annual report

FOR THE YEAR ENDED
30 JUNE 2012

FIRSTRAND BANK

Contents

FIRSTRAND BANK

FirstRand Bank Limited (JSE bond code: BIFR1) is a wholly-owned subsidiary of FirstRand Limited (JSE code: FSR), which is listed on the JSE and Namibia Stock Exchange.
Registration number: 1929/001225/06

Certain entities within the FirstRand Group are Authorised Financial Services and Credit Providers
This report is available on our website:

www.firstrand.co.za

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

Simplified group structure

FIRSTRAND

Listed holding company (FirstRand Limited, JSE: FSR)

100% — FirstRand Bank Limited (JSE bond code: BIFR1)

Banking

100%	First National Bank[1]
100%	Rand Merchant Bank[1]
100%	WesBank[1]
100%	FirstRand Bank India[2]
100%	FirstRand Bank London[2]
100%	FirstRand Bank Dubai[3]
100%	FirstRand Bank Shanghai[3]
100%	FirstRand Bank Nigeria[3]
100%	FirstRand Bank Angola[3]
100%	FirstRand Bank Kenya[3]

100% — FirstRand EMA Holdings Limited

Africa and emerging markets

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

100% — FirstRand Investment Holdings (Pty) Ltd (FRIHL)

Other activities[4, 5]

96%	RMB Private Equity Holdings
93%	RMB Private Equity
100%	RMB Securities
40%	Eris Property Group
50%	RMB Morgan Stanley
100%	FNB International Wealth Management
100%	BJM Private Clients
100%	Rentworks
65%	Direct Axis
100%	First Auto (Pty) Ltd
100%	FirstRand International – Guernsey (includes RMB Australia Holdings)

Structure shows effective consolidated shareholding.

1. Division.
2. Branch.
3. Representative office.
4. For segmental analysis purposes entities included in FRIHL are reported as part of the results of the managing franchise.
5. The Group's securitisation vehicles and conduits are in FRIHL.

Introduction

This report covers the audited financial results of FirstRand Bank Limited (the Bank or FRB) based on International Financial Reporting Standards (IFRS) for the year ended 30 June 2012. FRB is a wholly-owned subsidiary of FirstRand Limited (FirstRand or the Group), which is listed on the JSE and the Namibian Stock Exchange and consists of a portfolio of leading financial services franchises; these are First National Bank (FNB), the retail and commercial bank, Rand Merchant Bank (RMB), the investment bank, and WesBank, the instalment finance business.

OVERVIEW

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

FIRSTRAND'S STRATEGY

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

This vision is driven through two parallel growth strategies:

- become a predominant South African player focusing on both existing markets and those markets where it is currently under-represented; and
- grow its franchise in the broader African continent, targeting those countries expected to produce above average domestic growth and are well positioned to benefit from the trade and investment flows between Africa, China and India.

The FirstRand Group executes its strategy through the appropriate franchises and platforms. For more information on the Group's strategy, please refer to the 2012 integrated annual report for FirstRand Limited which will be published on the Group's website, www.firstrand.co.za, on or about 1 November 2012.

The collective leadership of FirstRand, including the FirstRand chief executive officer (CEO), chief operating officer and the franchise CEOs, determines the Group strategy and is accountable for the overall performance of the Group. Each franchise then takes ownership of their respective strategies, which are executed within the boundaries of the Group's vision and shared business philosophy.

FNB

FNB offers a diverse set of financial products and services to market segments including consumer, medium corporate, small business, agricultural, financial institutions, parastatals and government entities. Products include mortgage loans, credit and debit cards, personal loans and investment products. Services include transactional and deposit taking, card acquiring, credit facilities and distribution channels (namely, the branch network, ATMs, call centres, cellphone and internet).

RMB

RMB is the investment banking arm of FirstRand and benefits from a strong regional positioning combined with increasing global reach. Its ability to access the balance sheet and relationships of the FirstRand Group greatly enhances its scope. RMB is the South African market leader in M&A and infrastructure finance.

WESBANK

With over 40 years of experience, WesBank has become the leader in asset-based finance solutions in South Africa. The company is focused on providing quality instalment finance and fleet management solutions for a number of market sectors. WesBank's asset finance portfolio includes aviation, agriculture, commercial and company vehicles, plant and office equipment, public sector and franchise finance solutions. WesBank operates an instalment finance business, MotoNovo, in the UK.

PHYSICAL PRESENCE IN AFRICA AND CORRIDOR STRATEGY

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

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

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

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

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

FRB is the only African bank with a branch licence in India. Managed by RMB, the branch provides an investment banking offering to Indian clients active in the Indo-African corridor. The services offered range from advisory, financing, trade, debt capital markets and a global market offering with a strong focus on commodities. In-country financing is also provided in support of the corridor financing activities. The Indian operation benefits from a number of relationships with local Indian partners, which ensures that the investment banking offering encompasses inward investment. FNB has recently launched a greenfields strategy in India, focusing on the retail and commercial segments.

Board of directors of FirstRand Bank Limited

LL Dippenaar (63) Non-executive chairman
MCom, CA(SA)
Chairman of FirstRand and director of RMB Holdings

SE Nxasana (54) Chief executive officer
BCom, BCompt (Hons), CA(SA)
Chief executive officer of FirstRand

JP Burger (53) Financial director and chief operating officer
BCom (Hons), CA(SA)
Financial director and chief operating officer of FirstRand

VW Bartlett (69) Independent non-executive
AMP (Harvard), FIBSA
Director of FirstRand

JJH Bester (70) Independent non-executive
BSc Eng Elect (Pret), ISMP (Harvard)
Director of FirstRand

MS Bomela (39) Non-executive
BCom (Hons), CA(SA), MBA
Director of FirstRand

L Crouse (59) Non-executive
CA(SA)
Director of FirstRand

PM Goss (64) Independent non-executive
BEcon (Hons), BAccSc (Hons), CA(SA)
Director of FirstRand and RMB Holdings

NN Gwagwa (53) Independent non-executive
BA (Fort Hare), MTRP (Natal), MSc (cum laude) (London), PhD (London)
Director of FirstRand

PK Harris (62) Non-executive
MCom
Director of FirstRand and RMB Holdings

WR Jardine (46) Independent non-executive
BSc (Physics), MSc (Radiological Physics)
Director of FirstRand

EG Matenge-Sebesho (57) Independent non-executive
MBA (Brunel), C.A.I.B (SA)
Director of FirstRand

AT Nzimande (41) Non-executive
BCom, CTA (UCT), CA(SA), H DIP Law (Wits)
Director of FirstRand

D Premnarayen (66) Executive* (Indian)
BA Economics (Hons) India
Director of FirstRand

KB Schoeman (48) Non-executive
BA Economics, Advanced Financial Management Diploma
Director of FirstRand

RK Store (69) Independent non-executive
CA(SA)
Director of FirstRand

BJ van der Ross (65) Independent non-executive
Dip Law (UCT)
Director of FirstRand

JH van Greuning (59) Independent non-executive
DCom (Economics), DCompt (Accounting Science), CA(SA), CFA
Director of FirstRand

* *D Premnarayen is classified as an executive director due to his participation in FirstRand's share scheme and does not participate in other executive remuneration arrangements.*

Corporate governance

COMPLIANCE STATEMENT

Following the restructuring of FirstRand Limited as the bank controlling company of FirstRand Bank, the governance structures for FirstRand Bank were constituted at FirstRand Limited level in terms of an authority received from the South African Registrar of Banks. The directors of FirstRand ensure compliance with all relevant regulations including the SA Banks Act 1990, SA Companies Act 2008, Basel Committee and Financial Stability Board requirements and other best practice regulations flowing from both local and international authorities. FirstRand endorses the Code of Corporate Practices and Conduct recommended in the King III Code of Corporate Governance 2009 (King III) and is satisfied that the Bank has applied the principles of King III consistently during the year under review.

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

BOARD OF DIRECTORS

Directorate

On 26 April 2012 it was with great regret that the Board was advised of the passing of Mr MH (Thys) Visser following a motor car accident. Thys joined the FirstRand Bank Board in 2009. His widely acknowledged integrity, support and wise contribution to Board and committee deliberations will be greatly missed.

Mrs MS Bomela was appointed to the Board as a non-executive director on 24 September 2011.

Responsibilities of directors

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

Composition and frequency of meetings

A common board serves FirstRand and FirstRand Bank.

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

The Board comprises 18 directors of whom two serve in an executive capacity. The directors of the Bank are listed on page 4. Non-executive directors comprise individuals of high calibre with diverse backgrounds and expertise. This ensures that their views carry significant weight in the Board's deliberations and decisions.

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

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

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

Limitation to appointment period

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

COMPANY SECRETARY

The company secretary is suitably qualified and experienced and was appointed by the Board in 1998. He is, *inter alia*, responsible for the duties stipulated in section 88 of the Companies Act 71 of 2008, as amended and the certificate required to be signed in terms of subsection (2)(e) thereof appears on page 99.

Risk and capital management report

OVERVIEW

This risk and capital management report covers the operations of FirstRand Bank Limited. Risk is managed on a group basis and the Group's risk philosophy and management practices (which also apply to the Bank) are attached below.

FirstRand believes that effective risk management is of primary importance to its success and is a key component of the delivery of sustainable returns to its shareholders. It is therefore deeply embedded in the Group's tactical and strategic decision making.

Risk taking is an essential part of the Group's business and FirstRand thus explicitly recognises risk assessment, monitoring and management as core competencies and important differentiators in the competitive environment in which it operates. Through its portfolio of leading franchises, FirstRand wants to be appropriately represented in all significant earnings pools across all chosen market and risk-taking activities. This entails building revenue streams that are diverse and creating long-term value through sustainable earning pools managed within acceptable earnings volatility parameters.

Highlights

During the year ending 30 June 2012, the Group focused on refining origination scorecards in order to improve the credit quality of new business across all retail portfolios. Macroeconomic conditions, however, remained challenging affecting in-force portfolios. The wholesale portfolio remained resilient and the Group will continue to focus on a credit strategy to capture an appropriate level of new business. Indications are that impairments have bottomed and limited benefit will be realised from any further interest rate decreases that may result from worsening economic conditions.

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

Capital adequacy position

	FirstRand Bank*		Regulatory minimum
	Actual	Target	
Capital adequacy ratio (%)	14.6	11.5 – 13.0	9.5**
Tier 1 ratio (%)	12.6	10.5	7.0
Core Tier 1 ratio (%)	11.8	9.0 – 10.5	5.25

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

The Group focused on a number of regulatory changes during the year:

- implementing the Basel II standardised approach for the calculation of counterparty credit default risk capital;
- regulatory changes to measure the performance of market risk-taking activities;
- Banks Act changes relating to regulatory returns; and
- preparations for the implementation of Basel III:
  - quality and level of capital;
  - counterparty credit risk measures, and
  - the liquidity coverage ratio.

Basel Pillar 3 disclosure

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

FirstRand is the listed holding company and regulated bank controlling company of the Group. The wholly-owned subsidiaries of FirstRand are FRB, FREMA and FRIHL which are all regulated. Banking operations are included under the Bank, FREMA includes Africa and emerging markets, and all other activities are under FRIHL. A simplified diagrammatic representation of the Group structure is provided on page 1.

Some differences between the practices, approaches, processes and policies of the Group and its wholly-owned subsidiaries exist and these are highlighted by a reference to the appropriate entity, where necessary. For fully consolidated entities in the Group, no difference in the manner in which entities are consolidated for accounting and regulatory purposes exists.

This report has been internally verified by the Group's governance processes in line with the Group's public disclosure policy. All information in this report is unaudited unless otherwise indicated.

Recent regulatory changes

In July 2009, as part of its *Enhancements to the Basel II framework*, namely Basel 2.5, the Basel Committee on Banking Supervision (BCBS) introduced guidance to address a number of risk management weaknesses revealed during the financial crisis that started in 2007. A number of these were included in this report:

- **Market risk:** Combined Value-at-Risk (VaR) and stressed VaR were incorporated in the Group's local trading book on 1 January 2012. A number of additional concentration measures were also implemented.
- **Securitisations:** The new Regulation 43 disclosure requirements regarding resecuritisations, additional disclosures in respect of processes monitoring securitisation exposures, differentiation between banking and trading book exposures and accounting policies, the regulatory approach used to assess capital requirements on retained exposures, and updated quantitative disclosures for retained exposures.
- **Remuneration:** Qualitative and quantitative disclosures on compensation and remuneration were included.

Future regulatory changes

Basel III, released in December 2010, builds on Basel 2.5. It sets higher capital and liquidity requirements to be progressively phased in from 1 January 2013. This includes the phasing out of certain existing Tier 1 and 2 instruments that no longer qualify as regulatory capital over ten years starting from January 2013. In terms of the Basel III guidelines for liquidity, the Liquidity Coverage Ratio (LCR), which measures short-term liquidity stress, is effective from January 2015 and the Net Stable Funding Ratio (NSFR), which measures the stability of long-term structural funding, is effective 1 January 2018.

DEFINITIONS

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

Risk category	Risk components	Definition	Page reference
Strategic and business risks	Includes strategic risk, business risk, volume and margin risk, reputational risk, and environmental, social and governance (ESG) risks.	Strategic risk is the risk to current or prospective earnings arising from inappropriate business decisions or the improper implementation of such decisions.	**21**
		Business risk is the risk to earnings and capital from potential changes in the business environment, client behaviour and technological progress. Business risk is often associated with volume and margin risk and relates to the Group's ability to generate sufficient levels of revenue to offset its costs.	
		Volume and margin risk is the risk that the earnings and capital base is negatively impacted by a downturn in revenue due to market factors (e.g. margin compression), combined with the risk that the cost base is inflexible.	
		Reputational risk is the risk of reputational damage due to compliance failures, pending litigations or underperformance or negative media coverage.	**21**
		ESG risks focus on the environmental, social and governance issues which impact the Group's ability to successfully and sustainably implement business strategy.	**21**
Financial risks	Capital management	The Group manages capital by allocating resources effectively in terms of its risk appetite and in a manner that maximises value for shareholders.	**25**
	Credit risk	Credit risk is the risk of loss due to the non-performance of a counterparty in respect of any financial or other obligation. For fair value portfolios, the definition of credit risk is expanded to include the risk of losses through fair value changes arising from changes in credit spreads. Credit risk also includes credit default risk, pre-settlement risk, country risk, concentration risk and securitisation risk.	**32**
	Securitisations	Securitisation is the structured process whereby loans and other receivables are packaged, underwritten and sold in the form of asset-backed securities.	**63**
	Counterparty credit risk	Counterparty credit risk is defined as the risk of a counterparty to a contract, transaction or agreement defaulting prior to the final settlement of the transaction's cash flows.	**71**
	Market risk in the trading book	Market risk is the risk of adverse revaluation of any financial instrument as a consequence of changes in market prices or rates.	**73**

Risk category	Risk components	Definition	Page reference
	Equity investment risk	Equity investment risk is the risk of an adverse change in the fair value of an investment in a company, fund or any other financial instrument, whether listed, unlisted or bespoke.	**76**
	Foreign exchange and translation risk in the banking book	Foreign exchange risk is the risk of losses occurring or a foreign investment's value changing from movements in foreign exchange rates. A bank is exposed to currency risk in its net open foreign currency positions and foreign investments. Translation risk is the risk associated with banks that transact in foreign currencies or hold foreign assets. The greater the proportion of asset, liability and equity classes denominated in a foreign currency, the greater the translation risk.	**79**
	Funding and liquidity risk	Funding liquidity risk is the risk that a bank will not be able to meet current and future cash flow and collateral requirements (expected and unexpected) without negatively affecting its reputation, daily operations and/or financial position. Market liquidity risk is the risk that market disruptions or lack of market liquidity will cause the bank to be unable (or able, but with difficulty) to trade in specific markets without affecting market prices significantly.	**79**
	Interest rate risk in the banking book (IRRBB)	IRRBB is defined as the sensitivity of a bank's financial position and earnings to unexpected, adverse movements in interest rates.	**87**
Operational risks	Operational risk	Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes and systems or from external events and human error. It includes fraud and criminal activity (internal and external), project risk, legal risk, business continuity, information and IT risk, process and human resources risk. Strategic, business and reputational risks are excluded from the definition.	**90**
	Regulatory risk	Regulatory risk is the risk of statutory or regulatory sanction and material financial loss or reputational damage as a result of a failure to comply with any applicable laws, regulations or supervisory requirements.	**94**

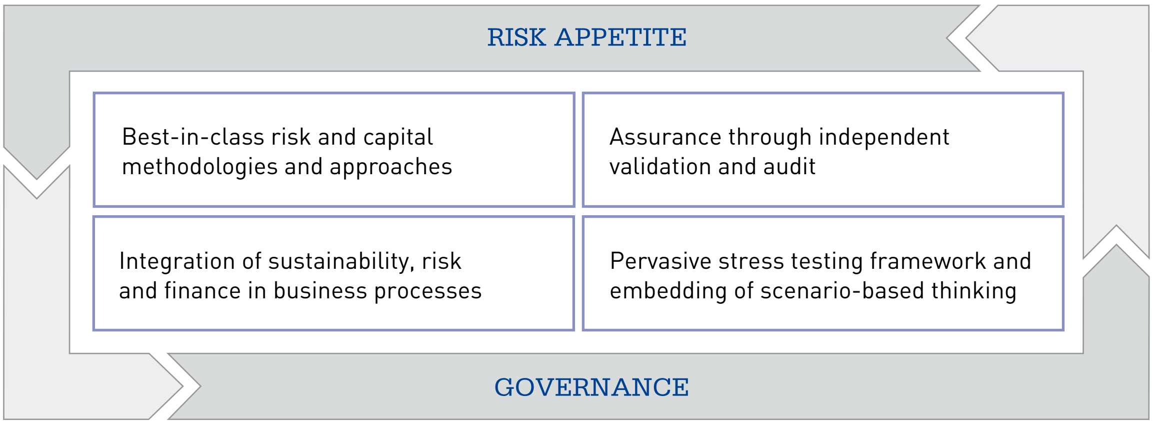
FIRSTRAND'S APPROACH TO RISK AND CAPITAL MANAGEMENT

The Group believes that effective risk management is of primary importance to its success and is a key component of the delivery of sustainable returns to its shareholders. It is therefore part of the Group's tactical and strategic decision making. The Group aligns its risk management approach to its strategy. Risk taking is an essential part of the Group's business. FirstRand recognises risk assessment, monitoring and management as core competencies and important differentiators in the competitive environment in which it operates.

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

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

Components of FirstRand's approach to risk and capital management



These are discussed further in this report:

- The Group's **risk appetite** frames all organisational decision making and forms the basis for the refinement of risk identification, assessment and management capabilities (see page 11).
- A strong **governance** structure and policy framework fosters the embedding of risk considerations in existing business processes and ensures that consistent standards exist across the Group's operating units (see page 15).
- Best practice **risk and capital methodologies** have been developed in and for the relevant business areas (see page 12).
- An integrated approach to **sustainability and managing risk** was established to facilitate the exchange of information between individual risk areas, and between risk and finance functions (see page 12).
- The Group employs a comprehensive, consistent and integrated approach to **stress testing** that is ingrained as a business planning and management tool, emphasising scenario-based analyses in all its decisions. Stress testing includes the quantification of potential volatility of earnings under various scenarios and due to event risk (see page 13).
- **Independent oversight, validation and audit** functions ensure a high standard of assurance across methodological, operational and process components of the Group's risk and capital management processes (see page 17).

Risk appetite

The level of risk the Group is willing to take on – its risk appetite – is determined by the Board, which also assumes responsibility for ensuring that risks are adequately managed and controlled through the Risk, capital management and compliance (RCC) committee and subcommittees, as described in the *Risk governance structure* section on page 18.

The Group's risk appetite framework sets out specific principles, objectives and measures that link diverse considerations such as strategy, risk, target capitalisation levels and acceptable levels of earnings volatility. As each franchise is ultimately tasked with the generation of sustainable returns, risk appetite limits act as a constraint on the assumption of ever more risk in the pursuit of profits – both in quantum and in kind. For example, a marginal increase in return in exchange for disproportionately more volatile earnings is not acceptable. Similarly, certain types of risk, such as risks to its reputation, are incompatible with the business philosophy and thus fall outside its risk appetite.

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

- the level of earnings, growth and volatility the Group is willing to accept from certain risks that are core to its business; and
- the level of capitalisation to meet regulatory capital requirements, maintain a capital buffer for unforeseen events and business expansion, and the return achieved on capital allocated.

These two measures define the risk capacity and this expression of risk appetite is aligned against broader financial targets.

The Board established risk appetite principles in which business is tracked against certain measures. These principles include:

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

As a function of the business environment and stakeholders' expectations, together with the primary risk appetite measures, these principles provide firm boundaries for the organisation's chosen path of growth.

In setting the risk appetite, the executive committee (Exco) and the Board balance the organisation's overall risk capacity with a bottom-up view of the planned risk profile for each business. In this the Group ultimately seeks to achieve an optimal trade-off between its ability to take on risk and the sustainability of the returns it delivers to its shareholders.

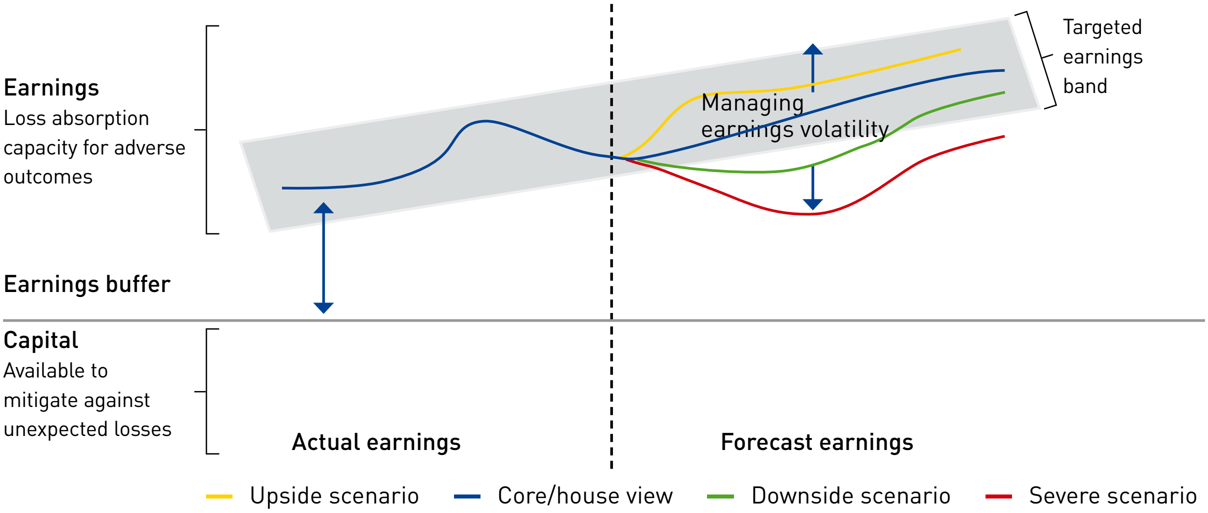
Risk appetite measures are included in risk and management reports across the businesses, as well as at board level. These measures are continually refined as more management information becomes available and stress test results are reported and discussed.

The Group views earnings as the primary defence against adverse outcomes. The earnings buffer and capital base provide protection for stakeholders against unexpected events. FirstRand's capacity to absorb earnings volatility and fluctuations is, therefore, supported by the generation of sustainable profits.

Risk and capital management report continued

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

Managing earnings volatility through the cycle



Risk and capital methodologies

The detailed sections commencing on page 21 provide in-depth descriptions of the approaches, methodologies, models and processes used in the identification and management of each major risk. Each section also describes the applicable governance and policy framework and provides an analysis of the respective portfolios and the risk profile with respect to the type of risk under consideration and the capital position.

Focus on sustainability and integration of risk and finance

The Group considers the sustainability of its earnings within acceptable volatility as a core objective and key performance measure. The value of the franchises is supported by the Group's financial strength and it adopts a management approach that seeks to achieve an optimal deployed risk model.

The franchises are responsible for maximising risk-adjusted returns on a sustainable basis, within the limits of the Group's risk appetite. Shifts in the macro environment are also critical to any strategic adjustments. FirstRand manages its business based on the Group's house view which is used for budgeting and forecasting and credit origination strategies. The house view focuses on the key macro-economic variables that impact the balance sheet and income statement. The macro outlook is reviewed on a monthly basis and spans a three year forecast horizon for a core scenario and two risk scenarios. These scenarios are debated internally and communicated to the business units. A severe stress scenario is also generated for stress testing purposes.

The objective of the Group's balance sheet management is to protect and enhance financial performance of the Group through the holistic management of the balance sheet and its income streams within the context of the macroeconomic environment. At the core of FirstRand's approach is a belief that the balance sheet and its income statement streams can be both protected and enhanced throughout the cycle to improve sustainability and predictability, by actively managing the investment and enterprise value risks which include:

- interest rate risk;
- credit portfolio risk;
- capital risks; and
- strategic funding risks.

To achieve this objective, the Group implements an integrated balance sheet management approach. This requires a detailed understanding of the economic cycle and the interplay between the risks created by the cycle and the levers within the business that can be used to mitigate those risks. Ultimately, the aim is to optimise the natural position of the balance sheet, look for natural hedges or implement appropriate macro hedges in the current structure and only make the balance sheet available to the origination businesses if the required risk reward profile can be met.

FirstRand's integrated balance sheet management approach is aligned to the objectives of performance management in that it facilitates optimisation of the spread between ROE and cost of equity.

Group Treasury is responsible for capital management. The capital position provides the final buffer against adverse business performance under extremely severe economic conditions.

Group Treasury is also responsible for the financial resources of the Group including funding and liquidity management, exchange control, interest rate risk and market risk in the banking book management.

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

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

Internal capital adequacy assessment process (ICAAP)

The overall objective of capital management is to maintain sound capital ratios, a strong credit rating, ensure confidence in the solvency of the Group, comply with regulatory requirements and instil confidence during periods of uncertainty and turmoil in financial markets.

In order to achieve this objective the Group needs to:

- ensure that at least the minimum amount of regulatory capital is held at all times for the South African Reserve Bank (SARB) to allow the Group to conduct business;
- hold sufficient capital that will instil confidence for all stakeholders in the Group's ongoing solvency and status as a creditworthy counterparty;
- allocate capital to businesses based on an understanding of the risk and reward drivers of the income streams and to ensure that appropriate returns are earned on the capital deployed;
- ensure that the buffer over the minimum regulatory capital requirement is sufficient to cater for income and capital volatility and economic risk which may manifest through business disruption, regulatory intervention or credit downgrades, where applicable;
- consider the returns on a risk-adjusted basis to assess business performance; and
- ensure that FirstRand's capital adequacy ratios and other sublimits remain above appropriate (and approved) limits during different economic and business cycles.

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

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

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

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

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

Stress testing and scenario-based analyses

Stress testing and scenario-based analysis form an integral part of the overall governance and risk management culture of the Group and is an important risk management tool used to alert management of adverse unexpected outcomes related to a variety of risks and to provide an indication of how much capital is needed to absorb losses should these occur.

The evaluation of business plans and strategic options at a Group and business level, as well as the choice of tactical steps towards implementing these plans are intrinsically linked to the evaluation and assessment of risk. Thinking through potential scenarios and how these may evolve based on changes in the economic environment and competitors' strategies, and potential stress events forms an integral part of the strategy setting, planning and budgeting processes.

Additionally, stress testing is used amongst others to:

- validate existing quantitative risk models in order to assess whether the output derived in a negative stress scenario is consistent with model outputs at a similar severity level;
- set risk limits, and
- evaluate emerging risks.

FirstRand's approach to planning, including the stress and scenario analysis, requires comprehensive involvement of the franchises and the various units within the Group's Corporate Centre. The Board, through the RCC committee, is ultimately responsible to critically evaluate the:

- stress-test approach followed;
- scenario/s selected; and
- the impacts of the stress test results on the business and strategic direction of the Group.

From a business planning perspective, the business is managed in line with the core macroeconomic view (core scenario). Stress scenarios are overlaid on the core scenario to alert management of adverse unexpected outcomes which, in turn, impacts management action considerations. The Group also recognises the fact that it is exposed to a number of risks that are difficult to anticipate and model and that are, therefore, difficult to manage and mitigate economically. These risks are collectively denoted as event risks and are not necessarily strongly related to the economic environment or the Group's strategy. The planning and stress test provides for proactive and continuous identification of such potential events and establishes a process in which these are evaluated and discussed across the businesses.

From time to time, the regulator may call for the Group to run a supervisory stress test with prescribed assumptions and methodologies, which are also considered as part of the overall planning and stress test process.

RISK MANAGEMENT FRAMEWORK AND GOVERNANCE STRUCTURE

Risk governance framework

FirstRand's Board retains ultimate responsibility for ensuring that risks are adequately identified, measured, monitored and managed. The Group believes that effective risk management is based on a culture focused on risk paired with an effective governance structure.

Effective risk management also requires multiple points of control or safeguards that should be consistently applied at various levels throughout the organisation. There are three primary lines of control across the Group's operations illustrated in chart below.

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

Lines of risk control

First line → Risk ownership

Head of business: primary risk owner

Embeds risk management as a core management discipline and gives consideration to potential risks in business decisions.

Group Treasury

Support business owners, the Board and Exco in the implementation of Group strategy across the portfolio and includes:

- capital management and performance measurement;
- balance sheet management;
- management of liquidity, interest rate risk and foreign exchange mismatch; and
- management of funding and liquidity.

Second line → Risk control

Deployed divisional and segment risk managers

Support business units in identifying and quantifying significant risks.

Enterprise Risk Management

Provides independent oversight and monitoring across the Group on behalf of the Board and relevant committees.

Regulatory Risk Management

Ensures that business practices, policies, frameworks and approaches across the organisation are consistent with applicable laws.

Third line → Independent assurance

Group Internal Audit

Provides independent assurance of the adequacy and effectiveness of risk management practices.

First line – risk ownership

Risk taking is inherent in the individual businesses' activities. Business management carries the primary responsibility for the risks in its business, in particular with respect to identifying and managing risk appropriately. In order to achieve this, the head of each business entity:

- ensures the entity acts in accordance with mandates approved by the Board or its delegated authority;
- identifies, quantifies and monitors key risks to business under normal and stress conditions;
- implements the strategic and business plans as applicable to the business entity within approved risk appetite parameters;
- designs business processes that will ensure that risks are managed appropriately;
- specifies the risk management processes whereby the key risks of the entity are managed;
- specifies and implements early warning measures, associated reporting, management and escalation processes;
- implements risk mitigation strategies;
- implements timeous corrective actions and loss control measures as required;
- reports risk information to Exco and the governance committee structure as appropriate through to the Board; and
- ensures staff understand responsibilities in relation to risk management.

Business owners, the Board and Exco are supported in these responsibilities by Group Treasury within the Corporate Centre. The responsibilities of Group Treasury, including Balance Sheet Management (BSM) and Capital Management and Performance Measurement, are described in the *Focus on sustainability and integration of risk and finance* section on page 12.

Second line – risk control

Business heads are supported in this by deployed divisional and segment risk management functions that are involved in all business decisions and are represented at an executive level across all franchises. Franchise heads of risk have a direct reporting line to the Group chief risk officer (CRO) and the relevant franchise CEO. Franchise and segment risk managers are responsible for risk identification, measurement and control. To this end, they:

- approve, coordinate and monitor risk assessment and risk management processes;
- ensure that board-approved risk policies and risk tools are implemented and adhered to;
- approve the design of business risk processes that will ensure that risks are managed appropriately;
- ensure that performance, risk exposures and corrective actions are reported in an appropriate format and frequency;
- monitor appropriate implementation of corrective action;
- identify process flaws and risk management issues and initiate corrective action;
- compile, analyse and escalate risk reports through appropriate governance structures; and
- ensure all risk management and loss containment activities are timeously performed as agreed with Enterprise Risk Management (ERM).

Divisional and segment risk management activities are overseen by the independent, central risk control functions, ERM and Regulatory Risk Management (RRM).

ERM is headed by the Group CRO who is a member of Exco and provides independent oversight and monitoring across the Group on behalf of the Board and relevant committees. Furthermore ERM:

- takes ownership of and maintains risk frameworks;
- develops the Group's risk management strategy and communicates the risk management strategy plan and requirements to stakeholders;
- challenges risk profiles through review of risk assessments, evaluation of risk management processes and monitoring of exposures and corrective actions;
- reports risk exposures and performance in relation to management of risk exposures to relevant committees;
- ensures appropriate risk skills throughout the Group alongside an appropriate risk management culture for risk taking;
- performs risk measurement validation and maintains risk governance structures;
- deploys a comprehensive and integrated approach to stress testing; and
- manages regulatory relationships with respect to risk matters.

RRM is an integral part of managing banking risks and ensures that business practices, policies, frameworks and approaches across the organisation are consistent with applicable laws. The risks, responsibilities and processes of RRM are discussed in the *Regulatory risk* section on page 94.

Third line – independent assurance

The third major line of control involves internal audit and external advisors providing independent and objective assurance to the Board, Audit committee and regulators. The assurance is provided on the overall adequacy and effectiveness of governance, risk management and control within the Group as established by the first (management oversight) and second (management of risk) lines of control.

FirstRand Group has an established internal audit function, namely Group Internal Audit (GIA).

GIA is an independent, objective assurance and consulting function designed to add value and improve the operations of FirstRand and its subsidiaries, joint ventures, trusts, offshore operations and business interests. GIA assists executive management and the Audit committee to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes within the Group.

GIA is headed by the chief audit executive (CAE) and reports to the Board through the Audit committee chairman. The CAE has direct, unrestricted access to the Group CEO and executives, and respective subsidiaries as well as to all FirstRand business unit functions, records, property and personnel. The CAE reports administratively to the CEO and functionally to the chairman of the Audit committee, which is in line with Institute of Internal Auditing standards and good corporate governance principles.

To achieve its objectives, GIA:

- assesses whether management establishes and monitors the adequacy and effectiveness of the internal control systems, internal risk management procedures and methodologies;
- assesses the adequacy and effectiveness of the organisation's corporate governance, risk management and internal control frameworks;
- assesses if governance processes and ethics are designed and operating in line with legislation and best practice guidelines;
- reviews the adequacy of manual and automated internal controls to ensure compliance with policies, plans, procedures, regulatory requirements, and business objectives;
- evaluates whether approved business processes adequately address the risks that should be controlled and if they are operating effectively throughout the period under review; if not, adjusts substantive work to address deficiencies in these business processes;
- reviews internal control, management, financial and information systems, including electronic systems to ensure that sound general and processing controls are incorporated to produce accurate, valid and complete financial and regulatory reporting disclosure;
- appraises the economy, efficiency and effectiveness of resource utilisation;
- assesses the adequacy of processes implemented to ensure that all tangible and intangible assets are safeguarded and accounted for;
- assesses if systems of fraud prevention and detection are functioning as intended; and
- escalates significant internal control weaknesses, together with practical recommendations to management and the Audit committee and follows up on recommendations to ensure effective remedial action has taken place.

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

Combined assurance

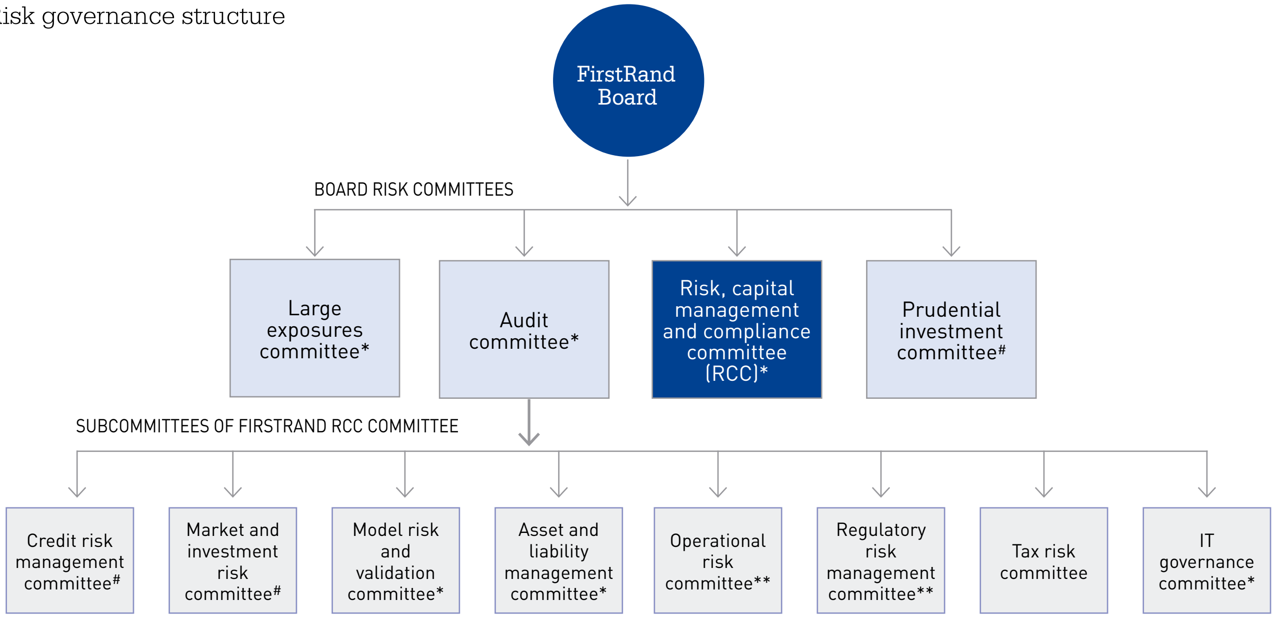
The Audit committee has overseen the establishment of formal enterprise-wide governance structures for enhancing the practice of combined assurance forums at Group and subsidiary level. Through the assurance framework, GIA coordinates its work with senior management and ERM, RRM and external audit. The primary objective of the Group and assurance forums is for the assurance providers to work together with management to deliver the right assurance in the right areas by people with the best skills and experience and skills as cost effectively as possible.

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

Risk governance structure

In line with the Group's corporate governance framework, the Board retains ultimate responsibility for ensuring that risks are adequately identified, measured, managed and monitored across the Group. The Board discharges its duty through relevant policies and frameworks, as well as several board committees and subcommittees, as illustrated in the chart below.

Risk governance structure



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

The primary board committee overseeing risk matters across the Group is the RCC committee. It has delegated responsibility for a number of specialist topics to various subcommittees. The RCC committee submits its reports and findings to the Board and highlights control issues to the Audit committee. The responsibilities of the board committees and the subcommittees of the RCC committee are included in the table below.

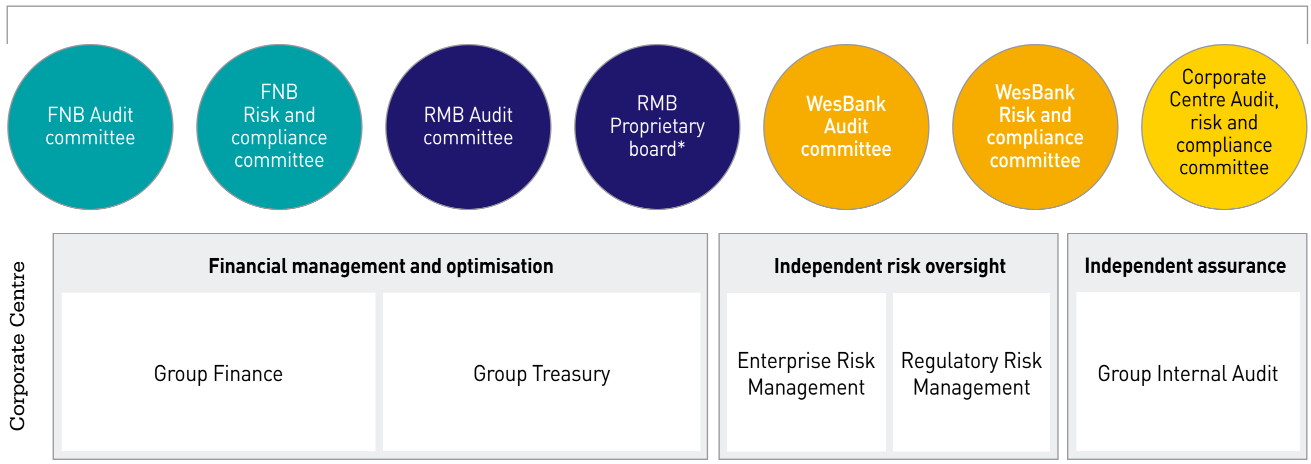
Responsibilities of the board risk committees

Committee	Responsibility
Large exposures committee (LEC)	• approves credit exposures in excess of 10% of the Group's capital; and • delegates the mandate for the approval of group and individual credit facilities to the FirstRand Wholesale credit committee, Commercial credit committee and Retail credit committee, as appropriate.
Audit committee	• considers the annual financial statements for approval by the Board; and • monitors the quality of the internal financial controls and processes of control in FirstRand, and the implementation of corrective actions.
Risk, capital management and compliance committee (RCC)	• approves risk management policies, standards and processes; • monitors Group risk assessments; • monitors the effectiveness of risk management and high priority corrective actions; • monitors the Group's risk profile; and • approves risk and capital targets, limits and thresholds.
Prudential investment committee (PIC)	• ensures investment exposures comply with FirstRand's prudential investment guidelines.

Responsibilities of the subcommittees of the RCC committee

Committee	Responsibility
Credit risk management committee	• approves credit risk management policies, standards, processes and new business origination within risk appetite; • monitors effectiveness of credit risk management processes, credit loss forecasting and impairment charges; • monitors the quality of the credit risk profile, in-force business and new business origination, and underlying assets in the securitisation process; • monitors scenario and sensitivity analysis, stress tests, credit economic capital and credit concentrations; • ensures the uniform interpretation of the credit regulatory requirements and acceptable standards of credit reporting; • reviews the credit economic conditions outlook from BSM and ensures that business units align credit origination strategies with the FirstRand view; and • delegates the approval of wholesale, commercial and retail credit policies to its subcommittees, namely, the FirstRand Wholesale credit, Commercial credit and Retail credit committees.
Market and investment risk committee (MIRC)	• approves market and investment risk management policies, standards and processes; • monitors the effectiveness of market and investment risk management processes; • monitors the market and investment risk profile; and • approves market and investment risk-related limits.
Model risk and validation committee (MRVC)	• considers and approves all material aspects of model validation work including credit rating and estimation, internal models for market risk and advanced measurement operational risk models for the calculation of regulatory capital requirements.
Asset, liability and capital committee (ALCCO)	• approves and monitors effectiveness of management policies and processes for liquidity and funding risk, capital risk and market risk in the banking book (interest rate risk in the banking book, credit and counterparty credit risk, foreign exchange and translation risk, Corporate Centre macro hedges and investment risk); • monitors the management of funding of the Group's balance sheet; • provides governance and oversight of the level and composition of capital, and considers the supply and demand of capital across the Group; • approves buffers over regulatory capital and monitors capital adequacy ratios; and • approves frameworks and policies relating to internal funds transfer pricing (FTP) for the Group.
Operational risk committee (ORC)	• provides governance, oversight and coordination of relevant operational risk management practices.
Regulatory risk management committee (RRM)	• approves regulatory risk management principles, frameworks, plans, policies and standards; and • monitors the effectiveness of regulatory risk management, breaches and corrective action taken across the Group.
Tax risk committee	• monitors tax management processes, effectiveness of tax management process and corrective actions.
IT governance committee	• approves group-wide information and technology risk policies and standards to ensure the protection of information assets; and • ensures the effectiveness of information and technology systems and processes across the Group.

Franchise risk governance structure



* *The RMB Proprietary board is the Risk and regulatory committee for RMB.*

The roles of the RCC committee and its subcommittees are further described with reference to the applicable governance structures and processes for each particular risk type in the major risk sections of this report. A number of the individual committee members are non-executive, further strengthening the Group's central, independent risk oversight and control functions.

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

Regular risk reporting

ERM drives the implementation of more sophisticated risk assessment methodologies through the design of appropriate policies and processes, including the deployment of skilled risk management personnel in each of the franchises.

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

STRATEGIC AND BUSINESS RISK

Introduction and objectives

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

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

In an environment of continued weakness of the South African economy and the risks imposed by the continued weak world economy, FirstRand continues to focus on cost containment whilst pursuing growth opportunities both locally and in selected African markets. While the Group has negligible direct exposure to counter-parties in the peripheral European countries, the risk lies in the growth impact on South Africa's economy as Europe is a major trading partner.

Organisational structure and governance

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

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

Assessment and management

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

Volume and margin risk

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

Reputational risk

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

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

Environmental, social and governance risk management

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

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

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

Equator Principles and environmental and social risk analysis (ESRA)

FirstRand became an Equator Principles (EP) finance institution in July 2009. Within FirstRand, the application of EP forms part of ESRA and is a very specific credit risk management framework for determining, assessing and managing ESG risk in project finance transactions. EP transactions are all structured project finance activities, as defined by Basel II, where the capital costs associated with the project are US$10 million or above.

Once an applicable transaction has been identified, the activity for which finance is requested is categorised according to its potential impact on the environment or on social systems associated with the activity or operations. This categorisation process then determines the level of approval and review that is required for the particular transaction.

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

Each of the Group's operating franchises have formalised credit and compliance processes for the implementation of ESRA, with oversight provided by franchise risk and compliance officers, credit committees throughout the Group and divisional social and ethics committees in cases of sensitivity. At a Group level oversight is provided by the RCC and Audit Committees. The ESRA review process is illustrated in the chart below.

ESRA review process

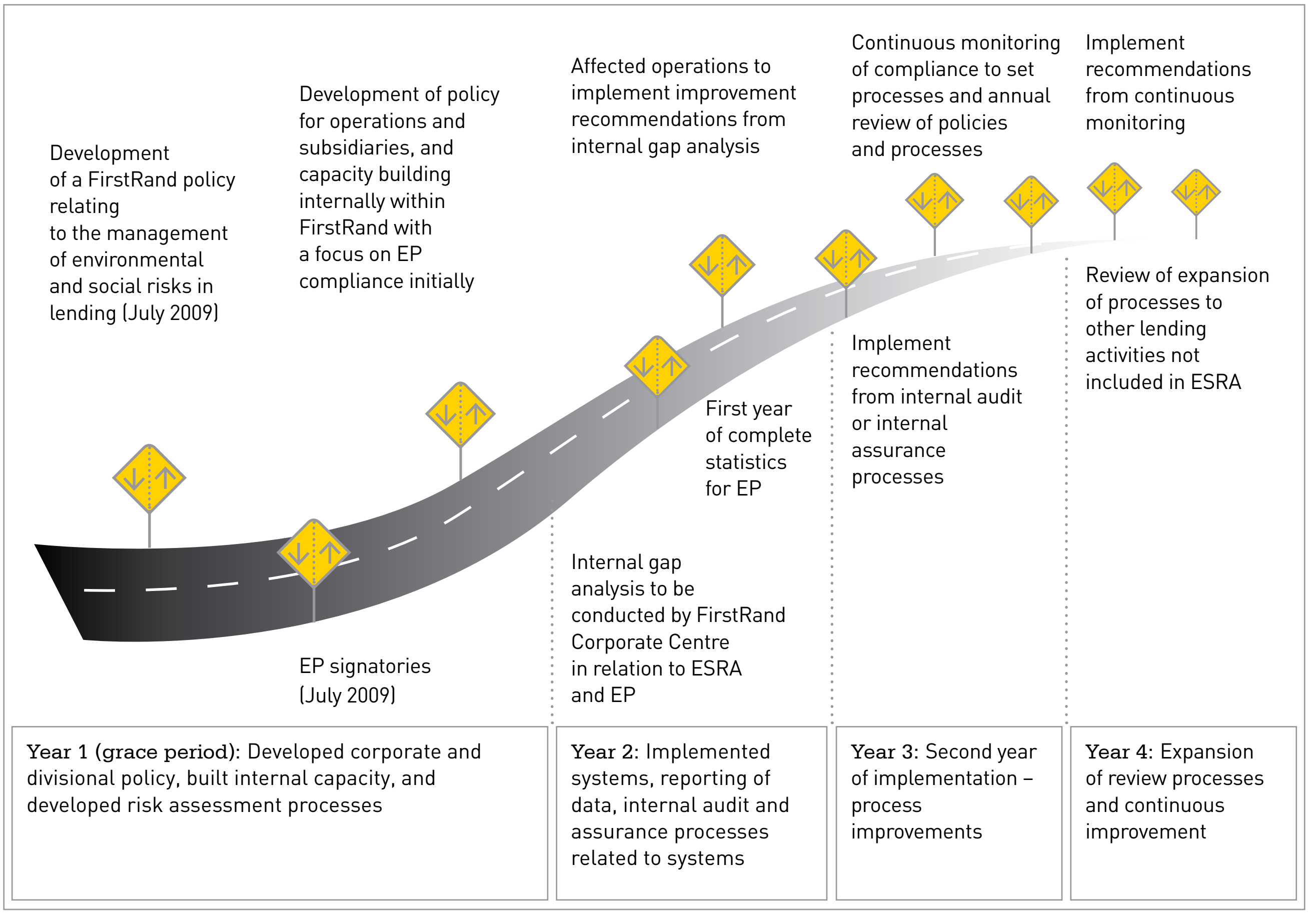
Deal origination	Categorisation	Environmental and social risk review	Credit application	Action plan	Monitoring and evaluation
Deal identified and screened against an exclusion list.	Deals categorised by project type, value and ESRA category.	Environmental and social risk assessment informs in-house opinion.	Credit application assessed.	Action plan and covenants defined with client in line with legal documentation.	Ongoing monitoring and evaluation against covenants and legal documents.

ESRA transaction by type

Transaction type	Threshold amount after which an ESRA review is triggered
Project finance transactions (subject to EP)	Total project capital costs at or above US$10 million.
Project finance advisory (subject to EP)	Total project capital costs at or above US$10 million.
Project finance transactions	All category A (high risk) and B (medium risk) transactions with a total project capital cost of less than US$10 million are subject to review.
Corporate loans	No threshold applied.
Equity investment deals	No threshold applied.
Affected commercial loans (inclusive of property finance)	Property finance or property securitised loans – no threshold is applied. Commercial loans (non-property related) – total facility amount above R7 million.
Asset finance for commercial or corporate purposes	Total facility amount above R50 million.
Commercial and corporate related working capital and overdraft loans	Total facility amount above R7 million.

Progress on implementation

FirstRand is currently in the third year of ESRA implementation.



2012 Equator Principles performance

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

Definition of EP performance categories

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

EP transactions

	2012		2011	
EP category	**Projects screened for the first time during the year**	**Project that reached financial close during the year**	Projects screened for the first time during the year	Project that reached financial close during the year
A (high risk)	**2**	**1**	5	3
B (medium risk)	**9**	**8**	2	–
C (low risk)	**6**	**7**	3	2
Total	**17**	**16**	10	5

The projects screened are the structured EP-defined project finance deals, which were reviewed by an in-house environmental and social risk specialist, and have been subjected to an independent EP review, where applicable, to establish the initial environmental and social risks of the project during the reporting period. The projects that reached financial close are defined as the number of structured EP defined project finance deals which reached financial close during the reporting period. Financial close is assumed when all conditions precedent to initial drawing of the debt have been satisfied or waived.

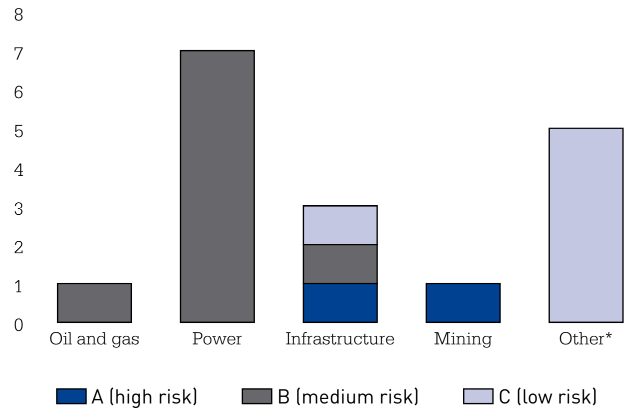
The Group is confident that the transactions have been subjected to appropriate due diligence for environmental and social risks and that, where appropriate, mitigating action plans are in place.

Analysis of EP transactions

EP transactions during the period under review were categorised into the mining and infrastructure sectors, renewable energy projects or other, which typically comprise deals related to large commercial property developments. This is not an unusual grouping of sectors in relation to EP due to the financial threshold associated with the EP projects and the nature of project finance deals within these sectors.

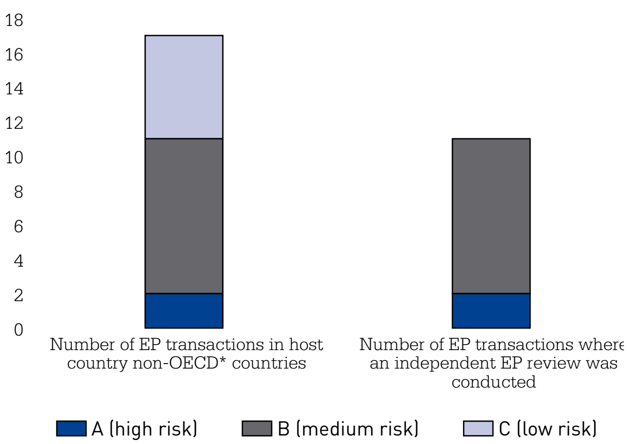
All of the transactions noted are southern African based projects.

EP finance transactions screened per industry category (Number of transactions)



* *Transactions in the other category are typically deals related to large commercial property developments.*

Category of EP transactions (number of transactions)



* *Organisation for economic cooperation and development (OECD). During the year under review there were no EP transactions screened hosted in OECD countries.*

ESRA process going forward

Although the evaluation and monitoring of EP transactions is embedded across the Group, continued focus will be given to the effective implementation of the ESRA process. Planning for future reporting on further implementation of the ESRA process will allow for performance reporting in relation to ESRA transactions that go beyond project finance transactions as defined in EP.

The National Environmental Management Act: Waste Act is an area that will be a future focus area, particularly as it relates to the review of ecological contamination of financed property or taken as security.

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

CAPITAL MANAGEMENT

Introduction and objectives (audited)

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

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

The optimal level and composition of capital is determined after taking into account business units' organic growth plans – provided financial targets are met. In addition, targeted capital ratios, future business plans, issuance of additional capital instruments, the need for appropriate buffers in excess of minimum requirements, rating agencies' considerations, investor expectations and proposed regulatory changes are all factors taken into consideration.

Allocating resources (including capital and risk capacity) effectively in terms of the risk appetite targets and in a manner that maximises value for shareholders is a core competence and a key focus area. Sound capital management practices, therefore, form an important component of the overall business strategy. Moreover, performance measurement is aligned with the allocation of risk and continually enhanced to drive the desired behaviour.

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

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

Capital adequacy and planning

The year under review (audited)

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

The board-approved capital plan is reviewed annually as part of the Bank's ICAAP, with the stress-testing framework being an extension of the process. ICAAP assists in the attribution of capital in proportion to the risks inherent in the respective businesses with reference to normal economic circumstances and times of potential stress, which may lead to the realisation of risks not previously considered. These processes are refined on an ongoing basis and continue to inform the targeted buffer over the minimum capital requirement.

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

Targeted ranges were increased in the prior year in anticipation of the implementation of Basel III, even though the levels for South Africa are not yet finalised. Given the continued uncertainty, the Bank follows a conservative approach to capital levels and prefers to maintain capital ratios at the upper end of its targeted capitalisation range. The Bank will revisit the internal target capitalisation levels once the SARB finalises the regulations incorporating Basel III.

Throughout the year under review, the Bank, excluding foreign branches, operated above its targeted capitalisation range, reporting a total capital adequacy ratio of 14.6% and a solid Core Tier 1 ratio of 11.8% at June 2012.

The targeted capital levels as well as the ratios at June 2012 are summarised in the table below.

Capital adequacy position (unaudited)

	FirstRand Bank*		Regulatory minimum
	Actual	Target	
Capital adequacy ratio (%)	14.6	11.5 – 13.0	9.5**
Tier 1 ratio (%)	12.6	10.5	7.0
Core Tier 1 ratio (%)	11.8	9.0 – 10.5	5.25

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

Basel III

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

The SARB is currently drafting regulations incorporating the Basel III proposals. The second draft was released on 17 August 2012 for implementation on 1 January 2013. The Basel III impact on the Bank's Core Tier 1 ratio is expected to be minimal. There is, however, a more pronounced negative impact on the total capital adequacy ratio as the current non-cumulative non-redeemable (NCNR) preference share capital and subordinated debt instruments do not meet the new loss absorbency criteria. Given the transitional period for the implementation of Basel III, the Bank remains focused on optimising its capital base. The Basel III impact on the supply and demand of capital is discussed below.

The Bank continues to participate in the SARB's bi-annual quantitative impact studies to assess the impact of Basel III on capital adequacy ratios.

The BCBS introduced a simple, transparent non-risk based leverage ratio that is calibrated to act as a credible supplementary measure to the risk-based capital requirements. The SARB has proposed a minimum Tier 1 capital leverage ratio of 4%, which is higher than the BCBS's requirement of 3%. The Bank's current leverage ratio is well in excess of this requirement and therefore this does not introduce any constraints to the Bank.

Supply of capital – Tier 1

Tier 1 capitalisation ratios benefited from stronger internal capital generation through earnings. All profits were appropriated at June 2012.

The draft regulations allow for the inclusion of disclosable reserves (i.e. share-based payment and available-for-sale reserves) in the supply of capital. This is offset by additional regulatory deductions for the expected loss over provisions and the grandfathering of the NCNR preference share capital over a ten-year period.

Supply of capital – Tier 2

During the year, the Bank issued subordinated debt that meets the Basel III entry criteria (excluding loss absorbency). These instruments qualify for the grandfathering arrangements under Basel III. The Bank's old-style Tier 2 instruments also do not meet the loss absorbency criteria under Basel III and will be grandfathered.

Demand for capital

Risk weighted assets (RWA) movement for the year was driven mainly by the following:

- credit risk – the increase is due to credit risk recalibrations, volume growth and the 6% scalar applied to exposures on the advanced internal ratings-based (AIRB) approach (Basel 2.5 requirement); and
- market risk – the increase is primarily driven by the Basel 2.5 stressed VAR requirements and incremental risk charge, offset by decreased market risk positions.

Under Basel III, RWA are expected to increase further mainly due to the credit valuation adjustment for counterparty credit risk, as well as the requirement for capital on central clearing parties.

Capital adequacy

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

Composition of qualifying capital and capital ratios for the Bank

	FirstRand Bank*			
R million	**2012**	**%**	2011	%
Ordinary shareholders equity as per IFRS**	**45 956**		37 965	
Less: non-qualifying reserves**	**(364)**		(333)	
Cash flow reserve**	**753**		452	
Available-for-sale reserve**	**(695)**		(443)	
Share-based payment reserve**	**(422)**		(342)	
Ordinary shareholders equity qualifying as capital	**45 592**		37 632	
Ordinary share capital and share premium**	**15 308**		11 459	
Reserves	**30 284**		26 173	
Less: total impairments	**(2 526)**		(3 295)	
Excess of expected loss over eligible provisions (50%)	**(400)**		(907)	
First loss credit enhancements in respect of securitisation structures (50%)	**(45)**		(71)	
Qualifying capital in branches	**(1 732)**		(1 732)	
Intangibles	**(332)**		(268)	
Other impairments	**(17)**		(317)	
Total Core Tier 1 capital	**43 066**	**11.8**	34 337	11.4
NCNR preference share capital**	**3 000**		3 000	
Total Tier 1 capital	**46 066**	**12.6**	37 337	12.4
Upper Tier 2 instruments	**1 045**		1 042	
Tier 2 subordinated debt instruments	**6 392**		5 349	
Less: total impairments	**(445)**		(978)	
Excess of expected loss over eligible provisions (50%)	**(400)**		(907)	
First loss credit enhancements in respect of securitisation structures (50%)	**(45)**		(71)	
Total Tier 2 capital	**6 992**	**2.0**	5 413	1.8
Total qualifying capital and reserves	**53 058**	**14.6**	42 750	14.2

* *Reflects solo supervision, i.e FirstRand Bank excluding foreign branches.*
** *Audited.*

The table below provides more detail on the Bank's capital instruments.

