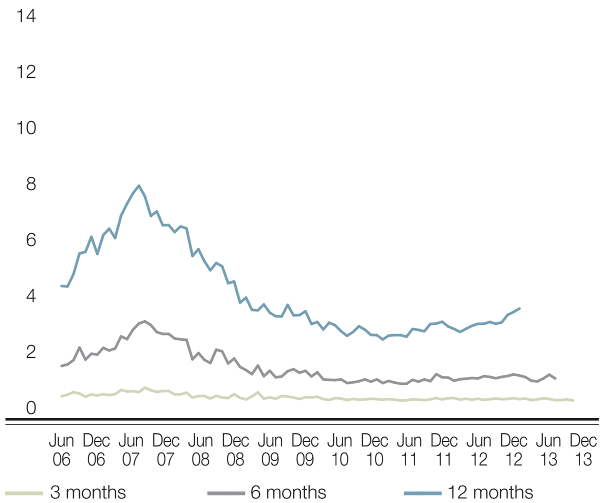
For FNB HomeLoans, the three, six and twelve month cumulative vintage analyses illustrate a marked improvement in the quality of business written since mid-2008 despite challenging macro conditions in the succeeding periods. The default experience for all vintages is positive and impairments remain at very low levels.

FNB HomeLoans vintage analysis (%)



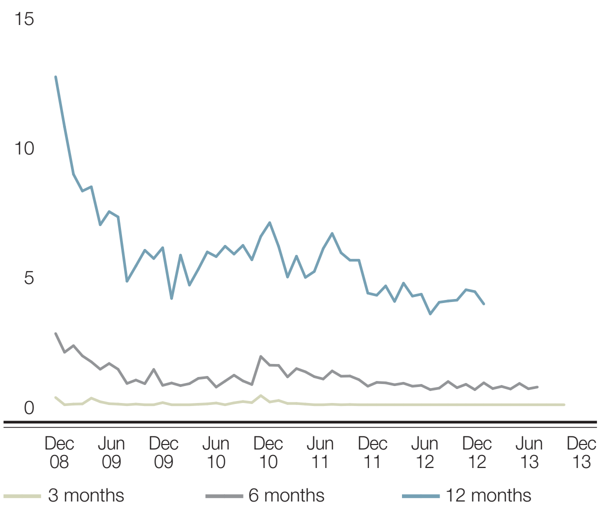
Retail VAF vintages reflect a positive response to credit loss mitigation actions taken from May 2008. The bulk of defaults usually occur between 18 to 24 months after origination, hence the higher level of default in the twelve month vintage. Further credit loss mitigation actions were implemented in 2013.

WesBank retail VAF vintage analysis (%)



Despite 13% growth year-on-year, FNB Card new business continues to perform well with low levels of defaults. Credit loss mitigation actions were implemented in 2011/12.

FNB Card vintage analysis (%)

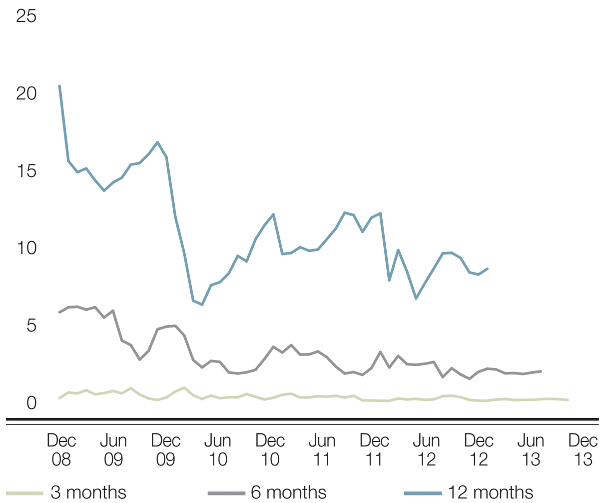


The default experience of the FNB and WesBank personal loan portfolios is within risk appetite.

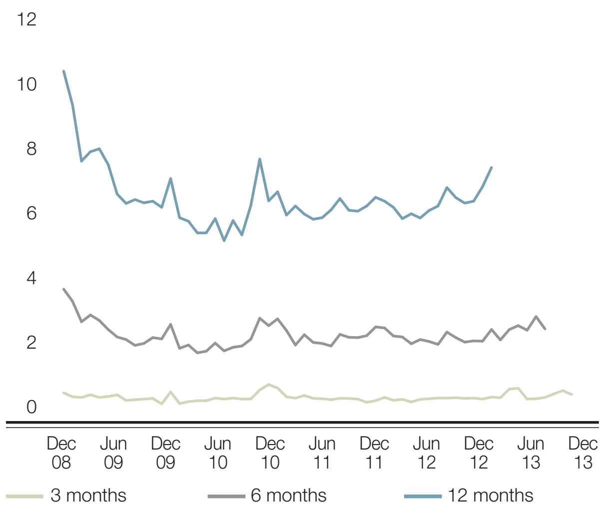
The trend in the twelve month vintage analyses shown below has moderated compared to past experience. This is due to the implementation of a more conservative credit origination strategy during the current period, however, new business strain is still being seen. The three and six month vintages reflect a positive response to the credit tightening actions taken in the portfolios.

Ongoing actions are undertaken to ensure these portfolios remain within risk appetite.

FNB personal loans vintage analysis (%)



WesBank personal loans vintage analysis (%)



SUPPLEMENTARY INFORMATION

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

Segmental advances NPLs and impairment analysis

	Six months ended 31 December 2013				
R million/%	Advances	NPLs	NPLs as a % of advances	Total impairment charge	Impairments as % of average advances
FNB*	**246 254**	**9 317**	**3.78**	**1 223**	**1.01**
FNB Retail	201 352	7 794	3.87	1 112	1.12
Residential mortgages	166 846	6 089	3.65	83	0.10
Card	13 458	347	2.58	10	0.15
Personal loans	12 280	919	7.48	604	9.60
Retail other	8 768	439	5.01	415	10.59
FNB Commercial	44 902	1 523	3.39	111	0.51
WesBank	**142 410**	**3 956**	**2.78**	**882**	**1.28**
WesBank asset-backed finance	134 219	3 436	2.56	637	0.98
– WesBank Retail	99 242	2 846	2.87	544	1.13
– WesBank Corporate	34 977	590	1.69	93	0.55
WesBank loans	8 191	520	6.35	245	6.35
RMB	**195 800**	**2 146**	**1.10**	**120**	**0.13**
RMB Investment Banking	189 375	2 138	1.13	112	0.12
RMB Corporate Banking	6 425	8	0.12	8	0.28
Corporate Centre*	**1 892**	**–**	**–**	**–**	**–**
Subtotal	**586 356**	**15 419**	**2.63**	**2 225**	**0.78**
Special impairment**	–	–	–	–	–
Total	**586 356**	**15 419**	**2.63**	**2 225**	**0.78**

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

** *Special impairments relate to FNB R215 million and RMB Corporate Banking R15 million in June 2013.*

	Six months ended 31 December 2012					Year ended 30 June 2013				
	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
	228 292	10 963	4.80	1 406	1.25	238 675	10 044	4.21	2 647	1.15
	188 992	9 279	4.91	1 292	1.38	195 841	8 615	4.40	2 330	1.22
	159 324	7 786	4.89	309	0.39	163 046	6 911	4.24	507	0.32
	11 877	267	2.25	(2)	(0.03)	13 001	302	2.32	23	0.19
	12 587	914	7.26	742	12.21	12 885	943	7.32	1 402	11.39
	5 204	312	6.00	243	10.89	6 909	459	6.64	398	7.49
	39 300	1 684	4.28	114	0.61	42 834	1 429	3.34	317	0.80
	119 617	3 983	3.33	634	1.10	133 599	3 776	2.83	1 517	1.24
	113 143	3 611	3.19	475	0.87	126 352	3 332	2.64	1 087	0.94
	82 341	2 486	3.02	389	0.99	93 447	2 468	2.64	957	1.14
	30 802	1 125	3.65	86	0.56	32 905	864	2.63	130	0.41
	6 474	372	5.75	159	5.14	7 247	444	6.13	430	6.54
	176 255	2 128	1.21	280	0.33	184 166	2 305	1.25	940	0.55
	172 743	2 120	1.23	275	0.33	179 065	2 296	1.28	912	0.54
	3 512	8	0.23	5	0.32	5 101	9	0.18	28	0.72
	3 288	–	–	–	–	4 103	–	–	–	–
	527 452	17 074	3.24	2 320	0.91	560 543	16 125	2.88	5 104	0.97
	–	–	–	–	–	–	–	–	230	0.04
	527 452	17 074	3.24	2 320	0.91	560 543	16 125	2.88	5 334	1.01