Characteristics of capital instruments for the Bank

Capital type	Instrument	Nominal (million)	Actual (million)	Rate type	Maturity date**
Core Tier 1	Ordinary share capital and premium*	15 308	15 308		Perpetual
Other Tier 1	NCNR preference share capital*	3 000	3 000	Floating	Perpetual
Upper Tier 2	FRBC21	628	604	Fixed	21 Dec 2018
	FRBC22	440	441	Floating	21 Dec 2018
Lower Tier 2 (Subordinated debt)	FRB03	1 740	1 826	Fixed	15 Sept 2014
	FRB05	2 110	2 041	Fixed	21 Dec 2018
	FRB06	1 000	1 009	Floating	5 Nov 2012
	FRB07	300	301	Floating	6 Dec 2012
	FRB08	100	100	Floating	10 Jun 2016
	FRB09	100	100	Floating	10 Jun 2017
	FRB10	1 000	1 014	Floating	25 Jan 2017

* *Audited.*
** *Represents the call date of the instrument.*

Risk and capital management report continued

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

RWA and capital requirement

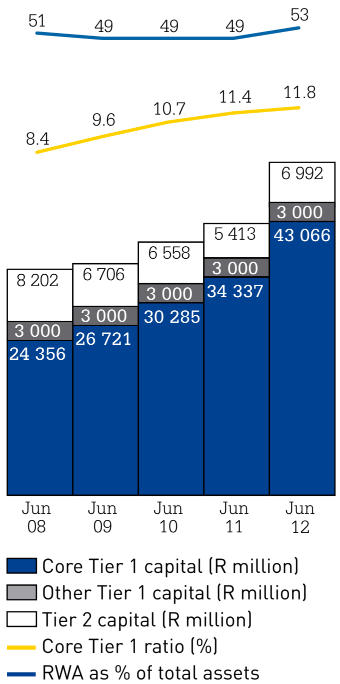
	FirstRand Bank*				
	June 2012				June 2011
	RWA				
R million	Advanced approach	Standardised approach	Total	Capital requirement#	RWA
Credit risk					
Corporate, banks and sovereigns	**108 719**	**–**	**108 719**	**10 328**	92 642
Small and medium enterprises (SMEs)	**34 134**	**–**	**34 134**	**3 243**	37 584
Residential mortgages	**52 224**	**–**	**52 224**	**4 961**	42 388
Qualifying revolving retail	**12 564**	**–**	**12 564**	**1 194**	9 003
Other retail	**55 311**	**–**	**55 311**	**5 255**	40 481
Securitisation exposure	**9 207**	**–**	**9 207**	**875**	4 580
Other	**–**	**–**	**–**	**–**	–
Total credit risk	**272 159**	**–**	**272 159**	**25 856**	226 678
Operational risk**	**54 099**	**–**	**54 099**	**5 139**	42 659
Market risk	**12 511**	**–**	**12 511**	**1 188**	7 016
Equity investment risk	**10 391**	**–**	**10 391**	**987**	10 460
Other assets	**–**	**15 275**	**15 275**	**1 451**	14 027
Total RWA	**349 160**	**15 275**	**364 435**	**34 621**	300 840
Pillar 1 (8%)				**29 154**	24 068
Pillar 2a (1.5%)				**5 467**	4 513
Total capital requirement				**34 621**	28 581

* *Reflects solo supervision, i.e. FirstRand Bank excluding foreign branches.*
** *Exposures subject to the basic indicator approach are included under the standardised method.*
# *Capital requirement calculated at 9.5% (Pillar 1 of 8% and Pillar 2a of 1.5%) of RWA.*

Historical overview of capital adequacy

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

Capital adequacy – FRB



CREDIT RISK

Introduction and objectives

Credit risk is managed as part of the broader balance sheet management process and is aligned with the Group's macroeconomic view. Activities that give rise to credit risk in the Group include:

- retail loans and advances;
- large corporate credit risk exposures from term-lending activities in the RMB Investment Bank division (IBD), short-term exposures from overdraft and working capital facilities in Global Transactional Services (GTS) corporate and transactional banking, and short-term money market exposures in RMB's Fixed Income, Currency and Commodity division (FICC); and
- exposure from financial market activities such as cash placements with other banks and exposure from positive mark-to-market movements on derivatives and reverse repos.

Credit risk management is split into three distinct portfolios, namely, retail credit, commercial credit and wholesale credit, which are aligned to customer profiles. Credit risk management includes credit origination strategy, risk appetite, risk quantification and measurement, collection and recovery of delinquent accounts, and extends across the franchises. Activities that give rise to credit risk in each of the portfolios are described below.

Retail credit

Retail credit in FNB comprises three main segments; wealth, personal banking (the consumer segment) and smart solutions (for customers with income below R100 000 per annum). These segments offer similar products but are segmented according to customer income. Retail credit in WesBank is not segmented by customer income.

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

Unsecured products in both FNB and WesBank include:

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

Commercial credit

The commercial credit portfolio strategy is focused on providing tailored credit products to commercial customers. These credit products are originated under both of the FNB (primary relationship owner) and WesBank (vehicle and asset-based finance) brands. These products include:

- revolving overdraft facilities linked to transactional demand deposit accounts;
- traditional VAF and fleet petrol cards;
- dealer funding solutions to selective vehicle dealerships secured by trade stock;
- guarantees and letters of credit to assist in the facilitation of transactions;
- forward exchange contracts and interest rate swaps;
- secured term loans;
- property finance includes owner-occupied and multi-tenanted properties as well as finance for residential developments secured by the properties;
- leveraged finance provides specialised business financing to fund, amongst others, business acquisitions, management buy-outs, management buy-ins, BEE transactions and balance sheet restructuring over a maximum period of five years; and
- working capital facilities secured against debtors books and selective invoice discounting.

Wholesale credit

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

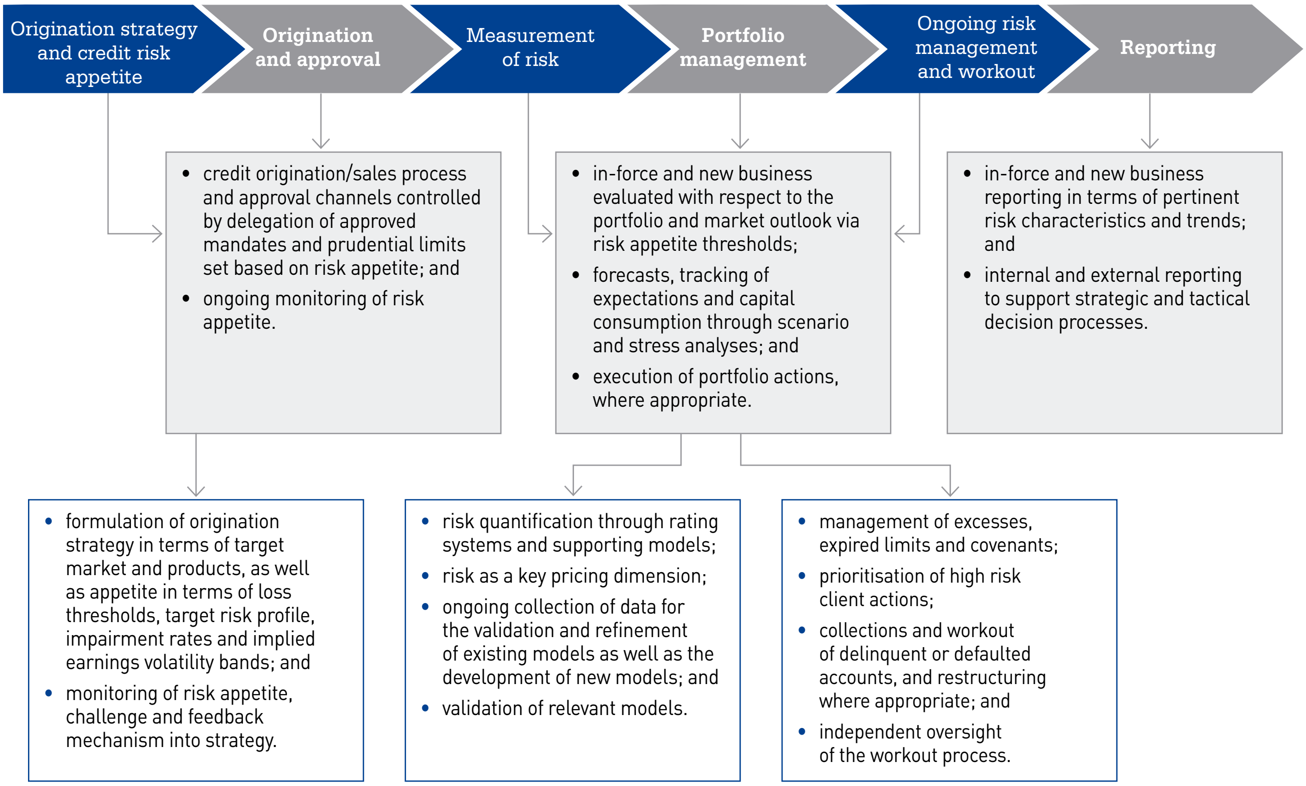
- structured asset finance for client funding requirements in local and cross-border strategic African jurisdictions;
- funding of corporate businesses, government and parastatals through debt capital market instruments;
- all inclusive financing packages for investment banking clients;
- structuring, raising and underwriting of equity capital and structured equity solutions;
- infrastructure and project finance;
- leveraged finance;
- real estate investment banking; and
- resource finance.

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

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

The scope of credit risk identification and management practices across the Group spans the entire credit value chain, as illustrated in the chart below.

Scope of credit risk management and identification practices



Organisational structure and governance

The RCC committee and franchise excos regularly receive and review reports on the adequacy and robustness of credit risk identification, management and control processes, as well as on the current and projected credit risk profile across the Group. The credit risk management governance structures, related roles and responsibilities as well as lines of accountability are set out in the credit risk management framework (CRMF). Approved by the RCC committee, the CRMF is a policy of the Board and a subframework of the BPRMF (see page 15).

The credit-focused committees, namely the Large exposures committee (a board committee) and the FirstRand Credit risk management committee (subcommittee of the RCC committee) support the RCC committee in its tasks. The Model risk and validation committee (MRVC, a subcommittee of the RCC committee), also supports the RCC committee in tasks relating specifically to models. For a description of the roles and responsibilities of these committees refer to the *Governance structure* on page 18.

The Group Credit Risk Management (GCRM) function

The GCRM function in ERM provides independent oversight of credit risk management practices in the deployed risk management functions to ensure an effective credit risk management process. It owns the CRMF and related policies and monitors the implementation of credit risk-related frameworks. In addition, its responsibilities include:

- active participation in the formulation of credit and origination strategies, in particular with a view to the implementation and management of the Group's credit risk appetite across business units;
- aggregation of credit risk-related stress testing and scenario analysis;
- monitoring the credit components of the risk appetite framework;
- monitoring and reporting the credit risk profile and credit performance;
- aggregation and quantification of credit economic capital, including the credit risk assessment employed for ICAAP;
- reviewing all credit rating systems and independent revalidation of credit rating systems;
- management of relationships with external stakeholders such as relevant regulators with respect to credit matters;
- oversight of the credit impairment process;
- consolidated regulatory reporting; and
- the assessment, analysis and reporting of impairments and consolidated credit risk reporting to stakeholders such as the RCC committee.

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

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

Assessment and management (audited)

Calculation of internal ratings and rating process

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

Credit risk models are widely used in a number of activities such as the assessment of capital requirements, pricing, impairment calculations and stress testing of the portfolio. All of these models are built on a number of client and facility rating models, in line with Basel AIRB approach requirements and the Bank's model building framework. The Bank was granted regulatory approval under Basel for the AIRB approach.

The models are used for the internal assessment of the following three primary credit risk components discussed in the following sections:

- probability of default (PD);
- exposure at default (EAD); and
- loss given default (LGD).

Management of the credit portfolio is reliant on these three credit risk measures. PD, EAD and LGD are inputs into the portfolio and Group-level credit risk assessment where the measures are combined with estimates of correlations between individual counterparties, industries and portfolios to reflect diversification benefits across the portfolio of credit risks.

Probability of default

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

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

This definition of default is applied consistently across all credit portfolios as well as in the recognition of non-performing loans (NPLs) for accounting purposes.

For communication and reporting purposes, the Group employs a granular, 100-point, master-rating scale, which has been mapped to the continuum of default probabilities, as illustrated in the table below.

Mapping of FirstRand (FR) grades to rating agency scales (unaudited)

FR rating	Midpoint PD	International scale mapping*
FR 1 – 12	0.04%	AAA, AA, A
FR 13 – 25	0.27%	BBB
FR 26 – 32	0.77%	BB+, BB
FR 33 – 37	1.34%	BB-
FR 38 – 48	2.15%	B+
FR 49 – 60	3.53%	B+
FR 61 – 83	6.74%	B
FR 84 – 91	15.02%	B-
FR 92 – 94	60.46%	Below B-
FR 95 – 100	100%	D (defaulted)

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

FR rating of 1 references to the lowest PD and a FR rating of 100 to the highest. External ratings have been mapped to the master-rating scale for reporting purposes.

In line with international best practice, the Group distinguishes between the two measures of PD, both used for the management of exposure to credit risk:

- **Through-the-cycle** (TTC) PD measures reflect long term, average default expectations over the course of the economic cycle. TTC PDs are an input to economic and regulatory capital calculations.
- **Point-in-time** (PIT) PD measures reflect default expectations in the current economic environment and thus tend to be more volatile than TTC PDs. PIT PDs are used in the calculation of impairments for accounting purposes.

Exposure at default

The EAD of a particular facility is defined as the expected exposure to a counterparty through a facility, should the counterparty default over the next year. It reflects commitments made and facilities granted that have not been utilised and that may be drawn over the time period under consideration (i.e. off-balance sheet exposures). It is also a measure of potential future exposure on derivative positions.

Tailored to the respective portfolios and products employed, a number of EAD models are in use across the Group. These have been developed internally and are calibrated to the historical default experience.

Loss given default

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

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

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

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

Expected loss (EL)

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

Specialised lending

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

Where the Group finances an entity created to finance and/or operate physical assets, the slotting approach is applied where:

- the primary source of repayment of the obligations is the income generated by the assets (i.e. specialised lending); and
- the PD and LGD cannot be determined.

Rating process

A consistent rating process is employed across the Group, differentiated by the type of counterparty and the type of model employed for rating purposes. For example, retail portfolios are segmented into homogeneous pools in an automated process. Based on the internal product level data, PDs are then estimated (and continuously updated) for each pool. The following table summarises the processes and approaches employed and provides an overview of the types of exposures within each of the portfolios.

Credit portfolio rating process

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

<table>
<tr><th>Portfolio and type of exposures</th><th>Description of rating system</th></tr>
<tr><td>Specialised lending portfolios (Wholesale: FNB Corporate, RMB and FNB Commercial)

Exposures to private-sector counterparties for the financing of income-producing real estate.</td><td>The default definitions applied in the rating systems are aligned to Basel requirements.
Rating process:
• the rating system is based on hybrid models using a combination of statistical cash flow simulation models and qualitative scorecards calibrated to a combination of internal data and external benchmarks;
• the rating assessment is reviewed by the Wholesale credit committee and the rating (as well as the associated PD) is approved by this committee; and
• no overrides of the ratings or the PDs are possible after approval by this committee.</td></tr>
<tr><td>Commercial portfolio (SME corporate and SME retail counterparties in FNB Commercial and WesBank)

Exposures to SME clients.

A wide range of products give rise to credit exposure, including loan facilities, contingent products and term lending products.</td><td>The default definitions applied in the rating systems are aligned to Basel requirements.
SME retail rating process:
• the SME retail portfolio is segmented into homogeneous pools and subpools through an automated scoring process using statistical models that incorporate product type, customer behaviour and delinquency status;
• PDs are estimated for each subpool based on internal product level history associated with the respective homogeneous pools and subpools; and
• LGD and EAD estimates are applied on a portfolio level, estimated from internal historical default and recovery experience.
SME corporate rating process:
• PD: Counterparties are scored using Moody's RiskCalc™, the output of which is calibrated to internal historical default data;
• LGD: Recovery rates are largely determined by collateral type and these have been set with reference to internal historical loss data, external data and Basel guidelines; and
• EAD: Portfolio level credit conversion factors are estimated on the basis of the Group's internal historical experience and benchmarked against international studies.</td></tr>
<tr><td>Residential mortgages (Retail portfolios in FNB HomeLoans, RMB Private Bank exposures and mortgage exposures in the Mass segment)

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

Exposures to individuals providing a revolving limit through a credit card or overdraft facility.</td></tr>
<tr><td>Other retail exposures (Retail portfolios in FNB Personal loans, Smart products and WesBank Retail auto finance and personal loans)</td></tr>
</table>

Model validation

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

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

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

Credit risk mitigation (audited)

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

In addition, various instruments are used to reduce exposure in the case of a counterparty default. These include, amongst others, financial or other collateral, netting agreements, guarantees and credit derivatives. The type of security used depends on the portfolio, product or customer segment. For example:

- mortgages and instalment sale finance are secured by the assets financed;
- personal loans, overdrafts and credit card exposures are unsecured or secured by guarantees and suretyships;
- FNB Commercial credit facilities are secured by the assets of the SME counterparties and commercial property transactions are supported by the financed property and associated cash flows;
- working capital facilities in FNB Corporate are often not secured by claims on specific assets, but risk in structured facilities granted by RMB is mitigated by financial or other collateral such as guarantees or credit derivatives; and
- credit risk in RMB's FICC business is mitigated through the use of netting agreements and financial collateral.

The Group employs strict policies governing the valuation and management of collateral across all business areas. Collateral is managed internally to ensure that title is retained over collateral taken over the life of the transaction. All items of collateral are valued at inception of a transaction and at various points throughout the life of the transaction, either through physical inspection or indexation methods, as appropriate. For wholesale and commercial portfolios, valuations are reassessed as part of the annual facility review. For mortgage portfolios, collateral valuations are updated on an ongoing basis through statistical indexation models. For all retail portfolios, collateral is also revalued by physical inspections in the event of default and at the commencement of the recovery process.

Management of concentration risk (audited)

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

Wholesale credit portfolio:

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

Commercial portfolios:

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

Monitoring of weak exposures (audited)

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

Wholesale credit portfolios:

- watch lists of high risk clients;
- specific and detailed action plans for each client are actively monitored and updated at least monthly;
- restructuring of facilities where appropriate;
- use of credit derivatives;
- efficient workout; and
- realisation of collateral value in the event of default.

Retail credit portfolios:

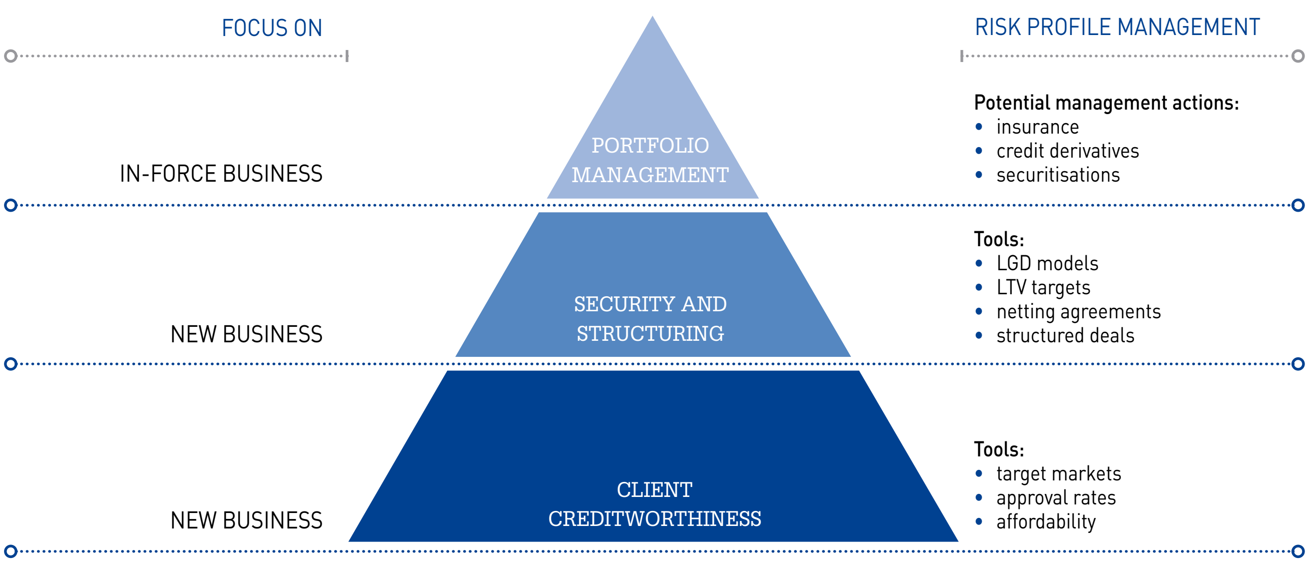
- monitoring on a (homogeneous) portfolio basis;
- restructuring of weak exposures to increase the projected realised value;
- reduction or removal of undrawn facilities in areas such as HomeLoans and Card; and
- revaluation of properties before approval of additional facilities.

Commercial and other portfolios of clients that fall between the corporate and retail segments are treated in a hybrid manner, dependent on the number of exposures and the size of individual transactions. Reports on the overall quality of the portfolio are monitored closely at a business unit as well as at a Group level.

Use of credit risk tools and measures (audited)

Credit risk measures are used in a large number of business processes, including pricing and setting impairments, in determining capitalisation levels and business strategy, risk appetite and in establishing appropriate return targets. Credit risk tools and measures are used extensively in the determination of its current credit risk profile and credit risk appetite (see chart below).

Use of credit risk tools and measures



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

Use of credit measures in the credit lifecycle

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

Risk and capital management report continued

Credit risk portfolio

Credit strategy is managed as part of the broader balance sheet management process and is aligned with the Group's view of trends in the wider economy. The current origination strategies are resulting in improving credit quality across all retail portfolios (as evidenced in the vintage analyses for the large retail portfolios on page 62).

Total loans and advances grew strongly during the financial year. Although corporate activity is still subdued, growth in investment banking and commercial loans to the property and agriculture sectors showed improvement. Retail advances benefited from strong growth in the vehicle asset finance (VAF) and unsecured portfolios. Growth in the Africa book is consistent and steady.

The level of NPLs has been trending downwards since the peak in June 2009. Facilitated by the favourable credit environment, incidences of defaults have continued to decline in the retail book. Overall the corporate portfolio experienced a slight decline in NPLs despite an uptick in the investment banking book. Retail NPLs as a percentage of advances continued to decline, however, increases in some unsecured portfolios have materialised, as expected.

Retail credit portfolios

The VAF book growth was particularly robust. Residential mortgages growth was low with a strong focus on low and medium risk counter-parties and appropriate loan-to-value ratios. The strong growth recorded in the unsecured lending portfolios was within the defined credit risk appetite. The most pronounced shifts occurred in personal banking where both overdrafts and loans increased substantially from previous low bases.

The Bank's strategies to reduce NPLs continued to yield favourable results. The reduction in NPLs is driven by the slower inflow into NPLs in FNB HomeLoans. Increases in NPLs in most of the unsecured portfolios have been recorded. This is in line with expectations and risk appetite and has been appropriately priced for.

The decreased impairment charge in the retail secured portfolios was supported by the sustained low interest rates, reductions in NPL inflows in FNB HomeLoans and by post write-off recoveries. The retail unsecured portfolios produced increased impairments compared to June 2011 with the exception of FNB Card where the charge was significantly reduced by post write-off recoveries.

Corporate credit portfolios

Strong growth in the RMB core advances book is due to investment banking related lending. Growth in the FNB Commercial portfolio is attributed mainly to the property term loans and agriculture portfolios.

NPLs in the corporate portfolio declined modestly over the past year, reflecting a reduction in NPLs in the FNB Commercial portfolio, however, RMB's NPLs increased. Impairment charges also showed signs of improvement. Significant reductions in impairment charges were experienced in FNB Commercial and WesBank Corporate compared to the previous June.

Credit assets (audited)

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

Credit assets by type and segment

R million	2012	2011
Cash and short-term funds	**27 347**	24 843
Money at call and short notice	**1 672**	1 100
Balances with and guaranteed by central banks	**12 421**	14 479
Balances with other banks	**13 254**	9 264
Gross advances	**490 966**	436 645
FNB*	**220 615**	203 341
FNB Retail	**184 969**	172 063
FNB Commercial**	**35 646**	31 278
WesBank	**110 390**	98 009
RMB*	**153 632**	126 126
GTS*	**2 605**	2 593
Other	**3 724**	6 576
Derivatives	**52 392**	36 666
Debt investment securities (excluding non-recourse investments)	**73 969**	78 970
Loans due by holding company and fellow subsidiaries	**23 307**	19 234
Accounts receivable	**3 301**	2 744
Credit risk not recognised on the balance sheet	**98 040**	91 116
Guarantees	**21 446**	24 901
Acceptances	**293**	300
Letters of credit	**7 301**	6 063
Irrevocable commitments	**64 872**	58 438
Credit derivatives	**4 128**	1 414
Total	**769 322**	690 218

* *Certain portfolios have been restated to reflect the current segmentation of the business.*
** *Includes public sector.*

Credit quality (audited)

Advances are considered past due in the following circumstances:

- loans with a specific expiry date (for example term loans) and consumer loans repayable by regular instalments (for example mortgage loans and personal loans) are treated as overdue where one full instalment is in arrears for one day or more and remains unpaid as at the reporting date; or
- loans payable on demand (for example overdrafts) are treated as overdue where a demand for repayment was served on the borrower but repayment has not been made in accordance with the stipulated requirements.

In these instances, the full outstanding amount is considered overdue even if part is not yet due.

A past due analysis is performed for advances with specific expiry or instalment repayment dates. The analysis is not applicable to overdraft products or products where no specific due date is determined. The level of risk on these types of products is assessed and reported with reference to the counterparty ratings of the exposures.

The following tables provide the age analysis of loans and advances for the Bank.

Age analysis of advances

	2012					
			Past due but not impaired			
R million	Neither past due nor impaired	Re-negotiated but current	One instalment past due	Two instalments past due	Impaired	Total
FNB Retail	170 832	288	2 603	1 306	9 940	184 969
FNB Commercial*	33 926	–	38	17	1 665	35 646
FNB	204 758	288	2 641	1 323	11 605	220 615
WesBank	103 011	–	2 461	893	4 025	110 390
RMB**	152 223	–	147	17	1 245	153 632
GTS	2 596	–	–	–	9	2 605
Other	3 724	–	–	–	–	3 724
Total	**466 312**	**288**	**5 249**	**2 233**	**16 884**	**490 966**

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

R million	2011					
			Past due but not impaired#			
	Neither past due nor impaired	Re-negotiated but current	One instalment past due	Two instalments past due	Impaired	Total
FNB Retail	151 184	475	7 923	1 331	11 150	172 063
FNB Commercial*	29 111	–	270	31	1 866	31 278
FNB**	180 295	475	8 193	1 362	13 016	203 341
WesBank	90 010	–	3 669	23	4 307	98 009
RMB**	122 033	3 048	–	–	1 045	126 126
GTS**	2 575	–	–	–	18	2 593
Other	6 576	–	–	–	–	6 576
Total	401 489	3 523	11 862	1 385	18 386	436 645

* *Includes public sector.*
** *Certain portfolios have been restated to reflect the current segmentation of the business. Impaired advances for RMB are net of cumulative credit fair value adjustments.*
\# *The past due but not impaired ageing analysis has changed from a day count to an instalment count classification in line with the provisioning methodology.*

Renegotiated advances (audited)

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

Renegotiated advances are advances where, due to deterioration in the counterparty's financial condition, the Bank granted a concession where the original terms and conditions of the facility were amended and the counterparty is within the new terms of the advance.

Advances are only classified as renegotiated if the terms of the renegotiated contract have not yet expired and remain classified as such until the terms of the renegotiated contract expire. Where the advances are reclassified as neither past due nor impaired the adherence to the new terms and conditions is closely monitored. Renegotiated advances exclude advances which are extended or renewed as part of the ordinary course of business on similar terms and conditions as the original advances.

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

As part of the risk management and recoveries approach, the Bank enters into arrangements with clients where concessions are made on payment terms (for example a reduction in payments for a specified period, changes in the payment profile or debt counselling payment plans). There are formally defined eligibility criteria appropriate for individual products to determine when clients are eligible for such arrangements. These accounts are monitored in a separate portfolio in each product segment and the performance is tracked for management and impairment purposes.

Past due but not impaired (audited)

The classification of advances as past due but not impaired follows the standards set out in applicable accounting policies. Advances past due but not impaired in the tables above include accounts in arrears by one or two full repayments. For the financial year ended June 2011, exposures to technical and partial arrears of R4.1 billion were classified as being one instalment in arrears. In this disclosure, these now form part of the one instalment past due category. However, for the financial year ended 30 June 2012, R5.4 billion in technical and partial arrear exposures have been classified as neither past due nor impaired in accordance with FirstRand provisioning methodology. These balances are primarily driven by retail exposures.

Credit quality of performing advances

	2012						
	Total neither past due nor impaired*	**FNB**					
R million		**Retail**	**Commercial****	**WesBank**	**RMB**	**GTS**	**Other**
FR 1 – 25	**111 661**	**28 958**	**1 625**	**2 687**	**76 707**	**444**	**1 240**
FR 26 – 91	**340 056**	**134 404**	**29 870**	**97 950**	**73 222**	**2 152**	**2 458**
Above FR 92	**14 883**	**7 758**	**2 431**	**2 374**	**2 294**	**–**	**26**
Total	**466 600**	**171 120**	**33 926**	**103 011**	**152 223**	**2 596**	**3 724**

* *For 2012 total neither past due nor impaired advances include renegotiated but current advances.*
** *Includes public sector.*

	2011						
	Total neither past due nor impaired*	FNB*					
R million		Retail	Commercial**	WesBank	RMB*	GTS*	Other
FR 1 – 25	89 313	5 156	385	3 330	74 476	179	5 787
FR 26 – 91	291 026	138 201	25 724	78 608	45 308	2 396	789
Above FR 92	21 150	7 827	3 002	8 072	2 249	–	–
Total	401 489	151 184	29 111	90 010	122 033	2 575	6 576

* *Certain portfolios have been restated to reflect the current segmentation of the business.*
** *Includes public sector.*

Both prior and subsequent to the implementation of recalibrations, the risk profile improved and PDs decreased consistently, due to positive risk migration, with the lower interest rate environment positively impacting the existing portfolio. In addition, stricter lending criteria resulted in higher quality new business being written.

Monthly trend analyses from July 2011 to June 2012 show a once-off increase in PDs, due to the recalibrations, thereafter a consistent decrease due to the positive risk migration.

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

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

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

** Excludes non-recourse investments.*

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

* *Excludes non-recourse investments.*

Impairment of financial assets and NPLs (audited)

Refer to the policy for impairment of financial assets in the accounting policy section on page 106 and to note 12 Impairment of advances on page 152 of the annual financial statements for the analysis of the movement in the impairment of advances and NPLs.

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

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

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

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

During the year under review a special impairment of R705 million was included in bad debts for unrecovered amounts in FNB's merchant acquiring business. A detailed discussion of the special impairment is included under the heading Boundary event in the *Operational risk section* on page 92.

Fair value sensitivity of wholesale advances due to credit risk

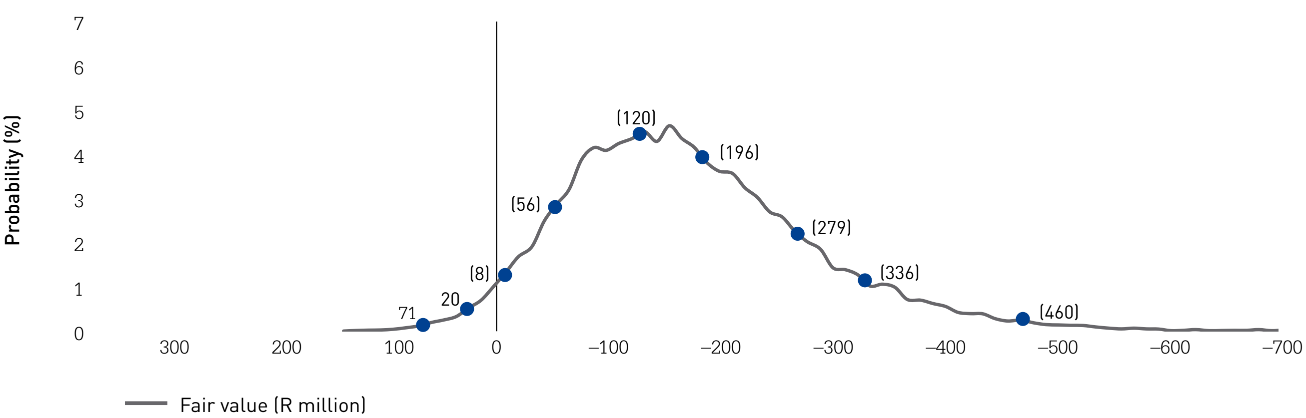
The Investment Banking division within RMB recognises a significant portion of the wholesale advances at fair value through profit or loss. The fair value adjustments made to these advances directly impact the income statement and the value of advances. For risk management purposes a migration matrix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

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

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

The graph below sets out the fair value impact based on actual observed rating migrations from Standard & Poor's over the long term. Based on this scenario the average fair value impact is a loss of approximately R120 million. The fair value at the 75th percentile (i.e. there is a probability of 25% to exceed this value) of the distribution is a loss of approximately R196 million.

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



Geographic and industry concentration risk (audited)

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

Geographical split by exposure 2012

Geographical split by exposure 2011

Industry split by exposure 2012

Industry split by exposure 2011

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

Concentration of significant credit exposure (audited)

	2012								
R million	**South Africa**	**Other Africa**	**United Kingdom**	**Ireland**	**Other Europe**	**North America**	**South America**	**Other#**	**Total**
Advances	**468 856**	**4 667**	**10 823**	**–**	**2 230**	**65**	**95**	**4 230**	**490 966**
Derivatives	**33 635**	**60**	**11 841**	**–**	**5 527**	**1 241**	**–**	**88**	**52 392**
Debt investment securities*	**67 284**	**93**	**2 704**	**–**	**–**	**1 636**	**–**	**2 252**	**73 969**
Guarantees, acceptances and letters of credit**	**24 326**	**3 143**	**39**	**–**	**529**	**7**	**2**	**994**	**29 040**
Irrevocable commitments**	**63 073**	**465**	**814**	**–**	**148**	**66**	**–**	**306**	**64 872**

** Excludes non-recourse investments.*
*** Significant off-balance sheet exposures.*
 # Other includes Australasia and Asia.

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

** Excludes non-recourse investments.*
*** Significant off-balance sheet exposures.*
 # Other includes Australasia and Asia.

Average advances per major risk type (unaudited)

R million	**2012**	2011
Retail credit	**315 417**	289 963
Wholesale credit	**146 197**	132 274
Commercial credit	**33 299**	29 263

Basel disclosure

Credit rating systems and processes

The Bank uses the AIRB approach for the exposures of the Bank and the standardised approach for all other legal entities and offshore branches in the Group for regulatory capital purposes. Due to the relatively smaller size of the subsidiaries and the scarcity of relevant data, the Group plans to continue using the standardised approach for the foreseeable future for these portfolios.

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

Credit exposure by type, segment and Basel approach

		AIRB	Standardised approach
R million	2012	FRB(SA)	Other subsidiaries
Cash and short-term funds	**27 347**	27 195	152
– Money at call and short notice	**1 672**	1 664	8
– Balances with and guaranteed by central banks	**12 421**	12 396	25
– Balances with other banks	**13 254**	13 135	119
Gross advances	**490 966**	485 183	5 783
FNB	**220 615**	220 540	75
– FNB Retail	**184 969**	184 894	75
– FNB Commercial*	**35 646**	35 646	–
WesBank	**110 390**	106 088	4 302
RMB	**153 632**	152 226	1 406
GTS	**2 605**	2 605	–
Other	**3 724**	3 724	–
Derivatives	**52 392**	52 237	155
Debt investment securities (excludes non-recourse investments)	**73 969**	70 831	3 138
Loans due by holding company and fellow subsidiaries	**23 307**	22 954	353
Accounts receivable	**3 301**	3 209	92
Credit risk not recognised on the balance sheet	**98 040**	95 015	3 025
Guarantees	**21 446**	20 029	1 417
Acceptances	**293**	293	–
Letters of credit	**7 301**	7 295	6
Irrevocable commitments	**64 872**	63 508	1 364
Credit derivatives	**4 128**	3 890	238
Total	**769 322**	756 624	12 698

* *Includes public sector.*

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

PD, EAD and LGD profiles

A summary of credit risk parameters as reported for regulatory capital purposes is shown below for each significant AIRB asset class. The parameters reflect through-the-cycle PDs and downturn LGDs. The Bank uses EAD weighted PDs based on the FirstRand master-rating scale (see page 36) which are then mapped to Basel rating buckets (1-25) for regulatory reporting purposes.

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

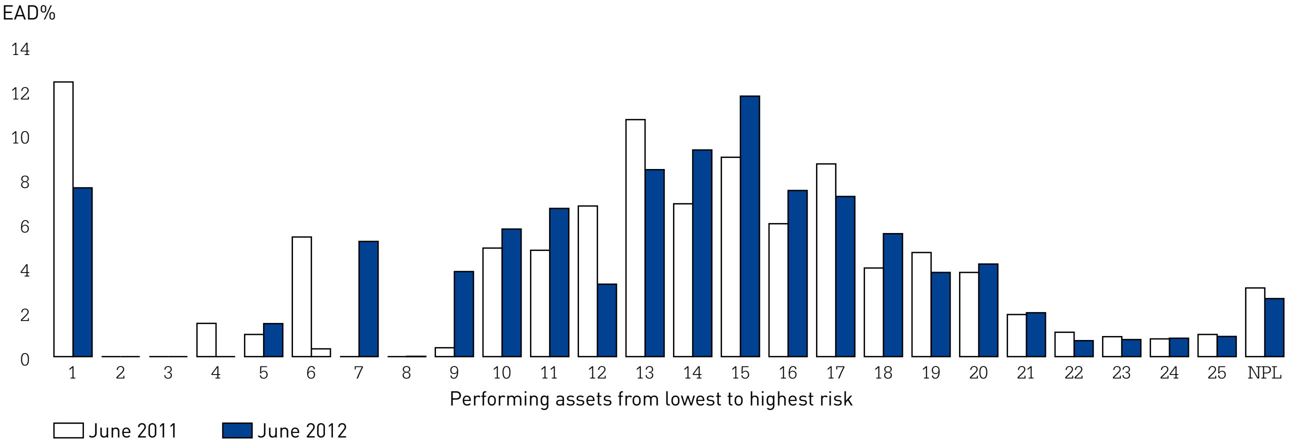
Year-on-year trends will be impacted by the risk migration in the existing book (reflecting changes in the economic environment), quality of new business originated and any model recalibrations implemented during the course of the year.

The majority of the retail portfolios exhibited significant positive risk migration for the period under review. This was, however, negated by model recalibrations implemented during the financial year, incorporating further defaults after the peak of the economic downturn.

The performance of the credit portfolio was in line with that of the industry over the period under review.

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

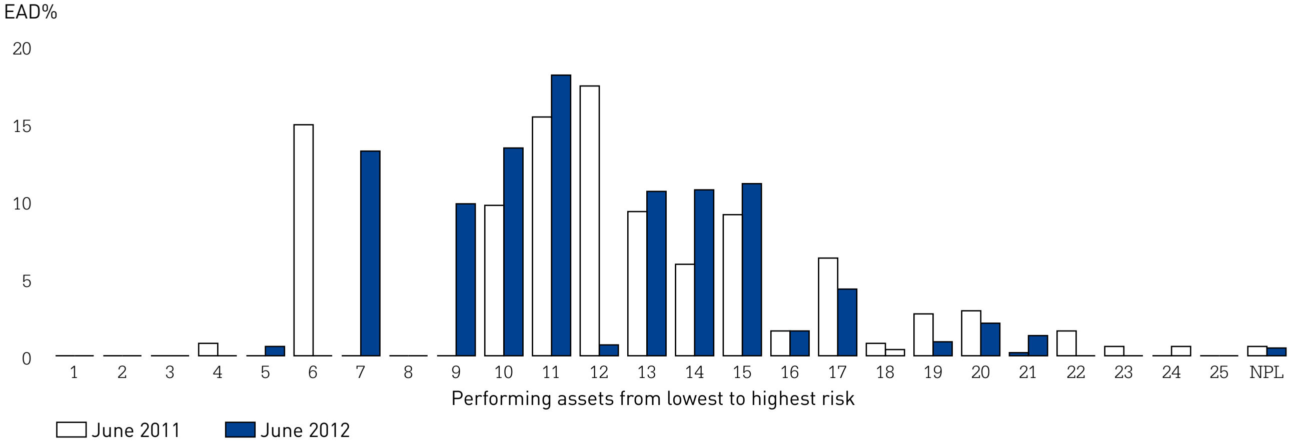
Risk profile for FRB: EAD% distribution per Basel risk buckets



Average performing PD %	3.20%	Average total book PD%	6.16%
Average performing LGD%	28.42%	Average total book LGD%	28.72%
Performing book EL/EAD	0.91%	Total book EL/EAD	1.77%

The distributions above are reflective of PDs on the entire FRB book as at June 2011 and June 2012. The movements are analysed per subportfolio under the following graphs.

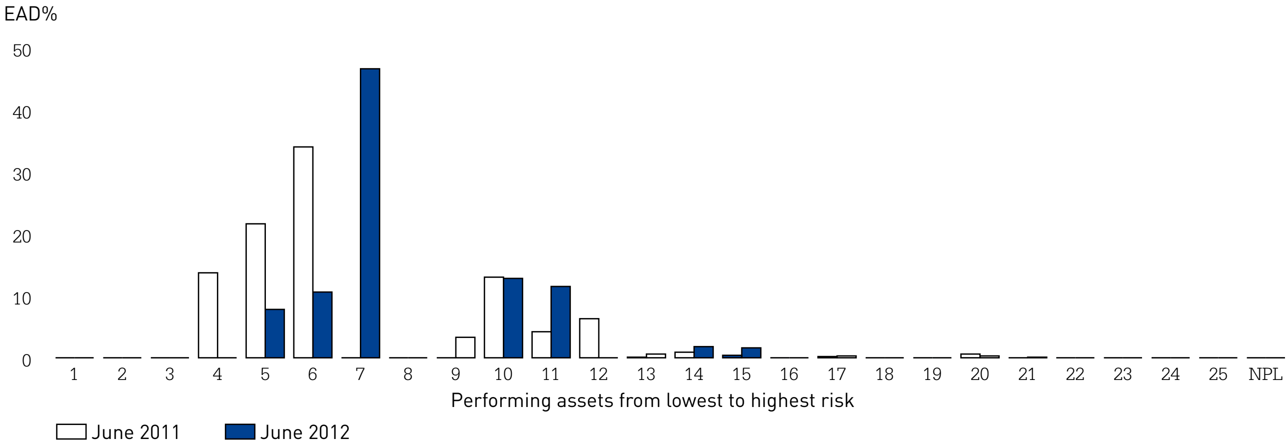
Risk profile for corporate exposures: EAD% distribution per Basel risk buckets



Average performing PD %	1.35%	Average total book PD%	1.87%
Average performing LGD%	35.13%	Average total book LGD%	35.23%
Performing book EL/EAD	0.47%	Total book EL/EAD	0.66%

There are a number of significant movements observed on the corporate portfolio. The reason driving most of this is the recalibration of PDs. As a result, many counterparties have been reallocated to different PD bands. In addition, through the re-rating process, a number of counterparty ratings have changed.

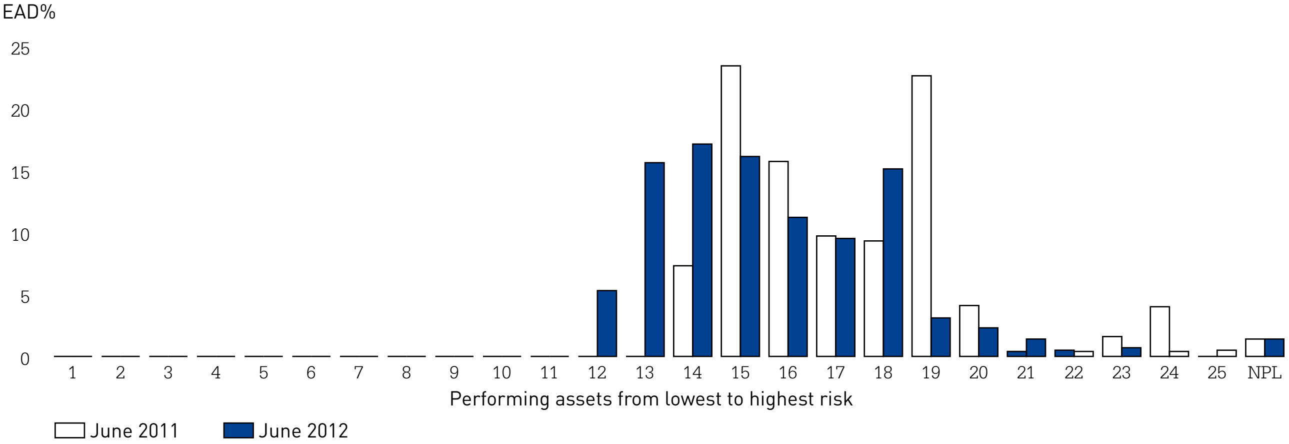
Risk profile for banks exposures: EAD% distribution per Basel risk buckets



Average performing PD %	0.21%	Average total book PD%	0.21%
Average performing LGD%	31.92%	Average total book LGD%	31.92%
Performing book EL/EAD	0.07%	Total book EL/EAD	0.07%

As in the corporate portfolio, there are a number of significant movements observed on the banks portfolio. The reason driving most of this is the recalibration of PDs for this portfolio. As a result, many counterparties will have been reallocated to different PD bands. In addition, through the re-rating process a number of counterparty ratings will have changed.

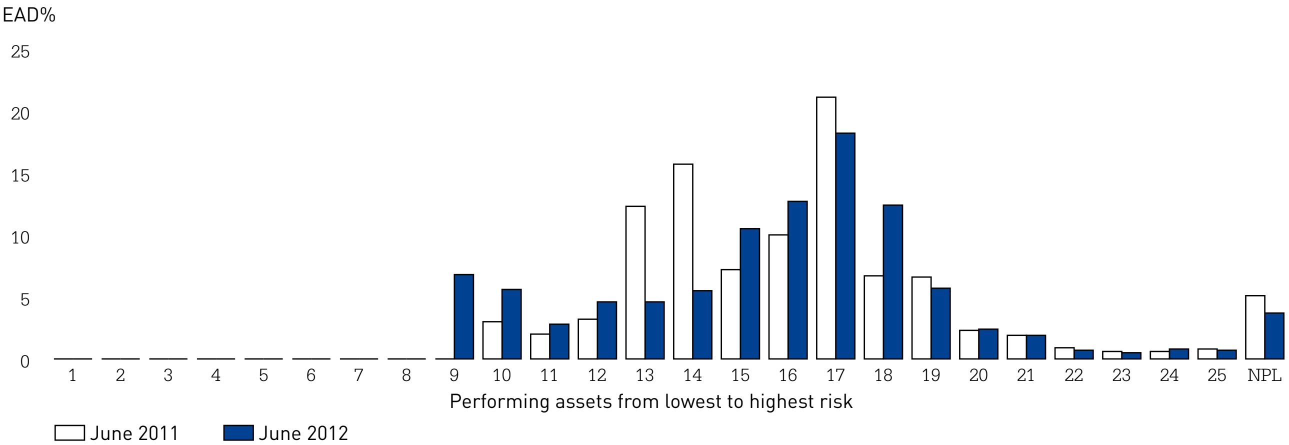
Risk profile for SME corporate exposures: EAD% distribution per Basel risk buckets



Average performing PD %	2.48%	Average total book PD%	5.39%
Average performing LGD%	28.24%	Average total book LGD%	28.61%
Performing book EL/EAD	0.70%	Total book EL/EAD	1.54%

The movements observed on the SME corporate portfolio are as a result of a recalibration of the PD model. The previous model was too conservative with actual defaults consistently lower than expected defaults, therefore, the recalibration provides lower PDs, which are more in line with expectations.

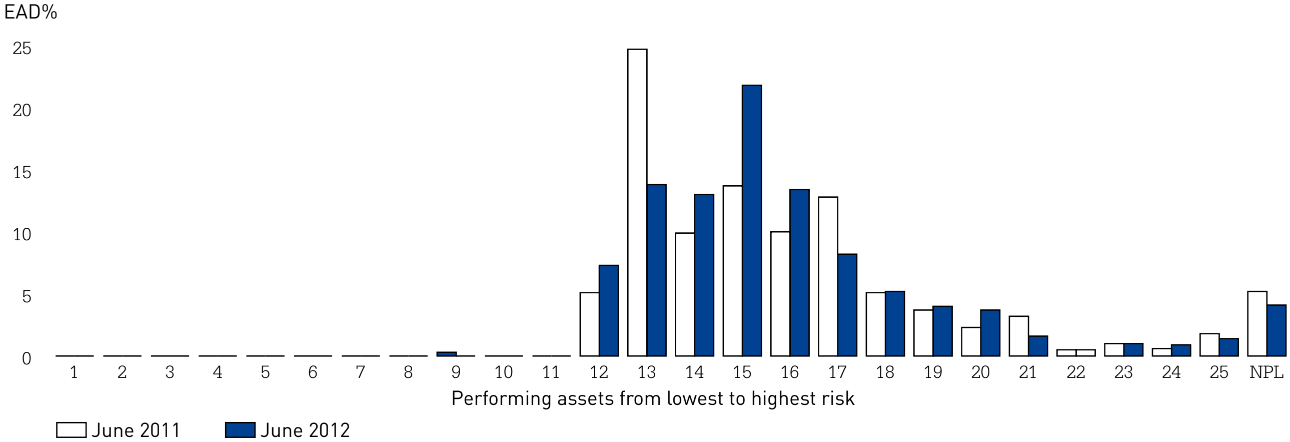
Risk profile for SME retail exposures: EAD% distribution per Basel risk buckets



Average performing PD %	4.37%	Average total book PD%	11.30%
Average performing LGD%	18.97%	Average total book LGD%	19.64%
Performing book EL/EAD	0.83%	Total book EL/EAD	2.22%

The distributions above indicate no significant movements in PD from June 2011 to June 2012.

Risk profile for retail mortgage exposures: EAD% distribution per Basel risk buckets

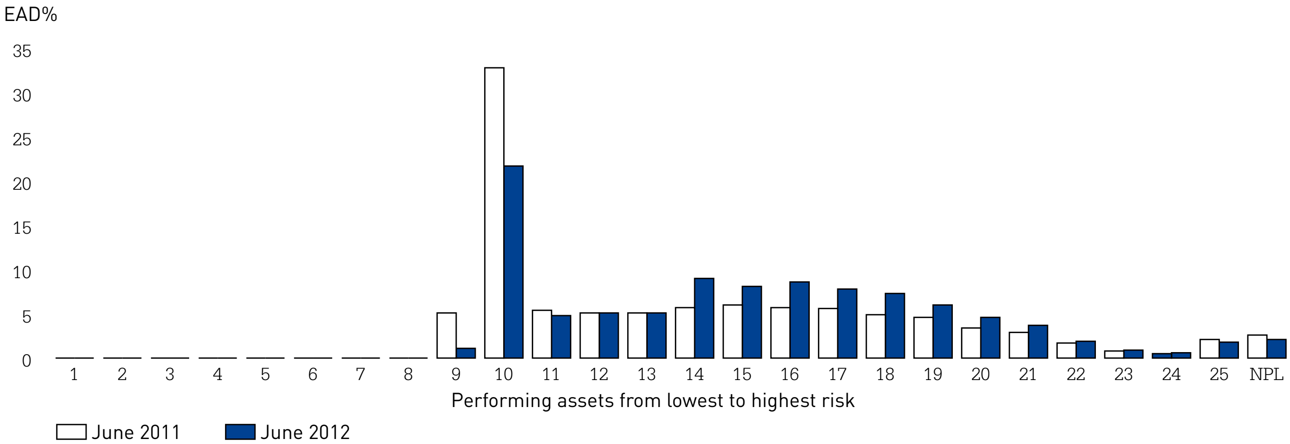


Average performing PD %	3.53%	Average total book PD%	9.38%
Average performing LGD%	14.65%	Average total book LGD%	14.94%
Performing book EL/EAD	0.52%	Total book EL/EAD	1.40%

The distributions above indicate no significant movements in PD from June 2011 to June 2012. This is after improvements in PDs over the previous year as a result of:

- a low interest rate environment positively impacting the existing portfolio; and
- stricter lending criteria resulting in higher quality new business being written, both of which continue to reflect in the PD distribution.

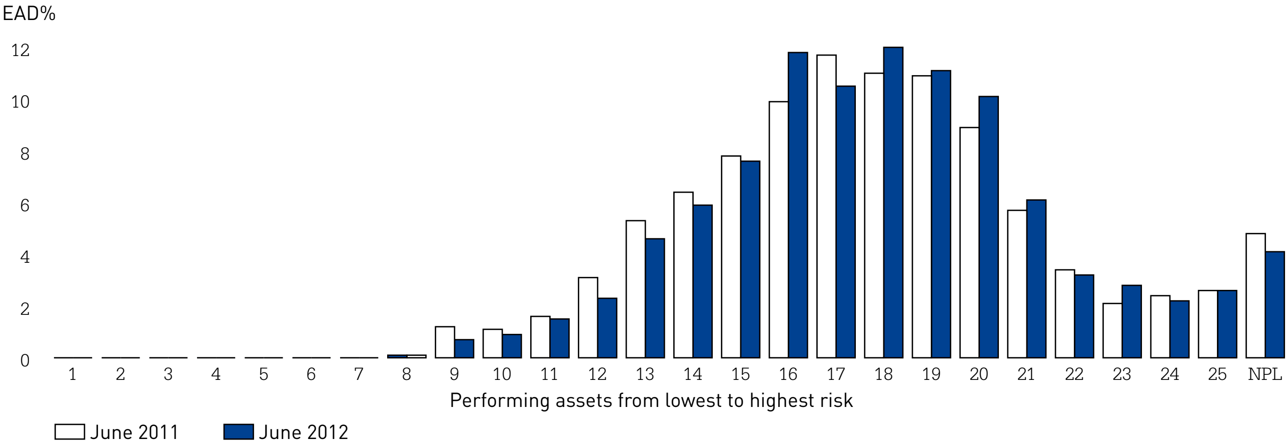
Risk profile for retail revolving exposures: EAD% distribution per Basel risk buckets



Average performing PD %	3.86%	Average total book PD%	6.07%
Average performing LGD%	66.27%	Average total book LGD%	66.50%
Total book EL/EAD	2.56%	Total book EL/EAD	4.03%

The minor deterioration in the risk profile in the chart above is as a result of a recalibration of the consumer overdrafts models, resulting in higher PDs.

Risk profile for other retail exposures: EAD% distribution per Basel risk buckets



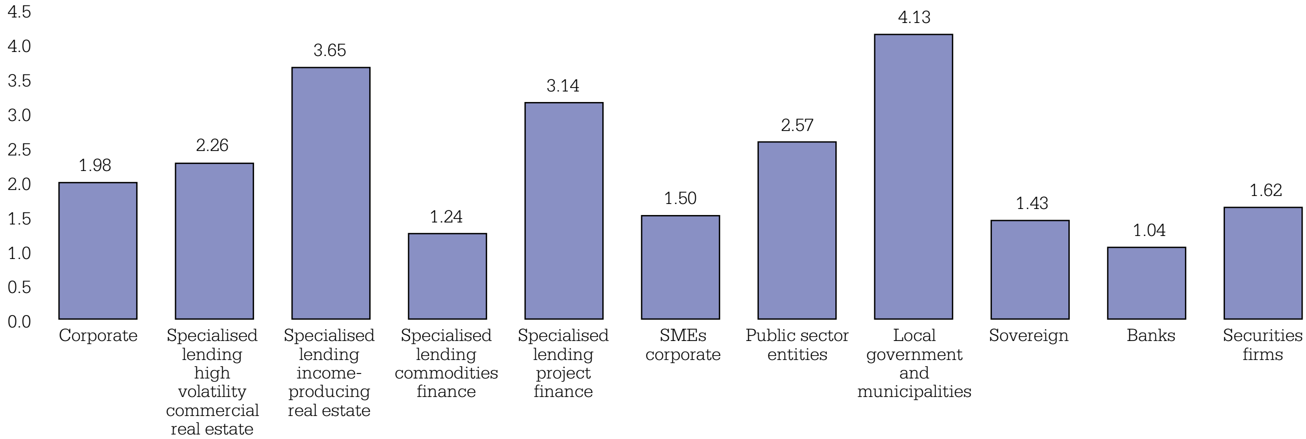
Average performing PD %	8.98%	Average total book PD%	13.41%
Average performing LGD%	34.24%	Average total book LGD%	35.38%
Performing book EL/EAD	3.07%	Total book EL/EAD	4.75%

A significant proportion of the other retail asset class is made up of VAF, which is secured by the underlying asset. As such, the LGD is lower than what would be expected for unsecured other retail portfolios. The minor deterioration in the risk profile above is a result of increased lending in the unsecured space including to the mass market.

Maturity breakdown

Maturity is defined as the average time at which a bank will receive its contractual payments (cash flows), calculated for each account or exposure weighted by the size of each of the cash flows. Maturity is used as an input in the AIRB regulatory capital calculation for wholesale portfolios. These are aggregated on an asset class basis for review and reporting purposes. For deals with longer terms, greater uncertainty is inherent and these also attract a greater capital requirement. Maturity breakdown of AIRB asset classes within the wholesale credit portfolio is disclosed in the following chart.

Maturity breakdown per wholesale AIRB asset class as at 30 June 2012
(Maturity in years)



Actual versus expected loss analysis

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

Expected loss here refers to regulatory expected loss. This provides a one-year forward looking view, based on information available at the beginning of the year.

Risk parameters include:

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

Actual losses experienced during the period consist of both the level of specific impairments at the beginning of the year (1 July 2011) and the net specific impairment charge recorded through the income statement for the period as per IFRS. The calculation is based on the assumption that the specific provisions raised are a fair estimate of what final losses on defaulted exposures would be, although the length of the workout period creates uncertainty in this assumption.

The measure of actual losses includes specific impairments raised for exposures which defaulted during the year, but which did not exist at 30 June 2011. These exposures are not reflected in the expected loss value described below.

The table below provides the comparison of actual loss to regulatory expected loss for each significant AIRB asset class of the Bank. PDs used for regulatory capital purposes are based on long run experience and would be anticipated to underestimate actual defaults at the top of the credit cycle and overestimate actual defaults at the bottom of the credit cycle, as is evident from the following table.

Actual versus expected loss per portfolio segment for the Bank

	2012	
R million	**Expected loss**	**Actual loss**
Corporate (corporate, banks and sovereigns)	**1 621**	**313**
SMEs (corporate and retail)	**1 146**	**1 094**
Residential mortgages	**2 674**	**2 961**
Qualifying revolving retail	**1 126**	**808**
Other retail	**1 718**	**1 990**
WesBank	**2 780**	**3 371**
Total	**11 065**	**10 537**

The composition used above differs slightly from that used in the remainder of this section, due to impairment charges being available on business unit level as opposed to AIRB asset class level.

	2011	
R million	Expected loss	Actual loss
Corporate (corporate, banks and sovereigns)	847	16
SMEs (corporate and retail)	1354	1 189
Residential mortgages	3 102	3 773
Qualifying revolving retail	1 168	1 122
Other retail	790	1 013
WesBank	3 142	3 663
Total	10 403	10 776

The composition used above differs slightly from that used in the remainder of this section, due to impairment charges being available on business unit level as opposed to AIRB asset class level.

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

The composition used above differs slightly from that used in the remainder of this section, due to impairment charges being available on business unit level as opposed to AIRB asset class level.

It should also be noted that the regulatory expected loss shown above is based on the expected loss derived from the regulatory capital models that were applied as at 30 June 2011. The models currently applied have since incorporated further details after the peak of the economic downturn and resulted in an increase in expected losses.

A restatement of the above comparison using the capital models currently applied would result in a closer alignment of actual versus expected losses.

This comparison is supplemented with more detailed analyses below, comparing actual and expected outcomes for each risk parameter (PD, LGD and EAD) over the period under review.

Expected values are based on regulatory capital models applied as at 30 June 2011. For PDs, this is applied to the total performing book as at 30 June 2011. For LGDs and EADs, it is applied to all facilities that defaulted over the subsequent twelve months.

Actual values are based on actual outcomes over the year July 2011 to June 2012. It should be noted that due to the length of the workout period, there is uncertainty in the measure provided for actual LGDs as facilities that default during the year would only have had between one and twelve months to recover to date – depending on when the default event occurred.

The EAD estimated to actual ratio is derived as the ratio of expected nominal exposure at default (for all accounts that defaulted during the 2012 calendar year) to the actual nominal exposure at default for the same accounts. A ratio above 100% indicates an overestimation.

Risk parameters used to determine regulatory expected loss for the Bank

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

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

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

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

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

PDs used for regulatory capital purposes are based on long-run experience (i.e. TTC PDs) and are expected to underestimate defaults at the top of the credit cycle and overestimate defaults at the bottom of the credit cycle. Comparisons between current and prior PDs show that there have not been significant changes and this is in line with the expected stability of the Bank's book. These PDs are based on all performing counterparties at the start of the period.

Differences in the latest actual and expected LGDs as compared to previous years are primarily as a result of the actual and expected LGD being based only on counterparties which have defaulted during the respective periods in question. Differences in the characteristics of defaulted accounts can change quite significantly over time, particularly in the wholesale and commercial space where defaults are sparse, and this is evident from the numbers presented above.

Another point evident in the latest figures is the increase in actual and expected LGDs on the other retail asset class. This is a result of the increased contribution of unsecured lending to defaulted exposures which is natural given the increase in unsecured lending. This increase then also flows through to the total actual and expected LGDs.

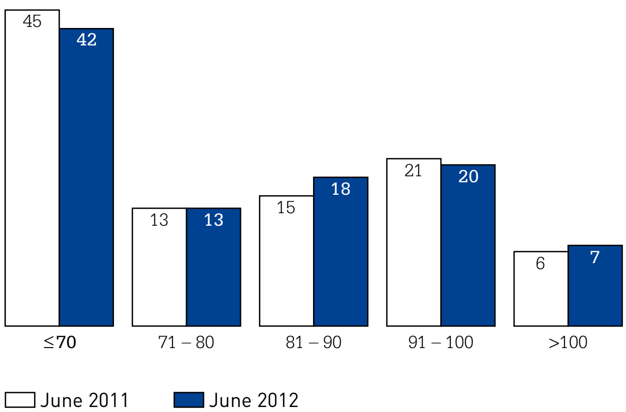
Deviations in the actual versus expected EADs can be seen where the estimated EAD to actual EAD ratio deviates from 100%. A ratio above 100% indicates an overprediction, and a ratio below 100% indicates an underprediction of EAD. An overprediction of EAD is observed in the corporate, banks and sovereigns, and the SME corporate asset classes. This is as a result of proactive risk management where high risk counterparties are identified prior to default and exposures then actively managed and reduced, where applicable.

Selected risk analysis

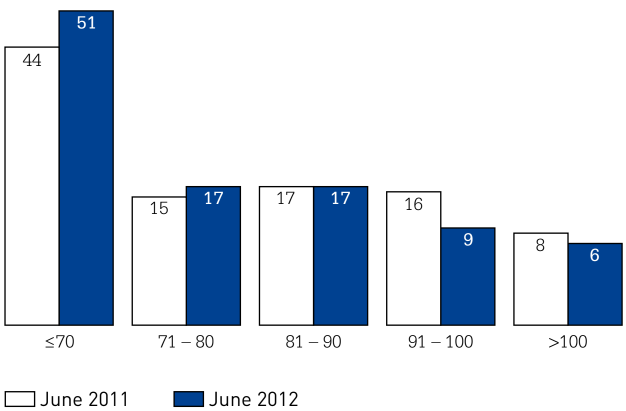
This section provides further information on selected risk analyses that impact the credit portfolios of the Bank.

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

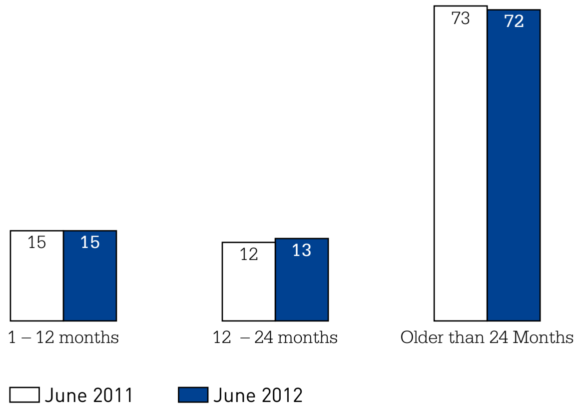
Residential mortgages balance-to-original value
(%)



Residential mortgages balance-to-market value
(%)

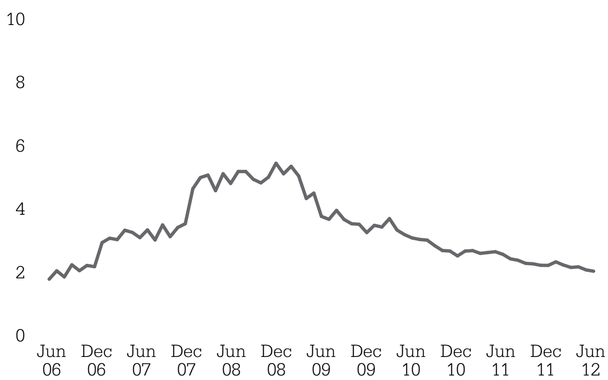


Residential mortgages age distribution
(%)



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

FNB HomeLoans arrears (%)

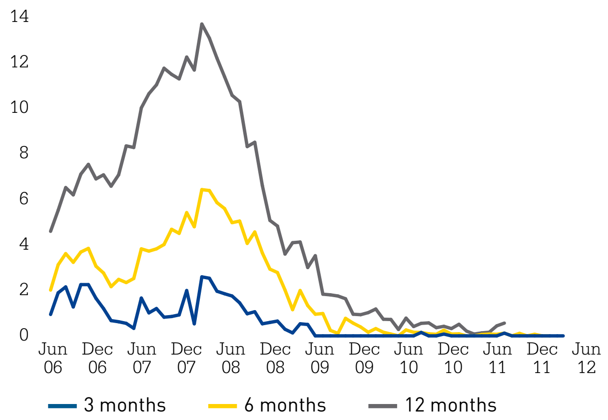


The following graphs provide the vintage analysis for FNB HomeLoans and WesBank retail. Vintage graphs provide the default experience three, six and twelve months after each origination date. It indicates the impact of origination strategies and the macroeconomic environment.

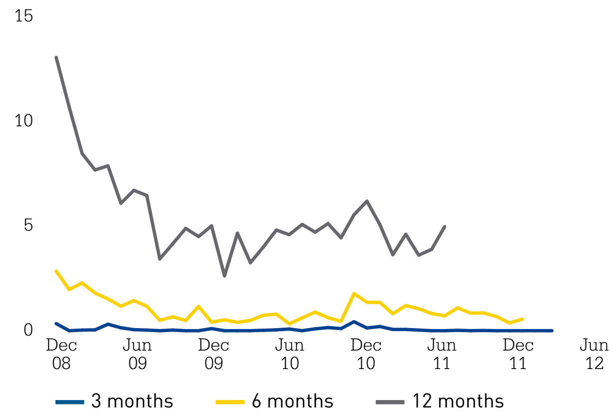
For FNB HomeLoans, the three, six and twelve month cumulative vintage analysis illustrate a marked improvement in the quality of business written since mid-2008 despite further deterioration in macro conditions in the succeeding period. The more recent decreases in the default experience reflect a combination of the credit origination strategies and the improvement in macro conditions.

Risk and capital management report continued

FNB HomeLoans vintage analysis (%)

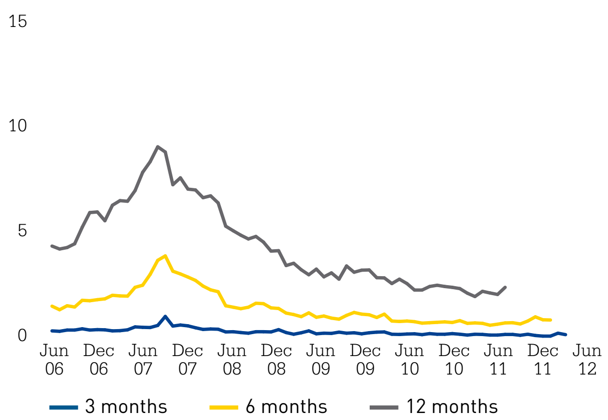


FNB Card vintage analysis (%)

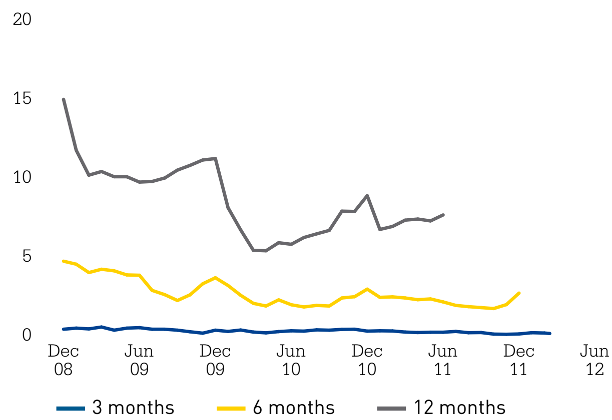


The WesBank retail six and twelve month cumulative vintage analysis continues to show a noticeable improvement in the quality of business written since mid-2007.

WesBank retail vintage analysis (%)



Unsecured (excluding FNB Card) vintage analysis (%



The vintage analyses of FNB and WesBank unsecured portfolios show an uptick in default experience, however, the portfolios remain within risk appetite. Continued actions are undertaken to ensure these portfolios remain within risk appetite.

The value of the Bank's repossessed property portfolio was R100 million (2011: R255 million).

SECURITISATIONS AND CONDUITS

Introduction and objectives

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

Asset securitisation enables the Bank to access the funding markets at debt ratings higher than its overall corporate rating, which generally provides access to broader funding sources at more favourable rates. By removing the assets and supporting debt from the balance sheet, the Bank is able to reduce some of the costs of on-balance sheet financing and manage potential asset-liability mismatches and credit concentrations.

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

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

Traditional and synthetic securitisations

The following tables show the traditional and synthetic securitisations currently in place, the rating distribution of any exposures retained and a breakdown of the various roles performed by the Bank. Whilst national scale ratings have been used in this table, global scale equivalent ratings are used for internal risk management purposes.

Risk and capital management report continued

Securitisation transactions

R million	Asset type	Year initiated	Expected close	Rating agency	Assets securitised
Traditional securitisations**					16 423
Nitro 4	Retail: Auto loans	2011	2016	Moody's	3 982
iKhaya 1	Retail: Mortgages	2007	2011	Fitch	1 900
iKhaya 2	Retail: Mortgages	2007	2012	Fitch	2 884
Turbo Finance	Retail: Auto loans	2011	2012	Moody's and Fitch	3 620
Turbo Finance 2	Retail: Auto loans	2012	2015	Moody's and Fitch	4 037
Synthetic securitisations**					20 000
Fresco 2	Corporate receivables	2007	2013	Fitch	20 000
Total					36 423

* *Does not include cash reserves*
** *This table includes transactions that have been structured by the Group and therefore excludes third party transactions.*

Rating distribution of retained and purchased securitisation exposures

R million	AAA(zaf)	AA+(zaf)	AA(zaf)	AA–(zaf)	A+(zaf)
Traditional					
At 30 June 2012	**2 000**	**–**	**–**	**–**	**81**
At 30 June 2011	596	–	5	–	–
Synthetic					
At 30 June 2012	**–**	**–**	**–**	**17 839**	**–**
At 30 June 2011	17 839	–	–	–	–
Third party					
At 30 June 2012	**625**	**–**	**–**	**–**	**–**
At 30 June 2011	188	–	–	–	–

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

The Bank's role in securitisation transactions as at 30 June 2012

Transaction	Originator	Sponsor	Servicer	Investor	Liquidity provider	Credit enhancement provider	Swap provider
Fresco 2	✓	✓	✓	✓		✓	
Nitro 4	✓	✓	✓	✓			✓
Turbo Finance	✓	✓	✓	✓			
Turbo Finance 2	✓	✓	✓	✓			

	Assets outstanding*		Notes outstanding		Retained exposure	
	2012	2011	**2012**	2011	**2012**	2011
	7 491	5 476	**8 130**	5 474	**2 140**	605
	2 573	–	**3 007**	–	**956**	–
	–	1 164	**–**	1 131	**–**	–
	–	1 625	**–**	1 580	**–**	15
	1 487	2 687	**1 486**	2 763	**696**	590
	3 431	–	**3 637**	–	**488**	–
	20 000	20 000	**20 000**	20 000	**18 162**	18 162
	20 000	20 000	**20 000**	20 000	**18 162**	18 162
	27 491	25 476	**28 130**	25 474	**20 302**	18 767

	A(zaf)	BBB+(zaf)	BB(zaf)	B+(zaf)	Not Rated	Total
	–	**59**	**–**	**–**	**–**	**2 140**
	4	–	–	–	–	605
	–	**–**	**180**	**53**	**90**	**18 162**
	–	–	180	53	90	18 162
	51	**–**	**–**	**–**	**–**	**676**
	51	–	–	–	–	239

Third party securitisations

Transaction	Originator	Sponsor	Servicer	Investor	Liquidity provider	Credit enhancement provider	Swap provider
Homes Obligor Mortgage Enhanced Securities					✓		
On the Cards Investment II				✓	✓		
Prime Realty Obligors Packed Securities – Series 2					✓		
Private Residential Mortgages 2					✓		
Superdrive Investments				✓			

Resecuritisations

A resecuritisation exposure is a securitisation exposure in which the risk associated with an underlying pool of exposures is tranched and at least one of the underlying exposures is a securitisation exposure. The Bank has not structured any resecuritisations nor has it acquired any resecuritisation exposures.

Oversight and credit risk mitigation

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

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

The Bank does not employ credit risk mitigation techniques to hedge credit risk on retained securitisation tranches. The Bank determines the applicable capital requirements for retained exposures according to the Basel securitisation framework, further detail hereon is provided below.

Securitisation accounting policies

- From an accounting perspective, traditional securitisations are treated as sales transactions. At inception, the assets are sold to a SPV at carrying value and no gains or losses are recognised. For synthetic securitisations, the credit derivatives used in the transaction are recognised at fair value, with any fair value adjustments reported in profit or loss.
- The securitisation entities are subsequently consolidated into FRIHL for financial reporting purposes. Retained traditional securitisation notes are accounted for as available-for-sale investment securities within the banking book.
- The Bank does not currently employ any form of warehousing prior to structuring a new securitisation.

Summary of securitisation activity

Nitro Securitisation 4 Issuer Trust (Nitro 4)

In August 2011, the Bank closed its fourth domestic traditional auto loan securitisation, Nitro 4. Nitro 4 is a cash securitisation of auto loans extended to obligors by WesBank. Nitro 4 was set up as an insolvency remote trust and issued R4 billion of notes rated by Moody's to acquire the asset pool.

The Bank, acting through its RMB division, was the arranger, manager and sponsor for the transaction. The interest rate swap is provided by the Bank with deal administration performed by RMB. The assets will continue to be serviced by WesBank. The following table provides further detail regarding the notes issued.

Nitro 4 notes issued

Tranche	Rating (Moody's)*	Amount (R million)	Credit enhancement (%)	Coupon (bps over 3m JIBAR)
A1	Aa2(sf) / Aaa.za(sf)	345	20.78	12
A2	Aa2(sf)/Aaa.za(sf)	345	20.78	30
A3	Aa2(sf)/Aaa.za(sf)	330	20.78	37
A4	Aa2(sf)/Aaa.za(sf)	320	20.78	44.5
A5	Aa2(sf)/Aaa.za(sf)	314	20.78	52
A6	Aa2(sf)/Aaa.za(sf)	320	20.78	58
A7	Aa2(sf)/Aaa.za(sf)	295	20.78	68
A8	Aa2(sf)/Aaa.za(sf)	150	20.78	73
A9	Aa2(sf)/Aaa.za(sf)	140	20.78	79
A10	Aa2(sf)/Aaa.za(sf)	130	20.78	94
A11	Aa2(sf)/Aaa.za(sf)	115	20.78	104
A12	Aa2(sf)/Aaa.za(sf)	100	20.78	115
A13	Aa2(sf)/Aaa.za(sf)	85	20.78	125
A14	Aa2(sf)/Aaa.za(sf)	180	20.78	130
B	Baa2(sf)/A1(sf)	286	13.63	190
C	Ba2(sf)/Baa1.za(sf)	140	10.13	260
D	NR	281	3.10	425
E	NR	124	0.00	500
Total		4 000		

* *International and national scale ratings provided*

Structural highlights include:

- a sequential pay waterfall where senior notes are paid down first in order of priority;
- as and when the subordination afforded the Class A tranche is double that at closing, the transaction will redeem capital on all then outstanding notes proportionally;
- excess capital prepayments by obligors will fund the purchase of additional eligible assets;
- first Bank transaction to be managed using the ABSSuite™ securitisation administration system; and
- the transaction is compliant with South African securitisation regulations.

The transaction was structured to obtain matched term funding for the Bank and is currently performing in line with expectations.

iKhaya RMBS 1 Limited (iKhaya 1) and iKhaya RMBS 2 Limited (iKhaya 2) maturity

iKhaya 1 was launched on 9 March 2007 with a total note issuance of R1.956 billion. The Class A notes were rated AAA(zaf) with 12.4% subordination provided by mezzanine and junior tranches. The Bank retained the first loss subordinated loan of R56 million.

iKhaya 2 was launched on 22 June 2007 with a total note issuance of R3 billion. The Class A notes were rated AAA(zaf) with 16% subordination provided by mezzanine and junior tranches. The Bank retained the first and second loss subordinated loans totalling R116 million.

By September 2011, iKhaya 1 notes to the value of R1.09 billion were outstanding, representing some 57% of the outstanding principal amount of the notes on issue date. From a loss perspective, the transaction had by this time suffered a cumulative loss of 1.2%, all of which was covered by excess spread.

By November 2011, iKhaya 2 notes to the value of R1.55 billion were outstanding, representing some 52% of the outstanding principal amount of the notes on issue date. From a loss perspective, the transaction had by this time suffered a cumulative loss of 2.1%, all of which was covered by excess spread.

A muted housing market and lower than expected levels of pre-payments leading to lower levels of principal payments meant that although being solvent, the transaction would be unable to meet its targeted maturity date. Structuring features of the vehicle precluded the raising of additional funding and limited the use of liquidity facilities to only covering interest payments and not redemptions.

Consequently, in November 2011, the Bank sought and obtained approval from the SARB and note holders to repurchase the underlying iKhaya 1 and iKhaya 2 assets, on market-related terms. The iKhaya 1 repurchase took place on 9 December 2011 and the iKhaya 2 repurchase on 22 March 2012. In both instances the proceeds were utilised for the redemption of the outstanding notes.

Investors in iKhaya 1 and iKhaya 2 were able to realise their investments at the targeted maturity date, without suffering any losses.

Turbo Finance 2 plc, a securitisation of UK auto loan receivables

In March 2012, the Bank closed its second UK traditional auto loan securitisation, Turbo Finance 2 plc (Turbo 2). Turbo 2 is a cash securitisation of fixed rate auto loans extended to obligors by MotoNovo Finance. The note issuance of £319.8 million is rated by both Fitch and Moody's. The following table provides further detail regarding the notes issued:

Tranche	Rating (Moody's/ Fitch)	Amount (£ million)	Credit enhance-ment (%)	Coupon*
A	Aaa(sf)/AAA(sf)	246.20	27.60	1mLibor + 185
B	Aa3(sf)/A(sf)	54.20	11.70	5.50%
C	NR/BB(sf)	34.28	1.60	7.00%*
D	NR/NR	5.45	0.00	20.00%
Total		340.13		

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

A follow up to last year's Turbo Finance securitisation, Turbo 2 was favourably received by investors. As with Turbo 1, the Bank secured additional matched term funding for its UK vehicle finance operations together with a reduction in the cost of funds for asset origination.

BNP Paribas, Paris Branch also provides an interest rate swap for the Class A tranche. FirstRand, acting through its London branch, acts as servicer of the transaction.

Rating actions by Fitch Ratings

Fresco 2, which is incorporated under South African law, is a partially-funded synthetic securitisation of a portfolio of South African and international corporate credit exposures originated by the Bank. At closing on 17 July 2007, Fresco 2 entered into a portfolio credit default swap with the Bank, whereby Fresco 2, as the protection seller, provides credit risk protection on a R20 billion portfolio of corporate loans.

Following rating actions on Fresco 2 in November 2010, Fitch placed the Class A1 and A2 tranches on Rating Watch Negative (RWN). On 9 August 2011, Fitch concluded the rating review of Fresco 2 and downgraded the Class A1 and A2 tranches, assigning a stable outlook. The ratings on tranches B1 to G have been affirmed, while the outlook on tranches C to G has been changed to negative.

These downgrades were a result of Fitch's revision of their rating criteria/methodology and were not a reflection of any deterioration in the credit quality of the underlying corporate assets of Fresco 2 or the Bank.

The rating actions were as follows:

- Class A1: downgraded to BBB (zaf) from AA- (zaf); RWN removed; assigned outlook stable.
- Class A2: downgraded to BBB (zaf) from AA- (zaf); RWN removed; assigned outlook stable.
- Class B1: affirmed at BB (zaf); outlook stable.
- Class B2: affirmed at BB (zaf); outlook stable.
- Class C: affirmed at B+ (zaf); outlook negative.
- Class D: affirmed at B (zaf); outlook negative.
- Class E: affirmed at B (zaf); outlook negative.
- Class F: affirmed at B (zaf); outlook negative.
- Class G: affirmed at B- (zaf); outlook negative.

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

Conduit programmes and fixed-income funds

The Bank's conduit programmes are debt capital market vehicles, which provide investment-grade corporate South African counterparties with an alternative source of funding to directly accessing capital markets via their own domestic medium-term debt programmes or traditional bank funding. It also provides institutional investors with highly-rated short-term alternative investments. The fixed income fund is a call-loan bond fund, which offers overnight borrowers and lenders an alternative to traditional overnight bank borrowings or overnight deposits.

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

The conduit programmes have proved resilient during difficult financial market conditions and have experienced a tightening of credit spreads in line with the corporate debt market. Supply of assets and demand for notes issued by the conduits remain healthy.

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

Conduits and fixed income funds

Transaction					Non-recourse investments		Credit enhancement provided	
R million	Underlying assets	Year initiated	Rating agency	Programme size	**2012**	2011	**2012**	2011
Conduits								
iNdwa	Corporate and structured finance term loans	2003	Fitch	15 000	**6 687**	8 779	**–**	–
iVuzi	Corporate and structured finance term loans	2007	Fitch	15 000	**4 487**	6 742	**670**	753
Total				30 000	**11 174**	15 521	**670**	753
Fixed income fund								
iNkotha	Overnight corporate loans	2006	Fitch	10 000	**2 654**	2 948	**–**	–
Total				10 000	**2 654**	2 948	**–**	–

Rating distribution of conduits and fixed income funds

R million	F1+(zaf)	AAA(zaf)	AA+(zaf)	AA(zaf)	AA-(zaf)	A+(zaf)	A(zaf)	A-(zaf)	Total
Conduits									
At 30 June 2012	**–**	**121**	**730**	**2 628**	**3 778**	**1 071**	**1 765**	**1 081**	**11 174**
At 30 June 2011	–	853	248	4 438	5 075	1 449	2 025	1 433	15 521
Fixed income fund									
At 30 June 2012	**–**	**–**	**–**	**1 097**	**479**	**519**	**–**	**559**	**2 654**
At 30 June 2011	–	–	–	969	652	548	453	326	2 948

The Bank's role in the conduits and the fixed income fund

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

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

Liquidity facilities

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

Liquidity facilities

R million	Transaction type	**2012**	2011
Own transactions		**8 157**	12 671
iNdwa	Conduit	**4 713**	7 159
iVuzi	Conduit	**3 444**	5 512
Third party transactions	Securitisations	**558**	1 372
Total		**8 715**	14 043

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

Additional information

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

For domestic transactions, the Bank applies the AIRB approach, using either the ratings based approach, supervisory formula or look-through basis, the choice of which is determined by the most efficient use of capital. For international transactions, the Bank uses the standardised approach.

Retained or purchased securitisation exposure and the associated regulatory capital charges

	Exposure		**AIRB capital**		**Capital deduction**	
R million	**2012**	2011	**2012***	2011	**2012**	2011
Risk weighted bands						
=<10%	**7 443**	24 322	**55**	183	**–**	–
>10% =<20%	**810**	1 378	**11**	16	**–**	–
>20% =<50%	**1 235**	5 517	**42**	133	**–**	–
>50% =<100%	**81**	4	**6**	0	**–**	–
>100% =<650%	**59**	180	**26**	114	**–**	–
1 250%/deduction	**90**	90	**–**	–	**90**	90
Look through	**22 745**	–	**797**	–	**–**	–
Total	**32 463**	31 491	**937**	446	**90**	90

* *Capital is calculated at the Basel II 9.75% requirement and includes a 6% capital scalar.*

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

Deductions arising from securitisation exposures

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

The Bank did not securitise any exposures that were impaired or past due at the time of securitisation. None of the securitisations transactions are subject to early amortisation treatment.

COUNTERPARTY CREDIT RISK

Introduction and objectives (audited)

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

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

During the year under review the Group implemented the Basel II standardised approach for the calculation of counterparty credit default risk capital. This measure is more risk-sensitive than the current exposure method (CEM) used previously. The improved risk sensitivity of the measure implies that capital now more accurately reflects the risk profile of the book. In the next financial year the Group will focus on the implementation of the Basel III credit value adjustment (CVA) and asset value correlation multiplier (AVC) capital charges.

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

The risk to bilateral OTC counterparts was reduced by restricting transactions to higher rated counterparts and collateralising all mark-to-market movements. The risk to clients in securities financing was reduced due to improved margining and exposure to higher quality underlying assets.

Organisational structure and governance

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

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

In this respect, counterparty credit risk governance aligns closely with the Bank's credit risk governance framework, mandates and responsibilities cascading from the Board through the RCC committee to the respective credit committees and subcommittees as well as deployed and central risk management functions. Refer to the *Risk management framework and governance section*, (page 15), and the *Credit risk governance section* (page 35) for more details.

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

Assessment and management (audited)

Quantification of risk exposure

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

To this end, appropriate quantification methodologies of potential future exposure over the life of a product, even under distressed market conditions, are developed and approved at the relevant technical committees. The two-way credit (and debit) valuation adjustment is calculated and priced on bespoke transactions.

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

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

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

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

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

As part of the ongoing process of understanding the drivers of counterparty credit risk, regular analysis is carried out on OTC derivative and securities financing portfolios on a look-through basis. This portfolio review process seeks to identify concentrations, hypothetical impact of stress scenarios and to better understand the interaction of underlying market risk factors and credit exposure. The benefits gained include clearer insight into potential collateral, earnings and capital volatility, and potentially unduly risky trading behaviour by counterparties.

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

Counterparty credit risk mitigation

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

The Bank uses International Swaps and Derivatives Association (ISDA) and International Securities Market Association agreements for the purpose of netting derivative transactions and repurchase transactions respectively. These master agreements as well as associated credit support annexes (CSA) set out internationally accepted valuation and default covenants, which are evaluated and applied on a daily basis, including daily margin calls based on the approved CSA thresholds.

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

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

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

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

While these variables are not quantifiable, the table below, in addition to showing the effect of counterparty credit risk mitigation, provides a guide to the order of magnitude of the netted portfolio size and collateral placed with the Bank. In aggregate, all of the positive mark-to-market values shown below would need to reverse before the Bank would be a net provider of collateral.

Counterparty credit risk profile

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

Composition of counterparty credit risk exposure

R million	2012	2011
Gross positive fair value	**91 924**	114 070
Netting benefits	**(9 315)**	(38 462)
Netted current credit exposure before mitigation	**82 609**	75 608
Collateral value	**(72 470)**	(63 772)
Netted potential future exposure	**3 194**	12 293
Exposure at default*	**21 174**	24 129

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

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

Credit derivatives exposure

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

R million	2011 Credit default swaps	Total return swaps	Other	Total
Own credit portfolio				
– protection bought	18	–	–	18
– protection sold	3 259	–	–	3 259
Intermediation activities				
– protection bought	46	–	–	46
– protection sold	1 091	–	–	1 091

MARKET RISK IN THE TRADING BOOK

Introduction and objectives (audited)

Market risk exists in all trading, banking and listed equity investment portfolios, but for the purpose of this report, it is considered as a risk specific to trading portfolios. Substantially, all market risk in the Bank is taken and managed by RMB. The relevant businesses within RMB function as the centres of expertise with respect to all trading and market risk-related activities, ensuring that at all times market risk is managed and contained within the risk appetite of the Group.

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

The Bank implemented the regulatory changes associated with Basel 2.5 in the local trading book, namely the combined incorporation of Value-at-Risk (VaR) plus stressed VaR on 1 January 2012. As of January 2012, the performance of market risk-taking activities is measured as the higher of the Bank's internal expected-tail-loss (ETL) measure (as a proxy for economic capital) or regulatory capital based on VaR plus stressed VaR.

During the year, and as part of a strategic review of its business, RMB decided to cease all outright proprietary trading activities in the trading businesses. This resulted in a reduction in the size of the listed equity trading book. Discontinued positions are in the process of being managed down. However, it should be noted that market risk remains in certain client related activities, such as the provision of client-based hedging solutions and market making.

Organisational structure and governance

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

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

Assessment and management (audited)

Quantification of risk exposures

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

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

Risk concentrations in the market risk environment are controlled by means of appropriate ETL sublimits for individual asset classes and the maximum allowable exposure for each business unit. In addition to the general market risk limits described above, limits covering obligor specific risk supplement the above. Utilisation against these limits is continuously monitored based on the regulatory building block approach.

Stress testing

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

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

Back testing

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

Regulatory and economic capital for market risk

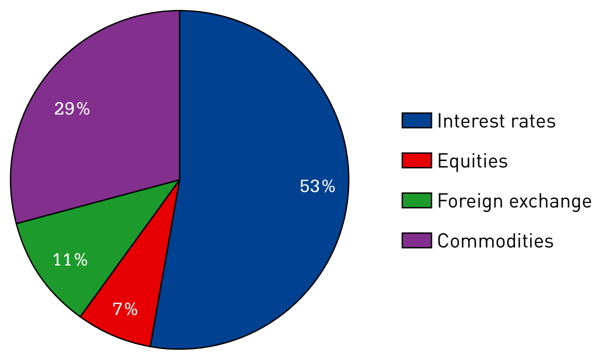
The internal VaR model for general market risk was approved by the SARB for local trading units and is consistent with the methodologies stipulated by the Basel 2.5 framework. For all international legal entities, the standardised approach is used for regulatory market risk capital purposes.

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

Trading book market risk profile

The following chart shows the distribution of exposures per asset class across the Bank's trading activities at 30 June 2012 based on the VaR methodology.

Composition of VaR exposure per asset class for the Bank (audited)



VaR analysis by asset class (audited)

The table below reflects the VaR over a 1-day holding period at a 99% confidence level. Results for the year ending 30 June 2012 reflect the derisking that has taken place with regards to outright proprietary trading predominantly in the listed equity asset class.

1-day 99% VaR analysis by asset class

	2012				2011**
R million	**Min***	**Max***	**Average**	**Period end**	Period end
Risk type#					
Equities	**2.2**	**23.9**	**10.2**	**5.8**	11.7
Interest rates	**15.3**	**50.7**	**26.8**	**44.4**	21.6
Foreign exchange	**1.5**	**23.0**	**6.4**	**9.0**	7.9
Commodities	**2.8**	**45.1**	**21.0**	**24.6**	32.4
Diversification effect				**(39.8)**	(31.3)
Diversified total	**19.7**	**66.3**	**35.7**	**44.0**	42.4

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

** *The 2011 period end VaR numbers reported last year were based on a 10-day holding period. As 1-day VaR is reported this year, 2011 period end numbers above were restated to reflect 1-day VaR.*

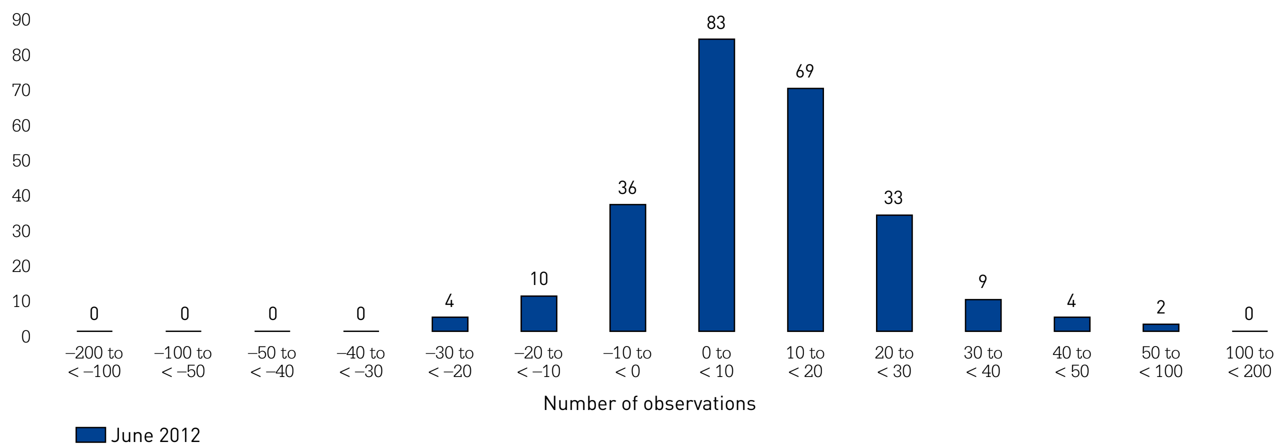
Banking book exposures are managed by Group Treasury and are reported under the banking book interest rate risk section.

Distribution of daily trading earnings from trading units

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

Distribution of daily earnings of the Bank (unaudited)

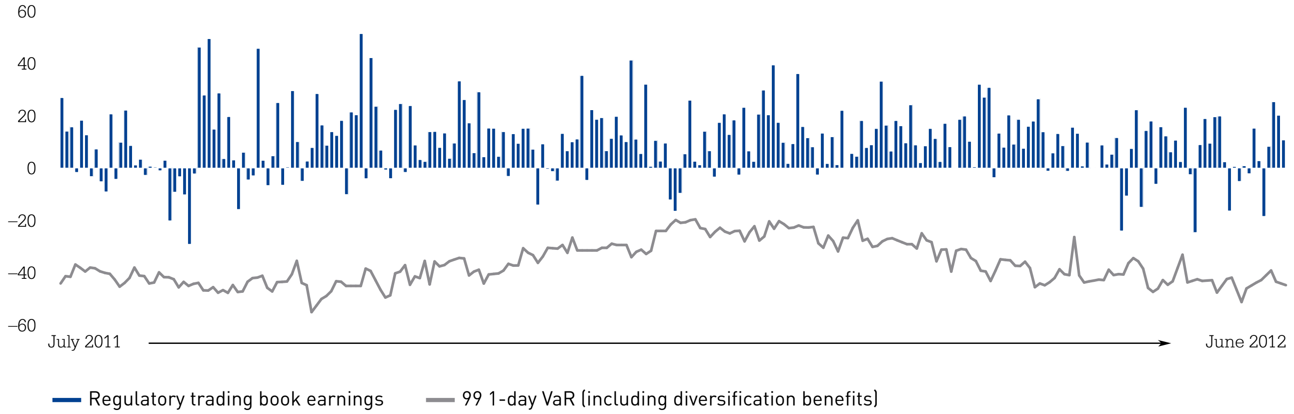
Frequency (days in a period)



Back testing: daily regulatory trading book earnings and VaR

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

Back testing: daily regulatory trading book earnings versus 1-day 99 VaR of the Bank (unaudited)
(R million)



During the year under review there were no instances of actual trading losses exceeding the corresponding VaR estimate. This implies that the model provided a reasonably accurate quantification of market risk.

International

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

EQUITY INVESTMENT RISK

Introduction and objectives (audited)

Portfolio investments in equity instruments are primarily undertaken in RMB, but certain equity investments have been made by WesBank, FNB and the Corporate Centre. Positions in unlisted investments in RMB are taken mainly through its Private Equity, Resources and Investment Banking divisions.

The Group actively monitors regulatory developments, including amendments to current Basel capital requirements and the anticipated impact of Basel III. Basel III regulations are expected to impact the Group's equity investment portfolio's capital adequacy requirements in January 2013. This is likely to result in the minority interests, intangibles and goodwill of the Group's fully consolidated subsidiaries no longer qualifying as Core Tier 1 capital.

The overall quality of the investment portfolio remains acceptable and is within risk appetite. This year has seen less equity realisations and a number of significant new equity investment acquisitions undertaken as part of a significant portfolio rebuilding drive. This trend is set to continue in the private equity market in the coming year in line with RMB's approved business strategy and risk appetite.

Organisational structure and governance

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

- the Prudential investment committee chaired by the RMB chief investment officer and its delegated subcommittees are responsible for the approval of all portfolio investment transactions in equity, quasi-equity or quasi-debt instruments;
- where the structure of the investments also incorporate significant components of senior debt, approval authority will also rest with the respective credit committees and the large exposures committee, as appropriate;
- the RCC and MIRC committees are responsible for the oversight of investment risk measurement and management across the Bank;

- this year saw the formation of a bi-annual Investment risk oversight committee. The committee assesses the quality and size of investment business within RMB and reviews movements in light of risk appetite; and
- the RMB CRO, in consultation with the Group CRO and with support from the deployed and central risk management functions, provides independent oversight and reporting of all investment activities in RMB to the RMB Proprietary board, as well as MIRC.

Assessment and management (audited)

Management of exposures

The equity investment risk portfolio is managed through a rigorous evaluation and review process from inception to exit of a transaction. All investments are subject to a comprehensive due diligence, during which a thorough understanding of the target company's business, risks, challenges, competitors, management team and unique advantage or value proposition is developed.

For each transaction, an appropriate structure is put in place which aligns the interests of all parties involved through the use of incentives and constraints for management and the selling party. Where appropriate, the Bank seeks to take a number of seats on the company's board and maintains close oversight through monitoring of the company's operations.

The investment thesis, results of the due diligence process and investment structure are discussed at the Investment committee before final approval is granted. In addition, normal semi-annual reviews of each investment are carried out and crucial parts of these reviews, such as valuation estimates, are independently peer reviewed.

Recording of exposures – accounting policies

IAS 39 requires equity investments to be classified as:

- financial assets at fair value through profit and loss; or
- available-for-sale financial assets.

Refer to note 15 Financial instruments of the accounting policies for a description of the policy.

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

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

Measurement of risk exposures

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

The Bank targets a diversified investment portfolio profile, spread along pertinent dimensions such as geography, industry, investment stage and vintage (i.e. annual replacements of realisations).

Stress testing

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

Regulatory and economic capital

The Basel simple risk weighted (300% or 400%) approach or the standardised approach is used for the quantification of regulatory capital.

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

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

Equity investment risk profile

Market prices in selected industries continue to present the Bank with opportunities to build its private equity portfolio. Unrealised profits for the investment portfolio continue to remain resilient. RMB's strategic business review included a decision to cease outright proprietary trading in the listed equities business. This has resulted in the managing down of listed equity investment risk exposures. At the same time, the private equity portfolio was subject to a significant portfolio rebuilding drive.

Investment risk exposure and sensitivity of investment risk exposure of the Bank

R million	**2012**	2011
Listed investment risk exposure included in the equity investment risk ETL process*	**286**	598
ETL on above equity investment risk exposures*	**56**	150
Estimated sensitivity of remaining investment balances**		
Sensitivity to 10% movement in market value on investment fair value#	**207**	167
Cumulative gains realised from sale of positions in the banking book during the period	**355**	102

* *The decline in both exposure and ETL for listed investments from June 2011 to June 2012 was largely due to further run down of the legacy portfolios and derisking of the listed equity exposures.*

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

\# *Audited.*

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

Investment valuations and associated economic capital requirements

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

* *The fair values of listed private equity investments were not considered to be materially different from the quoted market prices.*

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

\# *Capital requirement calculated at 9.5% of RWA (excluding the bank-specific Pillar 2b add-on). Effective 1 July 2011, the SARB requested that all equity investment risk exposures be risk weighted under the simple risk weighted method (previously non-bank entities were risk weighted under the standardised approach). This has increased the capital requirement for the Group.*

	2011		
R million	Publicly quoted investments	Privately held	Total
Carrying value disclosed in the balance sheet	971	1 886	2 857
Fair value*	971	1 915	2 886
Total unrealised gains recognised directly in balance sheet through equity instead of the income statement**	–	224	224
Latent revaluation gains not recognised in the balance sheet**	–	29	29
Capital requirement#	277	717	994

* *The fair values of listed private equity investments were not considered to be materially different from the quoted market prices.*

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

\# *Capital requirement calculated at 9.5% of RWA (excluding the bank-specific Pillar 2b add-on).*

FOREIGN EXCHANGE AND TRANSLATION RISK IN THE BANKING BOOK

Introduction and objectives (audited)

Foreign exchange risk arises from on- and off-balance sheet positions whose valuation in Rand is subject to currency movements. Key activities giving rise to these positions are foreign currency placements, lending and investing activities, the raising of foreign currency funding and from trading and client facilitation activities in foreign currencies. The objective of foreign exchange risk management is to ensure that currency mismatches are managed within the Bank's risk appetite and to ensure that it is overseen and governed in keeping with the risk governance structures.

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

Organisational structure and governance

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

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

Assessment and management (audited)

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

The Group's NOFP position is within the regulatory limit of approximately US$600 million. Senior management implemented various levels of internal prudential limits, again below the regulatory limit but large enough to cater for the hedging, settlement and execution positions of business units. Group Treasury is the clearer of all currency positions in FirstRand and is therefore tasked with the responsibility for managing the Group's position within all internal and prudential limits. Any breaches are reported through the risk management structures and corrective action is monitored by both the deployed risk manager and ERM.

Foreign exchange and translation risk profile

Over the past year no significant foreign exchange positions have been run, apart from translation risk in strategic foreign investments. Mismatches have been contained well within regulatory limits at all times. The NOFP internal management limit was recently adjusted upwards to cater for increased (unhedged) currency risk related to foreign investment positions held directly by the Group and to cater for increased buffer trading for RMB and Group Treasury trading positions. The macro foreign exposure of the Group remained far below both regulatory and board limits and there is significant headroom for expansion into foreign assets.

FUNDING AND LIQUIDITY RISK

Introduction and objectives

The Bank distinguishes three types of liquidity risk:

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

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

Funding structure

The banking sector in South Africa is characterised by certain structural features, such as a low discretionary savings rate and a higher degree of contractual savings that are captured by institutions such as pension funds, provident funds and providers of asset management services.

A portion of these contractual savings translate into institutional funding for banks which has higher liquidity risk than retail deposits. Limited yield incentivisation and corporate liquidity needs mean that South African banks are funding seekers. The structural liquidity risk is therefore higher in South Africa than in most other markets. This risk is however, to some extent mitigated by the following factors:

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

In the light of the structural funding issues focus is currently placed on lengthening and diversifying the funding profile in line with Basel III requirements. New Basel rules for liquidity particularly the LCR and the NSFR, are anticipated to have a significant impact if implemented as currently proposed. The provision of a tiered committed liquidity facility capped at 40% of total available liquidity, and the inclusion of cash reserves as an available source of liquidity have alleviated the structural constraints to LCR compliance.

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

Organisational structure and governance

Liquidity risk management is governed by the liquidity risk management framework (LRMF), which provides relevant standards in accordance with regulatory requirements and international best practices. As a subframework to the BPRMF, the LRMF is approved by the Board and sets out consistent and comprehensive standards, principles, policies and procedures to be implemented throughout the Bank to effectively identify, measure, report and manage liquidity risk.

The Board retains ultimate responsibility for the effective management of liquidity risk. The Board has delegated its responsibility for the assessment and management of this risk to the RCC committee, which in turn delegated this task to FirstRand ALCCO. FirstRand ALCCO's primary responsibility is the assessment, control and management of both liquidity and interest rate risk for the Bank, FNB Africa and international subsidiaries and branches, either directly or indirectly, through providing guidance, management and oversight to the asset and liability management (ALM) functions and ALCCOs in these subsidiaries and branches.

Liquidity risk for FRB SA (RMB, FNB, FirstRand Corporate Centre and WesBank) is centrally managed by a dedicated liquidity and funding team in Group Treasury. Governance is provided by an independent liquidity risk team under the Corporate Centre CRO function responsible for ensuring that the liquidity risk management framework is implemented appropriately.

The Bank's liquidity position, exposures and auxiliary information are reported bi-monthly to the Funding executive committee. In addition, management aspects of the liquidity position are reported to and debated by Group Treasury. The liquidity risk management and risk control teams in Group Treasury and the Corporate Centre risk function also provide regular reports to FirstRand ALCCO.

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

Liquidity risk management

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

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

Aspects of liquidity risk management

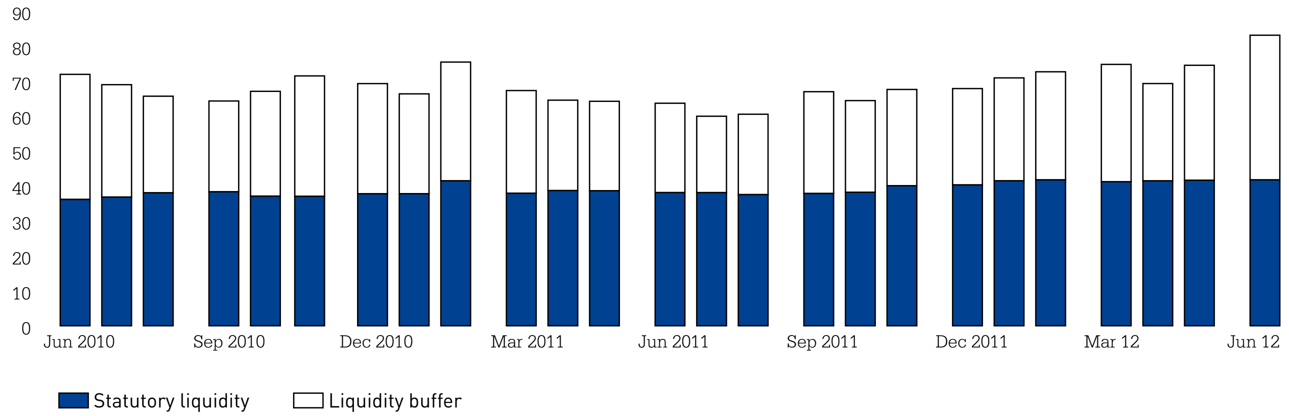
STRUCTURAL LRM	DAILY LRM	CONTINGENCY LRM
The risk that structural, long-term on-and off-balance sheet exposures cannot be funded timeously or at reasonable cost.	Ensuring that intraday and day-to-day anticipated and unforeseen payment obligations can be met by maintaining a sustainable balance between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

Available liquidity

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

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

The Bank's liquidity buffer and statutory liquidity requirements
(R billion)



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

Stress testing and scenario analysis

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

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

Liquidity contingency planning (audited)

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

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

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

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

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

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

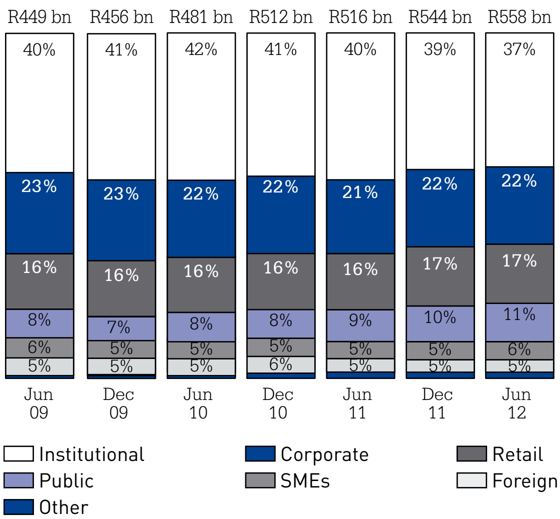
Funding strategy

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

The Bank seeks to diversify funding sources across segments, countries, instrument types and maturities. Where structural restrictions exist such as South Africa's reliance on wholesale funding, the risk is mitigated through term profile and liquidity buffers.

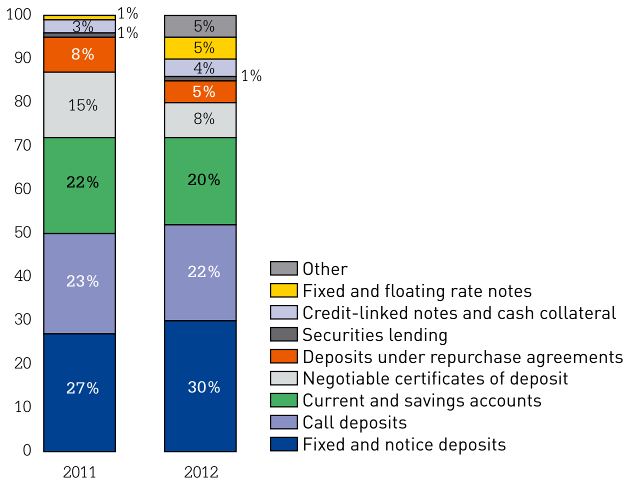
The table below illustrates the Bank's sources of funding by counterparty.

FRB's funding analysis by source (%) and total deposit base (R billion)



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

FRB's funding instruments by instrument type (%)



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

Liquidity risk profile (audited)

Undiscounted cash flow

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

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

Liquidity cash flows (undiscounted cash flows)

R million	**2012**			
		Term to maturity		
	Carrying amount	**Call – 3 months**	**3 – 12 months**	**> 12 months**
Maturity analysis of liabilities based on the undiscounted amount of the contractual payment				
EQUITY AND LIABILITIES				
Liabilities				
Deposits and current accounts	**577 595**	**396 775**	**68 492**	**112 328**
Short trading positions	**4 019**	**4 019**	**–**	**–**
Derivative financial instruments	**53 858**	**51 931**	**442**	**1 485**
Creditors and accruals	**6 547**	**6 072**	**312**	**163**
Two-tier liabilities	**10 235**	**–**	**1 340**	**8 895**
Other liabilities	**958**	**23**	**40**	**895**
Amounts due to holding and fellow subsidiary companies	**13 733**	**10 016**	**355**	**3 362**
Financial and other guarantees	**28 117**	**24 539**	**2 474**	**1 104**
Facilities not drawn	**64 872**	**53 069**	**3 046**	**8 757**

R million	2011*			
		Term to maturity		
	Carrying amount	Call – 3 months	3 – 12 months	> 12 months
Maturity analysis of liabilities based on the undiscounted amount of the contractual payment				
EQUITY AND LIABILITIES				
Liabilities				
Deposits and current accounts	508 799	370 527	63 179	75 093
Short trading positions	5 777	5 777	–	–
Derivative financial instruments	36 816	35 438	884	494
Creditors and accruals	5 436	4 300	962	174
Two-tier liabilities	9 452	–	448	9 004
Other liabilities	573	98	14	461
Amounts due to holding and fellow subsidiary companies	21 592	17 085	389	4 118
Financial and other guarantees	28 808	25 009	2 911	888
Facilities not drawn	58 438	35 569	1 174	21 695

* *During the current year a comprehensive review of the liability disclosure was undertaken by the Group in order to ensure that the Group's presentation was consistent with industry practice and to provide more detailed and useful information in the financial statements. A reclassification was required to bring the comparative numbers in line with the updated presentation.*

Contractual discounted cash flow analysis

The following table represents the contractual discounted cash flows of assets, liabilities and equity for the Bank. Relying solely on the contractual liquidity mismatch when assessing a bank's maturity analysis would overstate risk, since this represents an absolute worst case assessment of cash flows at maturity.

Due to South Africa's structural liquidity position, banks tend to have a particularly pronounced negative (contractual) gap in the shorter term short-term institutional funds which represent a significant proportion of banks' liabilities. These are used to fund long-term assets, for example, mortgages.

Therefore, in addition to the analysis in the table above, the Bank carries out an adjusted liquidity mismatch analysis, which estimates the size of the asset and liability mismatch under normal business conditions. This analysis is also used to manage this mismatch on an ongoing basis.

Contractual discounted cash flow analysis for the Bank

	2012			
		Term to maturity		
R million	**Carrying amount**	**Call – 3 months**	**3 – 12 months**	**> 12 months**
Maturity analysis of assets and liabilities based on the present value of the expected payment				
Total assets	**690 134**	**267 538**	**59 783**	**362 813**
Total equity and liabilities	**690 134**	**470 866**	**70 102**	**149 166**
Net liquidity gap	**–**	**(203 328)**	**(10 319)**	**213 647**
Cumulative liquidity gap	**–**	**(203 328)**	**(213 647)**	**–**

	2011*			
		Term to maturity		
R million	Carrying amount	Call – 3 months	3 – 12 months	> 12 months
Maturity analysis of assets and liabilities based on the present value of the expected payment				
Total assets	616 695	223 251	52 292	341 152
Total equity and liabilities	616 695	433 895	66 422	116 378
Net liquidity gap	–	(210 644)	(14 130)	224 774
Cumulative liquidity gap	–	(210 644)	(224 774)	–

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

INTEREST RATE RISK IN THE BANKING BOOK

Introduction and objectives (audited)

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

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

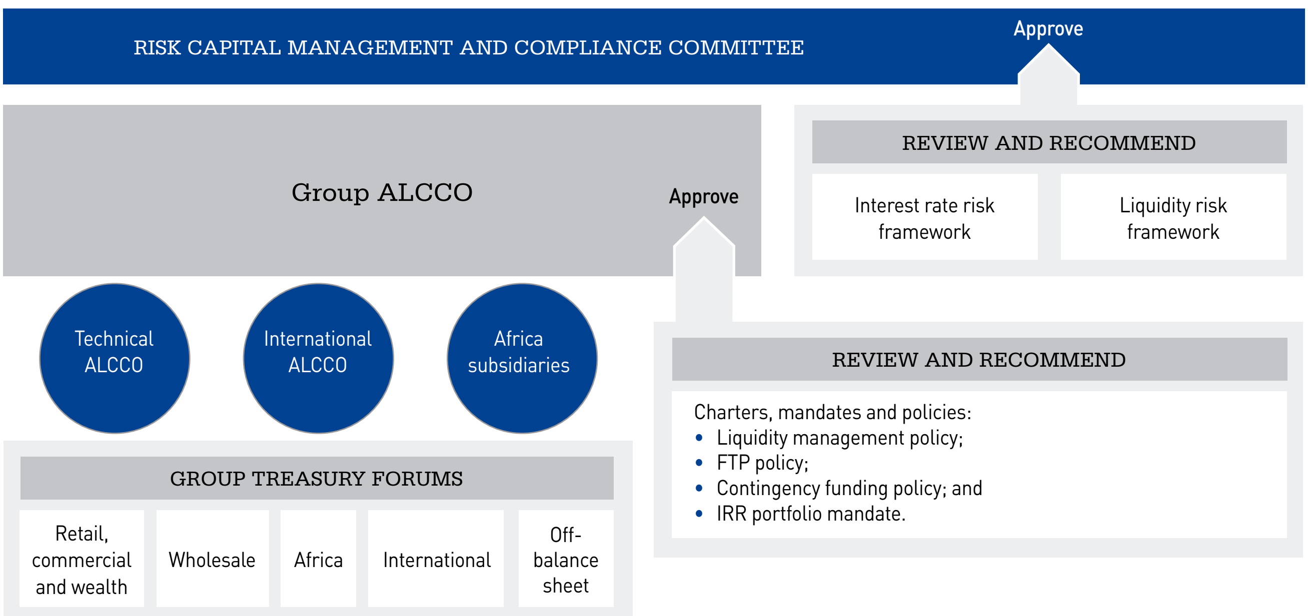
IRRBB originates from the differing repricing characteristics of balance sheet instruments, yield curve risk, basis risk and client optionality embedded in banking book products. It is an inevitable risk associated with banking and can be an important source of profitability and shareholder value. IRRBB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

Organisational structure and governance

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

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

Interest rate risk management and governance structure



Assessment and management (audited)

Management and monitoring of FRB's domestic banking book is split between the RMB book and the remaining domestic banking book. RMB manages the banking book under its market risk framework, as such, risk is measured and monitored in conjunction with the trading book with management oversight provided by MIRC. The RMB banking book interest rate risk exposure was R79.7 million on a 10-day ETL basis at 30 June 2012 (June 2011 R45.9 million). Refer to *Market risk* section on page 73. Any reference in future relating to the banking book excludes the RMB book.

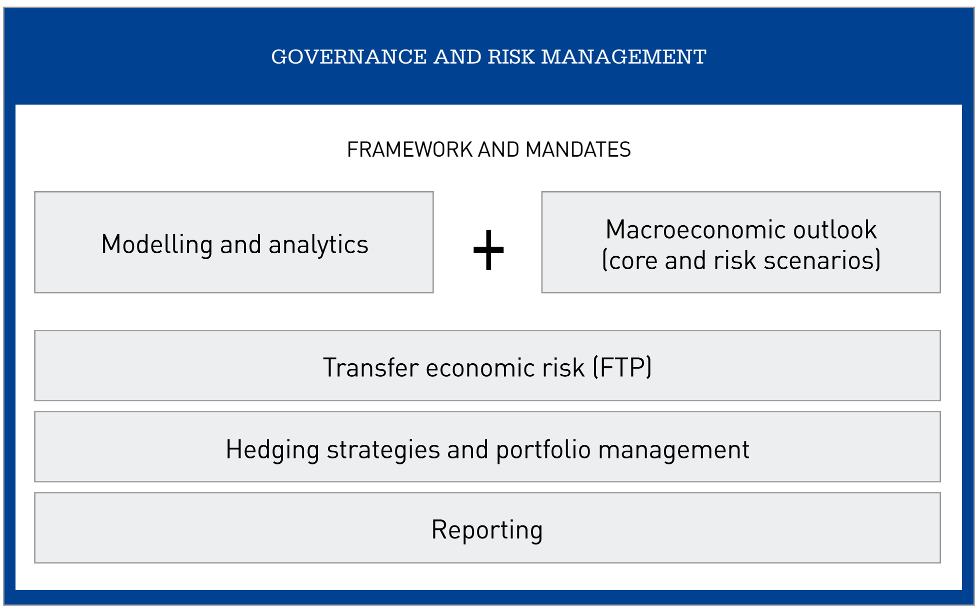
The remaining banking book consists predominantly of retail balances from FNB and WesBank and the Corporate Centre balance sheet. This is managed centrally by Group Treasury with oversight from Corporate Centre risk management. The Group Treasury investment committee meets regularly to discuss and propose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

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

A number of measurement techniques are used to measure IRRBB; these focus on the net interest income (NII) sensitivity/earnings risk and the overall impact on economic value of equity (EVE) and daily PV01 measures.

The interest rate risk from the fixed book is managed to low levels with remaining risk stemming from timing and basis risk. The primary driver of NII sensitivity relates to the non- and low-rate products in the balance sheet, the endowment book. This has an adverse impact on the Bank's NII margin in a cutting cycle as the decrease in NII from assets repricing to lower rates is not offset by a corresponding interest saving from liabilities. In the current rate cycle, the average repo rate for the year dropped by 29 bps, resulting in a negative endowment impact on the Bank's margin.

Interest rate risk management and assessment



Current repricing profile (audited)

The natural position of the banking book is asset sensitive, since interest-earning assets tend to reprice faster than interest-paying liabilities in response to interest rate changes.

In calculating the repricing gap, all banking book assets, liabilities and derivative instruments are placed in gap intervals based on their repricing characteristics. Non-maturing deposits and transmission accounts for which rates are administered by the Bank are considered to reprice overnight. No prepayment assumptions are applied.

Repricing schedules for the Bank

	2012				
	Term to repricing				
R million	**< 3 months**	**> 3 but < 6 months**	**> 6 but within 12 months**	**> 12 months**	**Non-rate sensitive**
FirstRand Bank Limited					
Net repricing gap	**23 422**	**(4 164)**	**(5)**	**15 650**	**(34 903)**
Cumulative repricing gap	**23 422**	**19 258**	**19 253**	**34 903**	**–**

	2011				
	Term to repricing				
R million	< 3 months	> 3 but < 6 months	> 6 but within 12 months	> 12 months	Non-rate sensitive
FirstRand Bank Limited					
Net repricing gap	52 582	(2 746)	(12 145)	(8 061)	(29 630)
Cumulative repricing gap	52 582	49 836	37 691	29 630	–

This repricing gap analysis excludes the banking books of RMB and the international statement of financial position, both of which are separately managed on an ETL and VaR basis.

Sensitivity analysis

NII sensitivity

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

The tables below show the 12-month NII sensitivity for a 200 downward parallel shock to interest rates. The decreased sensitivity in June 2012 from June 2011 is attributable to an increase in the use of derivative positions to manage interest rate risk in line with the macroeconomic outlook. In the prior year, the book was positioned for rate hikes. However, due to the rising threat of a crisis in Europe and growing global growth concerns, hedges have been put in place to provide greater NII margin stability in the event of further rate reductions.

Assuming no change in the balance sheet and no management action in response to interest rate movements, an instantaneous and sustained parallel decrease in interest rates of 200 bps would result in a reduction in projected 12-month NII of R1 514 million, a similar increase in interest rates would result in an increase in projected 12-month NII of R1 562 million.

Sensitivity of the Bank's projected NII

Change in projected 12 month NII		
R million	**2012**	2011
Downward 200 bps	**(1 514)**	(2 013)
Upward 200 bps	**1 562**	2 027

The NII sensitivity analysis excludes the banking books of RMB and the international balance sheet, both of which are managed separately on a fair value basis.

Economic value of equity (EVE)

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

The table below shows the EVE measures for a –200 bps and +200 bps instantaneous, parallel shock to rates on open positions run in Group Treasury. This is shown as a percentage of total Tier 1 and Tier 2 capital for the Bank. The change in the current year is attributable to growth in the retail fixed book and the additional hedges put in place to minimise interest rate risk in line with the macroeconomic outlook.

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

R million/%	**2012**	2011
Downward 200 bps		
Available-for-sale	**1 008**	1 186
Cash flow	**(1 006)**	(1 390)
Total sensitivity	**2**	(204)
As % of Tier 1 and Tier 2 capital	**0.005%**	(0.477%)
Upward 200 bps		
Available-for-sale	**(871)**	(1 044)
Cash flow	**916**	1 315
Total sensitivity	**45**	271
As % of Tier 1 and Tier 2 capital	**0.084%**	0.634%

The NII sensitivity analysis excludes the banking books of RMB and the international balance sheet, both of which are managed separately on a fair value basis.

OPERATIONAL RISK

Introduction and objectives (audited)

The Group processes large volumes of simple and complex transactions on a daily basis. The ability to process these transactions effectively is impacted by failure of IT systems and infrastructure, internal or external fraud, litigation, business disruption or process failure. Disruptions in power supplies, complex systems and interconnectivity with other financial institutions and exchanges increase the risk of operational failure. Operational risk can also cause reputational damage, and therefore, efforts to identify, manage and mitigate operational risk are equally sensitive to reputational risk as well as the risk of financial loss.

The Group uses a variety of approaches and tools in the assessment, measurement and management of operational risk. ERM, the Group risk management function independent of the revenue-producing units, is responsible for developing and ensuring the implementation of the operational risk management framework (ORMF) and its supporting policies to manage operational risk, and provides regular reports of operational risk exposures to the Board via the Group's risk governance structures. ERM is supported in its tasks by deployed segment and divisional risk managers, using Group-wide control standards endorsed by senior management and through the training of staff in a process of identifying, measuring, monitoring and reporting operational risk.

The year under review has strengthened the Group's view that the management of operational risk is an ongoing process that must be routinely defined, refined and re-examined. Existing policies, methodologies, processes, systems and infrastructure are frequently evaluated for relevance to ensure that the discipline remains at the forefront of operational risk management and in line with regulatory developments and emerging best practices.

The Group recognises that managing operational risk effectively is not only a key capability but also provides a competitive advantage when addressing the balance between risk and reward. Providing and operating within the defined operational risk appetite levels remains a key operational risk strategic objective for the year ahead.

The overall objective of operational risk management is to enhance the level of risk maturity across the Group by implementing and embedding process-based risk and control identification and assessments and integrating the operational risk management advanced management approach (AMA) elements for a more comprehensive view of the operational risk profile.

The year under review

An exercise to identify inherent high risk areas and prioritise these for the rollout of the processed-based risk and control identification and assessment is underway. This assessment aims to provide a comprehensive view of a business' operational risk profile based on end-to-end processes. Work is underway to integrate and automate the Group's operational risk management tools onto a single platform to enhance operational risk management processes. There are, furthermore, a number of Group-wide initiatives focusing on improving the internal control environment.

In order to ensure that the Group's operational risk practices remain in line with global and emerging operational risk management standards, its practices have been benchmarked against the recently issued BCBS's Principles for the Sound Management of Operational Risk and Operational Risk – Supervisory Guidelines for the AMA.