Supplementary information

FAIR VALUE MEASUREMENTS

VALUATION METHODOLOGY

In terms of IFRS, the Bank is required to or elects to measure certain assets and liabilities at fair value. The Bank has established control frameworks and processes at a franchise level to independently validate its valuation techniques and inputs used to determine its fair value measurements. At a franchise level, technical teams are responsible for the selection, implementation and any changes to the valuation techniques used to determine fair value measurements. Valuation committees comprising representatives from key management have been established in each franchise and at an overall Bank level, and are responsible for overseeing the valuation control process and considering the appropriateness of the valuation techniques applied in fair value measurement. The valuation models and methodologies are subject to independent review and approval at a franchise level by the required technical teams, valuation committees, relevant risk committees and external auditors annually or more frequently if considered appropriate.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, i.e. an exit price. Fair value is therefore a market-based measurement and when measuring fair value the Bank uses the assumptions that market participants would use when pricing an asset or liability under current market conditions, including assumptions about risk. When determining fair value it is presumed that the entity is a going concern and the fair value is therefore not an amount that represents a forced transaction, involuntary liquidation or a distressed sale.

Financial instruments

When determining the fair value of a financial instrument, where the financial instrument has a bid or ask price (for example in a dealer market), the Bank uses the price within the bid-ask spread that is most representative of fair value in the circumstances. Although not a requirement, the Bank uses the bid price for financial assets or the ask/offer price for financial liabilities where this best represents fair value.

When determining the fair value of a financial liability or the Bank's own equity instruments the quoted price for the transfer of an identical or similar liability or own equity instrument is used. Where this is not available and an identical item is held by another party as an asset, the fair value of the liability or own equity instrument is measured using the quoted price in an active market of the identical item if that price is available, or using observable inputs (such as the quoted price in an inactive market for the identical item) or using another valuation technique.

Where the Bank has any financial liability with a demand feature, such as demand deposits, the fair value is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid where the time value of money is significant.

FAIR VALUE HIERARCHY AND MEASUREMENTS

The Bank classifies assets and liabilities measured at fair value using a fair value hierarchy that reflects whether observable or unobservable inputs are used in determining the fair value of the item. The valuation techniques employed by the Bank include, inter alia, quoted prices for similar assets or liabilities in an active market, quoted prices for the same asset or liability in an inactive market, adjusted prices from recent arm's length transactions, option-pricing models and discounted cash flow techniques.

Where a valuation model is applied and the Bank cannot mark-to-market, it applies a mark-to-model approach, subject to prudent valuation adjustments. Mark-to-model is defined as any valuation which has to be benchmarked, extrapolated or otherwise calculated from a market input. When applying mark-to-model, an extra degree of conservatism is applied. The Bank will consider the following in assessing whether a mark-to-model valuation is appropriate:

- as far as possible, market inputs are sourced in line with market prices;
- generally accepted valuation methodologies are consistently used for particular products unless deemed inappropriate by the relevant governance forums;
- where a model has been developed in-house, it is based on appropriate assumptions, which have been assessed and challenged by suitably qualified parties independent of the development process;
- formal change control procedures are in place;
- awareness of the weaknesses of the models used and appropriate reflection thereof in the valuation output;
- the model is subject to periodic review to determine the accuracy of its performance; and
- valuation adjustments are only made when appropriate, for example, to cover the uncertainty of the model valuation.

Level 1

Fair value is determined using unadjusted quoted prices in active markets for identical assets or liabilities where this is readily available and the price represents actual and regularly occurring market transactions. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis. This category includes listed bonds and equity, exchange-traded derivatives, exchange-traded commodities and short trading positions.

Level 2

Fair value is determined using inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly such as quoted prices for similar items in an active market or for an identical item in an inactive market or valuation models using observable inputs or inputs derived from observable market data. This category includes loans and advances to customers, equities listed in an inactive market, certain debt instruments, private equity investments, non-recourse investments and deposits, over the counter derivatives, deposits, other liabilities and Tier 2 liabilities.

Level 3

Fair value is determined using a valuation technique and significant inputs that are not based on observable market data (i.e. unobservable inputs) such as an entity's own assumptions about what market participants would assume in pricing assets and liabilities. This category includes certain loans and advances to customers, certain over the counter derivatives such as equity options, investments in certain debt instruments, private equity investments and certain deposits such as credit linked notes.

FAIR VALUE HIERARCHY AND MEASUREMENTS continued

The table below sets out the valuation techniques applied by the Bank for fair value measurements of financial assets and liabilities categorised as level 2 and level 3 in the fair value hierarchy:

Instrument	Fair value hierarchy level	Valuation technique	Description of valuation technique and main assumptions	Observable inputs	Significant unobservable inputs of level 3 items
Derivative financial instruments					
Option contracts	Level 2 and level 3	Option pricing model	The Black Scholes model is used.	Strike price of the option, market related discount rate, forward rate, and cap and floor volatility	Volatilities
Futures contracts	Level 2	Discounted cash flows	The future cash flows are discounted using a market-related interest rate. Projected cash flows are obtained by subtracting the strike price of the forward contract from the market projected forward value.	Market interest rates and curves	Not applicable
Swaps	Level 2	Discounted cash flows	The future cash flows are projected using a forward curve and then discounted using a market-related discount curve over the contractual period. The reset date of each swaplet is determined in terms of legal documents pertaining to the swap.	Market interest rates and curves	Not applicable
Forward rate agreements	Level 2	Discounted cash flows	The future cash flows are projected using a forward curve and then discounted using a market-related discount curve over the contractual period. The reset date is determined in terms of legal documents.	Market interest rates and curves	Not applicable
Forward contracts	Level 2	Discounted cash flows	The future cash flows are projected using a forward curve and then discounted using a market-related discount curve over the contractual period. Projected cash flows are obtained by subtracting the strike price of the forward contract from the market projected forward value.	Market interest rates and curves	Not applicable
Credit derivatives	Level 2 and level 3	Discounted cash flows	The future cash flows are discounted using a market-related interest rate. Where prices are obtainable from the market, individual credit spreads are used.	Market interest rates and curves	Credit inputs
Commodity derivatives	Level 2	Discounted cash flows	Commodity linked instruments are measured by taking into account the price, the location differential, grade differential, silo differential and the discount factor of the most liquidly traded futures linked to the commodity.	Futures prices	Not applicable

Instrument	Fair value hierarchy level	Valuation technique	Description of valuation technique and main assumptions	Observable inputs	Significant unobservable inputs of level 3 items
Derivative financial instruments					
Equity derivatives	Level 2 and level 3	Industry standard models	The models calculate fair value based on input parameters such as stock prices, dividends, volatilities, interest rates, equity repo curves and, for multi-asset products, correlations. Unobservable model inputs are determined by reference to liquid market instruments and applying extrapolation techniques to match the appropriate risk profile.	Market interest rates and curves	Volatilities
Loans and advances to customers					
Investment banking book*	Level 3	Discounted cash flows	The future cash flows are discounted using a market-related interest rate. To calculate the fair value of credit the Bank uses a valuation methodology based on the credit spread matrix, which considers loss given default, tenor and the internal credit committee rating criteria. The fair value measurement includes the original credit spread and is repriced when there is a change in rating of the counterparty. A decline in credit rating would result in an increase in the spread above the base rate for discounting purposes and consequently a reduction of the fair value of the advance.	Market interest rates and curves	Credit inputs
Other loans and advances	Level 2 and level 3	Discounted cash flows	The future cash flows are discounted using a market-related interest rate adjusted for credit inputs, over the contractual period.	Market interest rates and curves	Credit inputs
Investment securities and other investments					
Equities/bonds listed in an inactive market	Level 2	Discounted cash flows	For listed equities and bonds, the listed price is used where the market is active (i.e. level 1). However if the market is not active and the listed price is not representative of fair value, these are classified as level 2 and a valuation technique is used, for example the discounted cash flow is used for listed bonds. This will be based on risk parameters of comparable securities and the potential pricing difference in spread and/or price terms with the traded comparable is considered. The future cash flows are discounted using a market-related interest rate.	Market interest rates and curves	Not applicable
Unlisted bonds	Level 2 and level 3	Discounted cash flows	Unlisted bonds are valued similarly to advances measured at fair value. The future cash flows are discounted using a market-related interest rate adjusted for credit inputs, over the contractual period.	Market interest rates and curves	Credit inputs