The Group's current focus is to refine operational risk appetite levels and to monitor operational risk exposure against the set appetite levels across all the divisions within the Group.

Organisational structure and governance

The Board has delegated its responsibility for the governance and oversight over the management of operational risk to the Operational risk committee (ORC), a subcommittee of the RCC committee. The ORC provides governance, supervision, oversight and coordination of relevant operational risk processes as set out in the board approved ORMF, a subframework of the BPRMF. Members of the ORC include a non-executive board member and an independent specialist advisory member, franchise heads of operational risk and the head of operational risk for the Bank.

In addition, governance committees at all levels of the Bank (business unit, segment and franchise) support the ORC and RCC committees in the execution of risk management duties and responsibilities.

Measurement

Basel – advanced measurement approach

FirstRand began applying AMA under Basel from 1 January 2009 for the Group's domestic operations. Under AMA, FirstRand is allowed to use a sophisticated statistical model for the calculation of capital requirements, which enables more accurate risk-based measures of capital for all business units on AMA.

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

Scenarios are derived through an extensive analysis of the Bank's operational risks in consultation with business and risk experts from the respective business areas. Scenarios are cross referenced to external loss data, internal losses, risk and control self assessments and other pertinent information about relevant risk exposures. To ensure the ongoing accuracy of risk and capital assessments, all scenarios are reviewed, supplemented or updated semi-annually, as appropriate.

The loss data used for risk measurement, management and capital calculation is collected for all seven Basel event types across various internal business lines. Data collection is the responsibility of the respective business units and is overseen by the operational risk management team in ERM.

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

Capital requirements are calculated for each franchise using the AMA capital model and then allocated to the legal entities within the Bank based on gross income contribution ratios. This split of capital between legal entities is required for internal capital allocation, regulatory reporting and performance measurement purposes.

Business practices continuously evolve and the operational risk control environment is, therefore, constantly changing as a reflection of the underlying risk profile. The assessment of the operational risk profile and exposures and associated capital requirements take the following into account:

- changes in the operational risk profile, as measured by the various operational risk tools;
- material effects of expansion into new markets, new or substantially changed products or activities as well as the closure of existing operations;
- changes in the control environment – the organisation targets a continuous improvement in the control environment, but deterioration in effectiveness is also possible due to, for example, unforeseen increases in transaction volumes; and
- changes in the external environment, which drives certain types of operational risk.

Assessment and management

Operational risk assessment and management approaches and tools (audited)

The Bank obtains assurance that the principles and standards in the ORMF are being adhered to by the three lines of control model integrated in operational risk management. In this model, business units own the operational risk profile as the first line of control. In the second line of control ERM is responsible for consolidated operational risk reporting, policy ownership and facilitation and coordination of operational risk management and governance processes. GIA, as the third line of control, provides independent assurance of the adequacy and effectiveness of operational risk management processes and practices.

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

Risk and capital management report continued

Operational risk assessment, management approaches and tools

OPERATIONAL RISK TOOLS AND APPROACHES

RISK CONTROL SELF ASSESSMENTS (RCSA) PROCESS-BASED AND CONTROL ASSESSMENTS (PRCIA)	KEY RISK INDICATORS (KRI)
• integrated in the day-to-day business and risk management processes; • used by business and risk manager to identify and monitor key risk areas and assess the effectiveness of existing controls; and • PRCIA (currently being rolled out) is the risk and control assessment per product/service based on key business processes.	• used across the Group in all businesses as an early warning measure; • highlight areas of changing trends in exposures to specific key operational risks; and • inform operational risk profiles which are reported periodically to the appropriate management and risk committees and are monitored on a continuous basis.
INTERNAL/EXTERNAL LOSS DATA	**RISK SCENARIOS**
• the capturing of internal loss data is well entrenched within the Group; • internal loss data reporting and analyses occur at all levels with specific focus on the root cause and process analysis and corrective action; and • external loss databases are used to learn from the loss experience of other organisations and as an input to the risk scenario process.	• risk scenarios are widely used to identify and quantify low frequency extreme loss events; • senior executives of the business actively participate in the bi-annual reviews; and • the results are tabled at the appropriate risk committees and are used as input to the capital modelling process.

As the PRCIA is rolled out across the Bank over a period, it will replace the RCSA to ensure that a comprehensive assessment of risks and controls across end-to-end business processes is conducted.

FirstRand uses an integrated and renowned operational risk system which is well positioned as the core operational risk system and provides a solid platform for automation of all the operational risk tools. The automation and integration of all the operational risk tools on the operational risk system is currently a key focus area for management.

Operational risk losses

As operational risk cannot be avoided or mitigated entirely, frequent operational risk events resulting in small losses are expected as part of business operations (e.g. external fraud) and are budgeted for appropriately. Business areas minimise these losses through continuously monitoring and improving relevant business and control practices and processes. Operational risk events resulting in substantial losses occur much less frequently and the Bank strives to minimise these and contain frequency and severity within its risk appetite limits.

Given the ever-changing and complex nature of its business and processes, the Bank employs a dynamic approach to managing operational risk and this approach results in continuous change or renewal. It is common practice, when implementing change of this nature, to address less than optimal operational processes with meaningful adjustments to risk management.

Boundary event (audited)

During the year under review FNB deployed a new management team into its merchant acquiring business. This unit provides Speedpoint devices at various merchants that accept credit, cheque and debit cards as a form of payment. FNB acquires these transactions and pays the merchant; it then recovers these payments to the merchants from the banks that issue cards to their customers and charges a fee for this process. FNB also settles its own customer transactions through the other banks.

The new team subsequently discovered the deliberate concealment, by certain members of the business unit staff, of payments made to merchants that remained unrecovered from the card issuers. Since 2008, staff had built a complex web of manipulated transactions that proved very difficult to detect by internal and external lines of control. No evidence of personal financial gain had been uncovered and no customers have been negatively impacted by this issue.

In line with best practice, the Board and FNB management appointed the services of an independent auditing firm to investigate the issue, including the surrounding operational control environment. This investigation has now been completed and the gross unrecovered amount after actual recoveries is confirmed at R915 million for the year to 30 June 2012. The Bank has written off R705 million of the amount as a bad debt. The remaining exposure is expected to be recovered over time. Refer to page 48 Impairment of financial assets and NPLs in the *Credit risk* section of this report.

The Board and management continue to refine the approach of linking key business processes to the operational risk and control environment.

Internal validation

In order to ensure consistency in the application and output of the various operational risk tools, a Bank internal validation is undertaken annually. This process involves a robust challenge of all the operational risk tools at all levels within the Bank. A report is issued on the final results of the internal validation exercise to the business for action where necessary.

Internal audit findings

GIA acts as the third line of risk control across the Bank and provides an independent view on the adequacy of existing controls and their effectiveness in mitigating risks associated with key and supporting processes. Audit findings are tracked, monitored and reported on through the risk management and governance processes and structures.

Risk management processes

Within operational risk, a number of key risks exist in respect of which specialised teams, frameworks, policies and processes have been established and integrated into the broader operational risk management and governance processes as described below.

Business resilience management

Business resilience management (BRM) focuses on ensuring that the Bank's operations are resilient to the risk of severe disruptions caused by internal failures or external events. The Business resilience steering committee, a subcommittee of the ORC, has oversight of BRM .

The business continuity practices of the Bank are documented in the Bank's business resilience policy and supporting standards, which are approved at the ORC. The policy, a subframework of the ORMF, requires the development and maintenance of business continuity strategies and plans. It also requires regular business continuity assessments and testing to be carried out in all business units and the results reported to the Business resilience steering committee.

The Bank carries out regular reviews of BRM practices and any disruptions or incidents are regularly reported to the relevant risk committees. Over the reporting period, the Bank successfully invoked and revoked full disaster recovery with respect to its primary systems.

Legal risk

The legal risk management framework, a subframework of the ORMF, addresses and seeks to guide the operations of the Bank in areas such as the creation and ongoing management of contractual relationships, the management of disputes, which do or might lead to litigation, the protection and enforcement of property rights (including intellectual property) and failure to account for the impact of the law or changes in the law brought about by legislation or the decisions of the courts. Whilst compliance with law is a major element of legal risk, RRM, through the regulatory risk management governance framework and attendant programme manages this aspect of legal risk. Added to these substantive and direct risks is the management of risk around the procurement of external legal resources.

A legal risk management programme is in place to work towards the ultimate goal of ensuring that comprehensive, sound operational risk governance practices and solutions are adopted in respect of legal risk management which represent best practice and aligns to the Bank's overall risk management programme. The Legal risk committee, a subcommittee of the ORC, has oversight of legal risk management.

Information risk

Information risk is concerned with the protection of information and information systems against unauthorised access, destruction, modification, use and disclosure. The goal is to ensure the confidentiality, availability and integrity of all information and the systems that maintain, process and disseminate this information.

The Bank's information technology risk management framework, acceptable use of information resources policy and information security policy provide the basis for the management of IT risk and information security within the Bank.

The IT risk management framework, a subframework of the ORMF, defines the objectives of IT risk management and the processes that are to be embedded, managed and monitored across the Bank for the effective management of IT risk.

During the reporting period the Bank's IT risk and information security governance structures have been reviewed and restructured to ensure specialised focus on IT risk and information security at the appropriate levels.

The IT risk management tools currently in use are being reviewed to ensure phased integration with the broader operational risk management tools like the PRCIA tool. This integration will ensure that IT risks are identified and managed as part of the management of operational risks in the end-to-end business processes.

Fraud and security risks

Fraud risk is defined as the risk of loss resulting from unlawfully making, with intent to defraud, a misrepresentation which causes actual prejudice or which is potentially prejudicial to another. Fraud incorporates both internal (staff) criminal activities as well as those that emanate from an external source.

Fraud risk is governed by the fraud risk management framework, which is a subframework of the ORMF. The Bank utilises a deployed fraud risk management model that requires businesses to institute processes and controls specific and appropriate to its operations within the constraints of a consistent governance framework that is overseen by the fraud risk management function reporting to the Group CRO.

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

Risk insurance

The Bank has a structured insurance risk financing programme in place which has been developed over many years to protect the Bank against unexpected material losses arising from non-trading risks. The insurance risk programme is continuously refined and enhanced through ongoing assessment of the changing risk profiles, organisational strategy and growth and the monitoring of international insurance markets. The levels and extent of the various insurance covers are reviewed and benchmarked annually.

The Bank's insurance-buying philosophy is to carry as much risk on its own account as is economically viable and to only protect it against catastrophic risks through the use of third party insurance providers. Accordingly, the majority of cover is placed into the Bank's wholly-owned first party dedicated insurance company, FirstRand Insurance Services Company Limited (FRISCOL). All cover on the main programme are placed with reinsurers with a minimum credit rating of A-. The insurance programme includes *inter alia,* cover for operational risk exposures, such as professional indemnity, directors and officers liability, crime bond, public and general liability, etc. The Bank, however, does not consider insurance as a mitigant in the calculation of capital for operational risk purposes.

REGULATORY RISK

Introduction and objectives

In FirstRand, the Group's RRM function plays an integral part in managing the risks inherent in banking. The Bank fosters a compliance culture in its operations that contributes to the overall objective of prudent regulatory compliance and risk management by observing both the spirit and the letter of the law as an integral part of its business activities. The compliance culture also embraces broader standards of integrity and ethical conduct which concerns all employees.

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

The objective of the RRM function is to ensure that business practices, policies, frameworks and approaches across the organisation are consistent with applicable laws and that regulatory risks are identified and managed proactively throughout the Bank. This objective culminates in the maintenance of an effective and efficient regulatory risk management framework with sufficient operational capacity throughout the Bank to promote and oversee compliance with legislative and best practice requirements.

It is of paramount importance that the Bank ensures compliance with, among others, the provisions of the Banks Act, 1990 (Act No. 94 of 1990 – the Act) and the Regulations relating to Banks and ensures that all compliance issues identified in this context are effectively and expeditiously resolved by senior management with the assistance of RRM. Similarly, compliance with other important legislative and regulatory requirements such as anti-money laundering legislation and the combating of the financing of terrorism standards requires close cooperation with and interaction between RRM, other functions within the Bank and the various regulatory authorities.

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

The year under review

The most notable development and focus area in respect of regulatory reforms is the anticipated implementation of a twin peaks model of financial regulation in South Africa and ongoing adjustments to the regulatory framework in terms of the implementation of the Basel III reforms.

The new Regulations relating to Banks became effective on 1 January 2012 and incorporated, among others, amendments and additions to supervisory standards and banking legislation. In addition, as South Africa is following international best practices and standards on financial regulation, supervision and market conduct, it is anticipated that ongoing changes in these areas, which are based mainly on the lessons learnt from the global financial crisis, will be incorporated into the regulatory framework.

Organisational structure and governance

Responsibility for ensuring compliance with all relevant laws, related internal policies, regulations and supervisory requirements rests with the Board. In order to assist board members to make informed judgements on whether the Bank is managing its regulatory and compliance risks effectively, the head of RRM has overall responsibility for coordinating the management of the Bank's regulatory risk, including monitoring, assessing and reporting on the level of compliance to senior management and the Board. RRM complies with the prescribed requirements in terms of regulation 49 of the Regulations and its mandate is formalised in the Bank's compliance risk management framework.

Governance oversight of the RRM function is conducted by a number of committees such as the RRM, RCC and Audit committees, all of which receive regular detailed reports on the level of compliance and instances of material non-compliance from RRM.

In addition to the centralised RRM function, each of the operating franchises have dedicated compliance officers responsible for implementing and monitoring compliance policies and procedures related to their respective franchises.

FirstRand has proactively formalised the governance of social and ethics performance through the establishment of the Social and ethics committee and is taking steps to ensure the optimal functioning of Group-wide ethics management processes. The FirstRand Group code of ethics is the cornerstone of FirstRand's ethics management framework.

Upon joining the Group all directors are obliged to sign a pledge to adhere to the FirstRand Group code of ethics. This code addresses duties of care and skill, good faith, honesty, integrity and whistle blowing. It also addresses processes for dealing with conflicts of interest and the need to always act in the best interests of the Group. Guidance on political donations and solicitation of gifts is provided in the code of ethics. No issues of impropriety or unethical behaviour on the part of any of the directors were drawn to the attention of the committee during the year.

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

Assessment and management

RRM's board mandate is to ensure full compliance with statutes and regulations. To achieve this, RRM has implemented appropriate structures, policies, processes and procedures to identify regulatory and supervisory risks. RRM monitors the management of these risks and reports on the level of compliance risk management to both the Board and the Registrar of Banks. These include:

- risk identification through documenting which laws, regulations and supervisory requirements are applicable to FirstRand;
- risk measurement through the development of risk management plans;
- risk monitoring and review of remedial actions;
- risk reporting; and
- providing advice on compliance-related matters.

Although independent of other risk management and governance functions, the RRM function works closely with GIA, ERM, external audit, internal and external legal advisors and the company secretary's office to ensure the effective functioning of the compliance processes.

Public policy and regulatory affairs office

The Bank's newly established Public policy and regulatory affairs office provides the Bank with a central point of engagement, representation and coordination in respect of relevant regulatory and public policy related matters, at a strategic level. This function is differentiated from the existing and continuing engagement with regulators at an operational level (i.e. regulatory reporting, compliance and audit) with its main objective to ensure that executives across the Bank and the franchises are aware of key developments relating to public policy, legislation and regulation which are considered pertinent to the Bank's business activities and to support executives in developing the Bank's position on issues pertaining to government policy, proposed and existing legislation and regulation.

Directors' responsibility statement

TO THE MEMBERS OF FIRSTRAND BANK LIMITED

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

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

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

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

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

It is the responsibility of the company's independent external auditors, Deloitte & Touche and PricewaterhouseCoopers Inc, to report on the fair presentation of the annual financial statements. Their unqualified report appears on page 98.

The separate annual financial statements of the company, which appear on pages 99 to 251 and specified sections of the risk and capital management report were approved by the Board of directors on 10 September 2012 and are signed on its behalf by:

SE Nxasana
Chief executive officer

JP Burger
Financial director

Sandton
10 September 2012

Audit committee report

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

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

The Audit committee has reviewed the annual report and recommended it to the Board for approval.

On behalf of the Group Audit committee

JH van Greuning

JH van Greuning
Chairman, Audit committee

Sandton
10 September 2012

Independent auditors' report

TO THE SHAREHOLDERS OF FIRSTRAND BANK LIMITED

We have audited the financial statements of FirstRand Bank Limited, set out on pages 100 to 247, which comprise the statement of financial position as at 30 June 2012, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notice comprising a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of FirstRand Bank Limited, as at 30 June 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Other reports required by the Companies Act

As part of our audit of the financial statements for the year ended 30 June 2012, we have read the directors' report, the Audit committee's report and the company secretary's certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements.

These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

Deloitte & Touche

Deloitte & Touche.
Registered auditor
Per Kevin Black
Partner

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc
Director: T Winterboer
Registered auditor

10 September 2012

Directors' report

NATURE OF BUSINESS

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

SHARE CAPITAL

The following shares were issued during the period:

17 October 2011	1 ordinary share at a par value of R2.00
26 March 2012	1 ordinary share at a par value of R2.00

Details of FirstRand Bank Limited's share capital are presented in note 28 of the financial statements.

DIVIDENDS

Ordinary cash dividends of R5 235 million were paid during the 2012 financial year (2011: R3 072 million)

Dividends of R183 million were paid on non-cumulative non-redeemable preference shares. (2011: R201 million)

OWNERSHIP OF FIRSTRAND BANK LIMITED

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

PROFIT AFTER TAX

Profit after tax amounted to R9 717 million (2011: R7 986 million).

CONSOLIDATED FINANCIAL REPORTS

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

LONG-TERM INCENTIVE SCHEMES

Details of the long-term incentive schemes established for the benefit of employees of the Bank by FirstRand Limited can be found in note 29 of the financial statements.

Company secretary's certificate

Declaration by the company secretary in respect of section 88(2)(e) of the Companies Act.

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

BW Unser
Company secretary

10 September 2012
Sandton

Accounting policies

1 INTRODUCTION

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

2 BASIS OF PRESENTATION

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

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

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

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

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

- *IFRS 7 Financial Instruments:* Disclosures amended in October 2010 to include additional disclosure requirements for financial assets transferred but not derecognised and for financial assets that are derecognised, but the entity retains some form of continuing involvement after the transaction. This amendment addresses disclosure in the annual financial statements and does not impact the recognition and measurement of financial assets.
- *IAS 24 Related Party Disclosures* was amended to remove certain disclosure requirements for government-related entities, clarifies the definition of a related party and introduces a requirement for entities to disclose commitments to related parties. This amendment addresses disclosure in the annual financial statements and does not affect recognition and measurement.
- As part of its annual improvements project the IASB made amendments to a number of accounting standards. The aim is to clarify and improve the accounting standards. The improvements include those involving terminology or editorial changes with minimal effect on recognition and measurement. The annual improvements project for 2010 is effective for annual periods commencing on or after 1 January 2011. The Bank has adopted the amendments made as part of the annual improvement project for 2010 during the current financial year, with the exception of the improvements made to IFRS 3 and IAS 27, which were effective for annual periods commencing on or after 1 July 2010. These amendments do not have a significant impact on the Bank's results nor has it resulted in the restatement of prior year numbers.
- *IFRIC 14:* IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (amendments with respect to voluntary prepaid contributions): was amended to remedy an unintended consequence of IFRIC 14. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC 14 was issued and the amendments correct this. The amendments are effective for annual periods beginning 1 January 2011. This amendment does not have a significant impact on the Bank's results nor has it resulted in the restatement of prior year numbers.

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

- financial assets and liabilities held for trading;
- financial assets classified as available-for-sale;
- derivative financial instruments;
- financial instruments elected to be carried at fair value through profit and loss; and
- employee benefit liabilities, valued using the projected unit credit method.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are outlined in note 40.

The Bank adjusts comparative figures to conform to changes in presentation in the current year. For details refer to accounting policy note 30. All monetary information and figures presented in these financial statements are stated in millions of South African Rand (R million), unless otherwise indicated.

3 SUBSIDIARY COMPANIES

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

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

4 ASSOCIATES AND JOINT VENTURES

Associates are entities in which the Bank holds an equity interest of between 20% and 50%, but does not control. The Bank is presumed to have significant influence where it holds an equity interest of between 20% and 50%. Joint ventures are entities in which the Bank has joint control over the economic activity of the joint venture, through a contractual arrangement. Investments acquired and held exclusively with the view to dispose of in the near future (within 12 months) are not accounted for using the equity accounting method, but are measured at fair value less cost to sell in terms of the requirements of IFRS 5.

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

5 INTEREST INCOME AND EXPENSE

The Bank recognises interest income and expense in profit or loss for instruments measured at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability by allocating the interest income or interest expense over the average expected life of the financial instruments or portfolios of financial instruments.

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

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

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

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

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

6 FAIR VALUE INCOME

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

7 NET FEE AND COMMISSION INCOME

7.1 Fee and commission income

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

Fees and transaction costs that do not form an integral part of the effective interest rate are recognised as income when the outcome of the transaction involving the rendering of services can be reliably estimated. Fees related to services rendered are recognised as fee and commission income on an accrual basis when the service is rendered, for example, banking fee and commission income, and asset management and related fees. The Bank recognises fees that are earned on the execution of a significant act, for example knowledge-based fee and commission income and non-banking fee and commission income when the significant act has been completed.

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

7.3 Fee and commission expenses

Fee and commission expenses are expenses that are incremental or directly attributable to the generation of fee and commission income. Fee and commission expenses include transaction and service fees, which are expensed as the services are received. Fee and commission expenses that form an integral part of the effective interest rate of a financial instrument are recognised as part of net interest income.

8 DIVIDEND INCOME

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

8.1 Distribution of non-cash assets to owners

A dividend payable is recognised when the distributions are appropriately authorised by the shareholders and is no longer at the discretion of the entity. The Bank measures the liability to distribute the non-cash assets as a dividend to owners at the fair value of the asset to be distributed. The carrying amount of the dividend payable is remeasured at the end of each reporting period and the settlement date, with changes recognised in equity as an adjustment to the distribution. The difference between the carrying amount of the assets distributed and the fair value of the assets on the date of settlement is recognised in profit or loss for the period.

Distributions of non-cash assets under common control are specifically excluded from the scope of IFRIC 17 and are measured at the carrying amount of the assets to be distributed.

9 FOREIGN CURRENCY TRANSLATION

9.1 Functional and presentation currency

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

9.2 Transactions and balances

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

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

Translation differences on non-monetary items, such as equities that are recognised at fair value through profit or loss, are reported as part of fair value income. Translation differences on non-monetary items classified as available-for-sale, such as equities, are reported as part of the fair value adjustment and are included in other comprehensive income when incurred.

Foreign exchange gains or losses on monetary items carried at amortised cost are recognised in profit or loss as part of foreign exchange differences, within non-interest income. Translation differences on monetary items carried at fair value through profit or loss are reported as part of the fair value gain or loss in profit or loss. Changes in the fair value of monetary securities denominated in foreign currency such as securities classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost and other changes in the fair value of the security. Translations differences relating to changes in the amortised cost are recognised in profit or loss and other changes in fair value are recognised in other comprehensive income.

10 BORROWING COSTS

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

11 DIRECT AND INDIRECT TAX

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

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

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

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

12 RECOGNITION OF ASSETS

12.1 Assets

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

12.2 Contingent assets

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

13 LIABILITIES, PROVISIONS AND CONTINGENT LIABILITIES

13.1 Liabilities and provisions

The Bank recognises liabilities, including provisions, when:

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

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

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

13.2 Contingent liabilities

The Bank discloses a contingent liability when:

- it has a possible obligation arising from past events, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- it has a present obligation that arises from past events but is not recognised because:
- it is not probable that an outflow of resources will be required to settle an obligation; or
- the amount of the obligation cannot be measured with sufficient reliability.

13.3 Acceptances

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

14 CASH AND CASH EQUIVALENTS

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

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

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

15 FINANCIAL INSTRUMENTS

15.1 General

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

The Bank classifies its financial assets in the following categories:

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

Financial liabilities are classified in the following categories:

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

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

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

Available-for-sale financial assets and financial instruments at fair value through profit or loss are subsequently measured at fair value. Loans and receivables and held-to-maturity investments

Accounting policies continued

are measured at amortised cost using the effective interest method, less any impairment. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income, until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income is recognised in profit or loss as gains less losses from investment activities. However, interest calculated on available-for-sale financial assets using the effective interest method is recognised in profit or loss as part of interest income. Dividends on available-for-sale equity instruments are recognised in profit or loss when the entity's right to receive payment is established and are included in investment income.

The Bank recognises purchases and sales of financial instruments that require delivery within the time frame established by regulation or market convention (regular way purchases and sales) at settlement date, which is the date the asset is delivered or received.

The fair values of financial assets quoted in active markets are based on current bid prices. The fair values of financial liabilities quoted in active markets are based on current ask/offer prices. When the Bank has assets and liabilities with offsetting market risks, it uses mid-market prices as a basis for establishing fair values for the offsetting risk positions and applies the ask/offer price to the net open position as appropriate. Alternatively the Bank derives fair value from cash flow models or other appropriate valuation models where an active market does not exist. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

15.1.1 Financial instruments at fair value through profit or loss

This category has two subcatogories: financial instruments held for trading, and those designated at fair value through profit or loss on initial recognition.

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

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

(i) results in the reduction of measurement inconsistency (or accounting mismatch) that would arise as a result of measuring assets and liabilities and the gains and losses on them on a different basis; or

(ii) is a group of financial assets and/or financial liabilities that is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and this is the basis on which information about the assets and/or liabilities is provided internally to the entity's key management personnel; or

(iii) is a financial asset or liability containing significant embedded derivatives that clearly require bifurcation.

The main financial assets and liabilities designated at fair value through profit and loss under criteria (i) are various advances to customers, structured notes and other investments that form part of the investment banking division. These financial instruments have been designated to eliminate the accounting mismatch between these assets and the underlying derivatives and funding instruments. If the assets were not designated at fair value through profit or loss, the mismatch would be as a result of the asset being recognised at amortised cost and the underlying derivatives and funding instruments that are recognised at fair value.

Financial instruments designated under criterion (ii), include certain private equity and other investment securities.

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

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

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

Gains and losses arising from changes in the fair value of the financial instruments at fair value through profit or loss are included in profit or loss in the period in which they arise.

15.1.2 Loans and receivables

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

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

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

15.1.3 Held-to-maturity investments

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

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

15.1.4 Available-for-sale financial assets

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

The Bank recognises gains and losses arising from changes in the fair value of available-for-sale financial assets, in other comprehensive income. It recognises interest income on these assets as part of interest income, based on the instrument's original effective interest rate using the effective interest method. Interest income is excluded from the fair value gains and losses reported in other comprehensive income. When the available-for-sale financial assets are disposed of or impaired, the related accumulated fair value adjustments are included in profit or loss as gains less losses from investment activities. Dividends on available-for-sale equity instruments are recognised in profit or loss when the entity's right to receive payment is established and are included in investment income.

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

15.1.5 Financial liabilities

Financial liabilities are measured at amortised cost, except for certain liabilities that are designated as at fair value through profit or loss. Interest paid is recognised in profit or loss over the period of the borrowing using the effective interest method. Discounts or premiums on financial liabilities issued are amortised on a basis that reflects the effective interest rate on the instrument over their life span.

The Bank classifies a financial instrument that it issues as a financial liability or an equity instrument in accordance with the substance of the contractual agreement. If a financial instrument includes a contractual obligation to deliver cash or another financial asset, or to exchange financial assets or financial liabilities on potentially unfavourable terms, such as redeemable preference shares, the financial instrument is classified as a financial liability. An instrument is classified as equity if it evidences a residual interest in the assets of the Bank after the deduction of liabilities. Irrespective of their legal nature any dividends paid on instruments classified as financial liabilities are included in interest expense.

15.1.6 Compound financial instruments

The Bank separately measures and recognises the debt component of a compound financial instrument, such as an issued convertible bond, as a financial liability with the residual value separately allocated to equity. The initial fair value of the debt component is recognised at the fair value of a similar non-convertible instrument. The equity component is recognised initially as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their carrying values.

15.2 Offsetting financial instruments

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

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

15.3 Embedded derivatives

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

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

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

15.4 Derecognition of assets and liabilities

The Bank derecognises an asset when:

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

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

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

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

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

The Bank derecognises a financial liability, or part of a financial liability, when it is extinguished, i.e. when the obligation is discharged or cancelled or expired. A substantial modification of the terms and conditions of an existing financial liability or part of an existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new one.

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

15.5 Sale and repurchase agreements and securities lending

The financial statements reflect securities sold subject to a linked repurchase agreement (repos) as trading or investment securities. These instruments are recognised at fair value through profit or loss. The counterparty liability is included in deposits held under repurchase agreements. These financial liabilities are either carried at fair value or amortised cost.

Securities purchased under agreements to resell (reverse repos) are recorded as loans and advances relating to the purchase transactions and recognised in line with the requirements of IAS 39. The difference between purchase and resale price is treated as interest and accrued over the life of the reverse repos using the effective interest method.

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

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

15.6 Impairments of financial assets

15.6.1 General

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

15.6.2 Assets carried at amortised cost

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

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

- significant difficulty of the issuer or debtor;
- a breach of contract, such as a default or delinquency in payments;
- it becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be allocated to the individual financial assets in the group, including:
  - adverse changes in the payment status of issuers or debtors in the group; or
  - national or local economic conditions that correlate with defaults on the assets in the group.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and performs a collective assessment for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether we elect to foreclose or not.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due in accordance with the contractual terms of the assets being evaluated.

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

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

When a loan is uncollectible, it is written off against the related allowance account. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in profit or loss.

15.6.2.1 Past due advances

Advances are considered past due in the following circumstances:

- loans with a specific expiry date (e.g. term loans etc.) and consumer loans repayable by regular instalments (e.g. mortgage loans and personal loans) are treated as overdue where one full instalment is in arrears for one day or more and remains unpaid as at the reporting date: or
- loans payable on demand (e.g. overdrafts) are treated as overdue where a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instruction.

In these instances, the full outstanding amount is considered overdue even if part of it is not yet due.

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

15.6.2.2 Renegotiated advances

Financial assets that would otherwise be past due or impaired that have been renegotiated, are separately classified as neither past due nor impaired assets. Renegotiated advances are advances where, due to deterioration in the counterparty's financial condition, the Bank granted a concession where the original terms and conditions of the facility were amended and the counterparty is within the new terms of the advance. Advances are only classified as renegotiated if the terms of the renegotiated contract have not yet expired, and remain classified as such until the terms of the renegotiated contract expire. Where the advances are reclassified as neither past due nor impaired, the adherence to the new terms and conditions is closely monitored. Renegotiated advances excludes advances extended or renewed as part of the ordinary course of business for similar terms and conditions as the original. Non-performing advances cannot be reclassified as renegotiated unless the arrears balance has been repaid. Renegotiated but current financial assets are considered as part of the collective evaluation of impairment where financial assets are grouped on the basis of similar credit risk characteristics.

15.6.3 Available-for-sale financial assets

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or a group of available-for-sale financial assets is impaired.

In the case of equity investments classified as available-for-sale, objective evidence of impairment includes information about significant changes with an adverse effect on the environment in which the issuer operates and indicates that the cost of the investment in the equity instrument may not be recovered and a significant or prolonged decline in the fair value of the security below its cost. If any such objective evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value less any previously recognised impairment loss on that financial asset is removed from other comprehensive income and recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss.

In the case of a debt instrument classified as available-for-sale the same objective evidence of impairment as for financial assets measured at amortised cost is considered in determining if an impairment exists. The difference between the acquisition cost and the current fair value less any previous impairment losses recognised in profit or loss is removed from other comprehensive income and recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

15.7 Derivative financial instruments and hedging

The Bank initially recognises derivative financial instruments, including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options (both written and purchased) and other derivative financial instruments, on the statement of financial position at fair value. Derivatives are subsequently remeasured at their fair value with all movements in fair value recognised in profit or loss, unless it is a designated and effective hedging instrument.

The fair value of publicly traded derivatives is based on quoted bid prices for assets held or liabilities to be issued, and current offer prices for assets to be acquired and liabilities held.

The fair value of non-traded derivatives is based on discounted cash flow models and option pricing models as appropriate. The Bank recognises derivatives as assets when the fair value is positive and as liabilities when the fair value is negative.

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

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

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

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

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

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

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

15.7.1 Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss, together with any changes in the fair value of the hedged item that are attributable to the hedged risk. The fair value gain or loss relating to the effective portion of interest rate swaps and related hedged items are reflected in interest income or interest expense. Effective changes in fair value of currency futures are reflected in non-interest income. The gains or losses relating to the ineffective portion are recorded in fair value income.

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

15.7.2 Cash flow hedge

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

Amounts accumulated in other comprehensive income are reclassified to profit or loss in the periods in which the hedged item will affect profit or loss (for example, when the forecast sale that is hedged takes place) and are recognised as part of trading income.

When a hedging instrument expires or is sold or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss recognised the cash flow hedge reserve at that time remains in other comprehensive income and is recognised when the forecast transaction is recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to profit or loss.

Where the forecast transaction or a foreign currency firm commitment results in the recognition of a non-financial asset or a liability, the gains and losses previously deferred in other comprehensive income are transferred from other comprehensive income and included in the initial measurement of the cost of the non-financial asset or liability. For financial assets and liabilities, the Bank transfers amounts deferred in other comprehensive income to profit or loss and classifies them as revenue or expense in the periods during which the hedged firm commitment or forecast transaction affects profit or loss.

16 COMMODITIES AND BASE METALS

16.1 Agricultural commodities

Commodities where the Bank has a shorter term trading intention are carried at fair value less costs to sell in accordance with the broker trader exception in IAS 2. The fair value of agricultural commodities is determined in accordance with general fair value principles.

16.2 Other commodities and base metals

Commodities and base metals, where the Bank has a longer term investment intention, are carried at the lower of cost or net realisable value. Cost is determined using the weighted average method. Cost excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. The cost of commodities and base metals includes the amount of gains or losses on qualifying cash flow hedges previously recognised in other comprehensive income.

When the Bank acquires commodities and/or base metals as a broker-trader in order to benefit from short-term fluctuations in price or to earn a brokers' margin such commodities and/or base metals are measured at fair value less costs to sell and all changes in fair value less costs to sell are recognised in profit or loss in the period of the change.

Forward contracts to purchase or sell commodities and/or base metals, where net settlement occurs or where physical delivery occurs and the commodities are held to settle a further derivative contract, are recognised as derivative instruments and fair valued.

17 PROPERTY AND EQUIPMENT

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

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the replacement part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Property and equipment are depreciated on a straight line basis at rates calculated to reduce the book value of these assets to estimated residual values over their expected useful lives.

Freehold properties and properties held under finance lease are broken down into significant components that are depreciated to their respective residual values over the economic lives of these components.

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

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

18 LEASES

18.1 The Bank is the lessee

18.1.1 Finance leases

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

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

18.1.2 Operating leases

The Bank classifies leases as operating leases where the lessor effectively retains the risks and benefits of ownership. It recognises operating lease payments in profit or loss on a straight line basis over the period of the lease. Contingent rentals are expensed in the period incurred. Minimum rentals due after year end are reflected under commitments.

The Bank recognises as an expense any penalty payment to the lessor for early termination of an operating lease, in the period in which termination takes place.

18.2 The Bank is the lessor

18.2.1 Finance leases

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

18.2.2 Operating leases

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

18.3 Instalment credit agreements

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

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

19 INTANGIBLE ASSETS

19.1 Computer software development costs

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

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

19.2 Other intangible assets

The Bank expenses the costs incurred on internally generated intangible assets, such as trademarks, patents and similar rights and assets, to profit or loss in the period in which the costs are incurred. The costs incurred on the development of separately identifiable internally generated intangible assets, are capitalised by the Bank if:

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

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

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

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

20 DEFERRED INCOME TAX

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

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

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

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

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

The Bank reviews the carrying amount of deferred income tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

Current and deferred income tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and these relate to income taxes levied by the same tax authority on the same taxable entity or on different tax entities, but the entities intend to settle current tax liabilities and assets on a net basis or the tax assets and liabilities will be realised simultaneously.

21 EMPLOYEE BENEFITS

21.1 Post-employment benefits

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

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

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds, or in the absence of a deep and liquid corporate bond market, the yield on government bonds, that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

The Bank recognises current service costs immediately, while it expenses past service costs, experience adjustments, changes in actuarial assumptions and plan amendments over the expected remaining working lives of employees. The costs are expensed immediately in the case of retired employees.

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

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

21.2 Post-retirement medical benefits

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

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

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

21.3 Termination benefits

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

21.4 Leave pay provision

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

21.5 Bonuses

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

21.6 Recognition of actuarial gains and losses

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

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

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

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

The Bank does not recognise actuarial gains or losses in profit or loss in the period under review, but defers such gains or losses to future periods, unless the net cumulative unrecognised actuarial gains or losses at the end of the previous reporting period exceed the greater of:

- 10 % of the present value of the defined benefit obligation at that date (before deducting plan assets): and
- 10% of the fair value of any plan assets at that date.

22 SHARE CAPITAL

22.1 Share issue costs

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

22.2 Dividends paid

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

22.3 Distributions of non-cash assets

A dividend payable is recognised when the distributions are appropriately authorised and is no longer at the discretion of the entity. Distributions of non-cash assets to shareholders are measured at the fair value of the asset to be distributed. The carrying amount of the dividend payable is remeasured at the end of each reporting period and on settlement date, with changes recognised in equity as an adjustment to the distribution. The difference between the carrying amount of the dividend payable and the fair value of the assets on the date of settlement is recognised in profit or loss for the period.

Distributions of non-cash assets under common control are specifically excluded from the scope of IFRIC 17 and are measured at the carrying amount of the assets to be distributed.

22.4 Treasury shares

Where the Bank purchases its own equity share capital, the consideration paid, including any directly attributable incremental costs, is deducted from total shareholders' equity as treasury shares until they are reissued or sold. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental costs, is included in shareholders' equity.

23 SEGMENT REPORTING

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

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

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

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

24 FIDUCIARY ACTIVITIES

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

25 SHARE-BASED PAYMENT TRANSACTIONS

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

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

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

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

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

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

25.1 Equity settled share-based compensation plans

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

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

Amounts recognised for services received if the options granted do not vest because of failure to satisfy a vesting condition, are reversed through profit or loss. If options are forfeited after the vesting date, an amount equal to the value of the options forfeited is debited against the share-based payment reserve and credited against retained earnings in the statement of changes in equity.

The proceeds received net of any attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

25.2 Cash settled share-based payment compensation plans

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

26 DISPOSAL GROUPS HELD FOR SALE

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

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

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

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

The non-current assets and disposal groups held for sale will be reclassified immediately when there is a change in intention to sell. Subsequent measurement of the asset or disposal group at that date, will be the lower of:

- its carrying amount before the asset or disposal group was classified as held for sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset or disposal group not been classified as held for sale; and
- its recoverable amount at the date of the subsequent decision not to sell.

27 DISCONTINUED OPERATIONS

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

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

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

28 CUSTOMER LOYALTY PROGRAMMES

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

Expenses relating to the provision of the reward credits are recognised as fee and commission expenses as they are incurred.

29 SERVICE CONCESSION ARRANGEMENTS

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

30 RECLASSIFICATION OF PRIOR YEAR NUMBERS

During the financial year the following reclassifications were made to the income statement and statement of financial position:

R million	2011 As previously reported	2011 As restated	Reason for restatement
Income statement			
Non-interest income	26 003	23 774	Fee and commission expenses that are incremental or directly attributable to the generation of fee and commission income have been reclassified out of various operating expense lines into the fee and commission expense line. In addition, the presentation of fee and commission expenses has been updated by presenting it as part of fee and commission income and not as part of operating expenses. The presentation was updated to be in line with industry practice.
Operating expenses	23 420	21 191	

R million	2011 As previously reported	2011 As restated	2010 As previously reported	2010 As restated	Reason for restatement
Statement of financial position					
Creditors and accruals	6 199	5 395	6 171	4 468	During the current year a comprehensive review of the liability disclosure was undertaken by the Bank in order to ensure that the Bank's presentation was consistent with industry practice and to provide more detailed and useful information in the financial statements. A reclassification was required to bring the comparative numbers in line with the updated presentation.
Deposits	493 406	492 896	453 758	453 468	
Short trading positions	5 777	5 777	7 469	7 469	
Provisions	2 945	132	2 725	433	
Post-retirement liabilities	2 252	–	2 105	–	
Employee liabilities	–	6 510	–	5 014	
Other liabilities	–	518	–	295	
Tier 2 liabilities	–	6 391	–	7 365	
Long-term liabilities	7 040	–	6 284	–	

No other amounts reported in the statement of financial position or income statement were affected by the above reclassifications.

Income statement

for the year ended 30 June

R million	Notes	2012	2011
Interest and similar income	1.1	**37 644**	34 684
Interest expense and similar charges	1.2	**(22 428)**	(22 875)
Net interest income before impairment of advances		**15 216**	11 809
Impairment of advances	12	**(4 885)**	(3 637)
Net interest income after impairment of advances		**10 331**	8 172
Non-interest income	2	**27 164**	23 774
Income from operations		**37 495**	31 946
Operating expenses	3	**(24 818)**	(21 191)
Income before tax		**12 677**	10 755
Indirect tax	4.1	**(496)**	(503)
Profit before tax		**12 181**	10 252
Direct tax	4.2	**(2 464)**	(2 266)
Profit for the year		**9 717**	7 986
Profit attributable to:			
Ordinary equityholders		**9 534**	7 785
NCNR preference shareholders		**183**	201
Profit for the year		**9 717**	7 986

Statement of comprehensive income

for the year ended 30 June

R million	Notes	2012	2011
Profit for the year		**9 717**	7 986
Other comprehensive income/(loss)			
Cash flow hedges	5	**(419)**	21
Available-for-sale financial assets	5	**388**	(47)
Exchange differences on translating foreign operations	5	**177**	(133)
Other comprehensive income/(loss) for the year before tax		**146**	(159)
Deferred income tax relating to components of other comprehensive income		**(17)**	(46)
Other comprehensive income/(loss) for the year	5	**129**	(205)
Total comprehensive income for the year		**9 846**	7 781
Total comprehensive income attributable to:			
Ordinary equityholders		**9 663**	7 580
NCNR preference shareholders		**183**	201
Total comprehensive income for the year		**9 846**	7 781

Statement of financial position

at 30 June

R million	Notes	2012	2011*	2010*
ASSETS				
Cash and cash equivalents	7	**31 557**	29 012	22 745
Derivative financial instruments	8	**52 392**	36 666	38 944
Commodities	9	**5 108**	4 388	2 365
Accounts receivable	10	**3 301**	2 744	2 855
Tax asset		**253**	–	741
Advances	11	**482 745**	429 134	401 279
Amounts due by holding company and fellow subsidiary companies	13	**23 307**	19 234	14 443
Investment securities and other investments	14	**78 809**	83 810	79 979
Investments in subsidiary companies	15	**–**	–	279
Investments in associates	16	**243**	116	1 167
Property and equipment	17	**8 882**	8 480	7 816
Intangible assets	18	**336**	281	189
Post-employment benefit asset	25.3	**2 986**	2 830	2 483
Loans to insurance group		**–**	–	1 101
Non-current assets and disposal groups held for sale	20	**215**	–	–
Total assets		**690 134**	616 695	576 386
EQUITY AND LIABILITIES				
Liabilities				
Short trading positions	21	**4 019**	5 777	7 469
Derivative financial instruments	8	**53 666**	36 150	35 285
Creditors and accruals	22	**6 473**	5 395	4 468
Tax liability		**–**	95	–
Deposits	23	**545 796**	492 896	453 468
Provisions	24	**234**	132	433
Employee liabilities	25	**8 480**	6 510	5 014
Other liabilities	26	**922**	518	295
Amounts due to holding company and fellow subsidiary companies	13	**13 341**	20 841	21 868
Deferred income tax liability	19	**769**	1 348	1 702
Tier 2 liabilities	27	**7 437**	6 391	7 365
Loans from insurance group		**–**	–	3 394
Total liabilities		**641 137**	576 053	540 761
Equity				
Ordinary shares	28	**4**	4	4
Share premium	28	**15 304**	11 455	10 965
Reserves		**30 689**	26 183	21 656
Capital and reserves attributable to ordinary equityholders		**45 997**	37 642	32 625
NCNR preference share capital and share premium	28	**3 000**	3 000	3 000
Total equity		**48 997**	40 642	35 625
Total equity and liabilities		**690 134**	616 695	576 386

* *Refer to reclassification of prior year numbers on page 116.*

Statement of changes in equity

for the year ended 30 June

R million	Ordinary share capital and ordinary equityholders' funds			
	Share capital	Share premium	**Share capital and share premium**	Cash flow hedge reserve
Balance as at 30 June 2010	4	10 965	10 969	(467)
Issue of share capital	–	490	490	–
Movement in other reserves	–	–	–	–
Ordinary dividends	–	–	–	–
Preference dividends	–	–	–	–
Transfer (to)/from reserves	–	–	–	–
Changes in ownership interest in subsidiaries	–	–	–	–
Contribution from parent company	–	–	–	–
Total comprehensive income for the year	–	–	–	15
Balance as at 30 June 2011	**4**	**11 455**	**11 459**	**(452)**
Issue of share capital	**–**	**3 849**	**3 849**	**–**
Movement in other reserves	**–**	**–**	**–**	**–**
Ordinary dividends	**–**	**–**	**–**	**–**
Preference dividends	**–**	**–**	**–**	**–**
Total comprehensive income for the year	**–**	**–**	**–**	**(301)**
Balance as at 30 June 2012	**4**	**15 304**	**15 308**	**(753)**

Ordinary share capital and ordinary equityholders' funds							
Share-based payment reserve	Available-for-sale reserve	Foreign currency translation reserve	Other reserves	Retained earnings	**Reserves attributable to ordinary equity holders**	NCNR preference shares	**Total equity**
411	530	(291)	1 345	20 128	21 656	3 000	35 625
–	–	–	–	–	–	–	490
–	–	–	–	–	–	–	–
–	–	–	–	(3 072)	(3 072)	–	(3 072)
–	–	–	–	–	–	(201)	(201)
(88)	–	–	–	88	–	–	–
1	–	–	–	–	1	–	1
18	–	–	–	–	18	–	18
–	(87)	(133)	–	7 785	7 580	201	7 781
342	**443**	**(424)**	**1 345**	**24 929**	**26 183**	**3 000**	**40 642**
–	**–**	**–**	**–**	**–**	**–**	**–**	**3 849**
78	**–**	**–**	**–**	**–**	**78**	**–**	**78**
–	**–**	**–**	**–**	**(5 235)**	**(5 235)**	**–**	**(5 235)**
–	**–**	**–**	**–**	**–**	**–**	**(183)**	**(183)**
–	**253**	**177**	**–**	**9 534**	**9 663**	**183**	**9 846**
420	**696**	**(247)**	**1 345**	**29 228**	**30 689**	**3 000**	**48 997**

Statement of cash flows

for the year ended 30 June

R million	Notes	2012	2011
Cash flows from operating activities			
Cash receipts from customers	30.2	**62 854**	54 703
Cash paid to customers, suppliers and employees	30.3	**(41 603)**	(39 943)
Dividends received		**2 589**	2 721
Dividends paid*	30.7	**(5 418)**	(3 072)
Cash from operating activities	30.1	**18 422**	14 409
Increase in income earning assets	30.4	**(51 458)**	(35 676)
Increase in deposits and liabilities	30.5	**36 711**	30 004
Cash utilised by operations		**(14 747)**	(5 672)
Tax paid	30.6	**(3 941)**	(2 333)
Net cash (outflow)/inflow from operating activities		**(266)**	6 404
Cash flows from investing activities			
Acquisition of investment securities and other investments		**–**	(69)
Acquisition of associates#		**(205)**	(96)
Proceeds on disposal of associates#		**159**	1 530
Proceeds on disposal of subsidiaries#		**–**	967
Acquisition of property and equipment		**(2 704)**	(2 187)
Proceeds on disposal of property and equipment		**510**	192
Acquisition of intangible assets		**(217)**	(205)
Proceeds on disposal of intangible assets		**17**	–
Net cash (outflow)/inflow from investing activities		**(2 440)**	132
Cash flows from financing activities			
Proceeds from other liabilities		**391**	223
Proceeds from/(repayment of) Tier 2 liabilities		**987**	(974)
Proceeds from share issue		**3 849**	490
Net cash inflow/(outflow) from financing activities		**5 227**	(261)
Net increase in cash and cash equivalents		**2 521**	6 275
Cash and cash equivalents at the beginning of the year		**29 012**	22 745
Effect of exchange rate changes on cash and cash equivalents		**24**	(8)
Cash and cash equivalents at the end of the year	30.8	**31 557**	29 012

* *Dividends paid includes ordinary dividends of R5 235 million and preference dividends of R183 million in 2012 and only ordinary dividends of R3 072 million in 2011. Preference dividends paid of R201 million were included in cash paid to customers, suppliers and employees in 2011.*

\# *Refer to note 30 for information on the cash flows arising from acquisition and disposal of significant subsidiaries, associates and joint ventures.*

Notes to the annual financial statements

for the year ended 30 June

1 ANALYSIS OF INTEREST INCOME AND INTEREST EXPENDITURE

	2012				
R million	**Fair value**	**Amortised cost**	**Hedging instruments**	**Non-financial assets and liabilities**	**Total**
1.1 Interest and similar income					
– Advances	**–**	**31 921**	**–**	**–**	**31 921**
– Cash and cash equivalents	**–**	**853**	**–**	**–**	**853**
– Investment securities and other investments	**3 169**	**9**	**–**	**–**	**3 178**
– Unwinding of discounted present value on non-performing loans	**–**	**122**	**–**	**–**	**122**
– Amounts due by holding company and fellow subsidiary companies	**317**	**718**	**–**	**–**	**1 035**
– Other	**–**	**–**	**533**	**2**	**535**
Interest and similar income	**3 486**	**33 623**	**533**	**2**	**37 644**

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

Notes to the annual financial statements continued

1 ANALYSIS OF INTEREST INCOME AND INTEREST EXPENDITURE continued

	2012				
R million	**Fair value**	**Amortised cost**	**Hedging instruments**	**Non-financial assets and liabilities**	**Total**
1.2 Interest expense and similar charges					
– Current accounts	–	**(7 239)**	–	–	**(7 239)**
– Savings deposits	–	**(43)**	–	–	**(43)**
– Fixed and notice deposits	**(532)**	**(6 374)**	–	–	**(6 906)**
– Negotiable certificates of deposit	**(94)**	**(2 759)**	–	–	**(2 853)**
– Repurchases	–	**(351)**	–	–	**(351)**
– Securities lending	–	**(249)**	–	–	**(249)**
– Credit linked notes and cash collateral	–	**(365)**	–	–	**(365)**
– Tier 2 liabilities	–	**(657)**	–	–	**(657)**
– Amounts due to holding company and fellow subsidiary companies	**(171)**	**(526)**	–	–	**(697)**
– Other	**(404)**	**(1 333)**	**(1 327)**	**(4)**	**(3 068)**
Interest expense and similar charges	**(1 201)**	**(19 896)**	**(1 327)**	**(4)**	**(22 428)**

	2011				
R million	Fair value	Amortised cost	Hedging instruments	Non-financial assets and liabilities	Total
– Current accounts	(969)	(5 609)	–	–	(6 578)
– Savings deposits	–	(31)	–	–	(31)
– Fixed and notice deposits	(1 431)	(5 424)	–	–	(6 855)
– Negotiable certificates of deposit	(2 649)	(3 230)	–	–	(5 879)
– Repurchases	–	–	–	–	–
– Securities lending	–	(239)	–	–	(239)
– Credit linked notes and cash collateral	–	(224)	–	–	(224)
– Tier 2 liabilities	(144)	(452)	–	–	(596)
– Amounts due to holding company and fellow subsidiary companies	(546)	(424)	–	–	(970)
– Other	(331)	(17)	(1 152)	(3)	(1 503)
Interest expense and similar charges	(6 070)	(15 650)	(1 152)	(3)	(22 875)

2 NON-INTEREST INCOME

R million	2012	2011
Fee and commission income	**17 990**	15 615
– Instruments at amortised cost	**13 835**	12 497
– Instruments at fair value	**78**	–
– Non-financial assets and liabilities	**4 077**	3 118
Fee and commission expenses	**(2 538)**	(2 229)
Net fee and commission income	**15 452**	13 386
Fair value income		
– Held for trading	**2 528**	2 423
– Designated at fair value through profit or loss	**7 397**	5 557
Fair value income	**9 925**	7 980
Gains less losses from investing activities		
– Designated at fair value through profit or loss	**2**	167
– Available-for-sale	**454**	363
– Other	**142**	1 073
Gains less losses from investing activities	**598**	1 603
Other non-interest income	**1 189**	805
Total non-interest income	**27 164**	23 774
Fee and commission income		
– Banking fee and commission income	**14 873**	12 629
– Acceptances, guarantees and letters of credit	**11**	10
– Card commissions	**2 184**	1 793
– Cash deposit fees	**1 653**	1 451
– Commitment fees	**371**	197
– Commissions: bills, drafts and cheques	**424**	485
– Exchange commissions	**708**	529
– Bank charges	**9 518**	8 155
– Brokerage	**4**	9
– Knowledge-based fee and commission income	**844**	784
– Non-banking fee and commission income	**1 535**	1 216
– Other	**738**	986
Fee and commission income	**17 990**	15 615

Non-banking fee and commission income earned relates to fees and commissions for rendering services to clients other than those related to the banking operations. This includes commission earned on the sale of insurance products.

Notes to the annual financial statements continued

2 NON-INTEREST INCOME continued

R million	2012	2011
Fee and commission expenses		
– Transaction processing fees	**(709)**	(605)
– Commission paid	**(197)**	(233)
– Customer loyalty programmes	**(425)**	(293)
– Cash sorting, handling and transportation charges	**(548)**	(604)
– Card and cheque book related	**(131)**	(96)
– ATM commissions paid	**(23)**	(25)
– Other	**(505)**	(373)
Fee and commission expenses	**(2 538)**	(2 229)
Net fee and commission income	**15 452**	13 386
Fair value income	**9 925**	7 980
Gains less losses from investing activities		
– Losses on investment securities and other investments	**(17)**	(69)
– Reclassification from other comprehensive income on the derecognition/sale of available-for-sale assets	**445**	335
– Unlisted Preference share dividends	**–**	3
– Unlisted Dividends from subsidiaries	**37**	1
– Other dividends received	**18**	48
– Listed	**–**	24
– Unlisted	**18**	24
– Gain on disposal of subsidiaries/associates	**81**	1 072
– Other investment income	**34**	213
Gains less losses from investing activities	**598**	1 603
Other non-interest income		
– Loss on disposal of property and equipment	**(75)**	(44)
– Recoveries from holding company and fellow subsidiary companies	**424**	120
– Other income	**840**	729
Other non-interest income	**1 189**	805
Total non-interest income	**27 164**	23 774

3 OPERATING EXPENSES

R million	2012	2011
Auditors' remuneration		
– Audit fees	**(113)**	(93)
– Fees for other services	**(37)**	(7)
– Other	**(37)**	(7)
– Prior year under provision	**–**	(1)
Auditors' remuneration	**(150)**	(101)
Amortisation of intangible assets		
– Software	**(93)**	(89)
– Development costs	**(12)**	(7)
– Trademarks	**(22)**	(5)
– Other	**(22)**	(9)
Amortisation of intangible assets (note 18)	**(149)**	(110)
Depreciation		
– Property	**(467)**	(408)
– Freehold property	**(176)**	(129)
– Leasehold premises	**(291)**	(279)
– Equipment*	**(1 261)**	(903)
– Computer equipment	**(758)**	(529)
– Furniture and fittings	**(194)**	(126)
– Motor vehicles	**(170)**	(134)
– Office equipment	**(139)**	(114)
– Capitalised leased assets	**–**	(3)
Depreciation (note 17)	**(1 728)**	(1 314)
Impairments incurred		
– Other	**(26)**	–
Impairments incurred	**(26)**	–
Operating lease charges		
– Property	**(781)**	(695)
– Equipment	**(114)**	(131)
– Motor vehicles	**(9)**	(7)
Operating lease charges	**(904)**	(833)

* *Depreciation includes accelerated depreciation of R245 million recognised in the current year as a result of a change in estimate regarding the write off of small item fixed assets. Refer to note 17 for further details.*

3 OPERATING EXPENSES continued

R million	**2012**	2011
Direct staff costs		
– Salaries, wages and allowances	**(8 419)**	(7 788)
– Contributions to employee benefit funds	**(1 407)**	(1 332)
– Defined contribution schemes	**(1 196)**	(1 084)
– Defined benefit schemes (note 25)	**(211)**	(248)
– Social security levies	**(137)**	(110)
– Share-based payments (note 29)	**(2 166)**	(880)
– Other	**(386)**	(445)
Direct staff costs	**(12 515)**	(10 555)
– Other staff-related costs	**(2 209)**	(1 952)
Total staff costs	**(14 724)**	(12 507)
Other operating costs		
– Insurance	**(191)**	(197)
– Advertising and marketing	**(817)**	(709)
– Maintenance	**(670)**	(811)
– Property	**(587)**	(554)
– Computer	**(804)**	(590)
– Stationery	**(156)**	(176)
– Telecommunications	**(261)**	(380)
– Other operating expenditure	**(2 168)**	(1 336)
– Professional fees	**(837)**	(811)
– Expenses to holding company and fellow subsidiary companies	**(646)**	(762)
Other operating costs	**(7 137)**	(6 326)
Total operating expenses	**(24 818)**	(21 191)

3 OPERATING EXPENSES continued

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

Directors and prescribed officers' emoluments

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

	2012			2011		
R'000	**Services as directors of the FirstRand Bank Ltd Group**	**Services as directors of subsidiaries of the FirstRand Group***	**Total**	Services as directors of the FirstRand Bank Ltd Group*	Services as directors of subsidiaries of the FirstRand Group*	Total
Executive directors						
D Premnarayen**	**29**	**787**	**816**	116	1 514	1 630
Non-executive directors						
LL Dippenaar	**125**	**2 865**	**2 990**	563	2 650	3 213
VW Bartlett#	**238**	**707**	**945**	440	690	1 130
JH Bester#	**1 624**	**1 270**	**2 894**	1 762	1 065	2 827
MS Bomela# (appointed September 2011)	**29**	**371**	**400**	–	–	–
L Crouse	**11**	**771**	**782**	141	578	719
PM Goss#	**116**	**615**	**731**	136	500	636
NN Gwagwa	**56**	**484**	**540**	65	378	443
PK Harris	**5**	**396**	**401**	65	487	552
WR Jardine#	**29**	**453**	**482**	72	412	484
EG Matenge-Sebesho#	**213**	**584**	**797**	185	616	801
AP Nkuna (resigned 31 July 2011)	**15**	**35**	**50**	65	364	429
AT Nzimande	**44**	**548**	**592**	65	490	555
KB Schoeman	**29**	**440**	**469**	65	348	413
RK Store#	**387**	**803**	**1 190**	335	816	1 151
BJ van der Ross#	**262**	**564**	**826**	197	1 586	1 783
JH van Greuning#	**1 605**	**1 052**	**2 657**	308	2 341	2 649
MH Visser (deceased April 2012)	**11**	**504**	**515**	65	410	475
Total non-executive directors	**4 799**	**12 462**	**17 261**	4 529	13 731	18 260

* *Fees earned by South African based executive directors from FirstRand and its subsidiaries are waived and ceded to companies in the FirstRand Group and do not accrue to them in their private capacity. These fees are not reflected in the above schedule.*

** *D Premnarayen is classified as an executive director due to his participation in FirstRand's share scheme and does not participate in other executive remuneration arrangements.*

Independent non-executive director.

3 OPERATING EXPENSES continued

Prescribed officers emoluments

R'000	2009	2010	2011	**2012**
SE Nxasana*,**				
Cash package#	4 427	5 101	6 107	**6 614**
Retirement and medical aid contributions	617	710	826	**867**
Subtotal	5 044	5 811	6 933	**7 481**
Performance related†	4 860	5 820	8 190	**9 600**
Performance payment deferred in FirstRand shares^	–	5 180	4 460	**5 400**
Total	9 904	16 811	19 583	**22 481**
JP Burger*				
Cash package#	4 258	4 699	5 379	**5 776**
Retirement and medical aid contributions	692	760	877	**984**
Subtotal	4 950	5 459	6 256	**6 760**
Performance related†	4 590	5 520	7 470	**8 760**
Performance payment deferred in FirstRand shares^	–	4 480	3 980	**4 840**
Total	9 540	15 459	17 706	**20 360**
M Jordaan				
Cash package#	3 606	3 898	4 283	**4 604**
Retirement and medical aid contributions	760	825	904	**965**
Subtotal	4 366	4 723	5 187	**5 569**
Performance related†	6 265	5 400	6 360	**7 512**
Performance payment deferred in FirstRand shares^	–	2 600	3 240	**4 008**
Total	10 631	12 723	14 787	**17 089**
A Pullinger				
Cash package#	1 286	1 571	1 743	**1 918**
Retirement and medical aid contributions	333	398	440	**483**
Subtotal	1 619	1 969	2 183	**2 401**
Performance related†	1 050	11 280	13 416	**11 400**
Performance payment deferred in FirstRand shares^	–	6 520	7 944	**6 600**
Total	2 669	19 769	23 543	**20 401**
B Riley				
Cash package#	2 177	2 315	2 572	**2 746**
Retirement and medical aid contributions	275	368	403	**433**
Subtotal	2 452	2 683	2 975	**3 179**
Performance related†	1 700	3 000	4 200	**5 400**
Performance payment deferred in FirstRand shares^	–	1 000	1 800	**2 600**
Total	4 152	6 683	8 975	**11 179**

* *These executive directors are also prescribed officers in terms of the Companies Act 71 of 2008. A prescribed officer is a person who exercises general executive control over and management of the whole or a significant portion of the business and activities of FirstRand Bank.*

** *Emoluments paid by FirstRand Limited. All other directors' emoluments are paid by FirstRand Bank.*

\# *Cash package includes travel and other allowances.*

† *Performance related payments are in respect of the year ended 30 June 2012, but will be paid (together with an interest factor) in three tranches, during the year ending 30 June 2013.*

^ *Performance payments deferred in FirstRand shares vest in September 2014. Refer to the share option schemes disclosed in FirstRand Limited.*

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3 OPERATING EXPENSES continued

Co-investment scheme* (R'000)	**2012**	2011
JP Burger**	**1 928**	990
M Jordaan	**964**	495
SE Nxasana**	**428**	220
A Pullinger	**2 570**	1 321
Total	**5 890**	3 026

* *Co-investment scheme comprises the profit share entitlement from the Group co-investment scheme (see note 29). Profit share is based on the capital contribution by an employee into the scheme which is at risk.*

** *These executive directors are also prescribed officers in terms of the Companies Act 71 of 2008. A prescribed officer is a person who exercises general executive control over and management of the whole or a significant portion of the business and activities of FirstRand Bank.*

Benefits derived by executive directors in terms of their share option schemes are disclosed in FirstRand Limited.

All the executive directors and prescribed officers have a notice period of one month. Non-executive directors are appointed for a period of three years and are subject to the Companies Act 71 of 2008 provisions relating to removal. The retirement age of directors is set at age 70.

The following non-executive directors are up for re-election at the next annual general meeting:

LL Dippenaar
EG Matenge-Sebesho
RK Store
BJ van der Ross
JH van Greuning

Refer to the report from the chairman of the Remuneration committee in FirstRand Limited's annual integrated report for detailed remuneration disclosures in terms of Regulation 43 of the South African Banks Act (94 of 1990).

Notes to the annual financial statements continued

4 INDIRECT AND DIRECT TAX

R million	**2012**	2011
4.1 Indirect tax		
Value added tax (net)	**(495)**	(502)
Securities transfer tax	**(1)**	(1)
Total indirect tax	**(496)**	(503)
4.2 Direct tax		
Normal tax		
– Current	**(3 021)**	(2 658)
– Current year	**(3 367)**	(2 614)
– Prior year adjustment	**346**	(44)
– Deferred income tax	**812**	426
– Current year	**1 005**	315
– Prior year adjustment	**(193)**	111
Total normal tax	**(2 209)**	(2 232)
Secondary tax on companies		
– Deferred income tax	**(216)**	(26)
– Current year	**(216)**	(26)
Total secondary tax on companies	**(216)**	(26)
Capital gains tax	**(76)**	–
– Current tax	**(76)**	–
Total capital gains tax	**(76)**	–
Customer tax adjustment account	**37**	(8)
Total direct tax	**(2 464)**	(2 266)

Tax rate reconciliation – South African normal tax	**%**	%
Effective rate of tax	**20.2**	22.1
Total tax has been affected by:		
– Non-taxable income	**7.7**	6.6
– Prior year adjustments	**1.3**	0.7
– Effect of income at capital gains tax rate	**(0.6)**	–
– Other non-deductible items	**1.2**	(1.1)
– Other taxes	**(1.8)**	(0.3)
Standard rate of South African normal tax	**28.0**	28.0

5 DISCLOSURE OF THE COMPONENTS AND TAX EFFECTS OF OTHER COMPREHENSIVE INCOME

R million	2012	2011
Cash flow hedges (note 8)	**(301)**	15
Losses arising during the year	**(1 213)**	(604)
Reclassification adjustments for amounts included in profit or loss	**794**	625
Subtotal	**(419)**	21
Deferred income tax	**118**	(6)
Available-for-sale financial assets	**253**	(87)
Gains arising during the year	**833**	289
Reclassification adjustments for amounts included in profit or loss	**(445)**	(336)
Subtotal	**388**	(47)
Deferred income tax	**(135)**	(40)
Exchange differences on translating foreign operations	**177**	(133)
Gains/(losses) arising during the year	**177**	(133)
Other comprehensive income/(loss)	**129**	(205)

Notes to the annual financial statements continued

6 ANALYSIS OF ASSETS AND LIABILITIES

Financial assets and financial liabilities are measured either at fair value or at amortised cost. The principal accounting policies on page 103 to page 109 describe how the classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised.

The following table analyses the assets and liabilities in the statement of financial position per category of financial instrument and therefore by measurement basis:

		2012		
R million	Notes	**Held for trading**	**Designated at fair value through profit or loss**	**Held-to-maturity**
ASSETS				
Cash and cash equivalents	7	–	–	–
Derivative financial instruments	8	**51 755**	–	–
Commodities	9	–	–	–
Accounts receivable	10	–	–	–
Tax asset		–	–	–
Advances	11	–	**135 744**	**60**
Amounts due by holding company and fellow subsidiary companies	13	**809**	–	–
Investment securities and other investments	14	**27 181**	**33 606**	–
Investments in associates	16	–	–	–
Property and equipment	17	–	–	–
Intangible assets	18	–	–	–
Post-employment benefit asset	25.3	–	–	–
Non-current assets and disposal groups held for sale	20	–	**215**	–
Total assets		**79 745**	**169 565**	**60**
LIABILITIES				
Short trading positions	21	**4 019**	–	–
Derivative financial instruments	8	**52 218**	–	–
Creditors and accruals	22	–	–	–
Tax liability		–	–	–
Deposits	23	–	**79 520**	–
Provisions	24	–	–	–
Employee liabilities	25	–	–	–
Other liabilities	26	–	**195**	–
Amounts due to holding company and fellow subsidiary companies	13	**234**	–	–
Deferred income tax liability	19	–	–	–
Tier 2 liabilities	27	–	**1 067**	–
Total liabilities		**56 471**	**80 782**	–

The risk report on pages 06 to 95 contains further information about the risks associated with various financial assets and financial liabilities recognised in the statement of financial position.

2012					
Loans and receivables	Available-for-sale financial assets	Financial liabilities at amortised cost	Derivatives designated as hedging instruments	Non-financial assets and liabilities	Total
31 557	–	–	–	–	31 557
–	–	–	637	–	52 392
–	–	–	–	5 108	5 108
3 301	–	–	–	–	3 301
–	–	–	–	253	253
346 833	108	–	–	–	482 745
22 498	–	–	–	–	23 307
–	18 022	–	–	–	78 809
–	–	–	–	243	243
–	–	–	–	8 882	8 882
–	–	–	–	336	336
–	–	–	–	2 986	2 986
–	–	–	–	–	215
404 189	18 130	–	637	17 808	690 134
–	–	–	–	–	4 019
–	–	–	1 448	–	53 666
–	–	6 473	–	–	6 473
–	–	–	–	–	–
–	–	466 276	–	–	545 796
–	–	–	–	234	234
–	–	–	–	8 480	8 480
–	–	727	–	–	922
–	–	13 107	–	–	13 341
–	–	–	–	769	769
–	–	6 370	–	–	7 437
–	–	492 953	1 448	9 483	641 137

6 ANALYSIS OF ASSETS AND LIABILITIES BY CATEGORY continued

R million	Notes	2011		
		Held for trading	Designated at fair value through profit or loss	Held-to-maturity
ASSETS				
Cash and cash equivalents	7	–	–	–
Derivative financial instruments	8	36 172	–	–
Commodities	9	–	–	–
Accounts receivable	10	–	–	–
Tax asset		–	–	–
Advances	11	–	118 937	90
Amounts due by holding company and fellow subsidiary companies	13	627	–	–
Investment securities and other investments	14	22 167	36 426	–
Investments in associates	16	–	–	–
Property and equipment	17	–	–	–
Intangible assets	18	–	–	–
Post-employment benefit asset	25.3	–	–	–
Non-current assets and disposal groups held for sale	20	–	–	–
Total assets		58 966	155 363	90
LIABILITIES				
Short trading positions	21	5 777	–	–
Derivative financial instruments	8	35 169	–	–
Creditors and accruals	22	–	–	–
Tax liability		–	–	–
Deposits	23	–	134 215	–
Provisions	24	–	–	–
Employee liabilities	25	–	–	–
Other liabilities	26		246	–
Amounts due to holding company and fellow subsidiary companies	13	205	–	–
Deferred income tax liability	19	–	–	–
Tier 2 liabilities	27	–	943	–
Total liabilities		41 151	135 404	–

	2011					
	Loans and receivables	Available-for-sale financial assets	Financial liabilities at amortised cost	Derivatives designated as hedging instruments	Non-financial assets and liabilities	Total
	29 012	–	–	–	–	29 012
	–	–	–	494	–	36 666
	–	–	–	–	4 388	4 388
	2 744	–	–	–	–	2 744
	–	–	–	–	–	–
	309 992	115	–	–	–	429 134
	18 607	–	–	–	–	19 234
	24	25 193	–	–	–	83 810
	–	–	–	–	116	116
	–	–	–	–	8 480	8 480
	–	–	–	–	281	281
	–	–	–	–	2 830	2 830
	–	–	–	–	–	–
	360 379	25 308	–	494	16 095	616 695
	–	–	–	–	–	5 777
	–	–	–	981	–	36 150
	–	–	5 395	–	–	5 395
	–	–	–	–	95	95
	–	–	358 681	–	–	492 896
	–	–	–	–	132	132
	–	–	–	–	6 510	6 510
			264		8	518
	–	–	20 636	–	–	20 841
	–	–	–	–	1 348	1 348
	–	–	5 448	–	–	6 391
	–	–	390 424	981	8 093	576 053

7 CASH AND CASH EQUIVALENTS

R million	2012	2011
Coins and bank notes	**4 210**	4 169
Money at call and short notice	**14 926**	10 364
– Banks	**13 254**	9 264
– Other	**1 672**	1 100
Balances with central banks	**12 421**	14 479
Cash and cash equivalents	**31 557**	29 012
Mandatory reserve balances included in cash and cash equivalents	**12 395**	11 238

Banks are required to deposit a minimum average balance, calculated monthly, with the central bank, which is not available for use in the Bank's day-to-day operations. These deposits bear little or no interest.
Money at short notice constitutes amounts withdrawable in 32 days or less.
The carrying value of cash and cash equivalents approximates the fair value.
Refer to note 44 for the current and non-current analysis of cash and cash equivalents.

8 DERIVATIVE FINANCIAL INSTRUMENTS

Use of derivatives

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

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

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

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

The notional amounts of the derivative instruments do not necessarily indicate the amounts of future cash flows or the current fair value of the instruments, and therefore, do not present the Bank's exposure to credit or market risk. Derivative instruments become favourable (assets) or unfavourable (liabilities) based on changes in market interest rates, foreign currency, market share prices, credit ratings and the price of underlying commodities, as applicable. The aggregate notional amount of derivative financial instruments, the extent to which the instruments are favourable or unfavourable, and thus the aggregate fair value can fluctuate significantly over time.

The Bank's detailed risk management strategy, including the use of hedging instruments in risk management, is set out in the *Risk and capital management report* on pages 6 to 95.

Trading derivatives

Most of the Bank's derivative transactions relate to sales and trading activities. Sales activities include the structuring and marketing of derivative products to customers to enable them to take on, transfer, modify or reduce current or expected risks. Trading activities in derivatives are entered into principally for the purpose of generating profits from short-term fluctuations in the price or margin.

Positions may be traded actively or be held over a period of time to benefit from expected changes in currency rates, interest rates, equity prices or other market parameters. Trading includes market making, positioning and arbitrage activities. Market making entails quoting bid and offer prices to other market participants for the purpose of generating revenues based on spread and voluming. Positioning means managing market risk positions in the expectation of benefiting from favourable movements in prices, rates or indices. Arbitrage involves identifying and profiting from price differentials between markets and products.

8 DERIVATIVE FINANCIAL INSTRUMENTS continued

As mentioned above, other derivatives classified as held for trading include non-qualifying hedging derivatives, ineffective hedging derivatives and the components of hedging derivatives that are not part of a designated and effective hedge. Non-qualifying hedging derivatives are entered into for risk management purposes but do not meet the criteria for hedge accounting. These include derivatives managed in conjunction with financial instruments designated at fair value.

Hedging instruments

Fair value hedges

The Bank's fair value hedges principally consist of commodity futures used to hedge the price risk associated with physical commodity positions and interest rate swaps used to hedge the fair value risk associated with changes in interest rates. For qualifying fair value hedges, all changes in the fair value of the derivative and in the fair value of the item in relation to the risk being hedged are recognised in profit or loss. Upon discontinuance of the hedging relationship, any fair value adjustments recognised as part of the carrying amount of the hedged item in terms of the fair value hedging requirements should continue to be included in the carrying amount of the item until it is disposed of. On disposal of the previously hedged item, these fair value adjustments will be realised through profit or loss.

R million	**2012**	2011
Gains or (losses) for the period arising from the change in fair value of fair value hedges		
– On hedging instrument	**(348)**	(356)
– On hedged items attributable to the hedged risk	**348**	359
Total	**–**	3

Cash flow hedges

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

The Bank hedges this risk using separate portfolios. These portfolios are managed under separate mandates, which take into account the underlying risk inherent in each portfolio. Counterparty credit risk is managed centrally by FirstRand Credit Risk Management committee.

The inherent complexity of interest rate risk in the Bank's statement of financial position and consequently in each portfolio, requires that the risk be analysed and managed using various analytical tools and frameworks. While each analytical process may highlight a different aspect of risk, each analytical tool is intended to corroborate and support the overall interest rate risk management objectives of the Bank.

The Bank uses the following derivatives as hedging instruments:

- Forward rate agreements are negotiated interest rate futures that call for cash settlement at a future date for the difference between the contractual and market rates of interest, based on a notional principal amount.
- Interest rate swaps are commitments to exchange one set of cash flows for another, resulting in the economic exchange of interest rates (for example fixed rate for floating rate). No exchange of principal takes place.

The effective portion of changes in fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss. Amounts accumulated in other comprehensive income are released to profit or loss in periods in which the hedged item will affect profit or loss.

When hedging instruments are sold or when the hedge no longer meets the criteria for hedge accounting, the cumulative gains or losses remain in other comprehensive income and are released to profit or loss as the risk, previously hedged, affects profit or loss. When the hedged risk is no longer expected to occur, the gains or losses deferred in other comprehensive income are released to profit or loss immediately.

8 DERIVATIVE FINANCIAL INSTRUMENTS continued

Reconciliation of movements in the cash flow hedge reserve

R million	2012	2011
Opening balance (net of deferred income tax)	**(452)**	(467)
Amount recognised directly in other comprehensive income during the year	**(873)**	(435)
Amounts reclassified from other comprehensive income and included in profit or loss for the year	**572**	450
– Gross amount	**794**	625
– Deferred income tax	**(222)**	(175)
Closing balance	**(753)**	(452)
During the period the hedging relationships were highly effective and the Bank deferred the lesser of changes in fair value on the hedging instruments and changes in fair value on the hedged items. As the changes on the hedging instruments were more than the changes on the hedged items, there was ineffectiveness recognised in profit or loss.		
Hedge ineffectiveness recognised in profit or loss	**(18)**	21

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

	2012		2011	
R million	Assets	Liabilities	Assets	Liabilities
0 – 3 months	**1 897**	**(1 518)**	1 911	(1 705)
4 – 12 months	**3 664**	**(2 639)**	5 154	(4 983)
1 – 5 years	**914**	**(1 497)**	2 469	(6 635)
Over 5 years	**2**	**(17)**	–	(57)
Total	**6 477**	**(5 671)**	9 534	(13 380)

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

	2012		2011	
R million	Assets	Liabilities	Assets	Liabilities
0 – 3 months	**(126)**	**239**	(139)	259
4 – 12 months	**(232)**	**493**	(435)	538
1 – 5 years	**(87)**	**461**	(144)	371
Over 5 years	**(1)**	**6**	–	1
Total	**(446)**	**1 199**	(718)	1 169

8 DERIVATIVE FINANCIAL INSTRUMENTS continued

	2012			
	Assets		Liabilities	
R million	Notional	Fair value	Notional	Fair value
Qualifying for hedge accounting				
Cash flow hedges				
Interest rate derivatives	32 390	515	52 646	1 448
– Forward rate agreements	11 400	135	12 005	134
– Swaps	20 990	380	40 641	1 314
Total cash flow hedges	32 390	515	52 646	1 448
Fair value hedges				
Commodity derivatives	2 207	–	–	–
– Futures	2 207	–	–	–
Interest rate derivatives	2 863	122	–	–
– Swaps	2 863	122	–	–
Total fair value hedges	5 070	122	–	–
Total qualifying for hedge accounting	37 460	637	52 646	1 448
Held for trading				
Currency derivatives	472 074	13 034	399 046	11 186
– Swaps	289 459	8 500	245 915	7 186
– Options	17 024	754	17 142	460
– Futures	165 591	3 780	135 989	3 540
Interest rate derivatives	6 757 901	36 811	6 763 687	39 784
– Forward rate agreements	4 863 768	7 121	4 822 810	7 507
– Swaps	1 357 118	29 071	1 351 007	31 277
– Options	528 033	562	571 337	871
– Futures	8 982	57	18 533	129
Equity derivatives	14 367	1 701	13 314	1 013
– Swaps	3 907	1 379	–	–
– Options	3 103	109	6 313	931
– Futures	7 357	213	7 001	82
Commodity derivatives	19 158	199	10 310	147
– Swaps	802	93	3 763	97
– Options	107	24	49	–
– Futures	18 249	82	6 498	50
Credit derivatives	1 139	10	5 920	88
Total held for trading	7 264 639	51 755	7 192 277	52 218
Total	7 302 099	52 392	7 244 923	53 666

8 DERIVATIVE FINANCIAL INSTRUMENTS continued

	2012					
	Assets: Derivative instruments					
	Exchange traded		Over the counter		Total	
R million	Notional	Fair value	Notional	Fair value	Notional	Fair value
Qualifying for hedge accounting						
Cash flow hedges	–	–	32 390	515	32 390	515
– Interest rate derivatives	–	–	32 390	515	32 390	515
Fair value hedges	2 207	–	2 863	122	5 070	122
– Interest rate derivatives	–	–	2 863	122	2 863	122
– Commodity derivatives	2 207	–	–	–	2 207	–
Not qualifying for hedge accounting						
Held for trading	47 680	–	7 216 959	51 755	7 264 639	51 755
– Currency derivatives	25 080	–	446 994	13 034	472 074	13 034
– Interest rate derivatives	5 621	–	6 752 280	36 811	6 757 901	36 811
– Equity derivatives	387	–	13 980	1 701	14 367	1 701
– Commodity derivatives	16 592	–	2 566	199	19 158	199
– Credit derivatives	–	–	1 139	10	1 139	10
Total	49 887	–	7 252 212	52 392	7 302 099	52 392

	2012					
	Liabilities: Derivative instruments					
	Exchange traded		Over the counter		Total	
R million	Notional	Fair value	Notional	Fair value	Notional	Fair value
Qualifying for hedge accounting						
Cash flow hedges	–	–	52 646	1 448	52 646	1 448
– Interest rate derivatives	–	–	52 646	1 448	52 646	1 448
Fair value hedges	–	–	–	–	–	–
– Interest rate derivatives	–	–	–	–	–	–
Not qualifying for hedge accounting						
Held for trading	20 971	–	7 171 306	52 218	7 192 277	52 218
– Currency derivatives	–	–	399 046	11 186	399 046	11 186
– Interest rate derivatives	11 314	–	6 752 373	39 784	6 763 687	39 784
– Equity derivatives	4 335	–	8 979	1 013	13 314	1 013
– Commodity derivatives	5 322	–	4 988	147	10 310	147
– Credit derivatives	–	–	5 920	88	5 920	88
Total	20 971	–	7 223 952	53 666	7 244 923	53 666

8 DERIVATIVE FINANCIAL INSTRUMENTS continued

	2011			
	Assets		Liabilities	
R million	Notional	Fair value	Notional	Fair value
Qualifying for hedge accounting				
Cash flow hedges				
Interest rate derivatives	34 462	494	54 252	973
– Forward rate agreements	17 130	15	17 240	34
– Swaps	17 332	479	37 012	939
Total cash flow hedges	34 462	494	54 252	973
Fair value hedges				
Commodity derivatives	1 140	–	–	–
– Futures	1 140	–	–	–
Interest rate derivatives	–	–	2 405	8
Total fair value hedges	1 140	–	2 405	8
Total qualifying for hedge accounting	35 602	494	56 657	981
Held for trading				
Currency derivatives	284 930	9 027	272 129	7 168
– Swaps	182 011	5 621	198 878	4 112
– Options	9 681	636	12 372	543
– Futures	93 238	2 770	60 879	2 513
Interest rate derivatives	9 339 311	26 186	9 478 850	26 636
– Forward rate agreements	7 305 573	5 455	7 286 647	5 489
– Swaps	1 453 420	20 009	1 465 033	20 339
– Options	570 020	722	723 944	808
– Futures	10 298	–	3 226	–
Equity derivatives	11 427	279	21 960	841
– Swops	–	–	3 630	2
– Options	4 477	187	7 805	798
– Futures	6 950	92	10 525	41
Commodity derivatives	21 929	640	31 695	476
– Swaps	4 277	348	7 588	111
– Options	4 104	264	3 916	153
– Futures	13 548	28	20 191	212
Credit derivatives	200	40	1 075	48
Total held for trading	9 657 797	36 172	9 805 709	35 169
Total	9 693 399	36 666	9 862 366	36 150

Notes to the annual financial statements continued

8 DERIVATIVE FINANCIAL INSTRUMENTS continued

	2011					
	Assets: Derivative instruments					
	Exchange traded		Over the counter		Total	
R million	Notional	Fair value	Notional	Fair value	Notional	Fair value
Qualifying for hedge accounting						
Cash flow hedges	–	–	34 462	494	34 462	494
– Interest rate derivatives	–	–	34 462	494	34 462	494
Fair value hedges	1 140	–	–	–	1 140	–
– Interest rate derivatives	–	–	–	–	–	–
– Commodity derivatives	1 140	–		–	1 140	–
Not qualifying for hedge accounting						
Held for trading	23 444	–	9 634 353	36 172	9 657 797	36 172
– Currency derivatives	–	–	284 930	9 027	284 930	9 027
– Interest rate derivatives	10 378	–	9 328 933	26 186	9 339 311	26 186
– Equity derivatives	386	–	11 041	279	11 427	279
– Commodity derivatives	12 680	–	9 249	640	21 929	640
– Credit derivatives	–	–	200	40	200	40
Total	24 584	–	9 668 815	36 666	9 693 399	36 666

	2011					
	Liabilities: Derivative instruments					
	Exchange traded		Over the counter		Total	
R million	Notional	Fair value	Notional	Fair value	Notional	Fair value
Qualifying for hedge accounting						
Cash flow hedges	–	–	54 252	973	54 252	973
– Interest rate derivatives	–	–	54 252	973	54 252	973
Fair value hedges	–	–	2 405	8	2 405	8
– Interest rate derivatives	–	–	2 405	8	2 405	8
Not qualifying for hedge accounting						
Held for trading	30 766	–	9 774 943	35 169	9 805 709	35 169
– Currency derivatives	–	–	272 129	7 168	272 129	7 168
– Interest rate derivatives	3 306	–	9 475 544	26 636	9 478 850	26 636
– Equity derivatives	9 059	–	12 901	841	21 960	841
– Commodity derivatives	18 401	–	13 294	476	31 695	476
– Credit derivatives	–	–	1 075	48	1 075	48
Total	30 766	–	9 831 600	36 150	9 862 366	36 150

Refer to note 36 for additional information relating to the fair value of derivatives.
Refer to note 39 for information on related party derivatives.
Refer to note 44 for the current and non-current analysis of derivatives.

9 COMMODITIES

R million	**2012**	2011
Agricultural commodities	**1 474**	977
Base metals	**3 634**	3 411
Total commodities	**5 108**	4 388

Refer to note 44 for the current and non-current analysis of commodities.

10 ACCOUNTS RECEIVABLE

R million	**2012**	2011
Items in transit	**643**	1 082
Interest and commission accrued	**33**	58
Prepayments	**395**	265
Other accounts receivable	**2 230**	1 339
Total accounts receivable	**3 301**	2 744

The credit quality of the above balances is provided in the table below:

	2012					
		Past due but not impaired				
R million	**Neither past due nor impaired**	**1 – 30 days**	**31 – 60 days**	**61 – 90 days**	**Impaired**	**Total**
Items in transit	**639**	**4**	**–**	**–**	**–**	**643**
Interest and commission accrued	**33**	**–**	**–**	**–**	**–**	**33**
Prepayments	**395**	**–**	**–**	**–**	**–**	**395**
Other accounts receivable	**1 965**	**107**	**4**	**57**	**97**	**2 230**
Total accounts receivable	**3 032**	**111**	**4**	**57**	**97**	**3 301**

	2011					
		Past due but not impaired				
R million	Neither past due nor impaired	1 – 30 days	31 – 60 days	61 – 90 days	Impaired	Total
Items in transit	1 081	1	–	–	–	1 082
Interest and commission accrued	58	–	–	–	–	58
Prepayments	265	–	–	–	–	265
Other accounts receivable	1 198	70	35	8	28	1 339
Total accounts receivable	2 602	71	35	8	28	2 744

The carrying value of accounts receivable approximates the fair value.
Refer to note 44 for the current and non-current analysis of accounts receivable.

11 ADVANCES

R million	Designated at fair value through profit or loss	Held-to-maturity	Loans and receivables	Available-for-sale	Total
	2012				
Notional value of advances	135 744	67	356 979	108	492 898
Contractual interest suspended	–	(6)	(1 926)	–	(1 932)
Gross value of advances	135 744	61	355 053	108	490 966
Sector analysis					
Agriculture	549	–	14 601	108	15 258
Banks	9 365	–	4 533	–	13 898
Financial institutions	45 637	–	13 730	–	59 367
Building and property development	20 285	–	5 886	–	26 171
Government, Land Bank and public authorities	13 408	–	1 910	–	15 318
Individuals	431	61	263 431	–	263 923
Manufacturing and commerce	14 840	–	34 463	–	49 303
Mining	11 597	–	2 855	–	14 452
Transport and communication	9 701	–	4 045	–	13 746
Other services	9 931	–	9 599	–	19 530
Gross value of advances	135 744	61	355 053	108	490 966
Impairment of advances (note 12)	–	(1)	(8 220)	–	(8 221)
Net advances	135 744	60	346 833	108	482 745
Category analysis					
Overdrafts and cash management accounts	–	–	29 761	–	29 761
Term loans	1 014	–	14 241	–	15 255
Card loans	–	–	11 996	–	11 996
Instalment sales and hire purchase agreements	–	–	84 758	–	84 758
Lease payments receivable	–	–	11 349	–	11 349
Property finance	3 072	61	167 446	–	170 579
– Home loans	–	61	157 375	–	157 436
– Commercial property finance	3 072	–	10 071	–	13 143
Personal loans	–	–	17 889	–	17 889
Preference share agreements	24 474	–	578	–	25 052
Assets under agreement to resell	37 690	–	792	–	38 482
Investment Bank term loans	68 826	–	–	–	68 826
Other	668	–	16 243	108	17 019
Gross value of advances	135 744	61	355 053	108	490 966
Impairment of advances (note 12)	–	(1)	(8 220)	–	(8 221)
Net advances	135 744	60	346 833	108	482 745

11 ADVANCES continued

R million	Designated at fair value through profit or loss	Held-to-maturity	Loans and receivables	Available-for-sale	Total
	2012				
Geographic analysis (based on credit risk)					
South Africa	**125 825**	**61**	**342 861**	**108**	**468 855**
Other Africa	**2 578**	**–**	**2 089**	**–**	**4 667**
United Kingdom	**5 376**	**–**	**5 447**	**–**	**10 823**
Other	**1 965**	**–**	**4 656**	**–**	**6 621**
– Europe	**544**	**–**	**1 686**	**–**	**2 230**
– North America	**64**	**–**	**1**	**–**	**65**
– South America	**95**	**–**	**–**	**–**	**95**
– Australasia	**393**	**–**	**2**	**–**	**395**
– Asia	**869**	**–**	**2 967**	**–**	**3 836**
Gross value of advances	**135 744**	**61**	**355 053**	**108**	**490 966**
Impairment of advances (note 12)	**–**	**(1)**	**(8 220)**	**–**	**(8 221)**
Net advances	**135 744**	**60**	**346 833**	**108**	**482 745**

Notes to the annual financial statements continued

11 ADVANCES continued

R million	Designated at fair value through profit or loss	Held-to-maturity	Loans and receivables	Available-for-sale	Total
	2011				
Notional value of advances	118 937	101	319 446	115	438 599
Contractual interest suspended	–	(8)	(1 946)	–	(1 954)
Gross value of advances	118 937	93	317 500	115	436 645
Sector analysis					
Agriculture	2 807	–	9 926	–	12 733
Banks	9 388	–	3 688	–	13 076
Financial institutions	36 227	–	6 106	–	42 333
Building and property development	17 478	–	4 002	–	21 480
Government, Land Bank and public authorities	13 416	–	1 226	–	14 642
Individuals	807	93	255 196	115	256 211
Manufacturing and commerce	11 513	–	19 087	–	30 600
Mining	9 689	–	301	–	9 990
Transport and communication	10 197	–	1 529	–	11 726
Other services	7 415	–	16 439	–	23 854
Gross value of advances	118 937	93	317 500	115	436 645
Impairment of advances (note 12)	–	(3)	(7 508)	–	(7 511)
Net advances	118 937	90	309 992	115	429 134
Category analysis					
Overdrafts and cash management accounts	–	–	24 972	–	24 972
Term loans	1 121	–	8 918	–	10 039
Card loans	–	–	10 758	–	10 758
Instalment sales and hire purchase agreements	–	–	70 287	–	70 287
Lease payments receivable	–	–	15 151	–	15 151
Property finance	3 226	93	160 189	–	163 508
– Home loans	–	93	151 620	–	151 713
– Commercial property finance	3 226	–	8 569	–	11 795
Personal loans	–	–	12 121	–	12 121
Preference share agreements	24 758	–	894	–	25 652
Assets under agreement to resell	29 866	–	493	–	30 359
Investment bank term loans	50 178	–	3	–	50 181
Other	9 788	–	13 714	115	23 617
Gross value of advances	118 937	93	317 500	115	436 645
Impairment of advances (note 12)	–	(3)	(7 508)	–	(7 511)
Net advances	118 937	90	309 992	115	429 134

11 ADVANCES continued

R million	Designated at fair value through profit or loss	Held-to-maturity	Loans and receivables	Available-for-sale	Total
	2011				
Geographic analysis (based on credit risk)					
South Africa	110 928	93	310 117	115	421 253
Other Africa	2 052	–	883	–	2 935
United Kingdom	3 845	–	4 938	–	8 783
Other	2 112	–	1 562	–	3 674
– Europe	1 463	–	507	–	1 970
– North America	121	–	19	–	140
– South America	103	–	–	–	103
– Australasia	–	–	2	–	2
– Asia	425	–	1 034	–	1 459
Gross value of advances	118 937	93	317 500	115	436 645
Impairment of advances (note 12)	–	(3)	(7 508)	–	(7 511)
Net advances	118 937	90	309 992	115	429 134

11 ADVANCES continued

R million	Within 1 year	Between 1 and 5 years	More than 5 years	Total
2012				
Analysis of instalment sales and lease payments receivable				
Lease payments receivable	**4 345**	**11 106**	**537**	**15 988**
Suspensive sale instalments receivable	**27 516**	**69 506**	**4 788**	**101 810**
Subtotal	**31 861**	**80 612**	**5 325**	**117 798**
Less: Unearned finance charges	**(5 779)**	**(14 598)**	**(1 006)**	**(21 383)**
Total gross instalment sales and lease payments receivable	**26 082**	**66 014**	**4 319**	**96 415**
Less: Interest in suspense				**(308)**
Total net instalment sales and lease payments receivable				**96 107**
2011				
Analysis of instalment sales and lease payments receivable				
Lease payments receivable	5 203	12 900	530	18 633
Suspensive sale instalments receivable	23 706	57 632	2 929	84 267
Subtotal	28 909	70 532	3 459	102 900
Less: Unearned finance charges	(4 794)	(11 655)	(592)	(17 041)
Total gross instalment sales and lease payments receivable	24 115	58 877	2 867	85 859
Less: Interest in suspense				(421)
Total net instalment sales and lease payments receivable				85 438

Under the terms of the lease agreements, no contingent rentals are payable. The agreements relate to motor vehicles and equipment. The accumulated allowance for uncollectable minimum lease payments receivable included in the allowance for impairments at the reporting date is R200 million (2011: R294 million).

Advances relating to synthetic securitisations

- Fresco 2 is a synthetic securitisation transaction amounting to R20 billion (2011: R20 billion) of the Bank's corporate advances. In terms of the transaction, the Bank has transferred the credit risk up to the value of the reference portfolio to Fresco 2, a bankruptcy remote special purpose entity.
- Procul, a bankruptcy remote special purpose entity, facilitated a synthetic securitisation transaction where credit risk relating to retail instalment sale advances of R2 billion was transferred from Wesbank to Procul. The transaction was wound up in 2011 and all the related notes issued were redeemed.

11 ADVANCES continued

Credit risk mitigation

Collateral is an important mitigant of credit risk. Refer to page 39 of the *Risk and capital management report* for Bank's credit risk management strategy with detailed information on credit risk mitigation.

IFRS 7 was amended in 2010 as part of the IASB's annual improvement project which requires disclosure of the financial effect of collateral. The June 2011 comparatives have been updated for this disclosure requirement. IFRS 7 describes the term "financial effect of collateral" as the extent to which collateral and other credit enhancements mitigate credit risk.

The table below sets out the financial effect of collateral per class of advance:

R million	**Financial effect of collateral 2012**	Financial effect of collateral 2011
FNB retail	**6 763**	8 672
FNB Commercial	**441**	518
Total FNB	**7 204**	9 190
RMB	**1 054**	1 205
GTS	**23**	91
Total Corporate and Investment Banking	**1 077**	1 296
WesBank	**1 860**	3 367
Corporate Centre and other	**1**	3
Total	**10 142**	13 856

The financial effect of collateral and other credit enhancements has been calculated with reference to the unsecured loss given default (LGD) per class for the performing book (IBNR and portfolio specific impairments) and the non-performing book separately. The amounts disclosed above represent the difference between the balance sheet impairment using the actual LGD and the proxy unsecured LGD for all secured portfolios.

Where there is no collateral or where collateral is disregarded for provisioning purposes, no financial effect was calculated.

It is the Bank's policy that all items of collateral are valued at the inception of a transaction and at various points throughout the life of a transaction, either through physical inspection or indexation methods, as appropriate. For wholesale and commercial portfolios, valuations are reassessed as part of the annual facility review. For mortgage portfolios, collateral valuations are updated on an ongoing basis through statistical indexation models. However in the event of default, more detailed reviews and valuations of collateral are performed, which therefore yields a more accurate financial effect.

Refer to note 36 for additional information relating to the fair value of advances.

Refer to note 44 for the current and non-current analysis of advances.

12 IMPAIRMENT OF ADVANCES

Significant loans and advances are monitored by the Credit committee and impaired according to the Bank's impairment policy when an indication of impairment is observed.

The following factors are considered when determining whether there is objective evidence that the asset has been impaired:
- The estimated amount of collateral held against the loans and advances;
- Breaches of loan covenants and conditions;
- The time period of overdue contractual payments;
- Actuarial credit models;
- Loss of employment or death of the borrower; and
- The probability of liquidation of the customer.

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

	2012	
	FNB	
R million	Retail	Commercial
Analysis of movement in impairment of advances per class of advance		
Opening balance	3 736	1 013
Amounts written off	(2 908)	(306)
Acquisitions/(disposals) of advances	4	–
Reclassifications	–	–
Exchange rate difference	–	–
Unwinding of discounted present value on non-performing loans	(113)	(10)
Net new impairments created/(released)**	3 442	175
Closing balance	4 161	872
(Increase)/Decrease in provision	(3 442)	(175)
Recoveries of bad debts previously written off**	831	8
Impairment loss recognised in profit or loss	(2 611)	(167)

* *The Bank's corporate transactional banking activities were previously reported under FNB Corporate. Following a strategic review, it was decided that the results of the Bank's corporate transactional banking will be reported under GTS from 1 July 2011 which will form part of the overall Corporate and Investment Banking activities of the Bank.*

** *Refer to the risk management framework, and Governance structure sections in the Risk and capital management report for more details:*
- *credit risk – under the impairment of financial assets and NPLs section; and*
- *operational risk – under the boundary event section.*

	2012						
	Corporate and Investment Banking						
	RMB	GTS*	WesBank	Other	Total impairment	Specific impairment	Portfolio impairment
	146	239	2 377	–	7 511	5 527	1 984
	(2)	(301)	(1 823)	–	(5 340)	(5 340)	–
	–	–	–	–	4	3	1
	–	–	–	–	–	(33)	33
	–	–	4	–	4	2	2
	–	–	–	1	(122)	(122)	–
	16	272	1 460	799	6 164	5 082	1 082
	160	210	2 018	800	8 221	5 119	3 102
	(16)	(272)	(1 460)	(799)	(6 164)	(5 082)	(1 082)
	–	–	441	(1)	1 279	1 279	–
	(16)	(272)	(1 019)	(800)	(4 885)	(3 803)	(1 082)

12 IMPAIRMENT OF ADVANCES continued

	2011	
	FNB	
R million	Retail	Commercial
Analysis of movement in impairment of advances per class of advance		
Opening balance	4 220	970
Amounts written off	(3 051)	(284)
Acquisitions/(disposals) of group companies	27	–
Transfers (to)/from other divisions	(54)	8
Transfer to non-current assets or disposal groups held for sale	–	–
Reclassifications	–	–
Exchange rate difference	–	
Unwinding of discounted present value on non-performing loans	(182)	(17)
Net new impairments created/(released)	2 776	336
Closing balance	3 736	1 013
(Increase)/decrease in provision	(2 776)	(336)
Recoveries of bad debts previously written off	689	3
Impairment loss recognised in profit or loss	(2 087)	(333)

* *The Bank's corporate transactional banking activities were previously reported under FNB Corporate. Following a strategic review, it was decided that the results of the Bank's corporate transactional banking will be reported under GTS from 1 July 2011 which will form part of the overall Corporate and Investment Banking activities of the Bank.*

	2011						
	Corporate and Investment Banking						
	RMB	GTS*	WesBank	Other	Total impairment	Specific impairment	Portfolio impairment
	181	228	2 453	–	8 052	6 041	2 011
	(1)	(53)	(1 651)	–	(5 040)	(5 014)	(26)
	7	–	–	–	34	27	7
	(6)	52	–	–	–	–	–
	–	–	–	–	–	–	–
	–	–	–	–	–	(139)	139
			(2)	(1)	(3)	(1)	(2)
	–	–	–	(1)	(200)	(200)	–
	(35)	12	1 577	2	4 668	4 813	(145)
	146	239	2 377	–	7 511	5 527	1 984
	35	(12)	(1 577)	(1)	(4 667)	(4 813)	146
	–	3	337	(2)	1 030	1 030	–
	35	(9)	(1 240)	(3)	(3 637)	(3 783)	146

12 IMPAIRMENT OF ADVANCES continued

R million	2012		
	Total value net of interest in suspense	**Security held and expected recoveries**	**Specific impairment**
Non-performing loans by sector			
Agriculture	**562**	**458**	**104**
Financial institutions	**369**	**211**	**158**
Building and property development	**2 299**	**1 946**	**353**
Government, Land Bank and public authorities	**36**	**20**	**16**
Individuals	**12 654**	**8 898**	**3 756**
Manufacturing and commerce	**849**	**479**	**370**
Mining	**165**	**137**	**28**
Transport and communication	**239**	**171**	**68**
Other	**494**	**228**	**266**
Total non-performing loans	**17 667**	**12 548**	**5 119**
Non-performing loans by category			
Overdrafts and cash management accounts	**804**	**225**	**579**
Term loans	**226**	**176**	**50**
Card loans	**271**	**79**	**192**
Instalment sales and hire purchase agreements	**3 326**	**2 055**	**1 271**
Lease payments receivable	**414**	**225**	**189**
Property finance	**9 564**	**7 469**	**2 095**
– Home loans	**8 690**	**6 971**	**1 719**
– Commercial property finance	**874**	**498**	**376**
Personal loans	**1 020**	**291**	**729**
Preference share agreements	**14**	**2**	**12**
Investment bank term loans	**2 028**	**2 026**	**2**
Total non-performing loans	**17 667**	**12 548**	**5 119**
Non-performing loans by class			
FNB Retail	**9 940**	**7 201**	**2 740**
FNB Commercial	**1 665**	**886**	**778**
Total FNB	**11 605**	**8 087**	**3 518**
RMB	**2 028**	**2 026**	**2**
GTS*	**9**	**–**	**9**
Total Corporate and Investment Banking	**13 642**	**10 113**	**3 529**
WesBank	**4 025**	**2 435**	**1 590**
Total non-performing loans	**17 667**	**12 548**	**5 119**
Non-performing loans by geographical area			
South Africa	**17 322**	**12 215**	**5 107**
Other Africa	**33**	**33**	**–**
United Kingdom	**22**	**10**	**12**
South America	**290**	**290**	**–**
Total non-performing loans	**17 667**	**12 548**	**5 119**

* *The Bank's corporate transactional banking activities were previously reported under FNB Corporate. Following a strategic review, it was decided that effective the Group's corporate transactional banking results will be reported under GTS from 1 July 2011 which will form part of the overall Corporate and Investment Banking activities of the Group.*

12 IMPAIRMENT OF ADVANCES continued

	2011		
R million	Total value net of interest in suspense	Security held and expected recoveries	Specific impairment
Non-performing loans by sector			
Agriculture	442	375	67
Financial institutions	518	316	202
Building and property development	1 734	1 453	281
Government, Land Bank and public authorities	74	40	34
Individuals	13 703	9 832	3 871
Manufacturing and commerce	538	309	229
Mining	50	38	12
Transport and communication	272	198	74
Other	1 759	1 002	757
Total non-performing loans	19 090	13 563	5 527
Non-performing loans by category			
Overdrafts and cash management accounts	756	216	540
Term loans	235	169	66
Card loans	445	115	330
Instalment sales and hire purchase agreements	3 458	1 927	1 531
Lease payments receivable	692	374	318
Property finance	11 270	8 888	2 382
– Home loans	10 205	8 280	1 925
– Commercial property finance	1 065	608	457
Personal loans	478	160	318
Preference share agreements	14	2	12
Investment bank term loans	1 405	1 405	–
Other	337	307	30
Total non-performing loans	19 090	13 563	5 527
Non-performing loans by class			
FNB Retail	11 150	8 452	2 698
FNB Commercial	1 865	970	895
Total FNB	13 015	9 422	3 593
RMB	1 749	1 749	–
GTS*	18	(1)	19
Total Corporate and Investment Banking	14 782	11 170	3 612
WesBank	4 308	2 393	1 915
Total non-performing loans	19 090	13 563	5 527
Non-performing loans by geographical area			
South Africa	18 792	13 309	5 483
Other Africa	36	5	31
United Kingdom	13	–	13
South America	249	249	–
Total non-performing loans	19 090	13 563	5 527

* *The Bank's corporate transactional banking activities were previously reported under FNB Corporate. Following a strategic review, it was decided that effective the Group's corporate transactional banking results will be reported under GTS from 1 July 2011 which will form part of the overall Corporate and Investment Banking activities of the Group.*

13 AMOUNTS DUE (TO)/BY HOLDING COMPANY AND FELLOW SUBSIDIARY COMPANIES

R million	2012	2011
Amounts due to holding company	**(247)**	–
Amounts due to fellow subsidiary companies	**(13 094)**	(20 841)
Amounts due to holding company and fellow subsidiary companies	**(13 341)**	(20 841)
Amounts due by holding company	**–**	3 348
Amounts due by fellow subsidiary companies	**23 307**	15 886
Amounts due by holding company and fellow subsidiary companies	**23 307**	19 234
Net amounts due by/(to) holding company and fellow subsidiary companies	**9 966**	(1 607)

These loans have no fixed terms of repayment and carry varying rates of interest. Loans to fellow subsidiary companies amounting to R190 million (2011: R33 million) are subject to subordination agreements until such a time that their assets, fairly valued, exceed their liabilities.

Included in the above amounts are the following

R million	Amounts due by fellow subsidiary companies		Amounts due to fellow subsidiary companies	
2012	**Notional**	**Fair value**	**Notional**	**Fair value**
Derivative instruments	**44 197**	**809**	**7 336**	**234**
2011				
Derivative instruments	26 062	627	84 409	205

The carrying value of these intergroup loans approximates the fair value.

Refer to note 44 for the current and non-current analysis of amounts due (to)/by holding company and fellow subsidiary companies.

14 INVESTMENT SECURITIES AND OTHER INVESTMENTS

	2012				
R million	Held for trading	Designated at fair value through profit or loss	Loans and receivables	Available-for-sale	Total
Total					
Negotiable certificates of deposit	1 252	–	–	484	1 736
Treasury bills	1 114	17 556	–	2 961	21 631
Other government and government guaranteed stock	20 228	3 925	–	12 886	37 039
Other dated securities	4 562	7 764	–	1 179	13 505
Other undated securities	–	20	–	–	20
Equities	25	4 341	–	474	4 840
Other	–	–	–	38	38
Total investment securities and other investments	27 181	33 606	–	18 022	78 809
Listed					
Negotiable certificates of deposit	–	–	–	–	–
Treasury bills	–	2 585	–	–	2 585
Other government and government guaranteed stock	20 173	2 158	–	12 886	35 217
Other dated securities	2 127	4 929	–	1 179	8 235
Other undated securities	–	–	–	–	–
Equities	25	761	–	–	786
Total listed	22 325	10 433	–	14 065	46 823
Unlisted					
Negotiable certificates of deposit	1 252	–	–	484	1 736
Treasury bills	1 114	14 971	–	2 961	19 046
Other government and government guaranteed stock	55	1 767	–	–	1 822
Other dated securities	2 435	2 835	–	–	5 270
Other undated securities	–	20	–	–	20
Equities	–	3 580	–	474	4 054
Other	–	–	–	38	38
Total unlisted	4 856	23 173	–	3 957	31 986

14 INVESTMENT SECURITIES AND OTHER INVESTMENTS continued

	2011				
R million	Held for trading	Designated at fair value through profit or loss	Loans and receivables	Available-for-sale	Total
Total					
Negotiable certificates of deposit	355	15	–	362	732
Treasury bills	2 459	20 034	–	6 661	29 154
Other government and government guaranteed stock	12 697	8 848	–	17 086	38 631
Other dated securities	6 080	3 719	24	593	10 416
Other undated securities	–	–	–	–	–
Equities	576	3 810	–	453	4 839
Other	–	–	–	38	38
Total investment securities and other investments	22 167	36 426	24	25 193	83 810
Listed					
Negotiable certificates of deposit	–	15	–	–	15
Treasury bills	–	6 076	–	–	6 076
Other government and government guaranteed stock	12 500	2 509	–	17 086	32 095
Other dated securities	1 015	1 907	–	590	3 512
Equities	535	1 098	–	–	1 633
Total listed	14 050	11 605	–	17 676	43 331
Unlisted					
Negotiable certificates of deposit	355	–	–	362	717
Treasury bills	2 459	13 958	–	6 661	23 078
Other government and government guaranteed stock	197	6 339	–	–	6 536
Other dated securities	5 065	1 812	24	3	6 904
Other undated securities	–	–	–	–	–
Equities	41	2 712	–	453	3 206
Other	–	–	–	38	38
Total unlisted	8 117	24 821	24	7 517	40 479

R29 476 million (2011: R26 649 million) of the financial instruments available-for-sale and at fair value through profit or loss form part of the Bank's liquid asset portfolio in terms of the South African Reserve Bank and other foreign banking regulator's requirements.

14 INVESTMENT SECURITIES AND OTHER INVESTMENTS continued

Analysis of investment securities and other investments

R million	2012	2011
Listed	**46 823**	43 331
Equities	**786**	1 633
Debt	**46 037**	41 698
Unlisted	**31 986**	40 479
Equities	**4 054**	3 206
Debt	**27 932**	37 273
Total	**78 809**	83 810
Valuation of investment securities and other investments		
Fair value of listed investments	**46 823**	43 331
Fair value of unlisted investments*	**31 986**	40 479
Total fair value valuation	**78 809**	83 810

* *The fair values of unlisted investments are determined using valuation techniques. Valuation techniques used by the bank are described further in note 36.*

Information regarding investment securities and other investments is kept at the Bank's registered offices. This information is open for inspection in terms of the provisions of section 26 of the Companies Act, 71 of 2008.

Refer to note 36 for additional information relating to the fair value of investment securities and other investments.

Refer to note 44 for the current and non-current analysis of investment securities and other investments.

Notes to the annual financial statements continued

15 INVESTMENTS IN SUBSIDIARY COMPANIES

R million	2012	2011
Shares at cost less amounts written off*	**–**	–

** Less than R500 000*

30 June 2012	Nature of business	Issued capital (Rand)	Effective holding %	Investment in subsidiaries (Rand)
FRB Representacoes E Participacoes LTDA	**Financial services**	**28 364 513**	**100**	**383 669**
Other	**Various**	**Various**	**Various**	**110**
Total investments in subsidiary companies				**383 779**
30 June 2011				
FRB Representacoes E Participacoes LTDA	Financial services	28 364 513	100	383 669
Total investments in subsidiary companies				383 669

16 INVESTMENTS IN ASSOCIATES

R million	2012	2011
Unlisted investments		
Investments at cost less amounts written off	**243**	116
Total investments in associates carrying value	**243**	116
Valuation		
Fair value of unlisted investments in associates*	**266**	145
Total fair value of investments in associates	**266**	145

** The fair values of unlisted investments is determined using valuation techniques. Valuation techniques used by the bank are described further in note 36.*

16 INVESTMENTS IN ASSOCIATES continued

	2012			
	Nature of business	**Issued ordinary share capital**	**Number of ordinary shares held**	**Year end**
Unlisted				
New Seasons Investments	Insurance brokers	136 000	40 000	31 March
Weston Atlas Funds	Payment finance	33% of fund	–	30 June
Sutter Gold*	Gold exploration	117 517 098	518 216 820	31 December

	Effective holding %		**Market value or valuation amount**		**Carrying value**	
R million	**2012**	2011	**2012**	2011	**2012**	2011
Unlisted						
New Seasons Investments	**29**	29	**26**	34	**19**	19
Weston Atlas Funds	**33**	33	**69**	108	**55**	96
Sutter Gold*	**50**	–	**164**	–	**164**	–
Other	**Various**	Various	**7**	3	**5**	1
Total unlisted			**266**	145	**243**	116
Total investments in associates			**266**	145	**243**	116

* *During the current year the Bank acquired a shareholding in Sutter Gold from FirstRand Investment Holdings (Pty) Ltd for a consideration of R164 million. Refer to note 44 for the current and non-current analysis of investments in associates.*

16 INVESTMENTS IN ASSOCIATES continued

Disposal of significant associates

Home Choice Holdings Ltd

On 30 June 2012, the Bank disposed of its shareholding in Home Choice Holdings Ltd to FirstRand Investment Holdings (Pty) Ltd for a consideration of R104 million.

R million	**2012**
Carrying amount at date of disposal	**36**
Fair value of consideration received	**104**
Gain on disposal of associate	**68**
Weston Atlas Fund	
On 30 January 2012, the Bank disposed of its shareholding in Weston Atlas Fund to third parties for a consideration of R55 million.	
Carrying amount at date of disposal	**42**
Fair value of consideration received	**55**
Gain on disposal of associate	**13**

Other insignificant disposals of associates

The Bank disposed of a number of individually immaterial associates during the year. The following information relates to these disposals:

R million	**2012**	2011
Carrying amount at date of disposal	**–**	99
Fair value of consideration received	**–**	131
Gain on disposal of associates	**–**	32

17 PROPERTY AND EQUIPMENT

The useful life of each asset is assessed individually. The table below provides information on the benchmarks used when assessing the useful lives of the individual assets:

Leasehold premises	Shorter of estimated life or period of lease
Freehold property and property held under finance lease	
– Buildings and structures	50 years
– Mechanical and electrical	20 years
– Components	20 years
– Sundries	3 – 5 years
Computer equipment	3 – 5 years
Furniture and fittings	3 – 10 years
Motor vehicles	5 years
Office equipment	3 – 6 years

	2012			2011		
R million	**Cost**	**Accumulated depreciation and impairments****	**Carrying amount**	Cost	Accumulated depreciation and impairments	Carrying amount
Property*	**7 537**	**(1 821)**	**5 716**	6 848	(1 450)	5 398
Freehold property	**4 212**	**(514)**	**3 698**	3 664	(363)	3 301
Leasehold premises	**3 325**	**(1 307)**	**2 018**	3 184	(1 087)	2 097
Equipment*	**7 692**	**(4 526)**	**3 166**	7 216	(4 134)	3 082
Computer equipment	**4 480**	**(3 070)**	**1 410**	4 379	(2 975)	1 404
Furniture and fittings	**1 277**	**(619)**	**658**	1 182	(457)	725
Motor vehicles	**1 066**	**(272)**	**794**	880	(238)	642
Office equipment	**868**	**(565)**	**303**	765	(461)	304
Capitalised leased assets	**1**	**–**	**1**	10	(3)	7
Total property and equipment	**15 229**	**(6 347)**	**8 882**	14 064	(5 584)	8 480

* *Assets utilised by the FirstRand Banking Group in the normal course of operations to provide services.*

** *During the current reporting period the Bank reassessed the useful lives of small item fixed assets. Small item fixed assets are those items of property and equipment with a cost of less than R7 000. The Bank has determined that from the 2012 financial year all small item fixed assets will no longer be capitalised but rather written off through the income statement when acquired. This change in estimate has been applied prospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. The write off of these small items fixed assets is reflected in note 3 to the financial statements. The change in estimate resulted in accelerated depreciation of R245 million in the current period relating to small item fixed assets that had been capitalised in prior periods and written off in full in the current period.*

Notes to the annual financial statements continued

17 PROPERTY AND EQUIPMENT continued

	Property	
R million	Freehold property	Leasehold premises
Movement in property and equipment		
Carrying amount at 30 June 2010	3 140	2 106
Acquisitions	340	295
Disposals	(48)	(25)
Acquisitions of group companies	–	1
Exchange rate difference	–	(3)
Depreciation charge for the period	(129)	(279)
Other	(2)	2
Carrying amount at 30 June 2011	**3 301**	**2 097**
Acquisitions	**640**	**226**
Disposals	**(67)**	**(21)**
Acquisitions of group companies	**–**	**–**
Exchange rate difference	**–**	**7**
Depreciation charge for the period	**(176)**	**(291)**
Other	**–**	**–**
Carrying amount at 30 June 2012	**3 698**	**2 018**

Information regarding land and buildings is kept at the Bank's registered offices. This information will be open for inspection in terms of section 26 of the Companies Act, 71 of 2008.

Refer to note 44 for the current and non-current analysis of property and equipment.

	Equipment					
	Computer equipment	**Furniture and fittings**	**Motor vehicles**	**Office equipment**	**Capitalised leased assets**	**Total**
	1 179	680	347	360	4	7 816
	748	197	523	77	7	2 187
	(13)	(30)	(99)	(19)	(2)	(236)
	22	4	5	–	–	32
	(2)	–	–	–	–	(5)
	(529)	(126)	(134)	(114)	(3)	(1 314)
	(1)	–	–	–	1	–
	1 404	**725**	**642**	**304**	**7**	**8 480**
	836	**176**	**670**	**156**	**–**	**2 704**
	(75)	**(49)**	**(348)**	**(18)**	**(7)**	**(585)**
	–	**–**	**–**	**–**	**–**	**–**
	3	**–**	**–**	**–**	**–**	**10**
	(758)	**(194)**	**(170)**	**(139)**	**–**	**(1 728)**
	–	**–**	**–**	**–**	**1**	**1**
	1 410	**658**	**794**	**303**	**1**	**8 882**

18 INTANGIBLE ASSETS

The useful life of each intangible asset is assessed individually. The table below provides information on the benchmarks used when assessing the useful lives of the individual intangible assets:

Software	3 years
Development costs	3 years
Trademarks	10 – 20 years
Other	3 – 10 years

	2012			2011		
R million	**Cost**	**Accumulated depreciation and impair-ments**	**Carrying amount**	Cost	Accumulated depreciation and impair-ments	Carrying amount
Software						
Movement in software – carrying amount						
Opening balance	**596**	**(373)**	**223**	428	(285)	143
Additions	**75**	**–**	**75**	168	–	168
Disposals	**(17)**	**–**	**(17)**	–	–	–
Amortisation for the period	**–**	**(93)**	**(93)**	–	(89)	(89)
Other	**1**	**–**	**1**	–	1	1
Closing balance	**655**	**(466)**	**189**	596	(373)	223
Development costs						
Movement in development costs – carrying amount						
Opening balance	**39**	**(33)**	**6**	39	(25)	14
Additions	**130**	**–**	**130**	–	–	–
Amortisation for the period	**–**	**(12)**	**(12)**	–	(7)	(7)
Other	**–**	**1**	**1**	–	(1)	(1)
Closing balance	**169**	**(44)**	**125**	39	(33)	6
Trademarks						
Movement in trademarks – carrying amount						
Opening balance	**31**	**(22)**	**9**	33	(19)	14
Acquisitions	**12**	**–**	**12**	–	–	–
Exchange rate difference	**6**	**(5)**	**1**	(2)	1	(1)
Amortisation for the period	**–**	**(22)**	**(22)**	–	(5)	(5)
Other	**1**	**(1)**	**–**	–	1	1
Closing balance	**50**	**(50)**	**–**	31	(22)	9

18 INTANGIBLE ASSETS continued

R million	2012			2011		
	Cost	**Accumulated amortisation and impair-ments**	**Carrying amount**	Cost	Accumulated amortisation and impair-ments	Carrying amount
Other						
Movement in other – carrying amount						
Opening balance	**99**	**(56)**	**43**	29	(11)	18
Acquisitions	**–**	**–**	**–**	3	–	3
Acquisitions of subsidiaries	**–**	**–**	**–**	69	(35)	34
Reclassification	**–**	**–**	**–**	–	–	–
Exchange rate difference	**3**	**(2)**	**1**	(1)	1	–
Amortisation for the period	**–**	**(22)**	**(22)**	–	(9)	(9)
Other	**–**	**–**	**–**	(1)	(2)	(3)
Closing balance	**102**	**(80)**	**22**	99	(56)	43
Total intangible assets						
Software	**655**	**(466)**	**189**	596	(373)	223
Development costs	**169**	**(44)**	**125**	39	(33)	6
Trademarks	**50**	**(50)**	**–**	31	(22)	9
Other	**102**	**(80)**	**22**	99	(56)	43
Total intangible assets	**976**	**(640)**	**336**	765	(484)	281

Refer to note 44 for the current and non-current analysis of intangible assets.

19 DEFERRED INCOME TAX

The movement on the deferred income tax account:

R million	**2012**	2011
Deferred income tax liability		
Opening balance	**1 348**	1 702
– Release to profit or loss	**(812)**	(426)
– STC charged to profit or loss	**216**	26
– Deferred income tax on amounts charged directly to other comprehensive income	**17**	46
Total deferred income tax liability	**769**	1 348

Deferred income tax assets and liabilities and deferred income tax charged/(released) to profit or loss are attributable to the following items:

	2012			
R million	**Opening balance**	**Tax charge/ (release)**	**Other**	**Closing balance**
Deferred income tax liability				
Provision for loan impairment	**(490)**	**(87)**	**(1)**	**(578)**
Provision for post-retirement benefits	**125**	**14**	**–**	**139**
Other provisions	**(154)**	**(432)**	**–**	**(586)**
Cash flow hedge*	**(175)**	**–**	**(118)**	**(293)**
Instalment credit assets	**1 719**	**(173)**	**–**	**1 546**
Accruals	**283**	**(114)**	**–**	**169**
Available-for-sale securities*	**115**	**–**	**135**	**250**
STC	**(211)**	**216**	**(5)**	**–**
Other	**136**	**(20)**	**6**	**122**
Total deferred income tax liability	**1 348**	**(596)**	**17**	**769**

	2011			
R million	Opening balance	Tax charge/ (release)	Other	Closing balance
Deferred income tax liability				
Provision for loan impairment	(463)	(26)	(1)	(490)
Provision for post-retirement benefits	102	23	–	125
Other provisions	(35)	(119)	–	(154)
Cash flow hedge*	(181)	–	6	(175)
Instalment credit assets	2 127	(409)	1	1 719
Accruals	312	(28)	(1)	283
Available-for-sale securities*	75	–	40	115
STC	(237)	26	–	(211)
Other	2	133	1	136
Total deferred income tax liability	1 702	(400)	46	1 348

* *Amounts reported under the other column have been charged directly to other comprehensive income.*

19 DEFERRED INCOME TAX continued

R million	2012	2011
Secondary tax on companies (STC)		
Deferred income tax asset released through profit and loss	**216**	26

Total reserves

At 30 June 2011 if the total reserves of R26 183 million had been declared as dividends, the secondary tax impact at a rate of 10% would have been R2 380 million.

During the year ended 30 June 2012 secondary tax was replaced with a shareholder withholding tax. As such the Bank would incur no additional tax if the total reserves of R30 689 million were declared as dividends.

Deferred income tax not provided for

Deferred income tax assets are recognised for tax losses carried forward only to the extent that realisation of tax related benefit is probable.

The Bank has recognised deferred income tax on deductible temporary differences, unused tax losses and unused tax credits.

The Bank has recognised certain deferred income tax liabilities on all temporary differences associated with investments in subsidiaries, branches, associates and interest in joint ventures.

Refer to note 44 for the current and non-current analysis of deferred income tax.

20 NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE

During the current year, the Bank took a decision to sell their 3.21% investment in Kagiso Tiso Holdings (Pty) Limited that was held through RMB. The pending transaction resulted in the Bank classifying the investment in Kagiso Tiso Holdings (Pty) Limited as a non-current assets held for sale. A binding sales agreement has been signed by the various parties and the transaction is subject to approval from the Takeover Regulation Panel.