* *The Bank has elected to designate the investment banking book of advances at fair value through profit or loss. Credit risk is not observable and has a significant impact on the fair value measurement of these advances and as such, these advances are classified as level 3 on the fair value hierarchy.*

FAIR VALUE HIERARCHY AND MEASUREMENTS continued

Instrument	Fair value hierarchy level	Valuation technique	Description of valuation technique and main assumptions	Observable inputs	Significant unobservable inputs of level 3 items
Investment securities and other investments					
Unlisted equities	Level 2 and level 3	Price earnings (P/E) model	For unlisted equities, the earnings included in the model are derived from a combination of historical and budgeted earnings depending on the specific circumstances of the entity whose equity is being valued. The P/E multiple is derived from current market observations taking into account an appropriate discount for unlisted companies. The valuation of these instruments may be corroborated by a discounted cash flow valuation or by the observation of other market transactions that have taken place.	Market transactions	Growth rates and P/E ratios
Negotiable certificates of deposit	Level 2	Discounted cash flows	Future cash flows are discounted using a market-related interest rate. Inputs to these models include information that is consistent with similar market quoted instruments, where available.	Market interest rates and curves	Not applicable
Treasury bills	Level 2	BESA bond pricing model	The BESA bond pricing model uses the BESA mark-to-market bond yield.	Market interest rates and curves	Not applicable
Deposits					
Call and non-term deposits	Level 2	None – the undiscounted amount is used	The undiscounted amount of the deposit is the fair value due to the short term nature of the instruments. These deposits are financial liabilities with a demand feature and the fair value is not less than the amount payable on demand, i.e. the undiscounted amount of the deposit.	None – the undiscounted amount approximates fair value and no valuation is performed	Not applicable
Deposits that represent collateral on credit linked notes	Level 3	Discounted cash flows	These deposits represent the collateral leg of credit linked notes. The forward curve adjusted for liquidity premiums and business unit margins. The valuation methodology does not take early withdrawals and other behavioural aspects into account.	Market interest rates and curves	Credit inputs on related advance
Other deposits	Level 2 and level 3	Discounted cash flows	The forward curve adjusted for liquidity premiums and business unit margins. The valuation methodology does not take early withdrawals and other behavioural aspects into account.	Market interest rates and curves	Credit inputs
Other liabilities and Tier 2 liabilities	Level 2	Discounted cash flows	Future cash flows are discounted using a market-related interest rate.	Market interest rates and curves	Not applicable

Instrument	Fair value hierarchy level	Valuation technique	Description of valuation technique and main assumptions	Observable inputs	Significant unobservable inputs of level 3 items
Financial assets and liabilities not measured at fair value but for which fair value is disclosed	Level 2 and level 3	Discounted cash flows	Future cash flows are discounted using a market-related interest rate and curves adjusted for credit inputs.	Market interest rates and curves	Credit inputs

During the current reporting period there were no changes in the valuation techniques used by the Bank.

FAIR VALUE HIERARCHY AND MEASUREMENTS continued

The following table presents the fair value measurements and fair value hierarchy of financial assets and liabilities of the Bank recognised at fair value:

	As at 31 December 2013			
R million	Level 1	Level 2	Level 3	Total fair value
Assets				
Derivative financial instruments	7	43 668	9	43 684
Advances*	–	34 538	124 390	158 928
Investment securities and other investments	53 221	33 975	4 497	91 693
Amounts due by holding company and fellow subsidiary companies	–	404	–	404
Total financial assets measured at fair value	**53 228**	**112 585**	**128 896**	**294 709**
Liabilities				
Short trading positions	5 489	–	–	5 489
Derivative financial instruments	24	48 740	11	48 775
Deposits	6	80 802	814	81 622
Other liabilities	–	171	–	171
Tier 2 liabilities		1 041	–	1 041
Amounts due by holding company and fellow subsidiary companies	–	146	–	146
Total financial liabilities measured at fair value	**5 519**	**130 900**	**825**	**137 244**

* *Although the fair value of credit is not significant year-on-year it may become significant in future. For this reason, together with the fact that the majority of South African counterparties do not have actively traded or observable credit spreads, the Bank has classified loans and advances to customers in level 3 of the fair value hierarchy. In the event that credit spreads are observable for a counterparty, loans and advances to customers are classified as level 2 of the fair value hierarchy.*

There were no transfers of financial instruments between level 1 and level 2 during the current reporting period.

ADDITIONAL DISCLOSURES FOR LEVEL 3 FINANCIAL INSTRUMENTS

Changes in level 3 financial instruments

The following tables show a reconciliation of the opening and closing balances for financial assets and liabilities classified as level 3 in terms of the fair value hierarchy.

	As at 31 December 2013								
R million	Fair value on 30 June 2013	Gains/ losses recog-nised in profit or loss	Gains/ losses recog-nised in other compre-hensive income	Pur-chases, sales, issues and settle-ments	Acqui-sitions/ disposals of sub-sidiaries	Transfers into level 3	Transfer out of level 3	Exchange rate differ-ences	Fair value on 31 Dec 2013
Assets									
Derivative financial instruments	**1**	**–**	**–**	**–**	**–**	**8**	**–**	**–**	**9**
Advances	**112 333**	**1 524**	**–**	**10 136**	**–**	**–**	**–**	**397**	**124 390**
Investment securities and other investments	**4 831**	**118**	**9**	**(469)**	**3**	**–**		**5**	**4 497**
Total financial assets measured at fair value in level 3	**117 165**	**1 642**	**9**	**9 667**	**3**	**8**	**–**	**402**	**128 896**
Liabilities									
Derivative financial instruments	**1**	**–**	**–**	**–**	**–**	**10**	**–**	**–**	**11**
Deposits	**1 302**	**203**	**–**	**(722)**	**–**	**19**	**–**	**12**	**814**
Total financial liabilities measured at fair value in level 3	**1 303**	**203**	**–**	**(722)**	**–**	**29**	**–**	**12**	**825**

Note: Decreases in the value of level 3 assets and liabilities are indicated with brackets. Decreases in the value of assets may be as a result of losses, sales and settlements. Decreases in the value of liabilities may be as a result of gains and settlements.

During the current reporting period derivative financial instruments and deposits to the value of R37 million were transferred out of level 2 into level 3. This transfer was as a result of certain unobservable inputs becoming significant to the calculation of fair value in current reporting periods.

ADDITIONAL DISCLOSURES FOR LEVEL 3 FINANCIAL INSTRUMENTS (continued)

Unrealised gains or losses on level 3 financial instruments

The Bank classifies financial assets or liabilities in level 3 of the fair value hierarchy when the significant inputs into the valuation model are not observable. In addition the valuation model for level 3 financial assets or liabilities typically also relies on a number of inputs that are readily observable either directly or indirectly. Thus, the gains and losses presented below include changes in the fair value related to both observable and unobservable inputs.

The table below presents the total gains/losses relating to fair value remeasurement of financial assets and liabilities classified in level 3 that are still held at reporting date. With the exception of interest on funding instruments and available-for-sale financial assets, all of the gains or losses are recognised in non-interest income.

	As at 31 December 2013		
R million	Gains/losses recognised in the income statement	Gains/losses recognised in other compre-hensive income	Total gains/losses
Assets			
Derivative financial instruments	8	–	8
Advances*	1 112	–	1 112
Investment securities and other investments	180	9	189
Total	1 300	9	1 309
Liabilities			
Derivative financial instruments	10	–	10
Deposits	164	–	164
Total	174	–	174

* *Amount mainly comprises of accrued interest on the fair value loans and advances and movements in interest rates that have been hedged.*

Note: Decreases in the value of level 3 assets and liabilities are indicated with brackets. Decreases in the value of assets may be as a result of losses recognised in profit or loss and other comprehensive income. Decreases in the value of liabilities may be as a result of gains recognised in profit or loss.