It is anticipated that the sale transaction will be completed by the end of August 2012.

R millions	2012	2011
Assets		
Designated at fair value through profit or loss		
Investment securities and other investments	**215**	–
Total non-current assets held for sale	**215**	–

The investment is included in the RMB segment.

There were no assets and liabilities included in disposal groups and non-current assets classified as held for sale during 2011.

Refer to note 44 for the current and non-current analysis of non-current assets and disposal groups held for sale.

21 SHORT TRADING POSITIONS

R million	2012	2011
Government and government guaranteed	**4 019**	5 714
Other dated securities	–	62
Undated securities	–	1
Total short trading positions	**4 019**	5 777
Analysed as follows:		
Listed	**4 019**	5 777
Total short trading positions	**4 019**	5 777

Short trading positions are carried at fair value. Refer to note 36 for information relating to the fair value of short trading positions.

Refer to note 44 for the current and non-current analysis of short trading positions.

22 CREDITORS AND ACCRUALS

R million	2012	2011
Accrued interest	**43**	33
Accounts payable and accrued liabilities	**5 606**	4 678
Deferred income	**699**	601
Operating lease liability arising from straight lining of lease payments	**86**	79
Payments received in advance	**39**	4
Total creditors and accruals	**6 473**	5 395

The carrying value of creditors and accruals approximates the fair value.

Refer to note 44 for the current and non-current analysis of creditors and accruals.

23 DEPOSITS

R million	2012 Designated at fair value through profit or loss	2012 At amortised cost	2012 Total
Category analysis			
Current accounts	**715**	**226 645**	**227 360**
Savings accounts	**–**	**3 622**	**3 622**
Fixed and notice deposits	**32 433**	**129 261**	**161 694**
Negotiable certificates of deposit	**2 001**	**42 911**	**44 912**
Repurchase agreements	**25 280**	**2 997**	**28 277**
Securities lending	**–**	**3 192**	**3 192**
Credit linked notes and Cash collateral	**9 078**	**11 984**	**21 062**
Other	**10 013**	**45 664**	**55 677**
Total deposits	**79 520**	**466 276**	**545 796**

R million	2011 Designated at fair value through profit or loss	2011 At amortised cost	2011 Total
Category analysis			
Current accounts	27 557	190 120	217 677
Savings accounts	–	2 377	2 377
Fixed and notice deposits	31 247	103 543	134 790
Negotiable certificates of deposit	27 133	45 215	72 348
Repurchases agreements	41 146	–	41 146
Securities lending	–	5 895	5 895
Credit linked notes and Cash collateral	7 110	6 118	13 228
Other	22	5 413	5 435
Total deposits	134 215	358 681	492 896

Refer to note 34 for information about changes in the Bank's own credit risk.

Refer to note 36 for additional information relating to the fair value of deposits.

Refer to note 44 for the current and non-current analysis of deposits.

24 PROVISIONS

R million	2012	2011
Audit fees		
Opening balance	**13**	12
– Acquisitions/(disposals) of subsidiaries	**–**	2
– Charge to profit or loss	**113**	93
– Additional provisions created	**115**	93
– Unused provisions reversed	**(2)**	–
– Utilised	**(102)**	(94)
Closing balance	**24**	13
Other*		
Opening balance	**119**	421
– Acquisitions of group subsidiaries	**–**	2
– Exchange rate difference	**1**	(1)
– Charge to profit or loss	**136**	(285)
– Additional provisions created	**149**	32
– Unused provisions reversed	**(13)**	(317)
– Utilised	**(46)**	(18)
Closing balance	**210**	119
Total provisions	**234**	132

* *Other provisions mainly consist of provisions for litigation, fraud and restructuring.*

Refer to note 44 for the current and non-current analysis of provisions.

25 EMPLOYEE LIABILITIES

R million	Notes	2012	2011
Staff-related provision	25.1	**3 215**	2 813
Cash settled share-based payment liability*		**2 837**	1 351
Defined benefit post-employment liability	25.2	**2 357**	2 252
Other long-term employee liabilities		**71**	94
Total employee liabilities		**8 480**	6 510

* *Included in the cash settled share-based payment liability is an amount of R109 million that relates to options that have already vested but have not yet been exercised by staff.*

Refer to note 29 for more detail on the cash settled share-based payment schemes.

Refer to note 44 for the current and non-current analysis of employee liabilities.

25.1 Staff-related provision

The staff-related provision consists mainly of the provision for leave pay, staff bonuses and the liability relating to the MMI shares that the participants in the BEE schemes will receive as a result of the unbundling of Momentum. Further details of this scheme and the vesting conditions related to the scheme are provided in note 29.

R million	2012	2011
Opening balance	**2 813**	2 292
– Acquisitions of subsidiaries	**–**	24
– Exchange rate differences	**8**	(3)
– Charge to profit or loss	**2 209**	1 952
– Additional provisions created	**2 231**	1 997
– Unused provisions reversed	**(22)**	(45)
– Utilised	**(1 815)**	(1 452)
Closing balance	**3 215**	2 813

25 EMPLOYEE LIABILITIES continued

25.2 Defined benefit post-employment liability

The Bank operates two defined benefit plans, a plan that provides post-employment medical benefits and a pension plan. The pension plan provides retired employees with annuity income after their service. The medical scheme provides retired employees with medical benefits after their service. In terms of these plans, the Bank is liable to the employees for specific payments on retirement and for any deficit in the provision of these benefits from the plan assets. The liabilities and assets of these pension plans are reflected as a net asset or liability in the statement of financial position.

Details of the defined benefit plan assets and fund liability are as follows:

	2012			2011		
R million	**Pension**	**Medical***	**Total**	Pension	Medical*	Total
Post-retirement benefit fund liability						
Present value of funded obligation	**8 842**	**2 647**	**11 489**	8 438	2 281	10 719
Fair value of plan assets	**(8 478)**	**–**	**(8 478)**	(8 096)	–	(8 096)
Pension fund deficit	**364**	**2 647**	**3 011**	342	2 281	2 623
Unrecognised actuarial (losses)/gains	**(187)**	**(467)**	**(654)**	(139)	(232)	(371)
Total post-retirement liability	**177**	**2 180**	**2 357**	203	2 049	2 252
The amounts recognised in staff costs are as follows:						
Current service cost	**4**	**42**	**46**	4	51	55
Interest cost	**680**	**190**	**870**	673	171	844
Expected return on plan assets	**(705)**	**–**	**(705)**	(651)	–	(651)
Total included in staff costs (note 3)	**(21)**	**232**	**211**	26	222	248
Movement in post-retirement benefit fund liability						
Present value at the beginning of the year	**203**	**2 049**	**2 252**	180	1 925	2 105
Subsidiary balances disposed	**–**	**–**	**–**	–	(6)	(6)
Amounts recognised in staff costs	**(21)**	**232**	**211**	26	222	248
Benefits paid	**–**	**(101)**	**(101)**	–	(92)	(92)
Employer contributions	**(4)**	**–**	**(4)**	(2)	–	(2)
Employee contributions	**(1)**	**–**	**(1)**	(1)	–	(1)
Present value at the end of the year	**177**	**2 180**	**2 357**	203	2 049	2 252

* *The Bank has set aside certain assets against the medical liabilities. The assets do not meet the requirements to be classified as plan assets, but these assets are managed and invested to achieve a return that reflects growth in the underlying liability. Refer to note 25.3 for information about these assets.*

25 EMPLOYEE LIABILITIES continued

25.2 Defined benefit post-employment liability continued

	2012			2011		
R million	Pension	Medical	Total	Pension	Medical	Total
Movement in the fair value of plan assets						
Opening balance	**8 096**	**–**	**8 096**	7 332	–	7 332
Expected return on plan assets	**705**	**–**	**705**	651	–	651
Actuarial gains	**196**	**–**	**196**	706	–	706
Employer contributions	**4**	**–**	**4**	2	–	2
Employee contributions	**1**	**–**	**1**	1	–	1
Benefits paid and settlements	**(524)**	**–**	**(524)**	(596)	–	(596)
Closing balance	**8 478**	**–**	**8 478**	8 096	–	8 096
The actual return on plan assets was:	**10%**	**–**		13%	–	
Plan assets comprised of the following:						
Equity	**1 552**	**–**	**1 552**	–	–	–
Debt	**6 812**	**–**	**6 812**	7 341	–	7 341
Other	**114**	**–**	**114**	755	–	755
Total	**8 478**	**–**	**8 478**	8 096	–	8 096
Included in plan assets were the following:						
Buildings occupied by the Bank with a fair value of	**56**	**–**	**56**	54	–	54
Total	**56**	**–**	**56**	54	–	54
Experience adjustments arising on plan liabilities	**(244)**	**(236)**	**(480)**	(405)	(248)	(653)
Experience adjustments arising on plan assets	**196**	**–**	**196**	706	–	706

25 EMPLOYEE LIABILITIES continued

25.2 Defined benefit post-employment liability continued

	2012		2011	
	Pension %	**Medical %**	Pension %	Medical %
The principal actuarial assumptions used for accounting purposes were:				
Expected return on plan assets	**8.9**	**–**	9.3	–
Discount rate	**8.9**	**8.9**	8.5	8.5
Expected rates of salary increases	**8.1**	**–**	7.6	–
Long-term increase in health cost	**–**	**7.6**	–	7.0
The effects of a 1% movement in the assumed health cost rate were as follows:				
Increase of 1%				
Effect on the aggregate of the current service cost (R million)	**–**	**59.5**	–	44.2
Effect on the defined benefit obligation (R million)	**–**	**439.0**	–	367.2
Decrease of 1%				
Effect on the aggregate of the current service cost (R million)	**–**	**40.5**	–	35.2
Effect on the defined benefit obligation (R million)	**–**	**354.0**	–	296.6
Estimated contributions expected to be paid to the plan in the next financial period)	**1 047**	**–**	827	–
Net increase in rate used to value pensions, allowing for pension increases (%)	**6.6**	**–**	6.1	–

25 EMPLOYEE LIABILITIES continued

25.2 Defined benefit post-employment liability continued

The expected rate of return over the year is a weighted average of the expected rate of return of the asset classes at the beginning of the year. The weights are based on the actual proportions of market value of assets in each asset class. The net increase in the rate used to value pensions is 8.9% (2011: 8.5%). The expected return per class of assets is:

%	**2012**	2011
Equities	**11.4**	10.0
Other	**11.4**	8.5
Bonds	**8.9**	7.0
Cash	**7.4**	10.0

	2012		2011	
	Active members	**Pensioners**	Active members	Pensioners
Mortality rate				
Pension fund				
Normal retirement age	**60**	**–**	60	–
Mortality rate table used	**PA(90)-2**	**PA(90)-2**	PA(90)-2	PA(90)-2
Post-retirement medical benefits				
Normal retirement age	**60**	**–**	60	–
Mortality rate table used (rated down 3 years for females)				
Active	**SA85-90**	**–**	SA72-77	
Retired	**PA(90)-2**	**PA(90)-2**	PA(90)-3	PA(90)-3

SA 85-90 refers to standard actuarial mortality tables for active members on a defined benefit plan where the chance of dying before normal retirement is expressed at each age for each gender.

SA72-77 refers to standard actuarial mortality tables for active members on a defined benefit plan where the chance of dying before normal retirement is expressed at each age for each gender.

PA(90)-2 refers to standard actuarial mortality tables for current and prospective pensioners on a defined benefit plan where the chance of dying after early or normal retirement is expressed at each age for each gender.

PA(90)-3 refers to standard actuarial mortality tables for current and prospective pensioners on a defined benefit plan where the chance of dying after early or normal retirement is expressed at each age for each gender.

25 EMPLOYEE LIABILITIES continued

25.2 Defined benefit post-employment liability continued

	2012		2011	
Mortality rate	**Pension**	**Medical**	Pension	Medical
The average life expectancy in years of a pensioner retiring at age 65, on the reporting date, is as follows:				
Male	**17**	**17**	17	17
Female	**21**	**21**	21	21
The average life expectancy in years of a pensioner retiring at age 65, 20 years after the reporting date, is as follows:				
Male	**18**	**18**	17	17
Female	**22**	**22**	22	21

Five year analysis on total pension and medical post-employment plans

	2012	2011	2010	2009	2008
Present value of defined benefit obligation	**11 489**	10 719	9 854	9 287	8 440
Fair value of plan assets	**(8 478)**	(8 096)	(7 332)	(7 099)	(6 555)
Deficit	**3 011**	2 623	2 522	2 188	1 885

The pension fund provides a pension that can be purchased with the member's fund credit (equal to member and employer contributions of 7.5% of pensionable salary each year, plus net investment returns). Death, ill health and withdrawal benefits are also provided.

The number of employees covered by the two schemes

	2012	2011
Pension:		
Active members	**28 345**	28 091
Pensioners	**6 865**	7 734
Total	**35 210**	35 825
Medical:		
Active members	**6 399**	6 794
Pensioners	**4 964**	4 518
Total	**11 363**	11 312

The employer's post-employment health care liability consists of a commitment to pay a portion of the members' post-employment medical scheme contributions. This liability is also generated in respect of dependants who are offered (continued) membership of the medical scheme on the death of the primary member. Members employed on or after the 1st of December 1998 do not qualify for a post-employment medical subsidy.

A full actuarial valuation of the pension fund submission to the Financial Services Board is done every 3 years, with the last valuation being in 2011. Annual interim actuarial valuations are performed for the trustees and for IAS 19 purposes.

At the last valuation date the fund was financially sound.

25 EMPLOYEE LIABILITIES continued

25.3 Post-employment benefit asset

The following assets are held in order to fund the Bank's liability towards employees relating to defined benefit post-retirement medical aid benefits:

R million	2012	2011
Post-employment benefit asset		
Post-employment medical aid asset	**2 986**	2 830
Total post-retirement benefit asset	**2 986**	2 830

The post-employment benefit asset comprises the following underlying investments:

R million	2012	2011
Cash and cash equivalents	**136**	194
Derivatives	**1**	1
Investment securities and other investments	**2 839**	2 633
– Held-to-maturity	**79**	77
– Designated at fair value through profit or loss	**2 760**	2 556
Accounts receivable	**10**	2
Total post-employment benefit asset	**2 986**	2 830

Cash and cash equivalents

The cash and cash equivalents represents balances with other banks. The carrying value of cash and cash equivalents approximates the fair value. Included in cash and cash equivalents are intercompany deposits of R110 million.

Derivative financial instruments

The derivatives are interest rate futures with a nominal value of R364 million and a fair value of R1 million. These derivatives are classified as held for trading.

Accounts receivable

Accounts receivable is made up of investment debtors.

25 EMPLOYEE LIABILITIES continued

25.3 Post-employment benefit asset continued

Investment securities and other investments can be analysed as follows

	2012			2011		
R million	**Designated at fair value through profit or loss**	**Held-to-maturity**	**Total**	Designated at fair value through profit or loss	Held-to-maturity	Total
Total						
Other government and government guaranteed stock	**1 439**	**–**	**1 439**	1 362	–	1 362
Other undated securities	**1 321**	**79**	**1 400**	1 194	77	1 271
Total	**2 760**	**79**	**2 839**	2 556	77	2 633
Listed						
Other government and government guaranteed stock	**1 439**	**–**	**1 439**	1 362	–	1 362
Other undated securities	**1 321**	**–**	**1 321**	1 194	–	1 194
Listed	**2 760**	**–**	**2 760**	2 556	–	2 556
Unlisted						
Other undated securities	**–**	**79**	**79**	–	77	77
Unlisted	**–**	**79**	**79**	–	77	77

25.3.1 Information about the credit quality of post-employment assets

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

	2012			
R million	**Investment securities**	**Derivatives**	**Cash and cash equivalents**	**Total**
Credit quality of financial assets (neither past due nor impaired)				
AAA to BBB	**1 619**	**1**	**136**	**1 756**
Total	**1 619**	**1**	**136**	**1 756**

	2011			
R million	Investment securities	Derivatives	Cash and cash equivalents	Total
Credit quality of financial assets (neither past due nor impaired)				
AAA to BBB	1 439	1	194	1 634
Total	1 439	1	194	1 634

25 EMPLOYEE LIABILITIES continued

25.3.1 nformation about the credit quality of post-employment assets continued

The following table provides a breakdown of credit exposure across geographies:

Concentration risk of significant credit exposures

R million	2012 South Africa	2012 Other	2012 Total	2011 South Africa	2011 Other	2011 Total
Cash and cash equivalents	**136**	**–**	**136**	187	7	194
Derivative financial instruments	**1**	**–**	**1**	1	–	1
Debt securities	**1 619**	**–**	**1 619**	1 439	–	1 439
Total	**1 756**	**–**	**1 756**	1 627	7	1 634

The credit quality of accounts receivable is provided in the table below.

	2012						
			Past due but not impaired				
R million	**Neither past due nor impaired**	**Renego-tiated but current**	**1 – 30 days**	**31 – 60 days**	**61 – 90 days**	**Impaired**	**Total**
Other	**10**	**–**	**–**	**–**	**–**	**–**	**10**
Total	**10**	**–**	**–**	**–**	**–**	**–**	**10**

	2011						
			Past due but not impaired				
	Neither past due nor impaired	Renego-tiated but current	1 – 30 days	31 – 60 days	61 – 90 days	Impaired	Total
Other	2	–	–	–	–	–	2
Total	2	–	–	–	–	–	2

25 EMPLOYEE LIABILITIES continued

25.3.2 Post-employment assets recognised at fair value continued

The following table presents the post-employment assets recognised at fair value in the statement of financial position of the Bank.

	2012			
R million	Level 1	Level 2	Level 3	Total carrying amount
Assets				
Investment securities and other investments	**1 990**	**770**	**–**	**2 760**
Derivative financial instruments	**–**	**1**	**–**	**1**
Total financial assets recognised at fair value	**1 990**	**771**	**–**	**2 761**

	2011			
R million	Level 1	Level 2	Level 3	Total carrying amount
Assets				
Investment securities and other investments	2 556	–	–	2 556
Derivative financial instruments	–	1	–	1
Total financial assets recognised at fair value	2 556	1	–	2 557

Transfers from Level 1 into Level 2 during the year ended June 2012 were R770 million. The transfer relates to bonds which are listed but not actively traded, and therefore form part of Level 2. The fair value was calculated based on observable market inputs using valuation techniques or using quoted market prices from an inactive market. There were no transfers of financial instruments between Level 1 and Level 2 during the year ended June 2011.

Financial assets not carried at fair value sold.

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

26 OTHER LIABILITIES

R million	Note	**2012**	2011
Finance lease liabilities	26.1	**–**	8
Other funding liabilities*		**922**	510
Total other liabilities		**922**	518

** Other funding liabilities include funding liabilities not directly related to banking activities, including preference shares not qualifying as Tier 2 capital.*

26.1 Finance lease liabilities

R million	**2012**	2011
Finance lease liabilities		
Not later than 1 year	**–**	3
Later than 1 year and not later than 5 years	**–**	5
Total finance lease liabilities	**–**	8
Present value of finance lease liability	**–**	8
Total finance lease liability	**–**	8

The finance lease liability is secured over property occupied for banking operations.

Refer to note 17 for assets that secure the finance lease liabilities.

Refer to note 34 for information about changes in the Bank's own credit risk.

Refer to note 36 for additional information relating to the fair value of other liabilities.

Refer to note 44 for the current and non-current analysis of other liabilities.

27 TIER 2 LIABILITIES

R million	**2012**	2011
Fixed rate bonds *	**4 411**	4 422
Floating rate bonds **	**3 026**	1 969
Total Tier 2 liabilities	**7 437**	6 391

** The fixed rate bonds mature between 29 March 2012 and 21 December 2018 and bear interest at between 9% and 12%.*
*** The floating rate bonds mature between 5 November 2012 and 22 December 2018 and the interest varies between 65bps and 300bps above the three month JIBAR rate.*

Refer to note 34 for information about changes in the Bank's own credit risk.

Refer to note 36 for information relating to the fair value of Tier 2 liabilities.

Refer to note 44 for the current and non-current analysis of Tier 2 liabilities.

28 SHARE CAPITAL AND SHARE PREMIUM

R million	**2012**	2011
Ordinary shares		
Authorised		
2 000 000 shares with a par value of R2 per share	**4**	4
Issued – fully paid up		
1 866 835 (2011: 1 866 833) ordinary shares with a par value of R2 per share.	**4**	4
All issued share capital is fully paid up.		
Ordinary share premium	**15 304**	**11 455**
Total issued ordinary share capital and share premium	**15 308**	11 459
NCNR preference shares		
Authorised		
100 million NCNR preference shares with a par value of R0.01 per share	**1**	1
Issued – fully paid up		
3 million (2011: 3 million) NCNR preference shares with par value of R0.01 per share.	*****	*
The NCNR preference shares were issued at varying interest rates which are linked to the prime lending rate as determined by the Bank.		
NCNR preference share premium	**3 000**	3 000
Total issued NCNR preference share capital and share premium	**3 000**	3 000
Total issued share capital and share premium	**18 308**	14 459

* *Denotes amounts less than R500 000.*

Preference shares that are classified as financial liabilities have been included in deposits (note 23) or other liabilities (note 26) as appropriate. The table below provides details of these preference shares:

The table below provides details of these preference shares.

R million	**2012**	2011
Redeemable preference shares		
Authorised		
5 billion redeemable preference shares with a par value of R0.0001 per share	**1**	1
Issued – fully paid up		
1 905 (2011: 2 385) redeemable preference shares with a par value of R0.0001 per share	*****	*
Redeemable preference share premium	**191**	239
Redeemable Class R preference shares		
Authorised		
50 000 redeemable preference shares with a par value of R0.0001 per share	*****	*
Issued – fully paid up		
7 270 (2011: 2 406) redeemable preference shares with a par value of R0.0001 per share	*****	*
Redeemable R Class share premium	**727**	241

* *Denotes amounts less than R500 000.*
4 890 class R redeemable preference shares were issued and 26 shares were redeemed during the year. These preference shares bear interest at 66.67% of FNB prime lending rate from time to time and are redeemable after three years and one day of issue.

28 SHARE CAPITAL AND SHARE PREMIUM continued

	Number of ordinary shares	Number of NCNR preference shares	Number of redeemable preference shares	Number of redeemable Class R preference shares
Reconciliation of shares issued				
Shares at 1 July 2010	1 866 831	3 000 000	2 595	–
Issued/(redeemed) during the year	2	–	(210)	2 406
Shares at 30 June 2011	1 866 833	3 000 000	2 385	2 406
Issued/(redeemed) during the year	**2**	**–**	**(480)**	**4 864**
Shares at 30 June 2012	**1 866 835**	**3 000 000**	**1 905**	**7 270**

For detail on capital management of the Bank please refer to the *Risk and capital management report* from page 25 to page 31.

The unissued ordinary shares are under the control of the directors until the next annual general meeting.

29 REMUNERATION SCHEMES

R million	**2012**	2011
The charge to profit or loss for share-based payments is as follows:		
FirstRand share incentive scheme	**–**	3
FirstRand black employee trust	**61**	52
FirstRand black non-executive directors' trust	**20**	–
FirstRand share appreciation rights scheme	**681**	157
Conditional share plan	**1 352**	484
Forfeitable share plan	**52**	184
Amount included in profit or loss	**2 166**	880

The various FirstRand share schemes are settled as follows:

Equity settled:
- FirstRand share incentive scheme
- FirstRand black employee trust
- FirstRand black non-executive directors' trust

Cash settled:
- FirstRand share appreciation right scheme
- Conditional share plan
- Forfeitable share plan

The purpose of these schemes is to appropriately attract, incentivise and retain managers within the Group.

The Group adopted a revised share incentive plan in 2009, namely a conditional share plan (CSP) and a forfeitable share plan (FSP). These plans are in line with practices in the UK and with several recently adopted schemes for large JSE listed or dual listed companies.

29 REMUNERATION SCHEMES continued

Description of the schemes

FirstRand share incentive scheme

The rules of the FirstRand share inventive scheme ("the Scheme") are constituted in the FirstRand Limited share trust. The Scheme was implemented in 2000.

One third of the total number of options issued may be exercised after the third year, two-thirds after the fourth year and all of the options vest on the fifth anniversary of the grant date.

The last of the benefits awarded under this Scheme vested during the year ended 30 June 2011. The share-based payment reserve relating to these awards was classified to retained earnings.

All the share options under this Scheme vested in the prior year and the amount recognised in the share-based payment reserve has been transferred to retained earnings in accordance with the group's policy.

FirstRand black economic empowerment trusts

FirstRand Limited is committed to the process of achieving transformation in South Africa and in creating its transformation initiative sought to ensure that the long-term benefits of the transaction reach the widest possible community of black South Africans.

- 171.4 million shares, representing approximately 3.1% of the issued share capital of FirstRand Limited, are held by the BEE trusts which have granted participation to black South African directors and employees.
- 20 million shares to the FirstRand staff assistance trust.
- 136.4 million shares to the FirstRand black employee trust (subject to IFRS 2).
- 15 million shares to the FirstRand black non-executive directors' trust (subject to IFRS 2).

Pursuant to the unbundling of Momentum the trusts received MMI shares that will be held by the trusts for the benefit of the participants until the distribution date. These shares are employee benefits that fall within the scope of IAS 19 and as such the portion of the share-based payment reserve that relates to these shares has been reclassified to staff-related provisions.

FirstRand black employee trust

This trust was set up specifically for the benefit of the black employees. The participation in this trust is in addition to participation in any existing FirstRand share incentive scheme.

The issues of participation rights in the trust were made as follows:

- First issue on 20 July 2005;
- Second issue on 1 November 2006;
- Third issue on 3 December 2007; and
- Last issue on 14 May 2010.

Distribution to beneficiaries takes place at 31 December 2014.

FirstRand black non-executive directors' trust

The beneficiaries of this trust are the black non-executive directors and those executive directors who were non-executives prior to becoming executives of FirstRand Group.

Distribution to beneficiaries takes place at 31 December 2014.

FirstRand share appreciation rights scheme

The purpose of this scheme is to provide identified FirstRand Group employees, including executive directors, with the opportunity of receiving incentive remuneration payments based on the increase in the market value of ordinary shares in FirstRand Limited.

The FirstRand share appreciation right scheme was implemented in 2006.

One third of the total number of rights issued may be exercised after the third year, two-thirds after the fourth year and all of the shares by the fifth anniversary of the date of grant, provided that the performance objectives set for the grant have been achieved. In any one year where the performance objectives have not been achieved the shares will not vest in that year but will be carried over to the following year, provided that the performance objectives are met in that following year. If performance conditions are not met by year five, the rights will not vest.

During the year ended 30 June 2011 the strike price of the appreciation rights was amended as a result of the Momentum unbundling. During the current year the strike price was amended as a result of the special dividend of R0.70. The purpose of these amendments was to place employees in the same position before and after the transactions. The modifications were neither beneficial nor detrimental to the employees.

Conditional share plan

The conditional award comprises a number of full shares with no strike price that will vest conditionally after a period of three years. The number of shares that vest is determined by the extent to which the performance conditions are met. Conditional awards will be made annually and vesting will be subject to specified financial and non-financial performance, which will be set annually by the Bank's Remuneration committee.

29 REMUNERATION SCHEMES continued

During the year ended 30 June 2011 additional conditional awards were granted to Bank employees as a result of the unbundling of Momentum. During the current year additional conditional awards were granted to Bank employees as a result of the special dividend of R0.70. The purpose of the additional shares was to place the employees in the same position before and after the transactions. The modifications were neither beneficial nor detrimental to the employees.

Forfeitable share plan

The forfeitable share plan is a remuneration scheme that grants selected employees full shares with no strike price that will vest over a period of two years.

Selected employees are awarded shares that are forfeited if the employee leaves the employment of the FirstRand Group before the end of the vesting period. During the vesting period the shares are held in trust for the employees. The dividends earned on the shares during the vesting period form part of the award. As such they accrue to the participants and will be delivered along with the shares at the vesting date.

Due to the unbundling of Momentum Limited from the FirstRand Group in December 2010, participants received MMI Holdings shares to compensate them for loss of value. These shares vested during September 2011 and the related liability was settled.

Co-investment arrangement

A co-investment arrangement was established whereby certain key executives and decision makers of the FirstRand Group are allowed to co-invest with FirstRand Limited in certain pre-defined portfolios.

The rationale for the co-investment arrangement includes:
- Alignment of management and shareholder objectives;
- Retention of key employees and decision makers; and
- Attracting new talent in a highly competitive market.

The participants who co-invest with FirstRand Limited buy into the existing portfolios at the disclosed fair values and are required to place capital at risk. No additional gearing is provided by FirstRand Limited.

Participants share in future profits to the extent of their capital as a percentage of the total capital at risk in the portfolios.

Where losses are incurred, participants share in the losses to the full extent of their capital committed and profits made on these portfolios.

The co-investment arrangement encourages a long-term perspective and commitment from employees. The arrangement also encourages executives to remain in the employ of the FirstRand Group companies in excess of three years, as the value of the underlying investments are expected to realised over a longer time frame.

The FirstRand Group remuneration committee determines annually:
- The portfolios in which co-investment will be allowed;
- The level of co-investment allowed; and
- Which key executives and decision makers qualify for co-investment.

The amounts invested by key management personnel have been included in note 39.

Valuation methodology

FirstRand share incentive scheme

Fair values for the share incentive schemes are calculated at the grant date using a modification of the Cox Rubenstein binomial model. For valuation purposes, each call option granted has been valued as a Bermudan call option with a number of exercise dates. The days on which the options can be exercised has been assumed to be the last day that the shares trade cum-dividend.

Market data consists of the following:
- Volatility is the expected volatility over the period of the plan, and historic volatility was used as a proxy for expected volatility; and
- The interest rate is the risk free rate of return, recorded on the date of the option grant, on a South African government zero coupon bond of a term equal to the expected life of the option.

Dividend data consists of the following:
- The last dividend paid is the Rand amount of the last dividend before the options were granted;
- The last dividend date is the ex date of the last dividend; and
- The dividend growth is the annual expected dividend growth.

Employee statistic assumptions:
- Annual employee turnover is the average annual rate that employees participating in the option scheme are expected to leave before the options have vested.
- The number of iterations is the number to be used in the binomial model, which is limited to 500.
- The weighted average number of forfeitures is based on the major grants because these grants have a more reliable cancellation or forfeiture pattern.

29 REMUNERATION SCHEMES continued

FirstRand black employee trust

Economically, FirstRand has granted European call options and is repurchasing shares. The strike price equates to the expected outstanding amount of the funding. The value of the implicit options is determined using the Black Scholes option pricing model.

Market data consists of the following:
- Volatility is the expected volatility over the period of the plan, and historic volatility was used as a proxy for expected volatility; and
- The interest rate used was the RMB forward prime curve (extrapolated where necessary) as the funding of the option is linked to the prime lending rate.

Dividend data consists of the following:
- A fixed dividend yield was assumed.

Employee statistic assumptions:
- The weighted average forfeiture rate used is based on historical forfeiture data for this scheme cognoscente of whether the share is in or out of the money and the vesting date.

FirstRand black non-executive directors' trust

The FirstRand black non-executive directors' trust is valued on the same methodology as used for the FirstRand black employee trust, except that a zero % weighted average forfeiture rate was used due to the fact that there are only 10 participants (2011: 10 participants).

Market data consists of the following:
- Volatility is the expected volatility over the period of the plan, and historic volatility was used as a proxy for expected volatility; and
- The interest rate used was the RMB forward prime curve (extrapolated where necessary) as the funding of the option is linked to the prime lending rate.

Dividend data consists of the following:
- A fixed dividend yield was assumed.

FirstRand Limited share appreciation rights scheme

The share appreciation rights scheme issues are valued using a Cox Ross Rubenstein binomial tree. The scheme is cash settled and is therefore repriced at each reporting date.

Market data consists of the following:
- Volatility is the expected volatility over the period of the option, and historic volatility was used as a proxy for expected valuation.
- The interest rate is the risk free rate of return, as recorded on the last day of the financial year, on a swap curve of a term equal to the expected life of the share appreciation right.

Dividend data consists of the following:
- Management's estimate of future dividends.

Employee statistic assumptions:
- The number of rights granted is reduced by the actual staff turnover at year end. This turnover is then assumed to be constant over the period of the grants and used to estimate the expected number of rights which will vest on the vesting date.

Conditional share plan

The conditional share plan is valued using the Black Scholes model with a zero strike price. The scheme is cash settled and will thus be repriced at each reporting date.

Market and dividend data consists of the following:
- Volatility is the expected volatility over the period of the plan, and historical volatility was used as a proxy for expected volatility.
- The interest rate is the risk free rate of return as recorded on the last day of the financial year, on a swap curve of a term equal to the expected life of the plan.
- A fixed dividend yield was assumed, based on the average historic dividend yield over a similar period.

Employee statistic assumptions:
- The weighted average forfeiture rate used is based on historical forfeiture data over all schemes cognoscente of whether the share is in or out of the money and the vesting date.

Forfeitable share plan

The forfeitable share plan is valued using the Black Scholes model. The present value of all declared dividends was added to the value as determined using Black Scholes. The scheme is cash settled and will thus be repriced at each reporting date.

Market and dividend data consists of the following:
- Volatility is the expected volatility over the period of the plan, and historical volatility was used as a proxy for expected volatility.
- The interest rate is the risk free rate of return as recorded on the last day of the financial year, on a swap curve of a term equal to the expected life of the plan.
- A fixed dividend yield was assumed, based on the average historic dividend yield over a similar period.

The valuation includes assumptions about the valuation of the MMI shares received as a dividend as well as cash dividends on the MMI shares.

Employee statistic assumptions:
- No forfeiture rate is used due to the short duration of the scheme.

29 REMUNERATION SCHEMES continued

The significant weighted average assumptions used to estimate the fair value of options and share transactions granted and the IFRS 2 expenses for the year under review are:

	FirstRand share incentive scheme*	FirstRand black employee trust	FirstRand black non-executive directors' trust	FirstRand share appreciation right scheme**	Conditional share plan	Forfeitable share plan
2012						
Weighted average exercise price (Rands)	**–**	**12.05 – 24.60**	**12.28 – 17.60**	**7.85 – 17.00**	**–**	**–**
Expected volatility (%)	**–**	**24 – 29**	**23 – 33**	**25**	**25**	**25**
Expected option life (years)	**–**	**5 –10**	**10**	**5**	**3**	**2 – 3**
Expected risk free rate (%)	**–**	**6.91 – 9.9**	**6.9**	**5.35 – 5.53**	**5.35 – 5.77**	**5.5**
Expected dividend yield (%)	**–**	**3.5**	**3.5**	**3.5**	**3.5**	**3.5**
Expected dividend growth (%)	**–**	**–**	**–**	**–**	**–**	**–**
2011						
Weighted average exercise price (Rands)	12.37 – 16.09	12.05 – 24.60	2.28 – 17.60	8.55 – 13.68	–	—
Expected volatility (%)	23 – 29	24 – 29	23 – 33	26 – 38	26 – 41	23
Expected option life (years)	5	5 – 10	10	5	3	2 – 3
Expected risk free rate (%)	7.5 – 8.02	6.91 – 9.9	6.91	5.89 – 7.29	6.18 – 7.10	6.66
Expected dividend yield (%)	–	2.78 – 6.88	3.44 – 4.04	3.72 – 4.96	3.79 – 4.94	–
Expected dividend growth (%)	20	–	–	–	–	–

* *All the above options under this scheme vested in the current year.*

** *The strike price of the share appreciation rights scheme adjusted for the Momentum unbundling. Some share appreciation rights granted are subject to other vesting conditions that are highly unlikely to be achieved.*

Notes to the annual financial statements continued

29 REMUNERATION SCHEMES continued

	2012
	FirstRand share scheme (FSR shares)
Number of options and share awards in force at the beginning of the year (millions)	–
Granted at prices ranging between (cents)	–
Weighted average (cents)	–
Number of options and share awards granted during the year (millions)	–
Granted at prices ranging between (cents)	–
Weighted average (cents)	–
Fair value per share on grant date	
Number of options and share awards exercised/released during the year (millions)	–
Market value range at date of exercise/release (cents)	–
Weighted average share price for the year (cents)	–
Number of options and share awards cancelled/lapsed during the year (millions)	–
Granted at prices ranging between (cents)	–
Weighted average (cents)	–
Number of options and share awards in force at the end of the year (millions)	–
Granted at prices ranging between (cents)	–
Weighted average (cents)	–
Options and share awards are exercisable over the following periods:	
(first date able to release)	
Financial year 2012/2013 (millions)	–
Financial year 2013/2014 (millions)	–
Financial year 2014/2015 (millions)	–
Total	–

	2012				
	FirstRand share appreciation right scheme (FSR shares)	FirstRand black employee trust (FSR shares)	FirstRand black non-executive directors trust (FSR shares)	Conditional share plan (FSR shares)	Forfeitable share plan (FSR shares)
	168.9	110.7	4.0	84.3	13.9
	855 – 2 022	1 205 – 2 460	1 228 – 1 760	–	–
	1 335	1 664	1 361	–	–
	–	–	–	49.4	–
	–	–	–	–	–
	–	–	–	–	–
				1 764 – 2 200	
	(22.5)	–	4.5	1.7	(13.3)
	1 837 – 2 716	–	1 228 – 1 760	–	–
	2 048	–	1 361	–	–
	(44.2)	(5.1)	–	(5.2)	–
	1 048 – 1 952	1 228 – 2 335	–	–	–
	1 365	1 803	–	–	–
	102.2	105.6	8.5	130.2	0.6
	785 – 1 700	1 205 – 2 460	1 228 – 1 760	–	–
	1 297	1 655	1 291	–	–
	74.0	–	–	44.6	0.6
	28.1	–	–	46.1	–
	0.1	105.6	8.5	39.5	–
	102.2	105.6	8.5	130.2	0.6

29 REMUNERATION SCHEMES continued

Options and share awards outstanding (by expiry date)	2012								
	FirstRand share scheme (FSR shares)			FirstRand share appreciation right scheme (FSR shares)**			FirstRand black non-executive directors' trust (FSR shares)		
	Expiry date	Exercise price (Rand)	Outstanding options 2012 (millions)	Expiry date	Exercise price (Rand)	Outstanding options 2012 (millions)	Expiry date	Exercise price (Rand)	Outstanding options 2012 (millions)
				01/11/2012	17.00	39.0	31/12/2014	12.28	7.5
				04/04/2013	14.46	0.2	31/12/2014	17.60	1.0
				03/12/2013	10.48	62.6			
				16/04/2014	7.85	*			
				01/06/2014	9.52	0.3			
				01/06/2014	10.14	0.1			
				01/11/2014	12.98	0.2			
						102.2			8.5
Total options and share awards outstanding – in the money (millions)			*			63.1			8.5
Total options and share awards outstanding – out of the money (millions)			*			39.1			*
Total (millions)			–			102.2			8.5
Value of company loans to share option trust at the beginning of the year (R million)			–			4			224
Value of company loans to share option trust at the end of the year (R million)			–			268			213
Number of participants			–			1 312			9

* *Denotes amounts of less than 50 000*
** *Some share appreciation rights are subject to other vesting conditions that are highly unlikely to be achieved.*
# *The employees are awarded the shares, there is therefore no strike price associated with the awards made under the conditional or forfeitable share plan.*

The share options outstanding at the end of the year had a weighted average remaining contractual life of 309 days.

2012						
FirstRand black employee trust			Conditional share plan (FSR shares)#		Forfeitable share plan (FSR shares)#	
Expiry date	Exercise price (Rand)	Outstanding options 2012 (millions)	Expiry date	Outstanding options 2012 (millions)	Expiry date	Outstanding awards 2012 (millions)
31/12/2014	12.05	0.2	13/10/2012	5.4	16/9/2012	0.6
31/12/2014	12.06	0.2	17/10/2012	39.2		
31/12/2014	12.28	47.9	13/10/2013	7.1		
31/12/2014	13.05	0.4	14/10/2013	38.5		
31/12/2014	13.65	0.1	01/11/2013	0.1		
31/12/2014	14.00	0.2	20/11/2013	*		
31/12/2014	14.70	0.2	01/12/2013	0.1		
31/12/2014	15.66	*	01/01/2014	0.2		
31/12/2014	15.88	0.1	08/04/2014	0.2		
31/12/2014	16.00	*	15/04/2014	*		
31/12/2014	16.42	0.5	01/05/2014	*		
31/12/2014	16.50	*	13/10/2014	39.0		
31/12/2014	16.51	0.4	01/11/2014	*		
31/12/2014	16.56	0.2	03/11/2014	*		
31/12/2014	17.37	0.6	28/03/2015	0.2		
31/12/2014	17.81	0.2	01/04/2015	0.1		
31/12/2014	18.62	11.2	05/04/2015	0.1		
31/12/2014	18.72	*	01/05/2015	*		
31/12/2014	19.33	0.1	02/05/2015	*		
31/12/2014	19.44	0.7				
31/12/2014	19.81	*				
31/12/2014	19.89	25.6				
31/12/2014	21.50	0.1				
31/12/2014	22.10	0.1				
31/12/2014	22.34	15.5				
31/12/2014	22.60	0.1				
31/12/2014	22.80	0.5				
31/12/2014	23.35	*				
31/12/2014	23.75	0.1				
31/12/2014	24.60	0.5				
		105.6		130.2		0.6
		105.6		130.2		0.6
		–		–		–
		105.6		130.2		0.6
		1 906		–		21
		1 793		–		(8)
		11 211		2 376		1

Notes to the annual financial statements continued

29 REMUNERATION SCHEMES continued

	2011
	FirstRand share scheme (FSR shares)
Number of options and share awards in force at the beginning of the year (millions)	25.4
Granted at prices ranging between (cents)	1 237 – 1 609
Weighted average (cents)	1 533
Number of options and share awards granted during the year (millions)	–
Granted at prices ranging between (cents)	–
Weighted average (cents)	–
Fair Value on grant date (cents)	
Number of options and share awards exercised/released/transferred during the year (millions)	(25.4)
Market value range at date of exercise/release (cents)	1 863 – 2 238
Weighted average share price for the year (cents)	1 992
Number of options and share awards cancelled/lapsed during the year (millions)	–
Granted at prices ranging between (cents)	–
Weighted average (cents)	–
Number of options and share awards in force at the end of the year (millions)	
Granted at prices ranging between (cents)	–
Weighted average (cents)	–
Options and share awards are exercisable over the following periods (first date able to release)	
Financial year 2008/2009 (millions)	–
Financial year 2009/2010 (millions)	–
Financial year 2010/2011 (millions)	–
Financial year 2011/2012 (millions)	–
Financial year 2012/2013 (millions)	–
Financial year 2013/2014 (millions)	–
Financial year 2014/2015 (millions)	–
Total	–

** Denotes amount of less than 50 000*

	2011				
	FirstRand share appreciation right scheme (FSR shares)	FirstRand black employee trust (FSR shares)	FirstRand black non-executive directors trust (FSR shares)	Conditional share plan (FSR shares)	Forfeitable share plan (FSR shares)
	185.8	115.9	2.0	35.7	14.7
	855 – 2 022	1 205 – 2 460	1 228 – 1 760	–	–
	1 334	1 667	1 494	–	–
	–	1.8	2.0	53.2	–
	–	1 933 – 1 989	1 228	–	–
	–	1 959	1 228	–	–
		460			
	–	–	–	–	–
	–	–	–	–	–
	–	–	–	–	–
	(16.9)	(7.0)	–	(4.6)	(0.8)
	855 – 1 770	1 228 – 2 234	–	–	–
	1 319	2 027	–	–	–
	168.9	110.7	4.0	84.3	13.9
	855 – 2 022	1 205 – 2 460	1 228 – 1 760	–	–
	1 335	1 664	1 361	–	–
	–	–	–	–	–
	–	–	–	–	–
	–	–	–	–	–
	69.3	–	–	–	13.3
	70.2	–	–	45.0	0.6
	29.4	–	–	39.3	–
	*	110.7	4.0	–	–
	168.9	110.7	4.0	84.3	13.9

29 REMUNERATION SCHEMES continued

	2011								
	FirstRand (FSR shares)			FirstRand share appreciation right scheme (FSR shares)			FirstRand black non-executive directors' trust (FSR shares)		
Options outstanding (by expiry date)	Expiry date	Exercise price (Rand)	Outstanding options 2011 (millions)	Expiry date	Exercise price (Rand)**	Outstanding options 2011 (millions)	Expiry date	Exercise price (Rand)	Outstanding options 2011 (millions)
				01/10/2011	13.50	38.2	31/12/2014	12.28	3.0
				01/12/2011	15.32	*	31/12/2014	17.60	1.0
				27/02/2012	20.22	0.2			
				15/03/2012	18.05	0.3			
				01/04/2012	20.15	0.6			
				15/06/2012	19.29	0.6			
				01/10/2012	17.70	40.6			
				04/03/2013	15.16	0.1			
				03/11/2013	11.18	87.7			
				16/03/2014	8.55	0.1			
				01/05/2014	10.22	0.3			
				01/10/2014	13.68	0.2			
			–			168.9			4.0
Total options and share awards outstanding – in the money (millions)			–			90.0			–
Total options and share awards outstanding – out of the money (millions)			–			78.9			4.0
Total (millions)			–			168.9			4.0
Value of company loans to share option trust at the beginning of the year (R million)			901			1 984			214
Value of company loans to share option trust at the end of the year (R million)			7			4			224
Number of participants			–			1 534			4

* *Denotes amounts of less than 50 000*
** *Some share appreciation rights granted are subject to other vesting conditions that are highly unlikely to be achieved.*
# *The employees are awarded the shares, there is therefore no strike price associated with the awards made under the conditional or forfeitable share plan.*

The share options outstanding at the end of the year had a weighted average remaining contractual life of 430 days.

	2011						
	FirstRand black employee trust			Conditional share plan#		Forfeitable share plan#	
	Expiry date	Exercise price (Rand)	Outstanding options 2011 (millions)	Expiry date	Outstanding options 2011 (millions)	Expiry date	Outstanding awards 2011 (millions)
	31/12/2014	12.05	0.2	13/10/2012	5.3	15/09/2011	13.3
	31/12/2014	12.06	0.2	17/10/2012	39.7	15/09/2012	0.6
	31/12/2014	12.28	49.2	14/10/2013	38.8		
	31/12/2014	13.05	0.4	01/11/2013	0.2		
	31/12/2014	13.65	0.1	20/11/2013	*		
	31/12/2014	14.00	0.2	01/12/2013	0.1		
	31/12/2014	14.70	0.2	01/01/2014	0.1		
	31/12/2014	15.66	*	08/04/2014	0.1		
	31/12/2014	15.88	0.1	15/04/2014	*		
	31/12/2014	16.00	*	01/05/2014	*		
	31/12/2014	16.42	0.5				
	31/12/2014	16.50	*				
	31/12/2014	16.51	0.4				
	31/12/2014	17.37	0.6				
	31/12/2014	17.81	0.1				
	31/12/2014	18.62	11.5				
	31/12/2014	18.72	0.1				
	31/12/2014	19.33	0.1				
	31/12/2014	19.44	1.1				
	31/12/2014	19.81	*				
	31/12/2014	19.89	27.8				
	31/12/2014	21.50	0.2				
	31/12/2014	22.10	0.1				
	31/12/2014	22.34	16.4				
	31/12/2014	22.60	0.1				
	31/12/2014	22.80	0.5				
	31/12/2014	23.35	*				
	31/12/2014	23.75	0.1				
	31/12/2014	24.60	0.5				
			110.7		84.3		13.9
			65.0		84.3		13.9
			45.7		*		*
			110.7		84.3		13.9
			1 888		–		273
			1 906		–		21
			11 155		1 896		112

30 CASH FLOW INFORMATION

R million	2012	2011
30.1 Reconciliation of operating profit before income tax to cash flows from operating activities		
Income before tax	**12 677**	10 755
Adjusted for:		
– Depreciation, amortisation and impairment charges	**1 903**	1 424
– Impairment of advances	**4 885**	3 637
– Movement in provisions	**2 458**	1 760
– Loss on disposal of property and equipment	**75**	44
– Gain on disposal of investments securities and other investments	**(17)**	(314)
– Gain on disposal of subsidiaries	**–**	(688)
– Gain on disposal of associates	**(81)**	–
– Deferred expenses and income	**(241)**	(231)
– Share-based payment expense	**2 166**	843
– Net fair value gains on financial assets through profit or loss	**59**	(4)
– Accruals	**497**	671
– Present value adjustments	**(122)**	(200)
– Foreign currency translation reserve	**1**	77
– Reclassification from other comprehensive income in respect of available-for-sale assets and cash flow hedges	**(420)**	(293)
– Dividends paid	**(5 418)**	(3 072)
Net cash flows from operating activities	**18 422**	14 409
30.2 Cash receipts from customers		
Interest income	**38 090**	34 828
Fee and commission income	**15 452**	13 386
Trading and other income	**9 312**	6 489
Total cash receipts from customers	**62 854**	54 703
30.3 Cash paid to customers, suppliers and employees		
Interest expense	**(23 189)**	(23 482)
Other operating expenses	**(18 414)**	(16 461)
Total cash paid to customers, suppliers and employees	**(41 603)**	(39 943)
30.4 Increase in income-earning assets		
Liquid assets and trading securities	**5 877**	(3 948)
Advances	**(57 335)**	(31 728)
Increase in income earning assets	**(51 458)**	(35 676)
30.5 Increase in deposits and liabilities		
Deposits	**51 984**	39 883
Employee liabilities	**(2 319)**	(1 281)
Creditors (net of debtors)	**4**	337
Other	**(12 958)**	(8 935)
Increase in deposits and liabilities	**36 711**	30 004

30 CASH FLOW INFORMATION continued

R million	2012	2011
30.6 Tax paid		
Indirect tax paid	**(496)**	(503)
Tax (payable)/refundable at beginning of the year	**(95)**	741
Charge to profit and loss	**(2 464)**	(2 266)
Tax (refundable)/payable at year end	**(253)**	95
Deferred income tax charged to profit and loss	**(596)**	(400)
Other	**(37)**	–
Total tax paid	**(3 941)**	(2 333)
30.7 Dividends paid		
Charged to retained earnings	**(5 418)**	(3 072)
Total dividends paid	**(5 418)**	(3 072)
30.8 Cash and cash equivalents		
Cash and cash equivalents consist of cash on hand and balances with banks. Cash and cash equivalents included in the statement of cash flows comprise the following statement of financial position amounts:		
Cash and cash equivalents (note 7)	**31 557**	29 012
Total cash and cash equivalents	**31 557**	29 012
30.9 Proceeds on disposal of significant subsidiaries		
Restructure sale of subsidiaries to FirstRand Investment Holdings (Pty) Ltd	**–**	967
– discharged by cash consideration	**–**	967
Total cash inflow on disposal	**–**	967
Home Choice Holdings Ltd		
Proceeds from disposal	**104**	–
– discharged by cash consideration	**104**	–
Total cash inflow on disposal	**104**	–
Weston Atlas Fund		
Proceeds from disposal	**55**	–
– discharged by cash consideration	**55**	–
Total cash inflow on disposal	**55**	–

Notes to the annual financial statements continued

30 CASH FLOW INFORMATION continued

R million	2012	2011
30.10 Proceeds on disposal of significant associates continued		
Restructure		
Restructure sale of associates to FirstRand Investment Holdings (Pty) Ltd	–	1 499
– discharged by cash consideration	–	1 499
Total cash inflow on disposal	–	1 499
Other insignificant associates		
Consideration received on the disposal of entities under common control	–	131
– discharged by cash consideration	–	131
Total cash inflow on disposal	–	131
30.11 Consideration for acquisition of significant associates		
Sutter Gold		
Cost of acquisition	**(164)**	–
– discharged by cash consideration	**(164)**	–
Total cash outflow on acquisition	**(164)**	–
Home Choice Holdings Ltd		
Cost of acquisition	**(36)**	–
– discharged by cash consideration	**(36)**	–
Total cash outflow on acquisition	**(36)**	–
Other insignificant associates		
Cost of acquisition	**(5)**	–
– discharged by cash consideration	**(5)**	–
Total cash outflow on acquisition	**(5)**	–
Weston Atlas Fund		
Cost of acquisition	–	(96)
– discharged by cash consideration	–	(96)
Total cash outflow on acquisition	–	(96)

31 CONTINGENCIES AND COMMITMENTS

R million	2012	2011
Guarantees*	**21 446**	24 901
Acceptances	**293**	300
Letters of credit	**7 301**	6 063
Total contingencies	**29 040**	31 264
Irrevocable commitments	**64 872**	58 438
Committed capital expenditure	**3 096**	3 362
Operating lease commitments	**2 394**	1 655
Other**	**58**	11 200
Total contingencies and commitments	**99 460**	105 919

* *Guarantees consist predominantly of endorsements and performance guarantees. Guarantees reported above include guarantees of R917 million (2011: R2 424 million) granted to other FirstRand Group Companies.*

** *During the year a portion of other commitments were reclassified as being revocable and not disclosed above. The comparative number for the prior year is R11 billion.*

Other contingencies		
The Bank is exposed to various actual or potential claims.		
Legal proceedings		
There are a number of legal or potential claims against the Bank, the outcome of which cannot at present be foreseen. These claims are not regarded as material either on an individual or a total basis. Provision is made for all liabilities that are expected to materialise.	**91**	63
Claims		
– The Bank has contingent liabilities in respect of certain outstanding claims.	**–**	150
– The Bank has reciprocal claims against other institutions. These claims qualify as contingent assets.	**–**	(134)
Commitments		
Commitments in respect of capital expenditure and long-term investments approved by directors comprise the following:		
– Capital commitments contracted for at the reporting date but not yet incurred:		
Property and equipment and intangible assets	**1 347**	356
– Capital commitments not yet contracted for at reporting date but have been approved by the directors:		
Property and equipment and intangible assets	**1 749**	3 006

Funds to meet these commitments will be provided from the Bank's resources.

31 CONTINGENCIES AND COMMITMENTS continued

Group commitments under operating leases where the Bank is the lessee

The Bank's significant operating leases relate to property rentals of office premises and the various branch network channels represented by full service branches, agencies, mini branches and ATM lobbies. The rentals have fixed monthly payments, often including a contingent rental based on a percentage contribution of the monthly operating costs of the premises. Escalation clauses are based on market related rates and vary between 8% and 12%.

The leases are usually for a period of one to five years. The leases are non-cancellable and certain of the leases have an option to renew for a further leasing period at the end of the original lease term.

Restrictions are more an exception than the norm and usually relate to the restricted use of the asset for the business purposes specified in the lease contract.

	2012			
R million	**Within 1 year**	**Between 1 and 5 years**	**More than 5 years**	**Total**
Office premises	**755**	**1 418**	**9**	**2 182**
Recoverable under subleases	**–**	**–**	**–**	**–**
Equipment and motor vehicles	**67**	**145**	**–**	**212**
Total operating lease commitments	**822**	**1 563**	**9**	**2 394**

	2011			
R million	Within 1 year	Between 1 and 5 years	More than 5 years	Total
Office premises	626	980	9	1 615
Recoverable under subleases	(13)	(38)	–	(51)
Equipment and motor vehicles	62	28	–	90
Total operating lease commitments	675	970	9	1 654

31 CONTINGENCIES AND COMMITMENTS continued

Future minimum lease payments receivable under operating leases where the Bank is the lessor

The Bank owns various assets that are leased to third parties under non-cancellable operating leases as part of the Group's revenue generating operations. These assets include office premises, aircraft and equipment. The operating leases have various lease terms ranging from three to fifteen years.

The minimum future lease payments under non-cancellable operating leases:

	2012			
R million	**Within 1 year**	**Between 1 and 5 years**	**More than 5 years**	**Total**
Property	**45**	**55**	**–**	**100**
Motor vehicles	**288**	**383**	**–**	**671**
Other	**–**	**–**	**–**	**–**
Total under non-cancellable operating leases	**333**	**438**	**–**	**771**

	2011			
R million	Within 1 year	Between 1 and 5 years	More than 5 years	Total
Property	47	32	–	79
Motor vehicles	205	237	–	442
Other	1	–	–	1
Total under non-cancellable operating leases	253	269	–	522

Notes to the annual financial statements continued

32 COLLATERAL PLEDGED AND HELD

32.1 Collateral pledged

The Bank has pledged assets as security for the following liabilities:

R million	**2012**	2011
Short trading positions	**4 019**	5 777
Total deposits	**31 469**	47 041
Deposits under repurchase agreements	**28 277**	41 146
Deposits in securities lending transactions	**3 192**	5 895
Liabilities to holding company and fellow subsidiary companies	**688**	2 705
Other	**4 768**	2 250
Total collateral pledged	**40 944**	57 773

The Bank pledges assets under the following terms and conditions:

- Mandatory reserve deposits are held with the central bank in accordance with statutory requirements. These deposits are not available to finance the Bank's day-to-day operations.
- Assets are pledged as collateral under repurchase agreements with other banks and for security deposits relating to local futures and options.
- Collateral in the form of cash and other investment securities is pledged when the Bank borrows equity securities from third parties. These transactions are conducted under the terms and conditions that are usual and customary to standard securities lending arrangements.
- All other pledges are conducted under terms which are usual and customary to lending arrangements.

Assets pledged to secure the above liabilities consist of the following:

R million	**2012**	2011
Cash and cash equivalents	**4 577**	2 250
Investment securities and other investments held under repurchase agreements	**13 463**	18 607
Investment securities and other investments	**191**	–
Total assets pledged	**18 231**	20 857

32 COLLATERAL PLEDGED AND HELD continued

32.2 Collateral held

Under the standard terms for certain of the securities lending arrangements and repurchase agreements that the Bank enters into, the recipient of collateral has an unrestricted right to sell or repledge the assets in the absence of default but subject to the Bank returning equivalent securities on settlement of the transaction.

Collateral the Bank holds that it has the ability to sell or repledge in the absence of default by the owner of the collateral:

	2012		2011	
R million	**Fair value**	**Fair value of collateral sold or repledged**	Fair Value	Fair value of collateral sold or repledged
Cash and cash equivalents	**–**	**–**	2 584	–
Advances	**38 482**	**18 912**	30 257	29 764
Investment securities and other investments	**16 201**	**16 202**	10 600	10 600
Total collateral held	**54 683**	**35 114**	43 441	40 364

When the Bank takes possession of collateral that is not cash or not readily convertible into cash, the Bank determines a minimum sale amount (pre-set sale amount) and auctions the asset for the pre-set sale amount. Where the Bank is unable to obtain the pre-set sale amount in an auction the Bank will continue to hold the asset while actively marketing it to ensure an appropriate value is obtained.

Reconciliation of collateral taken possession of and recognised on the statement of financial position:

	2012	
R million	**Property**	**Total**
Opening balance	**255**	**255**
Additions	**32**	**32**
Disposals	**(187)**	**(187)**
Closing balance	**100**	**100**

	2011	
R million	Property	Total
Opening balance	502	502
Additions	90	90
Disposals	(337)	(337)
Closing balance	255	255

33 LOANS AND RECEIVABLES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

Certain instruments designated at fair value meet the definition for classification as loans and receivables in terms of IAS 39 were it not for the fair value designation i.e. unquoted debt instruments. The table below contains details on the change in credit risk attributable to these instruments.

	2012					
			Change in fair value			
			Due to mitigation		**Due to credit risk**	
R million	**Carrying value**	**Mitigated credit risk***	**Current period**	**Cumulative**	**Current period**	**Cumulative**
Included in advances	**135 744**	**3 179**	**(379)**	**(399)**	**(499)**	**(1 821)**
Included in investment securities and other investments	**33 606**	**–**	**–**	**–**	**–**	**–**
Total	**169 350**	**3 179**	**(379)**	**(399)**	**(499)**	**(1 821)**

	2011					
			Change in fair value			
			Due to mitigation		Due to credit risk	
R million	Carrying value	Mitigated credit risk*	Current period	Cumulative	Current period	Cumulative
Included in advances	118 937	1 413	(19)	(19)	(147)	(1 322)
Included in investment securities and other investments	36 426	–	–	–	–	–
Total	155 363	1 413	(19)	(19)	(147)	(1 322)

* *The notional amount by which any credit derivatives or similar instruments mitigate the maximum exposure to credit risk.*
Losses are indicated in brackets.

Different methods are used to determine the current period and cumulative changes in fair value attributable to credit risk for investment securities and advances. This is due to the differing inherent credit risk of these instruments.

The methods used are:

Advances
The change in credit risk is the difference between fair value of the advances based on the original credit spreads and the fair value of the advances based on the most recent market observable or modelled credit spreads.

Investment securities and other investments and non-recourse investments
The change in fair value for investments designated at fair value through profit or loss is calculated by stripping out the movements that result from a change in market factors that give rise to market risk.

The change in fair value due to credit risk is then calculated as the balancing figure, after deducting the movement due to market risk from the total movement in fair value.

34 FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

The following financial liabilities have been designated at fair value through profit and loss:

	2012			
			Change in fair value due to credit risk	
R million	**Fair value**	**Contractually payable at maturity**	**Current period**	**Cumulative**
Deposits	**79 520**	**87 981**	**–**	**–**
Other liabilities	**195**	**195**	**–**	**–**
Tier 2 liabilities	**1 067**	**1 045**	**6**	**12**
Total	**80 782**	**89 221**	**6**	**12**

	2011			
			Change in fair value due to credit risk	
R million	Fair value	Contractually payable at maturity	Current period	Cumulative
Deposits	134 215	149 142	(2)	–
Other liabilities	246	238	–	–
Tier 2 liabilities	943	1 053	(24)	5
Total	135 404	150 433	(26)	5

35 TRANSFERS AND DERECOGNITION OF FINANCIAL ASSETS

In the normal course of business the Bank enters into transactions in terms of which it transfers financial assets directly to third parties or to special purpose entities (SPE). Financial assets are transferred when the Bank has either transferred its contractual right to receive cash flows from the financial asset, or it has assumed an obligation to pay over all the cash flows from the financial asset to another entity in such a way that the transaction meets the definition of a pass through arrangement in terms of IAS 39. Where the transfer of the financial asset qualifies for derecognition, these transfers may give rise to the partial or full derecognition of the financial asset concerned.

- No derecognition occurs when the Bank transfers financial assets in such a way that it retains substantially all the risks and rewards of ownership of the transferred asset. The entire transferred financial asset will continue to be recognised on the statement of financial position of the Bank. The majority of transferred financial assets of the Bank that do not qualify for derecognition are debt securities transferred under repurchase agreements or lent under securities lending agreements. Disclosures relating to these transferred financial assets that are not derecognised in their entirety are included under point 35.1 below.
- Partial derecognition occurs when the Bank transfers financial assets in such a way that it neither transfers nor retains substantially all the risks and rewards of ownership but still controls the transferred financial assets. These financial assets are recognised on the statement of financial position to the extent of the Bank's continuing involvement. This excludes the full derecognition of part of a larger financial asset as is detailed below. Disclosures relating to these transferred financial assets that are partially derecognised are included under point 35.1 below.
- Full derecognition occurs when the Bank has transferred a financial asset and it either transfers substantially all the risks and rewards of ownership, or it neither retains nor transfers substantially all the risks and rewards of ownership but loses control of the financial asset. Where the financial asset qualifies for full derecognition, the Bank derecognises the entire transferred financial asset. The transfer may however result in the Bank obtaining a new asset or assuming a new liability that continues to expose the Bank to the derecognised financial asset (for example a servicing asset or liability). Full derecognition includes the derecognition of a specific and identifiable portion of a financial asset where all the risks and rewards of ownership of that part are transferred for example 90% of all the cash flows or interest payments of a financial asset. This is not partial derecognition as is detailed above. The majority of transferred financial assets of the Bank that qualify for full derecognition are outright sales, loan syndications and securitisation transactions. Disclosures relating to the continuing involvement in derecognised financial assets to which the Bank is still exposed are included under point 35.2 below.

35.1 Transferred financial assets that are not derecognised in their entirety

Repurchase agreements

The Bank enters into repurchase agreements in terms of which the Bank sells investment securities to an external counterparty in exchange for cash and agrees to repurchase the investment securities at a specified price at a specified future date. The Bank retains substantially all the risks and rewards of ownership of the transferred investment securities in these transactions. The transferred investment securities continue to be recognised in full by the Bank (investment securities and other investments) and a financial liability (deposits) is recognised for the cash received. The counterparty's only recourse is to the transferred investment securities that are subject to the repurchase agreement. Bank remains exposed to all the underlying risks on the repurchase agreements. The risks include counterparty, interest rate, currency, prepayment and other price risks.

No derecognition of the transferred assets

Investment securities and other investments of the Bank with a carrying amount of R13 463 million have been transferred in terms of repurchase transactions. Associated liabilities with a carrying amount of R13 383 million have been recognised for cash received from counterparties and have been included in deposits. Both the transferred investments and related deposits are designated at fair value through profit or loss.

35.1 Transferred financial assets that are not derecognised in their entirety continued

Securities lending transactions

The Bank enters into securities lending transactions in terms of which the Bank lends investment securities that it owns to both parties external to the Bank and to fellow subsidiary companies, in exchange for cash collateral. The cash collateral is provided by the counterparty as security for the return of the shares. The investment securities that are lent continue to be recognised in full as the Bank retains substantially all the risks and rewards of ownership of these investment securities and the derecognition criteria are not met. A financial liability is recognised for the cash collateral received from the counterparty. The Bank's only recourse in respect to the return of the securities it has lent is to the cash collateral held and as such, the Bank generally requires cash collateral in excess of the fair value of the securities lent. The Bank remains exposed to all the underlying risks of the transferred investment securities. The risks include counterparty, investment, equities price, currency and other price risks.

During the current year, the Bank did not enter into any securities lending transactions in terms of which it lent securities recognised on its statement of financial position.

35.2 Transferred financial assets that are derecognised in their entirety

Securitisation transactions

Traditional securitisation transactions arranged by the Bank result in the full derecognition of the securitised financial assets. In a traditional securitisation transaction, financial assets or interests in a pool of financial assets are sold to a SPE, which then issues liabilities to third party investors, for example variable rate notes. As the Bank has assumed an obligation to pay over all the cash flows from the advances to the SPE, the Bank's exposure to the variability in the amounts and timing of the cash flows of the transferred advances is no longer significant. The Bank has therefore transferred substantially all of the risks and rewards of ownership of the advances to the SPE, and the advances are derecognised in their entirety. The Bank may however acquire other financial assets and liabilities that continue to expose the Bank to the returns on the underlying advances, for example the Bank may be required to take up some of the notes issued by the SPE that it is unable to issue into the market or enter into an interest rate swap with the securitisation SPE. The Bank may also continue to be exposed to the underlying advances through clean up calls in terms of which the Bank has the option but not the obligation to repurchase the remaining derecognised advances once the value of the advances falls below a specified level, at the fair value of the advances as at a specified future date.

The following bankruptcy remote SPEs have been created to facilitate a traditional securitisation transaction related to WesBank retail instalment sale advances:

- Nitro 4 facilitates a securitisation transaction amounting to R4 billion of WesBank retail instalment sale advances and was established in July 2011.
- Turbo Finance facilitated a securitisation transaction amounting to GBP 340 million of retail instalment sale advances in the United Kingdom relating to the Bank's MotoNovo Finance division (previously Carlyle Finance). It was established in September 2010 and issued notes into the market in February 2011.
- Turbo Finance 2 facilitated a securitisation transaction amounting to GBP 320 million of retail instalment sale advances in the United Kingdom relating to the Bank's MotoNovo Finance division (previously Carlyle Finance) and was established in March 2012.
- The following are bankruptcy remote SPEs created to facilitate a traditional securitisation transaction related to FNB home loan advances:
- iKhaya 2 facilitated a securitisation transaction amounting to R1.9 billion of FNB home loan advances. The transaction was wound up during the year and all the notes issued were called/settled.
- iKhaya 2 facilitated a securitisation transaction amounting to R3 billion of FNB home loan advances. The transaction was wound up during the year and all the notes issued were called/settled.

35 TRANSFERS AND DERECOGNITION OF FINANCIAL ASSETS continued

35.2 Transferred financial assets that are derecognised in their entirety continued

As a result of its continuing involvement in the derecognised assets, the Bank is exposed to the following risks:

- indirect credit risk as a result of any notes held by the Bank;
- liquidity and funding risk on any potential repurchase of the transferred assets in terms of a clean up call or South African Reserve Bank approved asset repurchase;
- operational risk related to the servicing of the transferred assets; and
- interest rate or other risk through derivatives held with the SPEs.

The Bank manages these risks as follows:

- through appropriate capitalisation;
- by ensuring adequate liquidity facilities are available to fund these transactions;
- through strict internal controls and continual monitoring; and
- through the application of hedging measures where appropriate/required.

For any securitisation transactions where the Bank holds some of the upper tranches of notes issued by the SPE (i.e. senior notes), it is required to bear losses only after all other parties (senior creditors) in terms of the contractual priority of payments schedule or payment waterfall have participated in the losses.

The triggers associated with the Bank's obligation to provide financial support or to repurchase the transferred financial assets include:

- any breach of the contractual representations and warranties relating to the derecognised assets;
- special permission obtained from the South African Reserve Bank to repurchase the transferred assets (if relevant); and
- in the case of clean up calls, once the value of the transferred assets falls below a certain point (such as 10% of the value at issue).

The table below sets out the financial information about the continuing involvement in transferred financial assets which have been derecognised in their entirety:

	2012				
Type of continuing involvement	Carrying amount of continuing involvement recognised in the statement of financial position		Fair value of continuing involvement		Maximum exposure to loss*
R million	Assets	Liabilities	Assets	Liabilities	
Traditional securitisation transactions					
Derivatives	15	–	15	–	8 943
Investment securities and other investments	2 138	–	2 138	–	2 141
Total	**2 153**	**–**	**2 153**	**–**	**11 084**

* *The maximum exposure to loss from continuing involvement in derecognised financial assets is the total loss that the Bank would suffer in a worst case scenario such as if the underlying derecognised financial asset were to lose all of its value. This includes any off balance sheet commitments or contingencies related to the derecognised financial asset. The maximum exposure to loss from continuing involvement through clean up calls, included in derivatives, is determined as the agreed upon amount the Bank would have to pay to repurchase a financial asset that has no value. The maximum exposure to loss from continuing involvement through derivatives is determined as any payments the Bank is obligated to make in terms of the derivative contract (such as interest payments) that is based on the value of the underlying transferred financial assets. The maximum exposure to loss from continuing involvement through notes issued by the SPE and held by the Bank is determined as the value of the notes recognised as an investment by the Bank.*

35 TRANSFERS AND DERECOGNITION OF FINANCIAL ASSETS continued

35.2 Transferred financial assets that are derecognised in their entirety continued

The table below sets out the profit or loss impact of transfers of financial assets which are derecognised in full:

	2012		
		Income/(expenses) recognised from continuing involvement	
Type of continuing involvement R million	Gain/(loss) at date of transfer	For the current period	Cumulative
Traditional securitisation transactions	592	(829)	(608)
Total	**592**	**(829)**	**(608)**

The table below sets out the undiscounted cash flows that would or may be required to repurchase the derecognised financial assets or other amounts payable to the transferee in respect of the transferred financial assets as at 30 June 2012. It also sets out the maturity analysis of these undiscounted cash flows.

	2012					
Type of continuing involvement R million	Total undis-counted cash outflows	Call	1 to 3 months	4 to 12 months	1 to 5 years	Over 5 years
Traditional securitisation transactions	8 758	7	904	3 304	4 543	*
Total	**8 758**	**7**	**904**	**3 304**	**4 543**	*****

* *Denotes amounts of less than R500 000*

36 FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of a financial instrument is defined as the amount at which the instrument could be exchanged in a market transaction between knowledgeable willing parties. When determining fair value it is presumed that the entity is a going concern and the fair value is therefore not an amount that represents a forced transaction, involuntary liquidation or a distressed sale.

When determining the fair value of a financial instrument, preference is given to prices quoted in an active market. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

If a particular instrument is not traded in an active market the Bank uses a valuation technique to determine the fair value of the financial instrument. The valuation techniques employed by the Bank include, inter alia, quoted prices for similar assets or liabilities in an active market, quoted prices for the same asset or liability in an inactive market, adjusted prices from recent arm's length transactions, option-pricing models, and discounted cash flow techniques.

The objective of using a valuation technique is to determine what the transaction price would have been at the measurement date. Therefore maximum use is made of inputs that are observable in the market and entity-specific inputs are only used when there is no market information available. All valuation techniques take into account the relevant factors that other market participants would have considered in setting a price for the financial instrument and are consistent with accepted methodologies for pricing financial instruments.

The Bank classifies instruments measured at fair value using a fair value hierarchy that reflects the significance of the inputs used. The Bank's fair value hierarchy has the following levels:

Level 1 – Fair value is determined using unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Fair value is determined using inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 – Fair value is determined using a valuation technique and inputs that are not based on observable market data (i.e. unobservable inputs).

The following principle methods and assumptions are used to determine the fair value of financial instruments:

Investment securities and other investments

Unlisted equities

The fair value of unlisted equities is generally determined using a price earnings (P/E) model.

The earnings included in the model are derived from a combination of historical and budgeted earnings depending on the specific circumstances of the entity whose equity is being valued and the relevance and reliability of the available information.

The P/E multiple is derived from current market observations taking into account an appropriate discount for unlisted companies. The valuation of these instruments may be corroborated by a discounted cash flow valuation or by the observation of other market transactions that have taken place.

Negotiable certificates of deposit

Where market prices are not available for a specific instrument, fair value is determined using discounted cash flow techniques. Inputs to these models include as far as possible information that is consistent with similar market quoted instruments.

Treasury bills

Treasury bills are valued by means of the Bond Exchange of South Africa (BESA) bond pricing model using the closing BESA mark to market bond yield.

Government, public and utility stocks

Where market prices are not available the fair value is estimated using quoted market prices of securities with similar credit, maturity and yield characteristics.

Other dated securities

Fair value of other dated securities is determined by using a discounted cash flow model. The discount curve is derived from similar market quoted instruments.

36 FAIR VALUE OF FINANCIAL INSTRUMENTS continued

Derivatives

Market prices are obtained from trading exchanges, when the derivatives are traded. If not traded the following techniques are used:

- Contracts for difference are valued by using the differential between the market price and the traded price multiplied by the notional amount.
- Credit derivatives are valued using the discounted cash flow model. Where prices are obtained from the market, individual credit spreads are added.
- Option contracts are valued using the Black-Scholes model. Inputs are obtained from market observable data. Where prices are obtainable from trading exchanges the value per the exchange is used.
- Forward contracts are valued by discounting the projected cash flows to obtain the present value of the forward contract. Projected cash flows are obtained by subtracting the strike price of the forward contract from the market projected forward value.
- Forward rate agreements are valued by means of the discounted cash flow model. The discount rate is determined using a yield curve of similar market traded instruments. The reset rate is determined in terms of the legal agreement.
- Swaps are valued by discounting the expected cash flows using discount and forward rates determined from similar market traded instruments. The reset rate of each swaplet is determined in terms of legal documents pertaining to the swap.
- Commodity linked instruments are measured by taking into account the price, the location differential, grade differential, silo differential and the discount factor of the most liquidly traded futures linked to the commodity.

Deposits

Fair value of deposits is determined by discounting future cash flows using a swap curve adjusted for liquidity premiums and business unit margins. The valuation methodology does not take early withdrawals and other behavioural aspect into account. The bank also determines the fair value of the amortised cost book for disclosure purposes.

Call deposits are valued at the undiscounted amount of the cash balance, this is considered appropriate because of the short-term nature of these instruments.

Short trading positions

The fair value of listed short trading positions is their market quoted prices. The fair value of unlisted short trading positions are based on the directors' valuation using suitable valuation methods.

Loans and advances to customers

The Bank has elected to designate the term loan book in the Investment Banking Division at fair value through profit or loss in terms of IAS 39. The fair value is determined using a valuation technique that uses both inputs that are based on observable market data and unobservable data. The Bank also determines the fair value of the amortised cost book for disclosure purposes.

The interest rate component of the valuation uses observable inputs from market interest rate curves. To calculate the fair value of credit the Bank uses a valuation methodology based on the credit spread matrix, that considers loss given default, tenor and the internal credit committee rating criteria.

Other and Tier 2 liabilities

The fair value of debentures, unsecured debt securities and finance lease liabilities are determined by discounting the future cash flows at market related interest rates. The fair value of subordinated notes and fixed and floating rate bonds are determined by discounting the future cash flows at market related interest rates.

36 FAIR VALUE OF FINANCIAL INSTRUMENTS continued

The following table presents the financial instruments recognised at fair value in the statement of financial position of the Bank.

	2012			
R million	**Level 1**	**Level 2**	**Level 3**	**Total carrying amount**
ASSETS				
Derivative financial instruments	**–**	**52 297**	**95**	**52 392**
Advances	**–**	**38 481**	**97 371**	**135 852**
Investment securities and other investments	**45 538**	**29 070**	**4 201**	**78 809**
Amounts due by holding company and fellow subsidiaries	**–**	**809**	**–**	**809**
Total financial assets recognised at fair value	**45 538**	**120 657**	**101 667**	**267 862**
LIABILITIES				
Short trading positions	**4 019**	**–**	**–**	**4 019**
Derivative financial instruments	**–**	**53 519**	**147**	**53 666**
Deposits	**–**	**76 490**	**3 030**	**79 520**
Other liabilities	**–**	**195**	**–**	**195**
Tier 2 liabilities	**–**	**1 067**	**–**	**1 067**
Amounts due to holding company and fellow subsidiaries	**–**	**234**	**–**	**234**
Total financial liabilities recognised at fair value	**4 019**	**131 505**	**3 177**	**138 701**

There were no transfers of financial instruments between Level 1 and Level 2 during the current year.

	2011			
R million	Level 1	Level 2	Level 3	Total carrying amount
ASSETS				
Derivative financial instruments	–	36 604	62	36 666
Advances	–	35 223	83 829	119 052
Investment securities and other investments	41 860	38 756	3 170	83 786
Amounts due by holding company and fellow subsidiaries	–	627	–	627
Total financial assets recognised at fair value	41 860	111 210	87 061	240 131
LIABILITIES				
Short trading positions	5 777	–	–	5 777
Derivative financial instruments	–	36 019	131	36 150
Deposits	–	131 077	3 138	134 215
Other liabilities	–	246	–	246
Tier 2 liabilities	–	943	–	943
Amounts due to holding company and fellow subsidiaries	–	205	–	205
Total financial liabilities recognised at fair value	5 777	168 490	3 269	177 536

There were no transfers between Level 1 and Level 2 during the year ended June 2011.

Although the fair value of credit is not significant year on year it may become significant in the future. For this reason, together with the fact that South Africa does not have actively traded credit spreads, the Bank has classified loans and advances to customers in Level 3 of the fair value hierarchy.

36 FAIR VALUE OF FINANCIAL INSTRUMENTS continued

Level 3 fair value instruments

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

The following table shows a reconciliation of the opening and closing balances for financial instruments classified as Level 3 in terms of the fair value hierarchy.

	2012						
R million	Fair value at 30 June 2011	Gains/ (losses) recognised in profit or loss	Gains recognised in other compre-hensive income	Purchases, (sales), issues and (settlements)	Acquisitions/ (disposals) of subsidiaries	Exchange rate difference	Fair value at 30 June 2012
ASSETS							
Derivative financial instruments	62	43	–	(10)	–	–	95
Advances	83 829	6 279	–	7 009	114	140	97 371
Investment securities and other investments	3 170	243	13	975	(208)	8	4 201
Total financial assets recognised at fair value	87 061	6 565	13	7 974	(94)	148	101 667
LIABILITIES							
Derivative financial instruments	131	6	–	10	–	–	147
Deposits	3 138	(297)	–	164	–	25	3 030
Total financial liabilities recognised at fair value	3 269	(291)	–	174	–	25	3 177

36 FAIR VALUE OF FINANCIAL INSTRUMENTS continued

Level 3 fair value instruments continued

	2011						
R million	Fair value at 30 June 2011	Gains/ (losses) recognised in profit or loss	Gains recognised in other compre-hensive income	Purchases, (sales), issues and (settlements)	Acquisitions/ (disposals) of subsidiaries	Exchange rate difference	Fair value at 30 June 2012
ASSETS							
Derivative financial instruments	–	62	–	–	–	–	62
Advances	73 734	6 079	–	4 054	–	(38)	83 829
Investment securities and other investments	1 711	(206)	3	1 673	11	(22)	3 170
Total financial assets recognised at fair value	75 445	5 935	3	5 727	11	(60)	87 061
LIABILITIES							
Derivative financial instruments	133	23	–	(25)	–	–	131
Deposits	3 017	10	–	112	–	(1)	3 138
Total financial liabilities recognised at fair value	3 150	33	–	87	–	(1)	3 269

36 FAIR VALUE OF FINANCIAL INSTRUMENTS continued

The table below presents the total gains/(losses) relating to financial instrument classified in Level 3 that are still held on 30 June 2012. The Bank includes these gains/(losses) including derivative instruments that do not qualify for hedge accounting in terms of IAS 39, as well as trading related financial instruments designated at fair value through profit or loss, as fair value income in non-interest income. Trading related financial instruments designated at fair value through profit or loss excludes instruments relating to the Bank's insurance operations and the Bank's funding requirements.

	2012		
R million	**Gains/(losses) recognised in the profit or loss**	**Gains/(losses) recognised in other compre-hensive income**	**Total gains/ (losses)**
ASSETS			
Derivative financial instruments	**43**	**–**	**43**
Advances	**5 915**	**–**	**5 915**
Investment securities and other investments	**191**	**3**	**194**
Total	**6 149**	**3**	**6 152**
LIABILITIES			
Derivative financial instruments	**1**	**–**	**1**
Deposits	**(383)**	**–**	**(383)**
Total	**(382)**	**–**	**(382)**

	2011		
R million	Gains/(losses) recognised in the profit or loss	Gains/(losses) recognised in other compre-hensive income	Total gains/ (losses)
Assets			
Derivative financial instruments	63	–	63
Advances	5 319	–	5 319
Investment securities and other investments	(113)	3	(110)
Total	5 269	3	5 272
Liabilities			
Derivative financial instruments	25	–	25
Deposits	19	–	19
Total	44	–	44

36 FAIR VALUE OF FINANCIAL INSTRUMENTS continued

Effect of changes in significant unobservable assumptions in the reasonably possible alternatives

As described above, the fair value of instruments that are classified in Level 3 of the fair value hierarchy is determined using valuation techniques that use significant inputs that are not based on observable market data. The inputs into these valuation techniques are derived from all available information and management's judgement. While management believes that these fair values are appropriate they could be sensitive to changes in the assumptions used to derive the inputs. The table below illustrates the sensitivity of the significant inputs when they are changed to reasonably possible alternative inputs:

	2012				
				Reasonably possible alternative fair value	
R million	Significant unobservable inputs	Reasonably possible changes to significant unobservable inputs	Fair value	Using more positive assumptions	Using more negative assumptions
ASSETS					
Derivative financial instrument	**Volatilities**	**Volatilities are increased and decreased by 10%.**	**95**	**103**	**85**
Advances	**Credit**	**Credit migration matrix***	**97 371**	**97 843**	**97 271**
Investment securities and other investments	**Growth rates and P/E ratios of unlisted investments**	**Unobservable inputs are increased and decreased by 10%.**	**4 201**	**4 473**	**3 682**
Total financial assets recognised at fair value			**101 667**	**102 419**	**101 038**
LIABILITIES					
Derivative financial instruments	**Volatilities**	**Volatilities are increased and decreased by 10%.**	**147**	**142**	**150**
Deposits	**Credit risk of the cash collateral leg of credit linked notes**	**Credit migration matrix****	**3 030**	**2 727**	**3 333**
Total financial liabilities recognised at fair value			**3 177**	**2 869**	**3 483**

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

** *The deposits included in Level 3 of the hierarchy represent the collateral leg of credit linked notes. The most significant unobservable input in determining the fair value of the credit linked notes is the credit risk component. The sensitivity to credit risk has been assessed in the same way as for advances using the credit migration matrix with the deposit representing the cash collateral component thereof.*

36 FAIR VALUE OF FINANCIAL INSTRUMENTS continued

	2011				
				Reasonably possible alternative fair value	
R million	Significant unobservable inputs	Reasonably possible changes to significant unobservable inputs	Fair value	Using more positive assumptions	Using more negative assumptions
ASSETS					
Derivative financial instruments	Volatilities	Volatilities are increased and decreased by 10%.	62	69	56
Advances	Credit	Credit migration matrix*	83 829	84 136	83 745
Investment securities and other investments	Growth rates and P/E ratios of unlisted investments	Unobservable inputs are increased and decreased by 10%.	3 170	3 476	2 887
Total financial assets recognised at fair value			87 061	87 681	86 688
LIABILITIES					
Derivative financial instruments	Volatilities	Volatilities are increased and decreased by 10%.	131	128	134
Deposits	Credit risk of the cash collateral leg of credit linked notes	Credit migration matrix**	3 138	2 825	3 452
Total financial liabilities recognised at fair value			3 269	2 953	3 586

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

** *The deposits included in Level 3 of the hierarchy represent the collateral leg of credit linked notes. The most significant unobservable input in determining the fair value of the credit linked notes is the credit risk component. The sensitivity to credit risk has been assessed in the same way as for advances using the credit migration matrix with the deposit representing the cash collateral component thereof.*

36 FAIR VALUE OF FINANCIAL INSTRUMENTS continued

The following represents the fair values of financial instruments not carried at fair value on the statement of financial position. For all other instruments the carrying value is equal to or a reasonable approximation of the fair value.

	2012	
R million	**Carrying value**	**Fair value**
ASSETS		
Advances	**346 893**	**341 736**
Investment securities and other investments	**–**	**–**
Total assets at amortised cost	**346 893**	**341 736**
LIABILITIES		
Deposits	**466 276**	**466 756**
Other liabilities	**727**	**727**
Tier 2 liabilities	**6 370**	**6 546**
Total liabilities at amortised cost	**473 373**	**474 029**

	2011	
R million	Carrying value	Fair value
ASSETS		
Advances	310 082	309 967
Investment securities and other investments	24	24
Total assets at amortised cost	310 106	309 991
LIABILITIES		
Deposits	358 681	357 788
Other liabilities	264	267
Tier 2 liabilities	5 448	4 929
Total financial liabilities at amortised cost	364 393	362 984

36 FAIR VALUE OF FINANCIAL INSTRUMENTS continued

Day 1 profit or loss

Day 1 profit or loss arises on the initial recognition of a financial instrument when the fair value of an instrument is determined using a valuation technique that makes use of inputs that are not observable in an active market. In terms of IAS 39 if the fair value determined in accordance with such a valuation technique differs from the transaction price the initial recognition should take place at the transaction price as the transaction price is considered the best evidence of fair value at initial recognition. The day 1 profits or losses arising as a result of the difference between the two values should only be recognised over the life of the instrument as a result of changes that would also be considered by market participants.

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

R million	**2012**	2011
Balance at 1 July	**–**	–
Day 1 profits or losses not recognised on financial instruments initially recognised in the current reporting period	**22**	–
Amount recognised in profit or loss as a result of changes which would be considered by market participants	**(1)**	–
Balance at 30 June	**21**	–

37 TRUST ACTIVITIES

R million	**2012**	2011
Fair value of assets held or placed on behalf of customers in a fiduciary capacity	**34 766**	28 811
Income received from trust and fiduciary services	**1 166**	980

The Bank provides custody, trustee, corporate administration, investment management and advisory services to third parties, which involves the Bank's making allocation and purchase and sale decisions in relation to a wide range of financial instruments.

Those assets that are held in a fiduciary capacity are not included in these financial statements. Some of these arrangements involve the Bank accepting targets for benchmark levels of returns for the assets under the Bank's care.

38 SEGMENT INFORMATION

38.1 Reportable segments

Set out below is information about reportable segments of the Bank, the details of the various products and services provided by each of the reportable segments, its major customers and the basis of preparation of segment information.

FNB

FNB offers a diverse set of financial products and services to the retail and corporate market segments, ranging from individual consumer, small business and rural markets to large and medium-sized corporates, financial institutions, parastatals and government entities. FNB's products include mortgage loans, credit and debit cards, personal loans and investment products. FNB's services include transactional and deposit taking, card acquiring, credit facilities and FNB distribution channels (namely the branch network, ATMs, call centres, cell phone and internet channels).

FNB Africa

FNB Africa comprises a support division acting as the strategic enabler, facilitator and coordinator for African expansion undertaken by FNB in FREMA.

RMB

RMB is the investment banking arm of the Bank. RMB's portfolio spans Investment Banking, Fixed Income, Currencies and Commodities (FICC) and Equities. RMB services corporate, institutional and public sector clients across all industries.

GTS

Global Transactional Services provides large corporate customers, financial institutions and certain state-owned enterprises, with global transactional banking capabilities as well as cash flow optimisation and working capital solutions.

WesBank

WesBank provides instalment finance and fleet management solutions to a number of market sectors. WesBank operates an instalment finance business, MotoNovo, in the United Kingdom.

Corporate Centre

The Corporate Centre includes various centralised risk and finance functions, including Group Treasury, Group Finance, Information and Technology, Enterprise Risk Management, Regulatory Risk Management and Group Internal Audit.

Major customers

In terms of IFRS 8 a customer is regarded as a major customer if the revenue from transactions with this customer exceeds 10% or more of the entity's revenue. The Bank has no major customer as defined and is therefore not reliant on the revenue from one or more major customers.

Basis of preparation of segment information

The segmental analysis is based on the information reported to management for the respective segments. The information is prepared in terms of IFRS with the exception of certain adjustments that are made to the segment results in order to eliminate the effect of non-taxable income and other segment specific items that impact certain key ratios reviewed by the chief operating decision maker when assessing the operating segments' performance.

In order to ensure that the total segment results, assets and liabilities agree to the amounts reported in terms of IFRSs, the above mentioned amounts are adjusted in the IFRS adjustments column.

Share-based payments, employee benefits and treasury shares: consolidation of staff share trusts

IFRS 2 Share-based Payments requires that all share-based payment transactions for goods or services received must be expensed with effect from financial periods commencing on or after 1 January 2005. IAS 19 Employee Benefits requires that an expense be raised if benefits are expected to be paid to employees in return for services rendered in the current period.

38 SEGMENT INFORMATION continued

38.1 Reportable segments continued

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

The economic cost to the Bank for both the IFRS 2 expense and the employee benefit is the net funding cost paid by the Bank on the funding required to buy these shares. For purposes of calculating normalised earnings the share trusts are deconsolidated, FirstRand shares held by staff share schemes are treated as issued to parties external to the Bank, and loans to share trusts are recognised as external loans.

Economic hedge against share-based payment obligations

The bank entered into a Total Return Swap (TRS) with external parties in order to economically hedge itself against the cost associated with the Bank's share option schemes. In terms of IAS 39 Financial Instruments: Recognition and Measurement, the TRS is accounted for as a derivative instrument at fair value, with the full fair value change recognised in profit and loss. In accordance with IFRS 2 the expense resulting from these option schemes is recognised over the vesting period of the schemes. This leads to a mismatch in the recognition of the profit or loss of the hedge and the share-based payment expense.

For purposes of calculating normalised earnings, the Bank eliminates the fair value profit in excess of the IFRS 2 cost of adds back to profit or loss the unwind/loss of the TRS as it pulls to par over the maturity of the hedging instrument for the specific reporting period. This reflects the economic substance of the hedge and associated option costs for the Bank.

38.2 Geographic segments

Refer to the reportable segment information for a description of the divisions.

Segment	Countries included	Divisions included
South Africa	South Africa	FNB RMB WesBank GTS Corporate Centre
United Kingdom	England	FNB RMB WesBank
Asia	India	FNB RMB
Other	Middle East (UAE) Mauritius Brazil	FNB RMB

The following significant exchange rates were used to convert the statement of financial position. Foreign denominated assets and liabilities are converted at the closing rate of exchange.

	2012	2011
Pounds	**12.83**	10.84
Euros	**10.37**	9.80
USD	**8.19**	6.77
AUD	**8.38**	7.27
Real	**4.06**	4.34
Indian rupees	**0.15**	0.15

38 SEGMENT INFORMATION continued

38.3 Reportable segments

R million	2012 FNB	2012 FNB Africa
Continuing operations		
Net interest income before impairment of advances	**11 058**	**(5)**
Impairment of advances	**(2 778)**	**–**
Net interest income after impairment of advances	**8 280**	**(5)**
Non-interest income	**13 009**	**206**
Net income from operations	**21 289**	**201**
Operating expenses	**(13 931)**	**(257)**
Income before tax	**7 358**	**(56)**
Indirect tax	**(385)**	**1**
Profit for the year before direct tax	**6 973**	**(55)**
Direct tax	**(1 846)**	**–**
Profit for the year	**5 127**	**(55)**
The income statement includes:		
Depreciation	**(1 307)**	**–**
Amortisation	**(75)**	**–**
Impairment charges	**–**	**–**
The statement of financial position includes:		
Investments in associates	**–**	**–**
Total assets	**227 325**	**126**
Total liabilities	**220 364**	**182**

* *The results of the GTS segment (formally known as FNB Corporate) was previously included in the FNB reportable segment. As a result of an internal reorganisation during the current financial year, the results of the GTS operating segment no longer forms part of FNB and is now presented as a separate reportable segment. The comparative information has been restated accordingly.*

Geographical segments

R million	2012 South Africa	United Kingdom	Asia	Other	Total
Net interest income	**10 082**	**205**	**43**	**1**	**10 331**
Non-interest income*	**26 727**	**392**	**44**	**1**	**27 164**
Total assets	**680 394**	**8 448**	**1 289**	**3**	**690 134**
Non-current assets**	**9 617**	**70**	**27**	**–**	**9 714**
Total liabilities	**631 440**	**8 925**	**772**	**–**	**641 137**

* *Includes share of profit from associates*
** *Excludes financial instruments,deferred income tax assets, post-employment benefit assets and rights arising under insurance contracts.*

	2012					
	Corporate and Investment Banking					
	RMB	GTS*	WesBank	Corporate Centre	Consolidation and IFRS adjustments*	Total
	430	512	5 318	1 542	(3 639)	15 216
	(16)	(272)	(1 019)	–	(800)	(4 885)
	414	240	4 299	1 542	(4 439)	10 331
	6 288	1 092	1 368	3 501	1 700	27 164
	6 702	1 332	5 667	5 043	(2 739)	37 495
	(3 118)	(1 126)	(3 376)	(3 401)	391	(24 818)
	3 584	206	2 291	1 642	(2 348)	12 677
	(57)	(15)	(205)	167	(2)	(496)
	3 527	191	2 086	1 809	(2 350)	12 181
	(933)	(51)	(552)	(479)	1 397	(2 464)
	2 594	140	1 534	1 330	(953)	9 717
	(67)	(42)	(210)	(101)	(1)	(1 728)
	(30)	–	(42)	(3)	1	(149)
	–	–	–	(26)	–	(26)
	243	–	–	1	(1)	243
	271 067	2 807	111 037	78 815	(1 043)	690 134
	269 171	2 551	108 959	39 805	105	641 137

R million	2012
Profit for the year (per above)	9 717
NCNR preference shareholders	(183)
Attributable earnings to ordinary equityholders	9 534
Headline earnings adjustments	(343)
Headline earnings to ordinary equityholders	9 191
Normalised adjustments	(159)
– IFRS 2 share-based payment expenses	81
– TRS adjustment	(240)
Normalised earnings from continuing operations	9 032

Notes to the annual financial statements continued

38 SEGMENT INFORMATION continued

38.4 Reportable segments continued

	2011	
R million	FNB	FNB Africa
Continuing operations		
Net interest income before impairment of advances	9 198	(2)
Impairment of advances	(2 420)	–
Net interest income after impairment of advances	6 778	(2)
Non-interest income	11 774	174
Net income from operations	18 552	172
Operating expenses	(12 431)	(219)
Income before tax	6 121	(47)
Indirect tax	(348)	(1)
Profit for the year before direct tax	5 773	(48)
Direct tax	(1 529)	–
Profit for the year	4 244	(48)
The income statement includes:		
Depreciation	(967)	–
Amortisation	(61)	–
Impairment charges	–	–
The statement of financial position includes:		
Investments in associates	–	–
Total assets	210 049	58
Total liabilities	204 171	106

* *The results of the Global Transaction Services segment (formally known as FNB Corporate) was previously included in the FNB reportable segment. As a result of an internal reorganisation during the current financial year, the results of the GTS operating segment no longer forms part of FNB and is now presented as a separate reportable segment.*

Geographical segments

	2011				
R million	South Africa	United Kingdom	Asia	Other	Total
Net interest income	7 841	292	39	–	8 172
Non-interest income*	23 469	259	46	–	23 774
Total assets	609 533	5 923	1 239	–	616 695
Non-current assets**	8 783	85	9	–	8 877
Total liabilities	570 300	5 072	682	–	576 054

* *Includes share of profit from associates and joint ventures.*
** *Excludes financial instruments,deferred income tax assets, post-employment benefit assets and rights arising under insurance contracts.*

2011					
Corporate and Investment Banking					
RMB	GTS*	WesBank	Corporate Centre	Consolidation and IFRS adjustments	Total
116	520	4 691	250	(2 964)	11 809
35	(9)	(1 240)	(1)	(2)	(3 637)
151	511	3 451	249	(2 966)	8 172
5 598	1 160	1 454	2 563	1 051	23 774
5 749	1 671	4 905	2 812	(1 915)	31 946
(2 905)	(1 208)	(2 822)	(2 164)	558	(21 191)
2 844	463	2 083	648	(1 357)	10 755
(58)	(27)	(165)	98	(2)	(503)
2 786	436	1 918	746	(1 359)	10 252
(739)	(116)	(508)	(197)	823	(2 266)
2 047	320	1 410	549	(536)	7 986
(60)	(14)	(169)	(103)	(1)	(1 314)
(34)	(1)	(14)	–	–	(110)
–	–	–	–	–	–
115	–	–	1	–	116
205 497	2 432	97 986	101 066	(393)	616 695
204 339	2 072	96 073	69 268	24	576 053

R million	2011
Profit for the year (per above)	7 986
NCNR preference shareholders	(201)
Attributable earnings to ordinary equityholders	7 785
Headline earnings adjustments	(1 245)
Headline earnings to ordinary equityholders	6 540
Normalised adjustments	55
– IFRS 2 share-based payment expenses	55
– TRS adjusment	–
Normalised earnings from continuing operations	6 595

39 RELATED PARTIES

The Bank defines related parties as:

(i) The parent company;

(ii) Subsidiaries and fellow subsidiaries;

(iii) Associate companies;

(iv) Joint ventures;

(v) Associates and joint ventures of the parent company and fellow subsidiaries;

(vi) Groups that have significant influence over the parent. If an investor has significant influence over the parent, it is a related party not only of the parent but also of the subsidiaries, including the Bank. If an investor that has significant influence over the parent has subsidiaries, those subsidiaries are also related to the Bank;

(vii) Post-retirement benefit funds (pension funds);

(viii) Key management personnel, being the FirstRand Limited board of directors, the Bank's board of directors and the Bank's executive committee;

(ix) Close family members of key management personnel (individual's spouse/domestic partner and children; domestic partner's children and dependants of individual or domestic partner); and

(x) Entities controlled, jointly controlled or significantly influenced by an individual referred to in (viii) and (ix).

The ultimate parent of the Bank is FirstRand Limited, incorporated in South Africa.

39.1 Subsidiaries

Details of interests in subsidiaries are disclosed in note 15.

Refer below for details of transactions with subsidiaries and fellow subsidiaries.

39.2 Associates

Details of investments in associates are disclosed in note 16.

During the year the Bank, in the ordinary course of business, entered into various transactions with associates on terms that are not more favourable than those arranged with third parties.

39 RELATED PARTIES continued

39.3 Details of transactions with relevant related parties appear below

	2012					
R million	**Parent**	**Entities that have significant influence over the parent and their subsidiaries**	**Fellow subsidiaries**	**Own associates**	**Associates of the parent and fellow subsidiaries**	**Joint ventures of the parent and fellow subsidiaries**
Loans and advances						
Opening balance	–	1 360	–	9	1 010	45
Advanced during the year	–	117	–	–	511	2
Repayments during the year	–	(266)	–	(10)	(247)	(45)
Interest income	–	–	–	–	11	–
Fair value movements during the year	–	100	–	1	118	–
Provision for impairment loss	–	–	–	–	161	–
Closing balance	–	1 311	–	–	1 564	2
Accounts receivable						
Opening balance	–	–	–	–	73	5
Accrued during the year	–	–	–	–	163	61
Repayments during the year	–	–	–	–	(163)	(12)
Exchange rate differences	–	–	–	–	–	9
Closing balance	–	–	–	–	73	63
Loans due to holding company and fellow subsidiary companies						
Opening balance	–	–	20 841	–	–	–
Issued during the year	247	–	(7 747)	–	–	–
Repayments during the year	–	–	–	–	–	–
Closing balance	247	–	13 094	–	–	–
Derivative assets						
Notional amount	–	–	–	–	–	–

39 RELATED PARTIES continued

39.3 Details of transactions with relevant related parties appear below continued

	2012					
R million	Parent	Entities that have significant influence over the parent and their subsidiaries	Fellow subsidiaries	Own associates	Associates of the parent and fellow subsidiaries	Joint ventures of the parent and fellow subsidiaries
Deposits						
Opening balance	–	43	–	10	892	33
Received during the year	–	1	–	16	599	1 040
Redeemed during the year	–	(1)	–	–	(1 086)	(633)
Interest expense	–	–	–	–	6	3
Closing balance	–	43	–	26	411	443
Accounts payable						
Opening balance	–	–	–	–	–	–
Accrued during the year	–	–	–	–	470	19
Repayments during the year	–	–	–	–	(439)	–
Closing balance	–	–	–	–	31	19
Loans due from holding company and fellow subsidiary companies						
Opening balance	3 348	–	15 886	–	–	–
Repayments during the year	(3 348)	–	–	–	–	–
Issued during the year	–	–	7 421	–	–	–
Closing balance	–	–	23 307	–	–	–
Derivative liabilities						
Notional amount	–	–	–	–	–	21
Fair value	–	–	–	–	–	1
Commitments	–	–	–	–	14	2
Interest received	–	–	1 035	–	4	–
Interest paid	–	–	697	–	5	3
Non-interest income	–	127	424	6	343	93
Operating expenditure	–	–	646	–	1 045	–
Dividends paid	5 235	–	–	5	–	–

39 RELATED PARTIES continued

39.3 Details of transactions with relevant related parties appear below continued

R million	Parent	Entities that have significant influence over the parent and their subsidiaries	Fellow subsidiaries	Own associates	Associates of the parent and fellow subsidiaries	Joint ventures of the parent and fellow subsidiaries
	2011					
Advances						
Opening balance	–	1 114	–	8	985	65
Advanced during the year	–	247	–	–	334	49
Repayments during the year	–	(94)	–	–	(529)	(71)
Interest income	–	93	–	1	32	3
Fair value movements during the year	–	–	–	–	49	(1)
Provision for impairment loss	–	–	–	–	139	–
Closing balance	–	1 360	–	9	1 010	45
Accounts receivable						
Opening balance	–	–	–	–	70	1
Accrued during the year	–	1	–	–	434	12
Repayments during the year	–	(1)	–	–	(431)	(8)
Exchange rate differences	–	–	–	–	–	–
Closing balance	–	–	–	–	73	5
Loans due to holding company and fellow subsidiary companies						
Opening balance	266	–	21 602	–	–	–
Repayments during the year	(266)	–	(761)	–	–	–
Closing balance	–	–	20 841	–	–	–
Derivative assets						
Notional amount	–	–	–	–	9	–

Notes to the annual financial statements continued

39 RELATED PARTIES continued

39.3 Details of transactions with relevant related parties appear below continued

	2011					
R million	Parent	Entities that have significant influence over the parent and their subsidiaries	Fellow subsidiaries	Own associates	Associates of the parent and fellow subsidiaries	Joint ventures of the parent and fellow subsidiaries
Deposits						
Opening balance	231	109	–	9	752	67
Received during the year	–	3	–	1	1 363	–
Repayments during the year	(231)	(69)	–	–	(1 228)	(34)
Interest expense		–		–	5	–
Closing balance	–	43	–	10	892	33
Accounts payable						
Opening balance	–	–	–	–	1	–
Accrued during the year	–	–	–	–	309	–
Repayments during the year	–	–	–	–	(310)	–
Closing balance	–	–	–	–	–	–
Loans due from holding company and fellow subsidiary companies						
Opening balance	373	–	14 070	–	–	–
Issued during the year	2 975	–	1 816	–	–	–
Closing balance	3 348	–	15 886	–	–	–
Derivative liabilities						
Notional amount	–	–	–	–	3	–
Fair value	–	–	–	–	–	–
Commitments	–	22	–	–	82	–
Interest received	–	–	708	1	33	–
Interest paid	–	–	970	–	7	–
Non-interest income	–	13	120	–	470	14
Operating expenditure	–	–	762	–	1 060	–
Dividends paid	3 072	93	–	–	–	5

39 RELATED PARTIES continued

39.4 Key management personnel

R million	2012	2011
Total advances		
Opening balance	**151**	132
Advanced during the year	**276**	369
Repayments during the year	**(398)**	(361)
Interest earned	**8**	11
Closing balance	**37**	151
Mortgages		
Opening balance	**150**	129
Advanced during the year	**273**	346
Repayments during the year	**(396)**	(336)
Interest earned	**8**	11
Closing balance	**35**	150
Other loans		
Opening balance	**–**	2
Advanced during the year	**–**	2
Repayments during the year	**–**	(4)
Closing balance	**–**	–
Instalment finance		
Opening balance	**1**	–
Advanced during the year	**2**	3
Repayments during the year	**(2)**	(2)
Closing balance	**1**	1
Credit cards		
Opening balance	**–**	1
Total annual spend	**1**	18
Repayments during the year	**–**	(19)
Closing balance	**1**	–

39 RELATED PARTIES continued

39.4 Key management personnel continued

R million	2012	2011
Deposits		
Cheque and current accounts		
Opening credit balance	**12**	(11)
Deposits	**123**	24
Interest income	**5**	(1)
Closing credit balance	**140**	12
Savings deposits		
Opening credit balance	**177**	174
(Withdrawals)/deposits	**(169)**	9
Interest income	**2**	(6)
Closing credit balance	**10**	177
Other including term deposits		
Opening balance	**1**	1
Net deposits	**60**	–
Closing balance	**61**	1
Investments under the co-investment arrangement		
Opening balance	**20**	658
Withdrawals	**–**	(687)
Net investment return credited	**3**	62
Commission and other transaction fees	**–**	(13)
Closing balance	**23**	20
Other fees		
Financial consulting fees and commissions	**5**	4
Key management compensation*		
Salaries and other short-term benefits	**174**	161
Share-based payments	**75**	33
Total compensation	**249**	194

** Deferred compensation is included in the above and is payable in FirstRand Limited shares in October 2013/2014.*

A listing of the board of directors of the Bank is on page 4.
Details of the key management compensation is provided in note 3.

39.5 Post-retirement benefit plan

R million	2012	2011
Details of transactions between the Bank and the Bank's post-retirement benefit plan is listed below:		
Dividend income	**3**	1
Fee income	**3**	3
Deposits and current accounts held with the Bank	**110**	175
Interest expenses	**9**	8
Value of assets under management	**2 986**	2 830

40 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In preparing the financial statements, the Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

40.1 Credit impairment losses on loans and advances

The Bank assesses its credit portfolios for impairment at each reporting date. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans.

(a) Performing loans

The impairment provision of the performing portfolio is split into two parts:

(i) The first part consists of the portion of the performing portfolio where an incurred impairment event is inherent in a portfolio of performing advances but has not specifically been identified. An incurred but not reported (IBNR) provision is calculated on this sub segment of the portfolio, based on historical analysis of loss ratios, roll rates from performing status into non-performing status and similar risk indicators over an estimated loss emergence period.

Estimates of roll rates, loss ratios and similar risk indicators are based on analysis of internal and, where appropriate, external data. Estimates of the loss emergence period are made in the context of the nature and frequency of credit assessments performed, availability and frequency of updated data regarding customer creditworthiness and similar factors. Loss emergence periods differ from portfolio to portfolio, but typically range from 1 – 12 months.

(ii) The second part consists of the portfolio specific impairment (PSI) to reflect the decrease in estimated future cash flows for the sub segment of the performing portfolio where there is objective evidence of impairment. The decrease in future cash flows is primarily estimated based on analysis of historical loss and recovery rates for comparable sub segments of the portfolio.

The assessment of whether objective evidence of impairment exists requires judgement and depends on the class of the financial asset. In the FNB Retail and WesBank portfolios the account status, namely arrears versus non-arrears status, is taken as a primary indicator of an impairment event. In the FNB Commercial portfolios other indicators such as the existence of high risk accounts, based on internally assigned risk ratings and management judgement, are used, while the wholesale (includes RMB and GTS) portfolio assessment includes a judgemental review of individual industries for objective signs of distress.

(b) Non-performing loans

FNB Retail loans are individually impaired if amounts are due and unpaid for three or more months, or if there is evidence before this that the customer is unlikely to repay its obligations in full. WesBank's loans are impaired upon its classification status, i.e. following an event driven approach and specific assessment of the likelihood to repay. FNB Commercial and Wholesale loans are analysed on a case by case basis taking into account breaches of key loan conditions, excesses and similar risk indicators.

Management's estimates of future cash flows on individually impaired loans are based on internal historical loss experience, supplemented by analysis of comparable external data (for FNB Commercial and Wholesale loans) for assets with similar credit risk characteristics. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Refer to note 12 for a detailed analysis of the impairment of advances and the carrying amounts of the specific and portfolio provisions.

40 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES continued

40.2 Fair value of financial instruments

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example models) are used to determine fair values, they are validated and periodically reviewed by independent qualified senior personnel. All models are certified before they are used, and models are calibrated and back tested to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions could affect the reported fair value of financial instruments. Note 36 provides additional details on the calculation of fair value of financial instruments not quoted in active markets and an analysis of the effect of changes in managements' estimates on the fair value of financial instruments.

40.3 Impairment of available-for-sale equity instruments

The Bank determines that available-for-sale equity instruments are impaired and an impairment loss recognised as such in profit or loss, when there has been a significant or prolonged decline in the fair value below cost. The determination of what is significant or prolonged requires judgement. In making this judgement, the Bank evaluates factors such as, inter alia, the normal volatility in share prices, evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

40.4 Income taxes

The Bank is subject to direct tax in a number of jurisdictions. There may be transactions and calculations for which the ultimate tax determination has an element of uncertainty during the ordinary course of business. The Bank recognises liabilities based on objective estimates of the amount of tax that may be due. Where the final tax determination is different from the amounts that were initially recorded, such difference will impact the income tax and deferred income tax provisions in the period in which such determination is made.

Refer to note 4.2 and 19 for more information regarding the direct and deferred income tax charges, assets and liabilities.

40.5 Employee benefit liabilities

The cost of the benefits and the present value of the defined benefit pension funds and post-retirement medical obligations depend on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the charge to profit or loss arising from these obligations include the expected long-term rate of return on the relevant plan assets, the discount rate and the expected salary and pension increase rates. Any changes in these assumptions will impact the charge to profit or loss and may affect planned funding of the pension plans.

The assumptions related to the expected return on plan assets are determined on a uniform basis, considering long-term historical returns, asset allocation and future estimations of long-term investment returns. The Bank determines the appropriate discount rate at the end of each year, which represents the interest rate that should be used to determine the present value of the expected cash outflows required to settle the pension and post-retirement medical obligations. In determining the appropriate discount rate, the Bank considers the interest rate on high quality corporate bonds and government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. The expected salary and pension increase rates are based on inflation rates, adjusted for salary scales and country specific conditions. The inflation rate used is a rate within the government's monetary policy target for inflation and is calculated as the difference between the yields on portfolios of fixed interest government bonds and a portfolio of index linked bonds of a similar term.

Additional information is provided in note 25.

40 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES continued

40.6 Share-based payments

Share-based payment transactions of the Bank are classified as either cash settled or equity settled. The amounts recognised in respect of these share-based payment transactions are determined by applying valuation techniques that are based on various assumptions and estimates that require judgment in their application. These assumptions and estimates include expected volatility, expected dividend yield, the discount rate and the expected forfeit or lapse rate.

The expected volatility assumption is determined based on a ruling historical volatility over the expected life of the options and comparable financial information. The expected dividend yield is determined based on historical dividend yields and management's estimates. The discount rate is based on zero coupon government bonds and have terms to maturity consistent with the assumed life of the share option. The expected forfeit rate has been based on historical experience and management estimates.

Refer to note 29 for the detailed information regarding the share-based payment expense and the assumptions used in determining the expense, liability and reserve.

40.7 Fair value of commodities recognised in accordance with the broker-trader exception in IAS 2

The Bank is long on certain commodities through the outright purchase of the specific commodity. Judgement has been applied in determining the fair value of the most recent transactions between market participants that is used to calculate the fair value of the physical commodity positions.

41 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

	The Bank will comply with the following new standards and interpretations from the stated effective date.	**Effective date**
IAS 1 (amended)	**Presentation of Items of Other Comprehensive Income** This amendment was issued to eliminate inconsistencies in the presentation of items in the statement of other comprehensive income. The amendment requires an entity to group the items of other comprehensive income on the basis of whether the amounts will subsequently be reclassified to profit or loss or not i.e. the statement of comprehensive income should be split between items that will be reclassified to profit or loss and items that will not be reclassified to profit or loss. This amendment addresses presentation in the annual financial statements and will not affect recognition and measurement. The impact of the revised presentation is not expected to be significant.	Annual periods commencing on or after 1 July 2012.
IAS 12 (amended)	**Income Taxes** IAS 12 requires that deferred tax assets be measured based on whether the entity expects to recover the carrying amount of the asset through use or through sale. This assessment of the method of recovery may be difficult to assess for investment property measured using the fair value model. The amendment provides a practical solution by introducing a presumption that the carrying amount of such investment property will normally be recovered through sale. As a result of the amendment, SIC 21 Income Taxes – Recovery of Revalued Non-Depreciable Assets has been withdrawn. This amendment is not expected to have a significant impact on the Bank.	Annual periods commencing on or after 1 January 2012

41 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE continued

		Effective date
IAS 19 (revised)	**Employee Benefits** The main changes include the removal of the corridor approach, which allowed entities the option to defer the recognition of actuarial gains and losses on defined benefit plans. The revised standard requires that all remeasurements arising from defined benefit plans be presented in other comprehensive income. It also includes enhanced disclosure requirements for defined benefits plans. The Bank is in the process of assessing the impact the revised IAS 19 would have on the financial statements.	Annual periods commencing on or after 1 January 2013
IAS 27 (amended)	**Separate Financial Statements** The accounting and disclosure requirements for consolidated financial statements have been removed from IAS 27 as a result of the issue of IFRS 10 and IFRS 12, which establish new consolidation and disclosure standards. IAS 27 (as amended in 2011) contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. This amendment is not expected to have a significant impact on the Bank's results.	Annual periods commencing on or after 1 January 2013
IAS 28 (amended)	**Investments in Associates and Joint ventures** IAS 28 Investments in Associates and Joint Ventures (amended) supersedes IAS 28 Investments in Associates as a result of the issue of IFRS 11 and IFRS 12. The new IAS 28 prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The disclosure requirements relating to these investments are now contained in IFRS 12. This amendment is not expected to have a significant impact on the Bank's results.	Annual periods commencing on or after 1 January 2013
IAS 32	**Financial Instruments: Presentation** The amendments issued to IAS 32 clarify the existing requirements related to offsetting of financial assets and financial liabilities. The application guidance to the standard has been amended to clarify the practical application of the offsetting requirements. The Bank is in the process of assessing the impact of these amendments.	Annual periods commencing on or after 1 January 2014
IFRS 1 (amended)	**First-time Adoption of International Financial Reporting Standards** On 13 March 2012 the IASB published an amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendments, dealing with loans received from governments at a below market rate of interest, give first-time adopters of IFRS relief from full retrospective application of IFRS when accounting for these loans on transition. It provides the same relief to first-time adopters as is granted to existing preparers of IFRS financial statements when applying IAS 20 Accounting for Government Grants and Disclosure of Government Assistance. The Bank is not a first-time adopter and this amended standard will therefore have no impact.	Annual periods commencing on or after 1 January 2013

41 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE continued

		Effective date
IFRS 7	**Financial Instruments: Disclosures** The amendment requires information about all recognised financial instruments that are set-off in accordance with paragraph 42 of IAS 32. Information includes the gross amounts subject to rights of set-off, amounts set-off in accordance with the accounting standards followed, and the related net credit exposure. This information will help investors understand the extent to which an entity has set-off in its statement of financial position and the effects of set-off on the entity's rights and obligations. This amendment addresses disclosure in the annual financial statements and will not affect recognition and measurement.	Annual periods commencing on or after 1 January 2013
IFRS 9	**Financial Instruments** IFRS 9 is the first phase in the IASB's three-part project to replace IAS 39 Financial Instruments: Recognition and Measurement. This phase deals with the classification and measurement of financial assets and financial liabilities. Financial assets can be classified as financial assets at amortised cost or fair value. The classification is based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Financial liabilities can also be classified as financial liabilities at amortised cost or fair value in line with the existing requirements of IAS 39. If an entity elects to measure its financial liabilities at fair value, it should present the portion of the change in fair value due to changes in its own credit risk in other comprehensive income. The Bank is in the process of assessing the impact that IFRS 9 would have on the financial statements. Until the process is completed, the Bank is unable to determine the significance of the impact of IFRS 9.	Annual periods beginning on or after 1 January 2015
IFRS 11	**Joint Arrangements** The standard supersedes IAS 31 Joint Ventures and aims to improve on IAS 31 by establishing accounting principles that are applicable to all joint arrangements. The standard distinguishes between two types of joint arrangements, joint operations and joint ventures. The accounting for joint operations remains unchanged from IAS 31 and all joint ventures should be equity accounted in the financial statements of the venturer. Transitional guidance issued in June 2012 amends IFRS 11 to provide additional transition relief by limiting the requirement to provide adjusted comparative information to only the preceding comparative period. Amendments to IFRS 11 also eliminate the requirement to provide comparative information for periods prior to the immediately preceding period. The standard is not expected to have a significant impact on the Bank.	Annual periods commencing on or after 1 January 2013

41 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE continued

		Effective date
IFRS 12	**Disclosure of Interests in Other Entities** The standard aims to provide consistent disclosure requirements for subsidiaries, joint arrangements, associates and structured entities. IFRS 12 requires disclosure of information that will enable users to evaluate the nature of the risks associated with the interest and the effect of the interest on the financial position, performance and cash flows of the reporting entity. Transitional guidance issued in June 2012 amends IFRS 12 to provide additional transition relief by limiting the requirement to provide adjusted comparative information to only the preceding comparative period. Amendments to IFRS 12 also eliminate the requirement to provide comparative information for periods prior to the immediately preceding period. This amendment addresses disclosure in the annual financial statements and will not affect recognition and measurement. The Bank is still in the process of assessing the impact of the revised disclosure.	Annual periods commencing on or after 1 January 2013
IFRS 13	**Fair Value Measurement** IFRS 13 was issued in order to eliminate inconsistencies in the guidance on how to measure fair value and disclosure requirements that currently exist under the different IFRS that require or permit fair value measurement. It provides a fair value hierarchy, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The Bank is in the process of assessing the impact that IFRS 13 would have on the financial statements. Until the process is completed, the Bank is unable to determine the significance of the impact of IFRS 13.	Annual periods commencing on or after 1 January 2013
IFRIC 20	**Stripping Costs in the Production Phase of a Surface Mine** This Interpretation applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine ('production stripping costs'). The Interpretation falls outside the scope of the Bank's operations and will have no impact on the Bank.	Annual periods commencing on or after 1 January 2013

41 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE continued

		Effective date
Annual Improvements	**Improvements to IFRS** The IASB issued Annual Improvements 2009-2011 Cycle in May 2012, as its latest set of annual improvements to various Standards. The collection of amendments to IFRS is in response to six issues addressed during the 2009-2011 cycle. The annual improvement project's aim is to clarify and improve accounting standards. The improvements include terminology or editorial changes with minimal effect on recognition and measurement. The amendments have been assessed and are not expected to have a significant impact on the Bank.	Annual periods commencing on or after 1 January 2013

42 TRANSACTIONS INVOLVING THE LEGAL FORM OF A LEASE

The Group entered into an arrangement with the counterparty for the refurbishment of moveable assets, which are for the exclusive use of the counterparty. The duration of the arrangement is for 14 years and will conclude in May 2016. The transactions are a series of back to back leases, which, although the transactions are structured as leases, are in substance a financing arrangement. The arrangement also provides for a final balloon payment, which will be serviced through sinking fund deposits ceded to the Group, into which the counterparty is making payments and earning interest.

During the current year the interest paid on the sinking fund deposits exceeded the interest earned on the leases, resulting in a net interest expense reflected in the income statement of R20 million (2011: net interest income of R33 million).

Fees received are recognised annually in non-interest income.

43 SUBSEQUENT EVENTS

No matter that is material to the financial affairs of the Bank occurred between the reporting date and the date of the approval of these annual financial statements.

44 CURRENT/NON-CURRENT ANALYSIS OF AMOUNTS RECOGNISED ON THE STATEMENT OF FINANCIAL POSITION

	2012		
R million	Carrying amount	Current amount	Non-current amount
ASSETS			
Cash and cash equivalents	31 557	31 557	–
Derivative financial instruments	52 392	49 223	3 169
Commodities	5 108	5 108	–
Accounts receivable	3 301	3 245	56
Tax asset	253	–	253
Advances	482 745	161 355	321 390
Amounts due by holding company and fellow subsidiary companies	23 307	14 102	9 205
Investment securities and other investments	78 809	62 516	16 293
Investments in associates	243	–	243
Property and equipment	8 882	–	8 882
Intangible assets	336	–	336
Post-employment benefit asset	2 986	–	2 986
Non-current assets and disposal groups held for sale	215	215	–
Total assets	690 134	327 321	362 813
EQUITY AND LIABILITIES			
Liabilities			
Short trading positions	4 019	4 019	–
Derivative financial instruments	53 666	52 298	1 368
Creditors and accruals	6 473	6 373	100
Tax liability	–	–	–
Deposits	545 796	462 601	83 195
Provisions	234	165	69
Employee liabilities	8 480	3 771	4 709
Other liabilities	922	62	860
Amounts due to holding company and fellow subsidiary companies	13 341	10 368	2 973
Deferred income tax liability	769	–	769
Tier 2 liabilities	7 437	1 311	6 126
Total equity	48 997	–	48 997
Total equity and liabilities	690 134	540 968	149 166

44 CURRENT/NON-CURRENT ANALYSIS OF AMOUNTS RECOGNISED ON THE STATEMENT OF FINANCIAL POSITION continued

	2011		
R million	Carrying amount	Current amount	Non-current amount
ASSETS			
Cash and cash equivalents	29 012	29 012	–
Derivative financial instruments	36 666	34 933	1 733
Commodities	4 388	4 388	–
Accounts receivable	2 744	2 649	95
Tax asset	–	–	–
Advances	429 134	129 772	299 362
Amounts due by holding company and fellow subsidiary companies	19 234	14 443	4 791
Investment securities and other investments	83 810	60 346	23 464
Investments in associates	116	–	116
Property and equipment	8 480	–	8 480
Intangible assets	281	–	281
Post-employment benefit asset	2 830	–	2 830
Non-current assets and disposal groups held for sale	–	–	–
Total assets	616 695	275 543	341 152
EQUITY AND LIABILITIES			
Liabilities			
Short trading positions	5 777	5 777	–
Derivative financial instruments	36 150	35 749	401
Creditors and accruals	5 395	5 307	88
Tax liability	95	–	95
Deposits	492 896	433 017	59 879
Provisions	132	32	100
Employee liabilities	6 510	2 320	4 190
Other liabilities	518	109	409
Amounts due to holding company and fellow subsidiary companies	20 841	17 576	3 265
Deferred income tax liability	1 348	–	1 348
Tier 2 liabilities	6 391	430	5 961
Total equity	40 642	–	40 642
Total equity and liabilities	616 695	500 317	116 378

45 DISPOSAL TRANSACTIONS AS A RESULT OF THE FIRSTRAND GROUP RESTRUCTURE

Transactions during the 2012 financial year

There were no disposal transactions as a result of restructuring transactions in the 2012 financial year.