Effect of changes in significant unobservable assumptions of level 3 financial instruments to reasonably possible alternatives

As described, the fair value of financial assets and liabilities that are classified in level 3 of the fair value hierarchy is determined using valuation techniques that make use of significant inputs that are not based on observable market data. These fair 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 they are changed to reasonably possible alternative inputs:

	As at 31 December 2013				
				Reasonably possible alternative fair value	
R million	Significant unobservable inputs	Reasonably possible changes to significant unobservable inputs	Fair value	Using more positive assump-tions	Using more negative assump-tions
Assets					
Derivative financial instruments	**Volatilities**	**Volatilities are increased and decreased by 10%**	**9**	**9**	**9**
Advances	**Credit**	**Credit migration matrix***	**124 390**	**125 226**	**123 052**
Investment securities and other investments	**Growth rates and P/E ratios of unlisted investments**	**Unobservable inputs are increased and decreased by 10%**	**4 497**	**5 033**	**3 973**
Total financial assets measured at fair value in level 3			**128 896**	**130 268**	**127 034**
Liabilities					
Derivative financial instruments	**Volatilities**	**Volatilities are increased and decreased by 10%**	**11**	**11**	**11**
Deposits	**Credit risk of the cash collateral leg of credit linked notes**	**Credit migration matrix****	**814**	**734**	**894**
Total financial liabilities measured at fair value in level 3			**825**	**745**	**905**

* *The credit migration matrix is used as part of the Bank's credit risk management process for advances measured at fair value through profit or loss. The matrix is a simulation model that contains a matrix of probabilities for downgrading or upgrading to another rating bucket. The migration matrix is based on actual observed rating migrations from S&P over the long term and is based on the fair value in the 75th percentile.*

** *The deposits included in level 3 of the hierarchy represent the collateral leg of credit linked notes. The most significant unobservable input in determining 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.*

Other fair value measurements

The following represents the fair values of financial instruments not carried at fair value on the statement of financial position, for which fair value is required to be disclosed:

	As at 31 December 2013	
R million	Carrying amount	Fair value
Assets		
Advances	415 432	410 978
Investment securities and other investments	441	441
Total financial assets at amortised cost	**415 873**	**411 419**
Liabilities		
Deposits	568 349	569 447
Other liabilities	976	976
Tier 2 liabilities	6 584	6 657
Total financial liabilities at amortised cost	**575 909**	**577 080**

For all other financial instruments the carrying value is equal to or a reasonable approximation of the fair value.

Day 1 profit or loss

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price (i.e. the entry or exit price) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. Day 1 profit or loss arises on the initial recognition of a financial instrument when the fair value of the instrument is determined using a valuation technique that makes use of inputs that are not observable in an active market. In terms of IAS 39 if the fair value determined in accordance with such a valuation technique differs from the transaction price the initial recognition should take place at the transaction price. The day 1 profits or losses arising as a result of the difference between the two values should only be recognised over the life of the instrument as a result of changes that would also be considered by market participants.

The following table represents the aggregate difference between transaction price and fair value based on a valuation technique yet to be recognised in profit or loss:

R million	**2013**
Balance at 1 July	**16**
Day 1 profits or losses not recognised on financial instruments initially recognised in the current reporting period	**–**
Amount recognised in profit or loss as a result of changes which would be observable by market participants	**(3)**
Balance at 31 December	**13**

FINANCIAL INSTRUMENTS SUBJECT TO OFFSETTING, MASTER NETTING ARRANGEMENTS AND SIMILAR AGREEMENTS

In accordance with IAS 32, the Bank offsets financial assets and financial liabilities and presents the net amount in the statement of financial position only if there is both a legally enforceable right to offset and there is an intention to settle the amounts on a net basis or to realise the asset and settle the liability simultaneously. Financial assets and financial liabilities subject to master netting arrangements (MNA) or similar agreements are not offset if the right to offset under these agreements is only enforceable in the event of default, insolvency or bankruptcy.

The tables below include information about financial assets and financial liabilities that are:

- offset and the net amount presented in the Bank's statement of financial position in accordance with the requirements of IAS 32; and
- subject to enforceable MNA or similar agreements where the amounts have not been offset because one or both of the requirements of IAS 32 are not met or the amounts relate to financial collateral (cash or non-cash) that mitigates credit risk.

	As at 31 December 2013		
	Financial instruments subject to offsetting agreements, master netting agreement and similar agreements		
		Amounts where offsetting is applied	
R million	Gross amount	Amounts set off	Net amount reported in the statement of financial position*
Assets			
Derivatives	**46 943**	**6 819**	**40 124**
Reverse repurchase, securities borrowing and similar arrangements	**31 606**	**7 627**	**23 979**
Other advances	**3 045**	**3 045**	**–**
Intercompany assets	**5 954**	**1**	**5 953**
Total	**87 548**	**17 492**	**70 056**
Liabilities			
Derivatives	**51 003**	**6 819**	**44 184**
Repurchase, securities lending and similar arrangements	**35 731**	**7 627**	**28 104**
Other deposits	**3 423**	**3 045**	**378**
Intercompany liabilities	**103**	**1**	**102**
Total	**90 260**	**17 492**	**72 768**

* *The net amount reported on the statement of financial position represents the net amount of financial assets and financial liabilities where offsetting has been applied in terms of IAS 32 and financial instruments that are subject to MNA and similar agreements but no offsetting has been applied.*

** *The financial collateral is limited to the net statement of financial position exposure in line with the requirements of IFRS 7 and excludes the effect of any over-collateralisation. The amount of collateral included in the table for IFRS 7 disclosure purposes has been determined at a business unit level. If these limits were determined on a Bank-wide level, the amount of collateral included in this table could increase.*

\# *The total amount reported on the statement of financial position is the sum of the net amount and the amount of financial instruments not subject to set off or MNA.*

As at 31 December 2013				
Financial instruments subject to offsetting agreements, master netting agreement and similar agreements				
Amounts where offsetting is not applied				
Financial instruments subject to MNA and similar agreements	Financial collateral**	Net amount	Financial instruments not subject to set off or MNA	Total statement of financial position#
33 522	2 398	4 204	3 560	43 684
1 351	22 628	–	12 620	36 599
–	–	–	537 761	537 761
46	–	5 907	18 328	24 281
34 919	25 026	10 111	572 269	642 325
33 522	933	9 729	4 591	48 775
1 351	26 753	–	10 445	38 549
–	–	378	611 044	611 422
46	–	56	10 727	10 829
34 919	27 686	10 163	636 807	709 575

	As at 31 December 2012		
	Financial instruments subject to offsetting agreements, master netting agreement and similar agreements		
		Amounts where offsetting is applied	
R million	Gross amount	Amounts set off	Net amount reported in the statement of financial position*
Assets			
Derivatives	62 503	11 036	51 467
Reverse repurchase, securities borrowing and similar arrangements	46 121	12 335	33 786
Other advances	3 427	3 427	–
Intercompany assets	31 771	28 110	3 661
Total	143 822	54 908	88 914
Liabilities			
Derivatives	66 950	11 036	55 914
Repurchase, securities lending and similar arrangements	38 717	12 335	26 382
Other deposits	3 980	3 462	518
Intercompany liabilities	28 127	28 075	52
Total	137 774	54 908	82 866

* *The net amount reported on the statement of financial position represents the net amount of financial assets and financial liabilities where offsetting has been applied in terms of IAS 32 and financial instruments that are subject to MNA and similar agreements but no offsetting has been applied.*

** *The financial collateral is limited to the net statement of financial position exposure in line with the requirements of IFRS 7 and excludes the effect of any over-collateralisation. The amount of collateral included in the table for IFRS 7 disclosure purposes has been determined at a business unit level. If these limits were determined on a Bank-wide level, the amount of collateral included in this table could increase.*

The total amount reported on the statement of financial position is the sum of the net amount and the amount of financial instruments not subject to set off or MNA.

	As at 31 December 2012				
	Financial instruments subject to offsetting agreements, master netting agreement and similar agreements				
	Amounts where offsetting is not applied				
	Financial instruments subject to MNA and similar agreements	Financial collateral**	Net amount	Financial instruments not subject to set off or MNA	Total statement of financial position#
	45 349	1 240	4 878	4 440	55 907
	1 955	31 831	–	10 419	44 205
	–	–	–	472 046	472 046
	52	–	3 609	17 606	21 267
	47 356	33 071	8 487	504 511	593 425
	45 349	2 853	7 712	2 295	58 209
	1 955	24 427	–	6 583	32 965
	–	–	518	553 183	553 701
	52	–	–	13 106	13 158
	47 356	27 280	8 230	575 167	658 033

R million	As at 30 June 2013 Financial instruments subject to offsetting agreements, master netting agreement and similar agreements Gross amount	Amounts where offsetting is applied Amounts set off	Net amount reported in the statement of financial position*
Assets			
Derivatives	56 011	8 167	47 844
Reverse repurchase, securities borrowing and similar arrangements	46 379	10 098	36 281
Other advances	2 861	2 861	–
Intercompany assets	12 439	8 061	4 378
Total	117 690	29 187	88 503
Liabilities			
Derivatives	57 672	8 167	49 505
Repurchase, securities lending and similar arrangements	40 311	10 098	30 213
Other deposits	3 294	2 861	433
Intercompany liabilities	8 286	8 061	225
Total	109 563	29 187	80 376

* *The net amount reported on the statement of financial position represents the net amount of financial assets and financial liabilities where offsetting has been applied in terms of IAS 32 and financial instruments that are subject to MNA and similar agreements but no offsetting has been applied.*

** *The financial collateral included in the table above is limited to the net statement of financial position exposure in line with the requirements of IFRS 7 and excludes the effect of any over-collateralisation. The amount of collateral included in the table for IFRS 7 disclosure purposes has been determined at a business unit level. If these limits were determined on a Bank-wide level, the amount of collateral included in this table could increase.*

The total amount reported on the statement of financial position is the sum of the net amount and the amount of financial instruments not subject to set off or MNA.

Details of the offsetting and collateral arrangements

Derivative assets and liabilities

The Bank's derivative transactions that are not transacted on an exchange are entered into under International Derivatives Swaps and Dealers Association (ISDA) master netting agreements. Generally, under such agreements the amounts owed by each counterparty that are due on a single day in respect of all transactions outstanding in the same currency under the agreement are aggregated into a single net amount being payable by one party to the other. In certain circumstances, for example, when a credit event such as default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is due or payable in settlement of all transactions (close-out netting).

The Bank only offsets derivative financial assets and financial liabilities with a counterparty under ISDA agreements where the amounts are due on a single day and in the same currency. The Bank's intention to settle these transactions on a net basis is evidenced by a past practice of settling similar transactions on a net basis. The remaining financial assets and financial liabilities (where amounts are not due on a single day and in the same currency) transacted under an ISDA agreement do not meet the IAS 32 requirements for offsetting. This is because a right of set off is created that is only enforceable in the event of default, insolvency or bankruptcy of the Bank or the counterparties. These amounts are, however, included in the table above under the financial instruments subject to MNA and similar agreements column.

To mitigate credit risk financial collateral (mostly cash) is also obtained, often daily, for the net exposure between counterparties.

As at 30 June 2013				
Financial instruments subject to offsetting agreements, master netting agreement and similar agreements				
Amounts where offsetting is not applied				
Financial instruments subject to MNA and similar agreements	Financial collateral**	Net amount	Financial instruments not subject to set off or MNA	Total statement of financial position#
39 541	2 860	5 443	3 911	51 755
1 179	35 102	–	4 221	40 502
–	–	–	508 078	508 078
146	–	4 232	16 250	20 628
40 866	37 962	9 675	532 460	620 963
39 541	726	9 238	3 435	52 940
1 179	29 034	–	7 560	37 773
–	–	433	591 666	592 099
146	–	79	14 303	14 528
40 866	29 760	9 750	616 964	697 340

Repurchase, reverse repurchase and securities borrowing and lending transactions

The Bank's repurchase, reverse repurchase and securities borrowing and lending transactions are covered by master agreements with netting terms similar to those of the ISDA master netting agreements. These financial assets and financial liabilities with the same counterparty are only set off in the statement of financial position if they are due on a single day, denominated in the same currency and the Bank has the intention to settle these amounts on a net basis.

The Bank receives and accepts collateral for these transactions in the form of cash and other investments and investment securities.

Other advances and deposits

The advances and deposits that are offset relate to transactions where the Bank has a legally enforceable right to offset the amounts and the Bank has the intention to settle the net amount.

RESTATEMENT OF PRIOR YEAR NUMBERS

DESCRIPTION OF RESTATEMENTS

IFRS 10, IFRS 11, IFRS 12, IAS 27R and IAS 28R

Under IFRS 10 there is one approach for determining consolidation of all entities based on concepts of power, variability of returns and linkage. The application of control will be applied irrespective of the nature of the investee. The Bank has control over an investee when the Bank is exposed, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

IFRS 11 places more focus on the investors' rights and obligations than on the structure of the arrangement when determining whether a joint arrangement exists.

IFRS 12 is a comprehensive standard on disclosure requirements for all forms of interests in other entities, including unconsolidated structured entities. The standard impacts disclosure only and has no impact on recognition and measurement.

The adoption of IFRS 10 and 11 resulted in the following:

- Reclassification of a number of entities between associates and joint ventures. As it has always been the Bank's policy to account for joint ventures in accordance with the equity accounting method, reclassification did not result in a change in measurement.
- An investment previously classified as an associate was considered to be controlled under IFRS 10.
- First and third party insurance cell captives do not meet the definition of asset silos in terms of IFRS 10 and as such do not qualify for consolidation. The insurance policies in the Bank's first party cells insure the risk arising from the Bank's defined benefit plans. As such those insurance contracts are now considered to be plan assets in terms of IAS 19 and are accounted for as such. The excess profit in the cell captive is recognised as a financial asset in accounts receivable. The third party cell captives previously consolidated by the Bank are now treated as profit share arrangements and the income arising from the arrangements is included in other non-interest revenue.

IAS 19

Amendments to IAS 19 require that all actuarial gains and losses in respect of defined benefit post-employment plans are recognised in other comprehensive income. In addition, the standard no longer requires the expected return on plan assets to be recognised in profit or loss, rather a net interest income/expense be recognised on the net asset or liability. All other remeasurements relating to plan assets are also recognised in other comprehensive income.

Loans to associates

In accordance with IAS 28, the Bank's net investment in associates and joint ventures includes loans for which settlement is neither planned nor likely in the foreseeable future. The Bank historically included these loans as part of investment in associates and joint ventures and reflected these on the statement of financial position.

Given the underlying debt nature of these loans and developing industry practice, the Bank has decided to present these as advances. The loans will continue to form part of the Bank's net investment in associates or joint ventures for purposes of determining the share of losses of the investee attributable to the Bank and for impairment.

The change in presentation had no impact on the net asset value of the Bank, only on the classification of items on the statement of financial position.

Fair value income – funding cost

The Bank has elected to present interest expense incurred on liabilities that fund the activities that generate fair value income as fair value income.

The change in presentation has had no impact on the net asset value of the Bank only on the classification of items in the income statement.

RESTATED CONDENSED INCOME STATEMENT FOR THE SIX MONTHS ENDED 31 DECEMBER 2012 – IFRS

R million	As previously reported	IFRS 10 and 11	IAS 19	Reclassification of loans to associates and fair value income-funding cost	Restated
Net interest income before impairment of advances	7 357	(11)	–	3 357	10 703
Impairment of advances	(2 061)	–	–	–	(2 061)
Net interest income after impairment of advances	5 296	(11)	–	3 357	8 642
Non-interest income	16 023	(139)	–	(3 344)	12 540
Income from operations	21 319	(150)	–	13	21 182
Operating expenses	(13 854)	113	7	–	(13 734)
Income before tax	7 465	(37)	7	13	7 448
Indirect tax	(429)	–	–	–	(429)
Profit before tax	7 036	(37)	7	13	7 019
Income tax expense	(1 431)	7	–	–	(1 424)
Profit for the period	5 605	(30)	7	13	5 595
Attributable to:					
Ordinary equityholders	5 505	(30)	7	13	5 495
NCNR preference shareholders	100	–	–	–	100
Profit for the period	5 605	(30)	7	13	5 595

RESTATED CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 31 DECEMBER 2012 – IFRS

R million	As previously reported	IFRS 10 and 11	IAS 19	Reclassification of loans to associates and fair value income-funding cost	Restated
Profit for the period	5 605	(30)	7	13	5 595
Items that may subsequently be reclassified to profit or loss					
Cash flow hedges	(89)	–	–	–	(89)
Losses arising during the period	(451)	–	–	–	(451)
Reclassification adjustments for amounts included in profit or loss	328	–	–	–	328
Deferred income tax	34	–	–	–	34
Available-for-sale financial assets	349	–	–	–	349
Gains arising during the period	479	–	–	–	479
Reclassification adjustments for amounts included in profit or loss	–	–	–	–	–
Deferred income tax	(130)	–	–	–	(130)
Exchange differences on translating foreign operations	75	–	–	–	75
Gains arising during the period	75	–	–	–	75
Items that may not be reclassified to profit or loss					
Actuarial losses on defined benefit pension plans	–	–	(23)	–	(23)
Losses arising during the period	–	–	(32)	–	(32)
Deferred income tax relating to items that will not be reclassified	–	–	9	–	9
Other comprehensive income for the period	335	–	(23)	–	312
Total comprehensive income for the period	5 940	(30)	(16)	13	5 907
Attributable to:					
Ordinary equityholders	5 840	(30)	(16)	13	5 807
NCNR preference shareholders	100	–	–	–	100
Total comprehensive income for the period	5 940	(30)	(16)	13	5 907

RESTATED CONDENSED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2012 – IFRS

R million	As previously reported	IFRS 10 and 11	IAS 19	Reclass-ification of loans to associates	Restated
ASSETS					
Cash and cash equivalents	44 743	–	–	–	44 743
Derivative financial instruments	55 907	–	–	–	55 907
Commodities	8 003	–	–	–	8 003
Accounts receivable	3 398	21	–	–	3 419
Current tax asset	500	(3)	–	–	497
Advances	515 880	371	–	–	516 251
Amounts due by holding company and fellow subsidiary companies	21 540	(273)	–	–	21 267
Investment securities and other investments	79 186	(86)	–	–	79 100
Investments in associates and joint ventures	409	–	–	–	409
Property and equipment	9 928	–	–	–	9 928
Intangible assets	152	–	–	–	152
Post-employment benefit asset	3 127	(3 127)	–	–	–
Total assets	742 773	(3 097)	–	–	739 676
EQUITY AND LIABILITIES					
Liabilities					
Short trading positions	9 184	–	–	–	9 184
Derivative financial instruments	58 209	–	–	–	58 209
Creditors and accruals	6 533	(96)	–	–	6 437
Deposits	586 639	27	–	–	586 666
Provisions	222	–	–	–	222
Employee liabilities	7 701	(2 522)	550	–	5 729
Other liabilities	1 042	–	–	–	1 042
Amounts due to holding company and fellow subsidiary companies	13 214	(56)	–	–	13 158
Deferred income tax liability	567	(288)	–	–	279
Tier 2 liabilities	7 642	–	–	–	7 642
Total liabilities	690 953	(2 935)	550	–	688 568
Equity					
Ordinary shares	4	–	–	–	4
Share premium	15 304	–	–	–	15 304
Reserves	33 512	(162)	(550)	–	32 800
Capital and reserves attributable to ordinary equityholders	48 820	(162)	(550)	–	48 108
NCNR preference shareholders	3 000	–	–	–	3 000
Total equity	51 820	(162)	(550)	–	51 108
Total equity and liabilities	742 773	(3 097)	–	–	739 676

RESTATED CONDENSED INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2013 – IFRS

R million	As previously reported	IFRS 10 and 11	IAS 19	Reclassification of loans to associates and fair value income-funding cost	Restated
Net interest income before impairment of advances	15 466	(22)	–	6 239	21 683
Impairment of advances	(4 441)	–	–	–	(4 441)
Net interest income after impairment of advances	11 025	(22)	–	6 239	17 242
Non-interest income	30 346	16	–	(6 239)	24 123
Income from operations	41 371	(6)	–	–	41 365
Operating expenses	(26 928)	240	15	–	(26 673)
Income before tax	14 443	234	15	–	14 692
Indirect tax	(579)	–	–	–	(579)
Profit before tax	13 864	234	15	–	14 113
Income tax expense	(3 071)	(64)	–	–	(3 135)
Profit for the year	10 793	170	15	–	10 978
Attributable to:					
Ordinary equityholders	10 597	170	15	–	10 782
NCNR preference shareholders	196	–	–	–	196
Profit for the year	10 793	170	15	–	10 978

RESTATED CONDENSED STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2013 – IFRS

R million	As previously reported	IFRS 10 and 11	IAS 19	Reclassification of loans to associates and fair value income-funding cost	Restated
Profit for the year	10 793	170	15	–	10 978
Items that may subsequently be reclassified to profit or loss					
Cash flow hedges	853	–	–	–	853
Gains arising during the year	417	–	–	–	417
Reclassification adjustments for amounts included in profit or loss	768	–	–	–	768
Deferred income tax	(332)	–	–	–	(332)
Available-for-sale financial assets	(117)	–	–	–	(117)
Losses arising during the year	(134)	–	–	–	(134)
Reclassification adjustments for amounts included in profit or loss	(32)	–	–	–	(32)
Deferred income tax	49	–	–	–	49
Exchange differences on translating foreign operations	240	–	–	–	240
Gains arising during the year	240	–	–	–	240
Items that may not be reclassified to profit or loss					
Actuarial gains on defined benefit pension plans	–	–	22	–	22
Gains arising during the year	–	–	30	–	30
Deferred income tax relating to items that will not be reclassified	–	–	(8)	–	(8)
Other comprehensive income for the year	976	–	22	–	998
Total comprehensive income for the year	11 769	170	37	–	11 976
Attributable to:					
Ordinary equityholders	11 573	170	37	–	11 780
NCNR preference shareholders	196	–	–	–	196
Total comprehensive income for the year	11 769	170	37	–	11 976

RESTATED CONDENSED STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2013 – IFRS

R million	As previously reported	IFRS 10 and 11	IAS 19	Reclassification of loans to associates	Restated
ASSETS					
Cash and cash equivalents	42 296	–	–	–	42 296
Derivative financial instruments	51 755	–	–	–	51 755
Commodities	6 016	–	–	–	6 016
Accounts receivable	4 564	10	–	–	4 574
Current tax asset	144	(4)	–	–	140
Advances	548 226	355	–	–	548 581
Amounts due by holding company and fellow subsidiary companies	20 882	(254)	–	–	20 628
Investment securities and other investments	95 025	(64)	–	–	94 961
Investments in subsidiary companies	5	–	–	–	5
Investments in associates and joint ventures	44	–	–	–	44
Property and equipment	10 421	–	–	–	10 421
Intangible assets	154	–	–	–	154
Post-employment benefit asset	2 995	(2 995)	–	–	–
Total assets	782 527	(2 952)	–	–	779 575
EQUITY AND LIABILITIES					
Liabilities					
Short trading positions	2 923	–	–	–	2 923
Derivative financial instruments	52 940	–	–	–	52 940
Creditors and accruals	8 935	(15)	–	–	8 920
Deposits	629 842	30	–	–	629 872
Provisions	246	–	–	–	246
Employee liabilities	9 239	(2 545)	308	–	7 002
Other liabilities	1 062	–	–	–	1 062
Amounts due to holding company and fellow subsidiary companies	14 586	(58)	–	–	14 528
Deferred income tax liability	250	(200)	–	–	50
Tier 2 liabilities	7 625	–	–	–	7 625
Total liabilities	727 648	(2 788)	308	–	725 168
Equity					
Ordinary shares	4	–	–	–	4
Share premium	15 304	–	–	–	15 304
Reserves	36 571	(164)	(308)	–	36 099
Capital and reserves attributable to ordinary equityholders	51 879	(164)	(308)	–	51 407
NCNR preference shareholders	3 000	–	–	–	3 000
Total equity	54 879	(164)	(308)	–	54 407
Total equity and liabilities	782 527	(2 952)	–	–	779 575

RESTATED RECONCILIATION OF IFRS CONDENSED INCOME STATEMENT TO NORMALISED FOR THE SIX MONTHS ENDED 31 December 2012

			Normalised adjustments			
R million	As reported	IFRS adjustments	Fair value income-funding cost	Impairment	HEPS adjustments	As restated
Net interest income before impairment of advances	11 688	3 346	(3 334)	–	–	11 700
Impairment of advances	(2 320)	–	–	–	–	(2 320)
Net interest income after impairment of advances	9 368	3 346	(3 334)	–	–	9 380
Non-interest income	11 878	(3 483)	3 334	–	(1)	11 728
Income from operations	21 246	(137)	–	–	(1)	21 108
Operating expenses	(13 854)	120	–	248	–	(13 486)
Income before tax	7 392	(17)	–	248	(1)	7 622
Indirect tax	(429)	–	–	–	–	(429)
Profit before tax	6 963	(17)	–	248	(1)	7 193
Income tax expense	(1 411)	7	–	(69)	–	(1 473)
Profit for the period	5 552	(10)	–	179	(1)	5 720
Attributable to:						
NCNR preference shareholders	(100)	–	–	–	–	(100)
Ordinary equityholders	5 452	(10)	–	179	(1)	5 620
Headline and normalised earnings adjustments	178	–	–	(179)	1	–
Normalised earnings	5 630	(10)	–	–	–	5 620

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

			Normalised adjustments			
R million	As reported	IFRS adjust-ments	Fair value income-funding cost	Impair-ment	HEPS adjust-ments	As restated
Net interest income before impairment of advances	24 432	6 217	(6 212)	–	–	24 437
Impairment of advances	(5 334)	–	–	–	–	(5 334)
Net interest income after impairment of advances	19 098	6 217	(6 212)	–	–	19 103
Non-interest income	22 391	(6 223)	6 212	–	(138)	22 242
Income from operations	41 489	(6)	–	–	(138)	41 345
Operating expenses	(26 680)	255	–	(248)	260	(26 413)
Income before tax	14 809	249	–	(248)	122	14 932
Indirect tax	(579)	–	–	–	–	(579)
Profit before tax	14 230	249	–	(248)	122	14 353
Income tax expense	(3 173)	(64)	–	69	(37)	(3 205)
Profit for the year	11 057	185	–	(179)	85	11 148
Attributable to:						
NCNR preference shareholders	(196)	–	–	–	–	(196)
Ordinary equityholders	10 861	185	–	(179)	85	10 952
Headline and normalised earnings adjustment	(77)	(17)	–	179	(85)	–
Normalised earnings	10 784	168	–	–	–	10 952

CONTINGENCIES AND COMMITMENTS

	As at 31 December			As at 30 June
R million	**2013**	2012	% change	2013
Contingencies				
Guarantees	**31 272**	20 673	51	28 515
Acceptances	**278**	285	(2)	270
Letters of credit	**7 081**	8 267	(14)	8 658
Total contingencies	**38 631**	29 225	32	37 443
Capital commitments				
Contracted capital commitments	**1 350**	1 384	(2)	1 165
Capital expenditure authorised not yet contracted	**901**	878	3	1 806
Total capital commitments	**2 251**	2 262	–	2 971
Other commitments				
Irrevocable commitments	**76 557**	67 570	13	74 054
Operating lease and other commitments	**2 118**	2 274	(7)	2 181
Total other commitments	**78 675**	69 844	13	76 235
Total contingencies and commitments	**119 557**	101 331	18	116 649

COMPANY INFORMATION

DIRECTORS

LL Dippenaar (Chairman), SE Nxasana (Chief executive officer), VW Bartlett, JJH Bester, MS Bomela, JP Burger (Deputy chief executive officer), P Cooper (alternate), L Crouse, JJ Durand, GG Gelink, PM Goss, NN Gwagwa, PK Harris, WR Jardine, HS Kellan (Financial director), EG Matenge-Sebesho, AT Nzimande, D Premnarayen (India), KB Schoeman, BJ van der Ross, JH van Greuning

SECRETARY AND REGISTERED OFFICE

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4 Merchant Place, Corner Fredman Drive and Rivonia Road
Sandton 2196
PO Box 650149, Benmore 2010
Tel: +27 11 282 1808
Fax: +27 11 282 8088
Website: www.firstrand.co.za

JSE SPONSOR

(In terms of JSE 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

LISTED FINANCIAL INSTRUMENTS

LISTED DEBT INSTRUMENTS

JSE Limited (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	FRBN04	ZAG000041005
	FirstRand Bank Limited	FRBN05	ZAG000042169
	FirstRand Bank Limited	FRBZ01	ZAG000049255
	FirstRand Bank Limited	FRBZ02	ZAG000072711
	FirstRand Bank Limited	FRBZ03	ZAG000080029
	FirstRand Bank Limited	FRJ14	ZAG000069683
	FirstRand Bank Limited	FRJ15	ZAG000094368
	FirstRand Bank Limited	FRJ16	ZAG000073826
	FirstRand Bank Limited	FRJ17	ZAG000094343

	Issuer	Bond code	ISIN code
Senior unsecured	FirstRand Bank Limited	FRJ18	ZAG000084187
	FirstRand Bank Limited	FRJ19	ZAG000104563
	FirstRand Bank Limited	FRJ20	ZAG000109596
	FirstRand Bank Limited	FRS36	ZAG000077397
	FirstRand Bank Limited	FRS37	ZAG000077793
	FirstRand Bank Limited	FRS43	ZAG000078643
	FirstRand Bank Limited	FRS46	ZAG000079807
	FirstRand Bank Limited	FRS49	ZAG000081787
	FirstRand Bank Limited	FRS51	ZAG000086117
	FirstRand Bank Limited	FRS56	ZAG000087271
	FirstRand Bank Limited	FRS59	ZAG000089855
	FirstRand Bank Limited	FRS62	ZAG000090614
	FirstRand Bank Limited	FRS64	ZAG000092529
	FirstRand Bank Limited	FRS75	ZAG000096363
	FirstRand Bank Limited	FRS78	ZAG000097916
	FirstRand Bank Limited	FRS80	ZAG000100801
	FirstRand Bank Limited	FRS81	ZAG000100892
	FirstRand Bank Limited	FRS83	ZAG000102112
	FirstRand Bank Limited	FRS84	ZAG000104514
	FirstRand Bank Limited	FRS85	ZAG000104985
	FirstRand Bank Limited	FRS86	ZAG000105008
	FirstRand Bank Limited	FRS87	ZAG000105420
	FirstRand Bank Limited	FRS88	ZAG000106154
	FirstRand Bank Limited	FRS90	ZAG000106410
	FirstRand Bank Limited	FRS92	ZAG000106709
	FirstRand Bank Limited	FRS93	ZAG000107863
	FirstRand Bank Limited	FRS94	ZAG000107871
	FirstRand Bank Limited	FRS95	ZAG000107889
	FirstRand Bank Limited	FRS96	ZAG000108390
	FirstRand Bank Limited	FRS97	ZAG000108440
	FirstRand Bank Limited	FRS98	ZAG000108556
	FirstRand Bank Limited	FRS99	ZAG000109802
	FirstRand Bank Limited	FRX14	ZAG000079815
	FirstRand Bank Limited	FRX15	ZAG000051103
	FirstRand Bank Limited	FRX16	ZAG000084203
	FirstRand Bank Limited	FRX17	ZAG000094376
	FirstRand Bank Limited	FRX18	ZAG000076472
	FirstRand Bank Limited	FRX19	ZAG000073685
	FirstRand Bank Limited	FRX20	ZAG000109604
	FirstRand Bank Limited	FRX23	ZAG000104969
	FirstRand Bank Limited	FRX24	ZAG000073693
	FirstRand Bank Limited	FRX31	ZAG000084195
	FirstRand Bank Limited	FRX45	ZAG000076480

LISTED DEBT INSTRUMENTS

JSE *continued*

	Issuer	Bond code	ISIN code
Inflation-linked bonds	FirstRand Bank Limited	FRBI22	ZAG000079666
	FirstRand Bank Limited	FRBI23	ZAG000076498
	FirstRand Bank Limited	FRBI25	ZAG000109588
	FirstRand Bank Limited	FRBI28	ZAG000079237
	FirstRand Bank Limited	FRBI33	ZAG000079245
	FirstRand Bank Limited	FRI15	ZAG000051137
Credit-linked notes	FirstRand Bank Limited	FRC29	ZAG000069857
	FirstRand Bank Limited	FRC37	ZAG000076712
	FirstRand Bank Limited	FRC40	ZAG000081027
	FirstRand Bank Limited	FRC41	ZAG000081670
	FirstRand Bank Limited	FRC46	ZAG000082959
	FirstRand Bank Limited	FRC57	ZAG000086414
	FirstRand Bank Limited	FRC61	ZAG000087347
	FirstRand Bank Limited	FRC66	ZAG000088485
	FirstRand Bank Limited	FRC67	ZAG000088741
	FirstRand Bank Limited	FRC68	ZAG000088758
	FirstRand Bank Limited	FRC69	ZAG000088766
	FirstRand Bank Limited	FRC70	ZAG000088840
	FirstRand Bank Limited	FRC71	ZAG000088923
	FirstRand Bank Limited	FRC72	ZAG000088956
	FirstRand Bank Limited	FRC74	ZAG000089178
	FirstRand Bank Limited	FRC76	ZAG000089574
	FirstRand Bank Limited	FRC78	ZAG000089806
	FirstRand Bank Limited	FRC79	ZAG000089947
	FirstRand Bank Limited	FRC82	ZAG000090796
	FirstRand Bank Limited	FRC83	ZAG000090952
	FirstRand Bank Limited	FRC84	ZAG000090986
	FirstRand Bank Limited	FRC85	ZAG000091109
	FirstRand Bank Limited	FRC86	ZAG000091182
	FirstRand Bank Limited	FRC87	ZAG000091570
	FirstRand Bank Limited	FRC94A	ZAG000106725
	FirstRand Bank Limited	FRC95	ZAG000092792
	FirstRand Bank Limited	FRC96A	ZAG000106733
	FirstRand Bank Limited	FRC97	ZAG000093212
	FirstRand Bank Limited	FRC98	ZAG000093220
	FirstRand Bank Limited	FRC99	ZAG000093501
	FirstRand Bank Limited	FRC101	ZAG000093576
	FirstRand Bank Limited	FRC103	ZAG000093840
	FirstRand Bank Limited	FRC104	ZAG000093857
	FirstRand Bank Limited	FRC105	ZAG000093998
	FirstRand Bank Limited	FRC106	ZAG000093956
	FirstRand Bank Limited	FRC107	ZAG000094574
	FirstRand Bank Limited	FRC108	ZAG000094871
	FirstRand Bank Limited	FRC109	ZAG000094889
	FirstRand Bank Limited	FRC110	ZAG000094954
	FirstRand Bank Limited	FRC112	ZAG000095621

	Issuer	Bond code	ISIN code
Credit-linked notes	FirstRand Bank Limited	FRC113	ZAG000095761
	FirstRand Bank Limited	FRC114	ZAG000095837
	FirstRand Bank Limited	FRC115	ZAG000095852
	FirstRand Bank Limited	FRC116	ZAG000095860
	FirstRand Bank Limited	FRC117	ZAG000095928
	FirstRand Bank Limited	FRC118	ZAG000096280
	FirstRand Bank Limited	FRC121	ZAG000096314
	FirstRand Bank Limited	FRC122	ZAG000096322
	FirstRand Bank Limited	FRC124	ZAG000096579
	FirstRand Bank Limited	FRC125	ZAG000096678
	FirstRand Bank Limited	FRC128	ZAG000096959
	FirstRand Bank Limited	FRC135	ZAG000097122
	FirstRand Bank Limited	FRC144	ZAG000097569
	FirstRand Bank Limited	FRC145	ZAG000097627
	FirstRand Bank Limited	FRC146	ZAG000099425
	FirstRand Bank Limited	FRC147	ZAG000099433
	FirstRand Bank Limited	FRC148	ZAG000099466
	FirstRand Bank Limited	FRC149	ZAG000099607
	FirstRand Bank Limited	FRC150	ZAG000099821
	FirstRand Bank Limited	FRC151	ZAG000099904
	FirstRand Bank Limited	FRC152	ZAG000100330
	FirstRand Bank Limited	FRC153	ZAG000100348
	FirstRand Bank Limited	FRC154	ZAG000100694
	FirstRand Bank Limited	FRC155	ZAG000101643
	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
	FirstRand Bank Limited	FRC177	ZAG000107632
	FirstRand Bank Limited	FRC178	ZAG000107897
	FirstRand Bank Limited	FRC179	ZAG000108168
	FirstRand Bank Limited	FRC180	ZAG000108234
	FirstRand Bank Limited	FRC181	ZAG000108549

	Issuer	Bond code	ISIN code
Credit-linked notes	FirstRand Bank Limited	FRC182	ZAG000108713
	FirstRand Bank Limited	FRC183	ZAG000109356
	FirstRand Bank Limited	FRC184	ZAG000109992
	FirstRand Bank Limited	FRC185	ZAG000111451
	FirstRand Bank Limited	FRC186	ZAG000111576
	FirstRand Bank Limited	FRC187	ZAG000111584
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	COLRMB	ZAE000155222

London Stock Exchange
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 3 March 2014

	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**	

On 14 February 2014, S&P affirmed FRB's ratings.

Credit ratings assigned by Moody's Investors Service (Moody's) as at 3 March 2014

	FirstRand Bank Limited	Sovereign rating South Africa
FRB foreign currency deposit ratings and sovereign foreign currency bond ratings		
Long-term	**Baa1**	Baa1
Outlook	**Negative**	Negative
Short-term	**P-2**	
FRB local currency deposit ratings and sovereign local currency bond ratings		
Long-term	**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**	

On 30 October 2013, Moody's affirmed FRB's ratings.

Credit ratings assigned by Fitch Ratings (Fitch) as at 3 March 2014

	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+**	

On 1 August 2013, Fitch affirmed FRB's ratings.

DEFINITIONS

Additional Tier 1 (AT1) capital	NCNR preference share capital 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 less specified regulatory deductions.
Cost-to-income ratio	Operating expenses excluding indirect taxes expressed as a percentage of total income including share of profits from associates and joint ventures.
Credit loss ratio	Total impairment charge per income statement expressed as a percentage of average advances (average between the opening and closing balance for the period).
Diversity ratio	Non-interest revenue expressed as a percentage of total income including share of profits from associates and joint ventures.
Dividend cover	Normalised earnings per share divided by dividend per share.
Effective tax rate	Tax per income statement divided by income before direct tax per income statement.
Loan-to-deposit ratio	Average advances expressed as a percentage of average deposits.
Net income after capital charge (NIACC)	Normalised earnings less cost of equity multiplied by average ordinary shareholders' equity and reserves.
Normalised earnings	The Group believes normalised earnings more accurately reflect its economic performance. Headline earnings are adjusted to take into account non-operational and accounting anomalies. Refer to page 11 for a detailed description of the difference between normalised and IFRS results.
Normalised earnings per share	Normalised earnings attributable to ordinary equityholders divided by weighted average number of shares including treasury shares.
Normalised net asset value	Normalised equity attributable to ordinary equityholders.
Normalised net asset value per share	Normalised equity attributable to ordinary equityholders divided by the number of issued ordinary shares.
Price earnings ratio (times)	Closing price on 31 December divided by basic normalised earnings per share.
Price-to-book (times)	Closing share price on 31 December divided by normalised net asset value per share.
Return on assets (ROA)	Normalised earnings divided by average assets.
Return on equity (ROE)	Normalised earnings divided by average normalised ordinary shareholders' equity.
Risk weighted assets (RWA)	Prescribed risk weightings relative to credit risk of counterparties, operational risk, market risk, equity investment risk and other risks multiplied by on- and off-balance sheet assets.
Shares in issue	Number of ordinary shares listed on the JSE.
Tier 1 ratio	Tier 1 capital divided by RWA.
Tier 1 capital	CET1 capital plus AT1 capital.
Tier 2 capital	Qualifying subordinated debt instruments plus general provisions for entities on the standardised approach less specified regulatory deductions.
Total qualifying capital and reserves	Tier 1 plus Tier 2 capital.
Weighted average number of ordinary shares	Weighted average number of ordinary shares in issue during the year as listed on the JSE.

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FIRSTRAND BANK