Transactions during the 2011 financial year

On 1 July 2010, the Bank disposed of a number of investments in subsidiaries, SPEs and associates to various other FirstRand Group companies. These investments were disposed of as part of the FirstRand Group legal entity restructure. The restructure was initiated as a result of the FirstRand Group's need to revise the structure of its existing operations and has also impacted the FirstRand Group's governance structures and the management accounting and statutory financial reporting processes.

These investments in subsidiaries, SPEs and associates have been disposed of at their net consolidated carrying value. These investments were carried at cost less impairment in the separate financial statements of the Bank. The consideration received was equal to the net consolidated carrying value. A profit was recognised on the disposal of the investments, being the difference between the consolidated net asset value and their carrying amount in the separate financial statements. This profit will be eliminated in the consolidated financial statements of the Bank.

The profit related to the restructure transaction was calculated as follows:

	2011
R million	Sold to FRIHL
Consideration received for the investments disposed of	2 661
Carrying amount of the investments disposed of	(1 426)
Investments in subsidiaries	(279)
Investments in associates and joint ventures	(1 147)
Gain on the Group restructuring transaction recognised in profit or loss	1 235

45 DISPOSAL TRANSACTIONS AS A RESULT OF THE FIRSTRAND GROUP RESTRUCTURE continued

Significant subsidiaries transferred as part of the Group restructure
Sold to FRIHL
Direct Axis (Pty) Ltd Contract Lease Management (Pty) Ltd Toyota Financial Services (Pty) Ltd First Auto (Pty) Ltd SBV Services (Pty) Ltd Makalani Holdings Ltd Various Private Equity associates – Vox Telecom Ltd, Simmer & Jack Mines Ltd and Control Instruments Group. RMB Securities (Pty) Ltd Shisa Investments (Pty) Ltd

Disclosure requirements in terms of the Home Loan and Mortgage Disclosure Act 63 of 2000

			Approved – taken up	
	Total number	**Total R million**	**Number**	**R million**
Total applications received 2012**	**176 563**	**115 379**	**9 441**	**6 357**
Total applications** received 2011	178 805	113 493	14 286	15 342
Applications status per race group 2012				
African	**86 566**	**39 358**	**4 432**	**2 041**
Coloured	**17 759**	**7 423**	**526**	**304**
White	**60 345**	**58 531**	**3 708**	**3 389**
Indian	**2 098**	**1 427**	**90**	**30**
Other#	**9 795**	**8 640**	**685**	**593**
Total applications received	**176 563**	**115 379**	**9 441**	**6 357**
Applications status per race group 2011				
African	88 041	36 539	6 019	2 781
Coloured	18 400	7 235	810	495
White	60 662	58 977	6 052	9 789
Indian	2 137	1 455	253	508
Other#	9 565	9 287	1 152	1 769
Total applications received	178 805	113 493	14 286	15 342

Notes:

* *Declined includes reasons such as affordability, unacceptable credit record, and unacceptable property.*

** *The disclosure for total applications received, consists of, in addition, matters pending which have not been tabled hereunder as this information is not required by the Act. The disclosure of total applications is given for new loans only and excludes increases or readvances as has been agreed with the Department of Human Settlements.*

\# *The race of other includes Asian and customers who have not provided this information.*

Approved – not taken up		Declined*		Disbursed	
Number	**R million**	**Number**	**R million**	**Number**	**R million**
20 875	**15 502**	**97 778**	**55 500**	**25 116**	**18 085**
23 380	17 027	96 176	51 778	21 182	9 873
8 388	**4 355**	**55 371**	**24 947**	**10 015**	**3 224**
1 630	**1 054**	**10 555**	**4 246**	**3 444**	**759**
9 209	**8 674**	**26 309**	**22 443**	**9 794**	**12 024**
169	**110**	**1 181**	**443**	**428**	**612**
1 479	**1 309**	**4 362**	**3 421**	**1 435**	**1 466**
20 875	**15 502**	**97 778**	**55 500**	**25 116**	**18 085**
8 769	4 289	54 492	22 012	9 502	2 397
1 927	1 163	10 708	3 974	3 250	611
10 646	9 826	25 998	22 097	7 218	6 011
180	154	1 207	430	252	43
1 858	1 595	3 771	3 265	960	811
23 380	17 027	96 176	51 778	21 182	9 873

Disclosure requirements in terms of the Home Loan and Mortgage Disclosure Act 63 of 2000 continued

Total applications per province 2012			**Approved – taken up**	
Province	**Number**	**R million**	**Number**	**R million**
Eastern Cape	**10 296**	**4 619**	**321**	**178**
Free State	**6 808**	**3 432**	**247**	**129**
Gauteng	**90 571**	**64 490**	**5 615**	**3 862**
KwaZulu-Natal	**18 296**	**12 588**	**865**	**595**
Limpopo	**3 390**	**1 829**	**211**	**105**
Mpumalanga	**7 495**	**4 628**	**395**	**243**
North West	**6 770**	**3 840**	**406**	**212**
Northern Cape	**2 494**	**975**	**87**	**46**
Western Cape	**30 180**	**18 913**	**1 283**	**983**
Unknown†	**263**	**65**	**11**	**4**
Total applications	**176 563**	**115 379**	**9 441**	**6 357**

Total applications per province 2011			Approved – taken up	
Province	Number	R million	Number	R million
Eastern Cape	10 728	4 563	433	358
Free State	7 703	3 294	392	259
Gauteng	88 958	61 438	8 933	9 347
KwaZulu-Natal	19 002	12 166	1 226	1 308
Limpopo	3 655	1 943	240	121
Mpumalanga	8 162	4 756	504	316
Northern Cape	1 984	893	102	69
North West	7 405	3 724	492	258
Western Cape	30 765	20 623	1 949	3 302
Unknown†	443	93	15	4
Total applications	178 805	113 493	14 286	15 342

Notes:

† The province of unknown includes applications in process where the property has not yet been linked to the application.

Approved – not taken up		**Declined**		**Disbursed**	
Number	**R million**	**Number**	**R million**	**Number**	**R million**
943	**605**	**6 267**	**2 586**	**1 799**	**595**
715	**427**	**4 162**	**1 927**	**876**	**417**
11 375	**8 625**	**48 747**	**29 693**	**11 729**	**10 764**
2 318	**1 615**	**10 531**	**6 686**	**2 140**	**1 691**
422	**236**	**2 000**	**1 066**	**311**	**146**
903	**639**	**4 412**	**2 592**	**847**	**478**
728	**469**	**4 108**	**2 219**	**686**	**353**
178	**106**	**1 541**	**561**	**495**	**130**
3 293	**2 780**	**15 940**	**8 165**	**6 173**	**3 508**
–	**–**	**70**	**5**	**60**	**3**
20 875	**15 502**	**97 778**	**55 500**	**25 116**	**18 085**

Approved – not taken up		Declined		Disbursed	
Number	R million	Number	R million	Number	R million
1 108	697	6 140	2 420	2 054	430
789	445	4 637	1 845	1 127	293
12 283	9 171	45 896	26 873	9 152	5 559
2 650	1 863	10 575	5 646	1 971	964
411	221	2 333	1 219	193	84
1 062	718	4 901	2 711	732	389
220	122	1 130	493	308	76
863	528	4 461	2 099	579	253
3 994	3 262	15 985	8 462	4 961	1 821
–	–	118	10	105	4
23 380	17 027	96 176	51 778	21 182	9 873

Supplementary information

for the year ended 30 June

Pages 252 to 283 do not form part of the audited financial statements

DESCRIPTION OF DIFFERENCE BETWEEN NORMALISED AND IFRS RESULTS

This section of the annual report is presented on a normalised basis. 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.

Reconciliation of IFRS numbers to normalised numbers

	2012			2011		
R million	**IFRS**	**Credit fair value normalised adjustments**	**Normalised**	IFRS	Credit fair value normalised adjustments	Normalised
Gross value of advances (note 11)	**490 966**	**2 357**	**493 323**	436 645	1 951	438 596
Impairment of advances (note 12)	**(8 221)**	**(2 357)**	**(10 578)**	(7 511)	(1 951)	(9 462)
Net advances	**482 745**	**–**	**482 745**	429 134	–	429 134

	2012			2011		
	IFRS	**Fair value annuity income (lending) normalised adjustments**	**Normalised**	IFRS	Fair value annuity income (lending) normalised adjustments	Normalised
Income statement						
Impairment of advances	**4 885**	**406**	**5 291**	3 637	514	4 151

ECONOMIC VIEW OF THE BALANCE SHEET

The Group COO and CFO has responsibility for the strategic positioning of the balance sheet, including both the assets and liabilities originated by the individual business units.

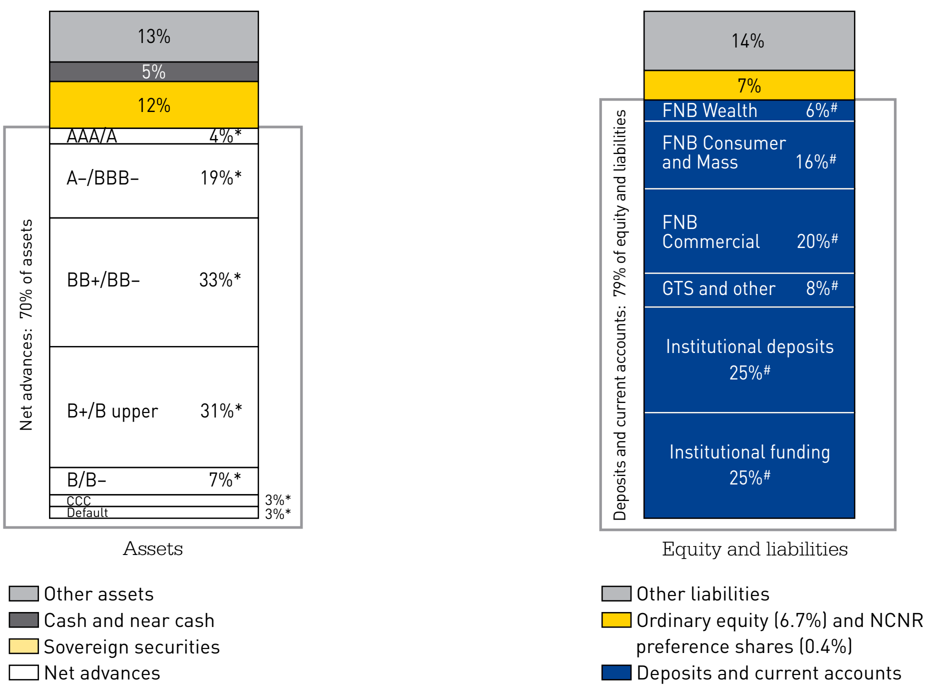
At the core of FirstRand's approach is a belief that the balance sheet and its income statement streams can be both protected and enhanced throughout the cycle to improve sustainability and predictability. This is achieved through the active management of the investment and enterprise value risks which include:

- interest rate risk;
- credit portfolio risk;
- capital risks; and
- strategic funding risks.

In line with this objective, the Group implements an integrated balance sheet management approach. This requires a detailed understanding of the economic cycle and the interplay between the risks created by the cycle and the levers within the business that can be used to mitigate those risks. Ultimately, the aim is to optimise the natural position of the balance sheet, look for natural hedges, or implement appropriate macro hedges in the current structure and only make the balance sheet available to the origination businesses if the required risk-reward return can be met.

FirstRand's integrated balance sheet management approach is aligned to the objectives of performance management in that it facilitates optimisation of the spread between ROE and cost of equity.

Economic view of the balance sheet as at 30 June 2012 (%)



* *of net advances.*

Note: Derivative assets and liabilities have been netted off.

\# *of deposits and current accounts.*

CAPITAL MANAGEMENT

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, targeted capital ratios, future business plans, issuance of additional capital instruments, the need for appropriate buffers in excess of minimum requirements, rating agencies' considerations, investor expectations and proposed regulatory changes are all factors taken into consideration.

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

The board-approved capital plan is reviewed annually as part of the Group's Internal Capital Adequacy Assessment Process (ICAAP), with the stress testing framework being an extension of the process. ICAAP assists in the attribution of capital in proportion to the risks inherent in the respective businesses with reference to normal economic circumstances and times of potential stress, which may lead to the realisation of risks not previously considered. These processes are refined on an ongoing basis and continue to inform the targeted buffer over the minimum capital requirement.

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

Targeted ranges were increased in the prior year in anticipation of the implementation of Basel III, even though the levels for South Africa are not yet finalised. Given the continued uncertainty, the Group follows a conservative approach to capital levels and prefers to maintain capital ratios at the upper end of its targeted capitalisation range. The Bank will revisit the internal target capitalisation levels once the SARB finalises the regulations incorporating Basel III.

Throughout the year under review, FRB, excluding foreign branches, operated comfortably above its targets with a total capital adequacy ratio of 14.6% and Core Tier 1 ratio of 11.8%.

The targeted capital levels as well as the ratios at 30 June 2012 are summarised in the table below.

Capital adequacy position

	FRB*		Regulatory minimum
	Actual	Target	
Capital adequacy ratio (%)	14.6	11.5 – 13.0	9.5**
Tier 1 ratio (%)	12.6	10.5	7.0
Core Tier 1 ratio (%)	11.8	9.0 – 10.5	5.25

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

Basel III

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

The SARB is currently drafting regulations incorporating the Basel III proposals. The second draft was released on the 17 August 2012 for implementation on 1 January 2013. The Basel III impact on the Bank's Core Tier 1 ratio is expected to be minimal. There is, however, a more pronounced negative impact on the total capital adequacy ratio as the current NCNR preference share capital and subordinated debt instruments do not meet the new loss absorbency criteria. Given the transitional period for the implementation of Basel III, the Bank remains focused on optimising its capital base. The Basel III impact on the supply and demand of capital is discussed below.

The Bank continues to participate in the SARB's biannual quantitative impact studies to assess the impact of Basel III on capital adequacy ratios.

The Basel Committee on Banking Supervision (BCBS) introduced a simple, transparent non-risk based leverage ratio that is calibrated to act as a credible supplementary measure to the risk-based capital requirements. The SARB has proposed a minimum Tier 1 capital leverage ratio of 4%, which is higher than the BCBS's requirement of 3%. The Bank's current leverage ratio is well in excess of this requirement and therefore this does not introduce any constraints to the Bank.

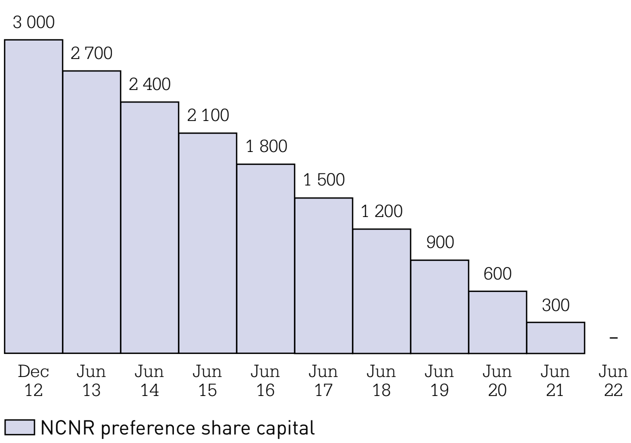
Supply of capital – Tier 1

Tier 1 capitalisation ratios benefited from stronger internal capital generation through earnings. All profits were appropriated at 30 June 2012.

The draft regulations allow for the inclusion of disclosable reserves (i.e. share-based payment and available-for-sale reserves) in the supply of capital. This is offset by additional regulatory deductions for the expected loss over provisions and the grandfathering of the NCNR preference share capital over a ten-year period.

The following graph shows the grandfathering of the Bank's NCNR preference share capital over a ten year period.

NCNR preference share capital (R million)



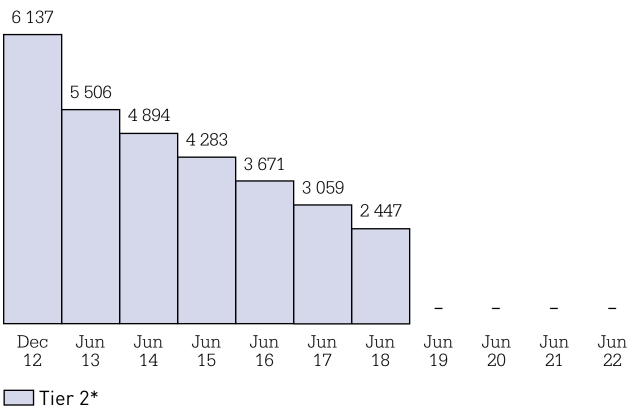
CAPITAL MANAGEMENT continued

Supply of capital – Tier 2

During the year, FRB issued subordinated debt that meets the Basel III entry criteria (excluding loss absorbency), and these instruments qualify for the grandfathering arrangements under Basel III. The Bank's old-style Tier 2 instruments also do not meet the loss absorbency criteria under Basel III and will be grandfathered.

The following graph shows the runoff profile of the Tier 2 instruments outstanding at 31 December 2012 under Basel III.

Tier 2 (R million)



* *Assumes that all instruments are called on their call dates.*

Demand for capital

RWA movement for the year was driven mainly by the following:

- credit risk – the increase is due to credit risk recalibrations, volume growth and the 6% scalar applied to exposures on the Basel advanced internal rating based (AIRB) approach (Basel 2.5 requirement); and
- market risk – the increase is primarily due to the Basel 2.5 stressed Value-at-Risk (VaR) requirements and incremental risk charge, offset by decreased market risk positions.

Under Basel III, RWA are expected to increase further mainly due to the credit valuation adjustment for counterparty credit risk, as well as the requirement for capital against central clearing parties.

Capital adequacy

Composition of capital

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

Composition of qualifying capital and capital ratios of FRB at 30 June

	FRB*			
R million	**2012**	**%**	2011	%
Ordinary shareholders equity as per IFRS**	**45 956**		37 965	
Less: non-qualifying reserves**	**(364)**		(333)	
Cash flow reserve**	**753**		452	
Available-for-sale reserve**	**(695)**		(443)	
Share-based payment reserve**	**(422)**		(342)	
Ordinary shareholders equity qualifying as capital	**45 592**		37 632	
Ordinary share capital and share premium**	**15 308**		11 459	
Reserves	**30 284**		26 173	
Less: total impairments	**(2 526)**		(3 295)	
Excess of expected loss over eligible provisions (50%)	**(400)**		(907)	
First loss credit enhancements in respect of securitisation structures (50%)	**(45)**		(71)	
Qualifying capital in branches	**(1 732)**		(1 732)	
Intangibles	**(332)**		(268)	
Other impairments	**(17)**		(317)	
Total Core Tier 1 capital	**43 066**	**11.8**	34 337	11.4
NCNR preference share capital**	**3 000**		3 000	
Total Tier 1 capital	**46 066**	**12.6**	37 337	12.4
Upper Tier 2 instruments	**1 045**		1 042	
Tier 2 subordinated debt instruments	**6 392**		5 349	
Less: total impairments	**(445)**		(978)	
Excess of expected loss over eligible provisions (50%)	**(400)**		(907)	
First loss credit enhancements in respect of securitisation structures (50%)	**(45)**		(71)	
Total Tier 2 capital	**6 992**	**2.0**	5 413	1.8
Total qualifying capital and reserves	**53 058**	**14.6**	42 750	14.2

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

Supplementary information continued

CAPITAL MANAGEMENT continued

The table below provides more detail on the Bank's capital instruments at 30 June 2012.

Characteristics of capital instruments

Capital type	Instrument	Nominal (million)	Actual (million)	Rate type	Maturity date**
Core Tier 1	Ordinary share capital and premium*	15 308	15 308		Perpetual
Other Tier 1	NCNR preference share capital*	3 000	3 000	Floating	Perpetual
Upper Tier 2	FRBC21	628	604	Fixed	21 Dec 2018
	FRBC22	440	441	Floating	21 Dec 2018
Lower Tier 2 (Subordinated debt)	FRB03	1 740	1 826	Fixed	15 Sept 2014
	FRB05	2 110	2 041	Fixed	21 Dec 2018
	FRB06	1 000	1 009	Floating	5 Nov 2012
	FRB07	300	301	Floating	6 Dec 2012
	FRB08	100	100	Floating	10 Jun 2016
	FRB09	100	100	Floating	10 Jun 2017
	FRB10	1 000	1 014	Floating	25 Jan 2017

* *Audited.*
** *Represents the call date of the instrument.*

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

RWA and capital requirement

	FirstRand Bank*				
	June 2012				June 2011
	RWA				
R million	**Advanced approach**	**Standardised approach**	**Total**	**Capital requirement#**	RWA
Credit risk					
Corporate, banks and sovereigns	**108 719**	**–**	**108 719**	**10 328**	92 642
Small and medium enterprises (SMEs)	**34 134**	**–**	**34 134**	**3 243**	37 584
Residential mortgages	**52 224**	**–**	**52 224**	**4 961**	42 388
Qualifying revolving retail	**12 564**	**–**	**12 564**	**1 194**	9 003
Other retail	**55 311**	**–**	**55 311**	**5 255**	40 481
Securitisation exposure	**9 207**	**–**	**9 207**	**875**	4 580
Total credit risk	**272 159**	**–**	**272 159**	**25 856**	226 678
Operational risk**	**54 099**	**–**	**54 099**	**5 139**	42 659
Market risk	**12 511**	**–**	**12 511**	**1 188**	7 016
Equity investment risk	**10 391**	**–**	**10 391**	**987**	10 460
Other assets	**–**	**15 275**	**15 275**	**1 451**	14 027
Total RWA	**349 160**	**15 275**	**364 435**	**34 621**	300 840
Pillar 1 (8%)				**29 154**	24 068
Pillar 2a (1.5%)				**5 467**	4 513
Total capital requirement				**34 621**	28 581

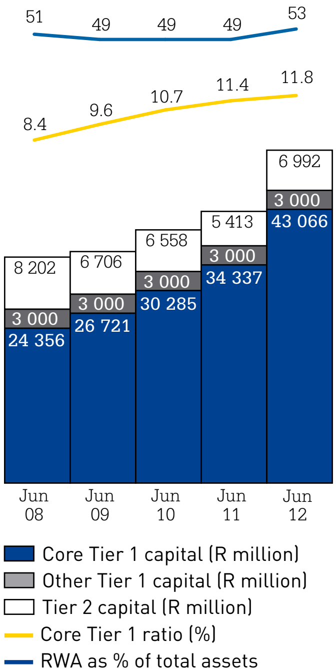
* *Reflects solo supervision, i.e. FirstRand Bank excluding foreign branches.*
** *Exposures subject to the basic indicator approach are included under the standardised approach.*
# *Capital requirement calculated at 9.5% (Pillar 1 of 8% and Pillar 2a of 1.5%) of RWA.*

CAPITAL MANAGEMENT continued

Historical overview of capital adequacy

The graph below provides a historical overview of the capital adequacy for FRB.

Capital adequacy – FRB



FUNDING

Funding strategy

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

Compliance with the Basel III Liquidity Coverage Ratio (LCR) does influence the Group's funding strategy, in particular as it seeks to restore the correct risk-adjusted pricing of deposits.

Diversification

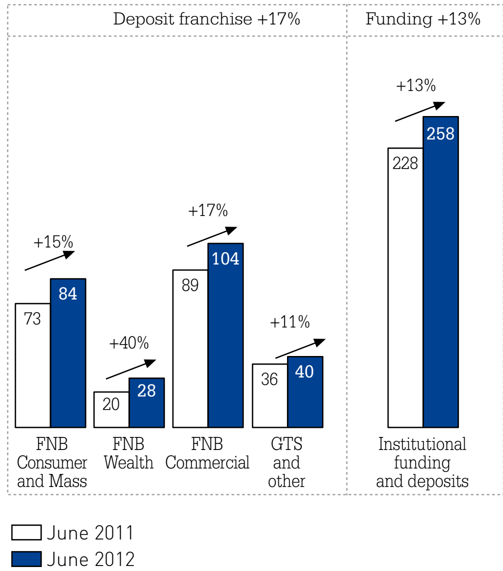
The Group views funding diversification from a number of different perspectives:

- **Segments –** the Group has a strong and stable deposit franchise, which spans the retail, commercial and corporate segments. Institutional funding represents approximately 37% of the Group's total funding down from over 40%. This reliance is actively managed through the holding of appropriate liquidity buffers and continued focus on lengthening the term profile.
- **Country and currency of issue –** the Group has access to a variety of funding and capital markets offshore and locally, including South Africa, Europe, Asia, Australia, Namibia and Botswana in ZAR, USD, GBP, EUR, AUD and BWP.
- **Instrument types and maturity profile –** the Group funds itself with a variety of different funding instruments, including NCDs, fixed and floating rate notes, syndicated loans, development finance facilities, vanilla and structured capital market issuances, and various retail and corporate products.

In these markets, the Group seeks to broaden its investor base as far as possible, while actively pursuing an investor relations strategy.

FirstRand is actively building its deposit franchise through innovative and competitive products and pricing (as illustrated by the following graph), while lengthening the term profile of its wholesale funding.

Bank funding by segment* (R billion)



* *Excluding securities lending, derivatives, repos and short trading positions.*

Supplementary information continued

FUNDING continued

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

	30 June 2012 (% of funding liabilities)			
SA banks' funding sources	Total	Short-term	Medium-term	Long-term
Institutional	42	24	58	71
Corporate	21	29	11	9
Retail	16	20	17	6
SMEs	5	8	4	1
Government and parastatals	9	13	8	3
Foreign	6	6	2	8
Other	1	–	–	2
Total	**100**	**100**	**100**	**100**

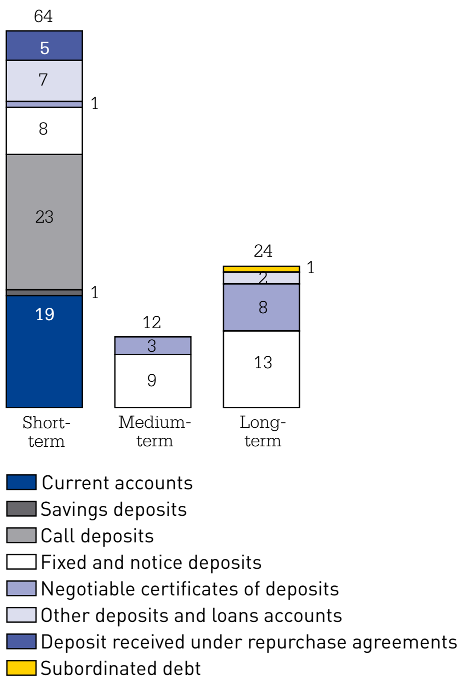
Source: SA banking sector aggregate SARB BA900 returns (30 June 2012), FirstRand research.

FirstRand Bank 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 lengthening the term profile of institutional funding.

	30 June 2012 (% of funding liabilities)			
FirstRand Bank's funding sources	Total	Short-term	Medium-term	Long-term
Institutional	37	22	51	68
Deposit franchise	63	78	49	32
Corporate	22	30	8	9
Retail	17	20	28	6
SMEs	6	8	4	–
Government and parastatals	11	15	8	3
Foreign	5	5	1	7
Other	2	–	–	7
Total	**100**	**100**	**100**	**100**

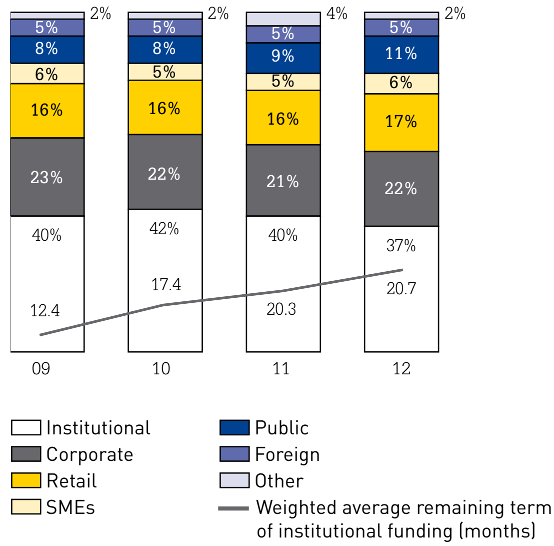
The chart below shows an analysis of the Bank's maturity profile by instrument type. The instruments represent South African banking products.

Funding by product type (%)

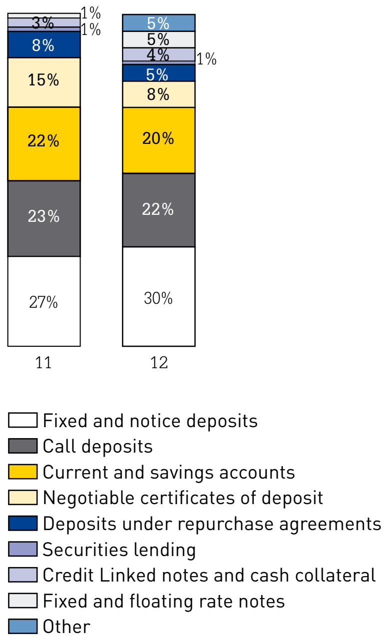


The chart below provides a historical analysis of the Bank's funding sources and reflects the stability of funding sources and the improvement in the deposit franchise.

Funding analysis by source



Deposits by instrument type (including senior debt)

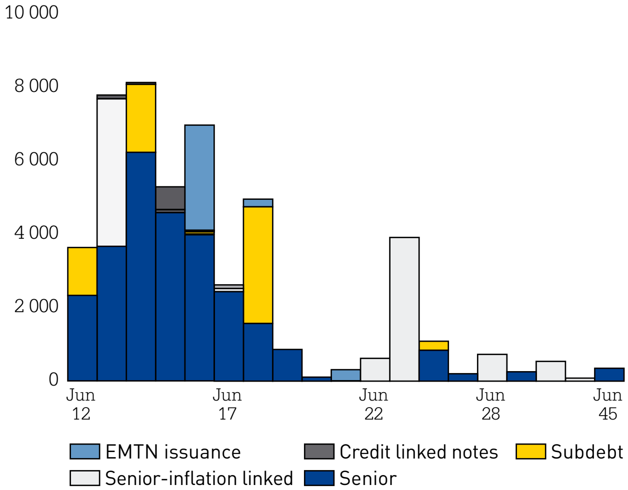


Supplementary information continued

FUNDING continued

The maturity profile of all issued capital market instruments is shown below – the Bank does not have concentration risk in any one year.

Capital market instruments (R million)



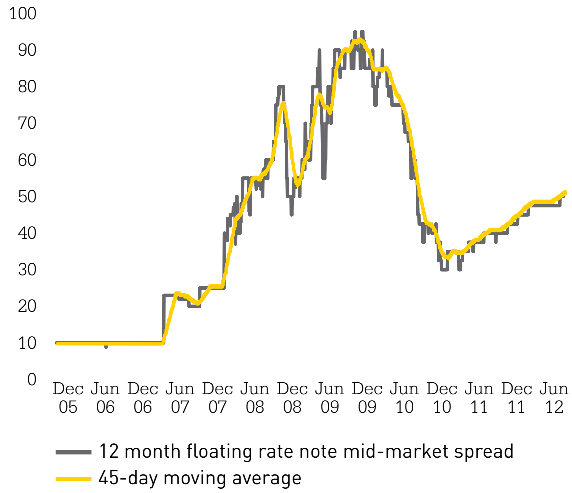
Efficiency

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

To ensure maximum efficiency and flexibility in accessing funding opportunities, a range of debt programmes have been established. The Group'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 the Group to identify cost-effective funding opportunities and ensuring a good understanding of the market liquidity dynamics.

An explanation of how the market impacts the Group's funding strategy is illustrated below. In the year under review, short-term liquidity costs, as indicated by the spread paid on 12m NCDs, increased marginally. The SARB's monetary policy rate over the year under review implied negative real rates, yet the supply dynamics for savings and investors' requirements for real returns thus resulted in upward pressure on liquidity premiums. Liquidity premiums have therefore, to some extent, compensated for the lower policy rate.

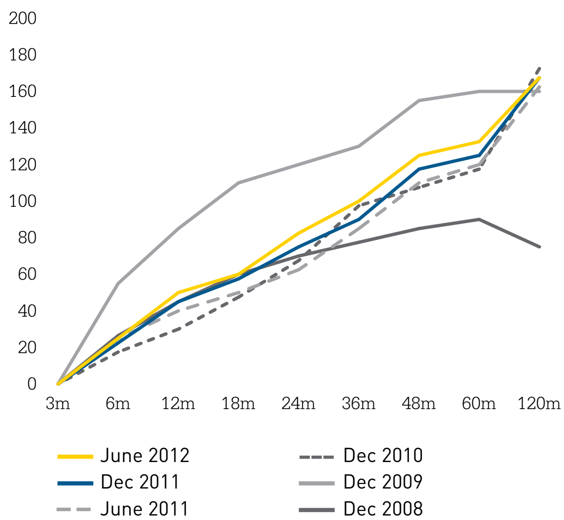
12-month liquidity spread (bps)



Source: Bloomberg (RMBP screen) and Reuters.

Long-term funding spreads have remained elevated, as can be seen from the graph below. On the basis of reduced risk profile, greater capital adequacy and greater visibility, the credit risk component within the funding spreads should be low, thus long-term funding spreads appear to be reflecting a liquidity premium that is still high.

Long-term funding spreads



Source: Bloomberg (RMBP screen) and Reuters.

Flexibility

The Group has a track record of differentiating itself through new and innovative funding mechanisms. It constantly reviews new proposals relating to funding strategies based on forecast balance sheet structures, in order to anticipate and plan for future funding and structural liquidity requirements.

Strong counterparty relationships

The Group places great value on its established strong relationships with investors and is committed to keeping investors fully informed. Therefore an active marketing approach is embedded in the funding strategy. Through forums such as conference calls, domestic and international roadshows and investor presentations, the Group aims to extend its investor base, and keep stakeholders up to date on its financial performance and counterparty status.

Basel III update

The Basel III guidelines propose two new liquidity metrics:

- the LCR, effective 1 January 2015, which measures short-term liquidity stress; and
- the Net Stable Funding Ratio (NSFR), effective 1 January 2018, which measures the stability of long-term structural funding.

Due to the structural characteristics of South African banks, significant adjustments are required to both the assets and liabilities to meet the minimum quantitative requirements. As reported previously, a Structural Funding and Liquidity task team was established under the guidance of National Treasury and mandated to assess the impact and subsequently make recommendations to National Treasury on how the banking industry could effectively deal with the proposed regulations.

In May 2012, the SARB released Guidance Note G5/2012 announcing the provision of a committed liquidity facility that will assist banks in meeting the LCR. This facility is capped at 40% of net outflows under the LCR and has a tranched cost for different levels of required facility. The inclusion of the committed liquidity facility falls within the Basel framework and is used to cater for markets with specific structural features. These include:

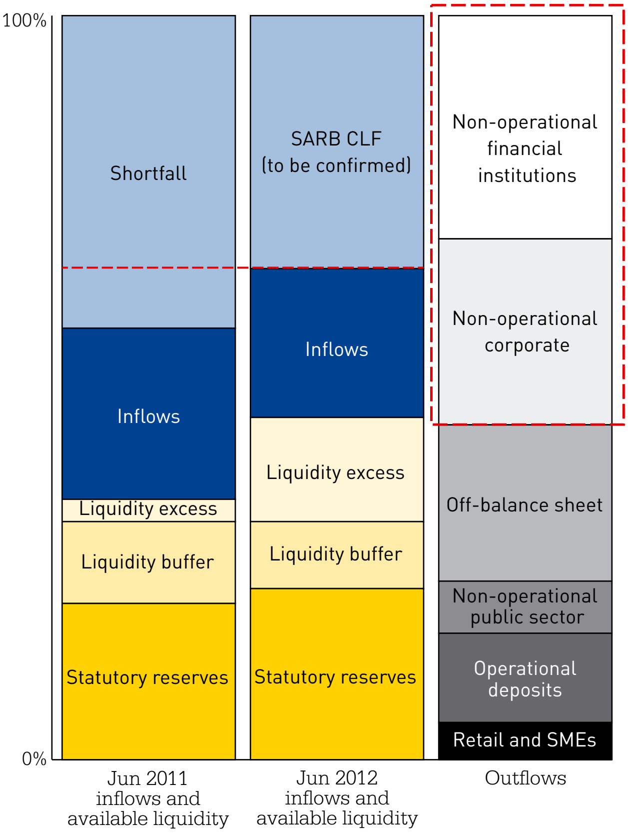
- the low level of government debt securities;
- low sovereign rating ceiling (applicable to many emerging markets);
- low retail savings; and
- a bank deposit-based mortgage financing model.

As such, it does not reflect negatively on the SA banking system.

The BCBS has indicated that further refinement of the LCR may be required and the final SA regulations remain subject to SARB approval. Estimates, given the current proposals, indicate that the cost to the Group will be between R150 million and R250 million per annum.

FirstRand is actively engaged in the efficient implementation of the LCR.

Improved liquidity position and well prepared for LCR



CREDIT PORTFOLIO MANAGEMENT

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

Credit highlights at a glance

Total loans and advances grew strongly during the financial year. Although corporate activity is still subdued, growth in investment banking and commercial loans to the property and agriculture sectors showed improvement. Retail advances benefited from strong growth in the VAF and unsecured portfolios.

The level of non-performing loans has been trending downwards since the peak in June 2009. Facilitated by the favourable credit environment, incidences of defaults have continued to decline in the retail book. Overall the corporate portfolio experienced a slight decline in NPLs despite an uptick in the investment banking book. Retail NPLs as a percentage of advances continued to decline, however, increases in some unsecured portfolios have materialised, as expected.

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

		Year ended 30 June		
R million	Notes	**2012**	2011	% change
Total gross advances*	1	**493 323**	438 596	12
NPLs	2	**17 667**	19 090	(7)
NPLs as a % of advances		**3.58**	4.35	
Impairment charge	3	**5 291**	4 151	27
– Business as usual		**4 586**	4 151	10
– Special impairment**		**705**	–	
Impairment charge as a % of average advances		**1.14**	0.98	
– Business as usual		**0.99**	0.98	
– Special impairment**		**0.15**	–	
Total impairments*	4	**10 578**	9 462	12
– Portfolio impairments		**4 676**	3 231	45
– Specific impairments		**5 902**	6 231	(5)
Implied loss given default (coverage)***	4	**33.4**	32.6	
Total impairments coverage ratio#	4	**59.9**	49.6	

* *Includes cumulative credit fair value adjustments.*
** *This impairment relates to the discovery during the year of the deliberate concealment by employees of unrecovered amounts in FNB's merchant acquiring business unit. This is 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.*

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

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

- advances were adjusted (upwards) by the balance sheet credit fair value adjustments of R2 357 million (June 2011: R1 951 million); and
- the IFRS credit impairments in the income statement were adjusted to include the credit fair value adjustment impact of R406 million (June 2011: R514 million). Under IFRS, these would have been accounted for under non-interest revenue.

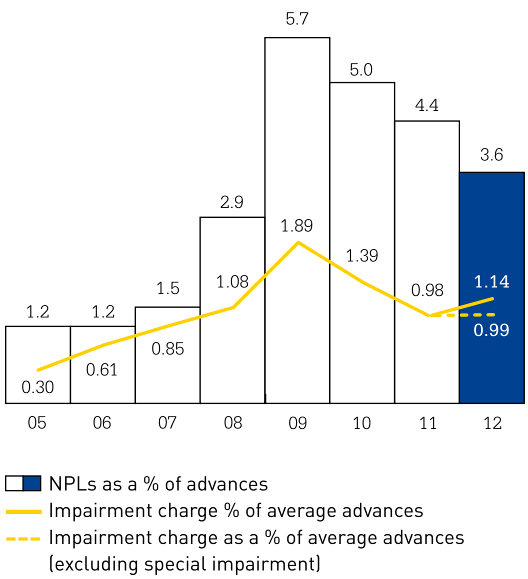
Retail credit portfolios

Vehicle and asset finance book growth was particularly robust increasing 18% year-on-year. Residential mortgages growth was low with a strong focus on low and medium risk counterparties and appropriate loan-to-value ratios. The strong growth recorded in the unsecured lending portfolios was within the defined credit risk appetite. The most pronounced shifts occurred in personal banking where both overdrafts and loans increased substantially from previous low bases.

The Bank's strategies to reduce NPLs continued to yield favourable results. Retail NPLs were 4.86%, down from the 5.83% reported at June 2011. The reduction in NPLs is driven by the slower inflow into NPLs in FNB HomeLoans. Increases in NPLs in most of the unsecured portfolios have been recorded. This is in line with expectations and risk appetite and has been appropriately priced for.

The decreased impairment charge in the retail secured portfolios was supported by the sustained low interest rates, reductions in NPL inflows in FNB HomeLoans and by post write-off recoveries. The retail unsecured portfolios produced increased impairments compared to June 2011 with the exception of FNB Card where the charge was significantly reduced by post write-off recoveries.

Total credit portfolio



Corporate credit portfolios

The RMB core advances book grew 20% due to investment banking related lending. The FNB Commercial portfolio achieved growth of 14% year-on-year. This growth is attributed mainly to the property term loans and agriculture portfolios.

NPLs in the corporate portfolio declined modestly over the past year, reflecting a reduction in NPLs in the FNB Commercial portfolio, however, RMB's NPLs increased. The Corporate NPLs were 2.13% (June 2011: 2.66%). Impairment charges also showed signs of improvement. The charge at June 2012 was 0.45% (June 2011: 0.68%). Significant reductions in impairment charges were experienced in FNB Commercial and WesBank Corporate compared to the previous year.

CREDIT PORTFOLIO MANAGEMENT continued

NOTE 1: ANALYSIS OF ADVANCES

The table below provides the advances of each segment in the Bank.

	Advances			
	As at 30 June			
R million	**2012**	2011	% change	**2012 % composition**
Retail	**265 358**	240 598	10	**54**
Retail – secured	**233 109**	216 340	8	**47**
Residential mortgages	**158 763**	153 132	4	**32**
Vehicle and asset finance	**74 346**	63 208	18	**15**
Retail – unsecured	**32 249**	24 258	33	**7**
Credit card	**11 946**	10 758	11	**3**
Other retail	**20 303**	13 500	50	**4**
Personal banking	**8 780**	4 593	91	**2**
– Overdrafts	**2 450**	1 251	96	**–**
– Loans	**6 330**	3 342	89	**2**
Mass loans	**5 622**	3 906	44	**1**
WesBank loans	**5 901**	5 001	18	**1**
Corporate	**224 383**	191 748	17	**45**
FNB Commercial	**35 646**	31 278	14	**7**
WesBank Corporate	**30 143**	29 800	1	**6**
RMB	**155 989**	128 077	22	**32**
GTS	**2 605**	2 593	–	**–**
Corporate Centre and other	**3 582**	6 250	(43)	**1**
Total advances	**493 323**	438 596	12	**100**
Of which:				
Accrual book	**356 686**	317 593	12	**72**
Fair value book*	**136 637**	121 003	13	**28**

* *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.

	As at 30 June		
R million	**2012**	2011	% change
RMB advances	**155 989**	128 077	22
Less: assets under agreements to resell	**(38 482)**	(30 257)	27
RMB advances net of assets under agreements to resell	**117 507**	97 820	20

Sector and geographic analysis of advances

R million	As at 30 June 2012	2011	% change
Gross advances	**495 255**	440 661	12
Less: interest in suspense	**(1 932)**	(2 065)	(6)
Advances net of interest in suspense	**493 323**	438 596	12
Sector analysis			
Agriculture	**15 463**	12 931	20
Banks and financial services	**73 296**	55 615	32
Building and property development	**27 366**	22 278	23
Government, Land Bank and public authorities	**15 351**	14 797	4
Individuals	**263 923**	256 224	3
Manufacturing and commerce	**49 807**	30 764	62
Mining	**14 553**	10 147	43
Transport and communication	**14 014**	11 890	18
Other services	**19 550**	23 950	(18)
Total advances	**493 323**	438 596	12
Geographic analysis			
South Africa	**470 825**	423 045	11
Other Africa	**4 829**	2 934	65
UK	**10 842**	8 784	23
Europe	**2 236**	1 970	14
North America	**66**	140	(53)
South America	**99**	264	(63)
Australasia	**4 426**	1 459	>100
Total advances	**493 323**	438 596	12

CREDIT PORTFOLIO MANAGEMENT continued

NOTE 2: ANALYSIS OF NPLs

The table below provides an analysis of NPLs.

	NPLs				NPLs as a % of advances	
	As at 30 June				As at 30 June	
R million	**2012**	2011	% change	2012 % composition	**2012**	2011
Retail	**12 889**	14 033	(8)	73	**4.86**	5.83
Retail – secured	**11 399**	12 798	(11)	65	**4.89**	5.92
Residential mortgages	**8 763**	10 293	(15)	50	**5.52**	6.72
Vehicle and asset finance	**2 636**	2 505	5	15	**3.55**	3.96
Retail – unsecured	**1 490**	1 235	21	8	**4.62**	5.09
Credit card	**271**	446	(39)	1	**2.27**	4.15
Other retail	**1 219**	789	54	7	**6.00**	5.84
Personal banking	**272**	131	>100	1	**3.10**	2.85
– Overdrafts	**70**	44	59	–	**2.86**	3.52
– Loans	**202**	87	>100	1	**3.19**	2.60
Mass loans	**634**	316	>100	4	**11.28**	8.09
WesBank loans	**313**	342	(8)	2	**5.30**	6.84
Corporate	**4 778**	5 094	(6)	27	**2.13**	2.66
FNB Commercial	**1 665**	1 866	(11)	9	**4.67**	5.97
WesBank Corporate	**1 076**	1 461	(26)	6	**3.57**	4.90
RMB	**2 028**	1 749	16	12	**1.30**	1.37
GTS	**9**	18	(50)	–	**0.35**	0.69
Corporate Centre and other	**–**	(37)	(100)	–	**–**	(0.59)
Total NPLs	**17 667**	19 090	(7)	100	**3.58**	4.35
Of which:				–		
Accrual book	**15 651**	17 354	(10)	89	**4.39**	5.46
Fair value book	**2 016**	1 736	16	11	**1.48**	1.43

Sector and geographical analysis of NPLs

R million	NPLs As at 30 June 2012	NPLs As at 30 June 2011	NPLs % change	NPLs as a % of advances As at 30 June 2012	NPLs as a % of advances As at 30 June 2011
Sector analysis					
Agriculture	**562**	442	27	**3.63**	3.42
Banks and financial services	**369**	518	(29)	**0.50**	0.93
Building and property development	**2 299**	1 734	33	**8.40**	7.78
Government, Land Bank and public authorities	**36**	74	(52)	**0.23**	0.50
Individuals	**12 654**	13 703	(8)	**4.79**	5.35
Manufacturing and commerce	**849**	538	58	**1.70**	1.75
Mining	**165**	50	>100	**1.13**	0.49
Transport and communication	**239**	272	(12)	**1.70**	2.29
Other services	**494**	1 759	(72)	**2.53**	7.34
Total NPLs	**17 667**	19 090	(7)	**3.58**	4.35
Geographic analysis					
South Africa	**17 322**	18 792	(8)	**3.68**	4.44
Other Africa	**33**	36	(7)	**0.69**	1.23
UK	**22**	13	71	**0.20**	0.15
South America	**290**	249	16	**>100**	94.32
Total NPLs	**17 667**	19 090	(7)	**3.58**	4.35

Supplementary information continued

CREDIT PORTFOLIO MANAGEMENT continued

Security and recoverable amounts

R million	NPLs 2012	Security held and expected recoveries 2012	Specific impairment* 2012	NPLs 2011	Security held and expected recoveries 2011	Specific impairment* 2011
Retail	**12 889**	**9 012**	**3 877**	14 033	10 092	3 941
Retail – secured	**11 399**	**8 729**	**2 670**	12 798	9 819	2 979
Residential mortgages	**8 763**	**6 994**	**1 769**	10 293	8 303	1 990
Vehicle and asset finance	**2 636**	**1 735**	**901**	2 505	1 516	989
Retail – unsecured	**1 490**	**283**	**1 207**	1 235	273	962
Credit card	**271**	**79**	**192**	446	116	330
Other retail	**1 219**	**204**	**1 015**	789	157	632
Personal banking	**272**	**50**	**222**	131	16	115
– Overdrafts	**70**	**17**	**53**	44	6	38
– Loans	**202**	**33**	**169**	87	10	77
Mass loans	**634**	**78**	**556**	316	54	262
WesBank loans	**313**	**76**	**237**	342	87	255
Corporate	**4 778**	**2 753**	**2 025**	5 094	2 806	2 288
FNB Commercial	**1 665**	**886**	**779**	1 866	971	895
WesBank Corporate	**1 076**	**624**	**452**	1 461	791	670
RMB	**2 028**	**1 243**	**785**	1 749	1 045	704
GTS	**9**	**–**	**9**	18	(1)	19
Corporate Centre and other	**–**	**–**	**–**	(37)	(39)	2
Total	**17 667**	**11 765**	**5 902**	19 090	12 859	6 231

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

NOTE 3: ANALYSIS OF INCOME STATEMENT CREDIT IMPAIRMENTS

The increase in the bad debt charge from 98 bps to 114 bps was mainly driven by:

- the creation of certain portfolio impairments at the centre, reflecting the Bank's view that the credit cycle has bottomed; and
- a specific impairment for unrecovered amounts in FNB's merchant acquiring business.

Without the impact of the specific impairment for the merchant acquiring business, overall credit impairments remained flat. Increased impairments emanated from the unsecured portfolios, in line with expectations.

Income statement impairments

	Total impairment charge			As a % of average advances	
	As at 30 June			As at 30 June	
R million	**2012**	2011	% change	**2012**	2011
Retail	**2 749**	2 717	1	**1.09**	1.16
Retail – secured	**1 306**	1 849	(29)	**0.58**	0.88
Residential mortgages	**928**	1 203	(23)	**0.60**	0.80
Vehicle and asset finance	**378**	646	(41)	**0.55**	1.06
Retail – unsecured	**1 443**	868	66	**5.11**	3.86
Credit card	**40**	149	(73)	**0.35**	1.39
Other retail	**1 403**	719	95	**8.30**	6.12
Personal banking	**416**	178	>100	**6.22**	4.66
– Overdrafts	**102**	62	65	**5.51**	5.36
– Loans	**314**	116	>100	**6.49**	4.36
Mass loans	**723**	391	85	**15.18**	11.37
WesBank loans	**264**	150	76	**4.84**	3.35
Corporate	**938**	1 265	(26)	**0.45**	0.68
FNB Commercial	**167**	333	(50)	**0.50**	1.12
WesBank Corporate	**377**	444	(15)	**1.26**	1.53
RMB	**422**	479	(12)	**0.30**	0.38
GTS	**(28)**	9	(>100)	**(1.08)**	0.42
Corporate Centre and other*	**899**	169	>100	**0.19**	0.04
Central portfolio impairments	**800**	3	>100	**0.17**	–
Other	**99**	166	(40)	**0.02**	0.04
Business as usual impairment charge*	**4 586**	4 151	10	**0.99**	0.98
Special impairment*	**705**	–	–	**0.15**	–
Total impairment charge	**5 291**	4 151	27	**1.14**	0.98
Of which:					
Portfolio impairment charge	**1 409**	(381)	>100	**0.31**	(0.09)
Specific impairment charge	**3 882**	4 532	(14)	**0.83**	1.07

* *Percentages calculated on total average advances.*

CREDIT PORTFOLIO MANAGEMENT continued

NOTE 4: ANALYSIS OF BALANCE SHEET IMPAIRMENTS AND COVERAGE RATIOS

The Bank constantly monitors market conditions as well as recent and expected recoveries on NPLs to determine its coverage ratios. The NPLs coverage ratio has increased to 33.4% (June 2011: 32.6%).

Implied loss given default and total impairment coverage ratios

	Balance sheet impairments			Coverage ratios (% of NPLs)	
	As at 30 June			As at 30 June	
R million	**2012**	2011	% change	**2012**	2011
Specific impairments*					
Retail	**3 877**	3 941	(2)	**30.1**	28.1
Retail – secured	**2 670**	2 979	(10)	**23.4**	23.3
Residential mortgages	**1 769**	1 990	(11)	**20.2**	19.3
Vehicle and asset finance**	**901**	989	(9)	**34.2**	39.5
Retail – unsecured	**1 207**	962	25	**81.0**	77.9
Credit card	**192**	330	(42)	**70.8**	74.0
Other retail	**1 015**	632	61	**83.3**	80.1
Personal banking	**222**	115	93	**81.6**	87.8
– Overdrafts	**53**	38	39	**75.7**	86.4
– Loans	**169**	77	>100	**83.7**	88.5
Mass loans	**556**	262	>100	**87.7**	82.9
WesBank loans	**237**	255	(7)	**75.7**	74.6
Corporate	**2 025**	2 288	(11)	**42.4**	44.9
FNB Commercial	**779**	895	(13)	**46.8**	48.0
WesBank Corporate	**452**	670	(33)	**42.0**	45.9
RMB	**785**	704	12	**38.7**	40.3
GTS	**9**	19	(53)	**100.0**	>100
Corporate Centre and other	**–**	2		**–**	
Total specific impairments/implied loss given default* **	**5 902**	6 231	(5)	**33.4**	32.6
Portfolio impairments#	**4 676**	3 231	45	**26.5**	17.0
Total impairments/total impairment coverage ratio†	**10 578**	9 462	12	**59.9**	49.6

* *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 as a result of a lower coverage ratio which is applied to accounts which 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 these clients may be fully performing in terms of their revised payment terms. This is in line with the Group's policy to not restructure accounts out of NPLs, i.e. accounts will only be migrated out of NPLs when clients have repaid all arrears in terms of their original credit facility.*

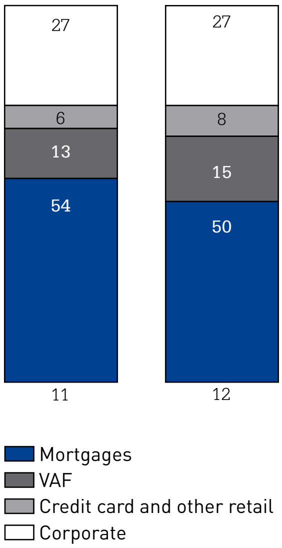
*** *Amortised cost specific impairments and credit fair value adjustments as a percentage of NPLs.*

\# *Amortised cost portfolio impairments and credit fair value adjustments relating to the performing book.*

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

The graph below provides the NPLs distribution across the product categories, showing a decrease in the residential mortgages portfolio since June 2011:

NPLs distribution (%)



Reconciliation of impairments

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

	Balance sheet impairments and credit fair value adjustments					
	As at 30 June					
	Amortised cost book		Fair value book		Total book	
R million	**2012**	2011	**2012**	2011	**2012**	2011
Non-performing book	**5 119**	5 527	**783**	704	**5 902**	6 231
Performing book	**3 102**	1 984	**1 574**	1 247	**4 676**	3 231
Total impairments	**8 221**	7 511	**2 357**	1 951	**10 578**	9 462

Supplementary information continued

CREDIT PORTFOLIO MANAGEMENT continued

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

R million	Balance sheet specific impairments – amortised cost		
	As at 30 June		
	2012	2011	% change
Opening balance	**5 527**	6 041	(9)
Reclassifications and transfers	**(33)**	(139)	(76)
Acquisitions	**3**	27	(89)
Exchange rate difference	**2**	(1)	>100
Unwinding and discounted present value on NPLs	**(122)**	(200)	(39)
Bad debts written off	**(5 340)**	(5 014)	7
Net new impairments created	**5 082**	4 813	6
Total impairments	**5 119**	5 527	(7)

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

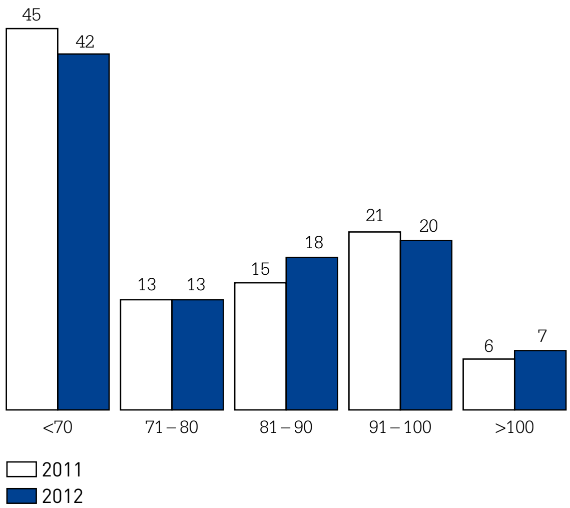
R million	Income statement impairments		
	Year ended 30 June		
	2012	2011	% change
Specific impairment charge	**5 082**	4 813	6
Recoveries of bad debts previously written off	**(1 279)**	(1 030)	24
Net specific impairment charge (amortised cost)	**3 803**	3 783	1
Portfolio impairment charge (amortised cost)	**1 082**	(146)	>100
Credit fair value adjustments	**406**	514	(21)
Performing book	**327**	(235)	>100
Non-performing book	**79**	749	(89)
Total impairments	**5 291**	4 151	27

Risk analyses

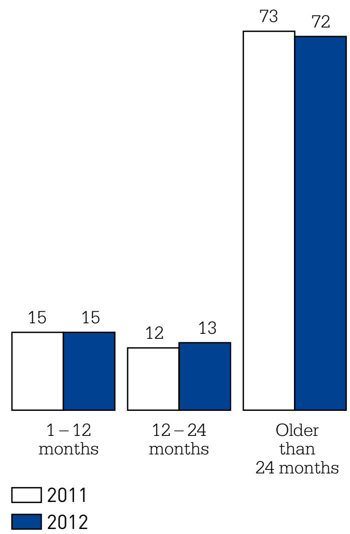
This section provides further information on selected risk analyses of the credit portfolios.

The graphs below provide the balance-to-value distributions and the ageing of the residential mortgages portfolios. The recent focus on the loan-to-value ratios for new business resulted in an improvement in the balance-to-original value although the broader strategy is to place more emphasis on the counterparty creditworthiness as opposed to only on the underlying security.

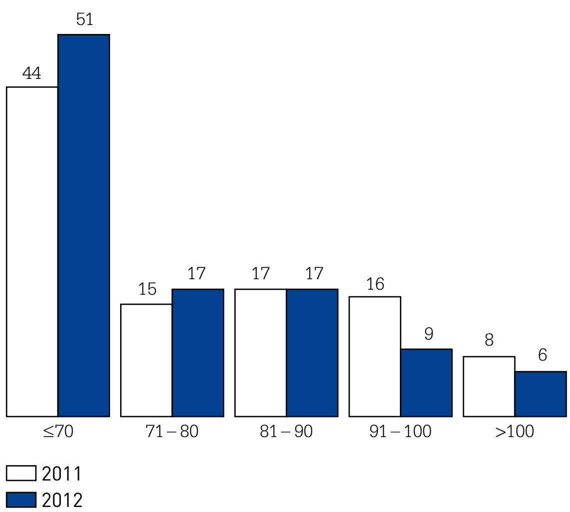
Residential mortgages balance-to-original value (%)



Residential mortgages age distribution (%)



Residential mortgages balance-to-market value (%)



CREDIT PORTFOLIO MANAGEMENT continued

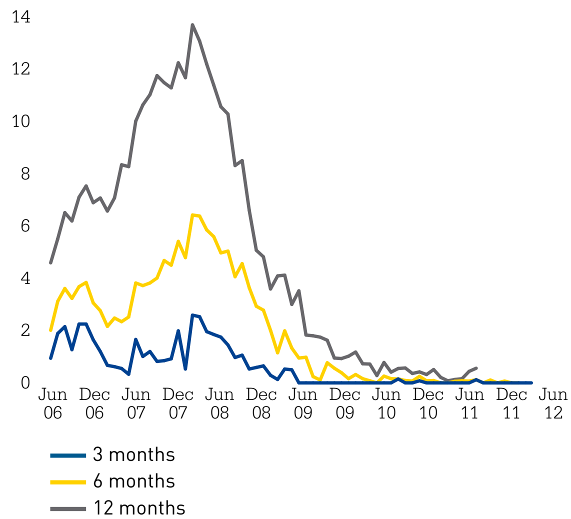
The following graph shows the arrears in the FNB HomeLoans portfolio. It includes arrears where more than one full payment is in arrears expressed as a percentage of the total advances balance.

FNB HomeLoans arrears (%)

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

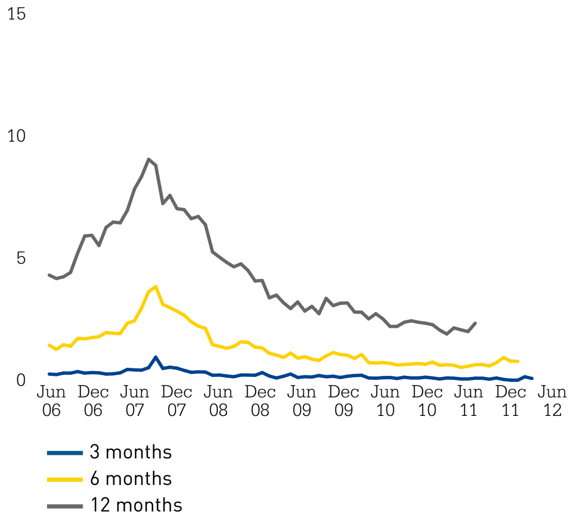
For FNB HomeLoans, the three, six and twelve month cumulative vintage analysis illustrates a marked improvement in the quality of business written since mid-2008 despite further deterioration in macro conditions in the succeeding period. The more recent decreases in the default experience reflect a combination of the credit origination strategies and the improvement in macro conditions.

FNB HomeLoans vintage analysis (%)



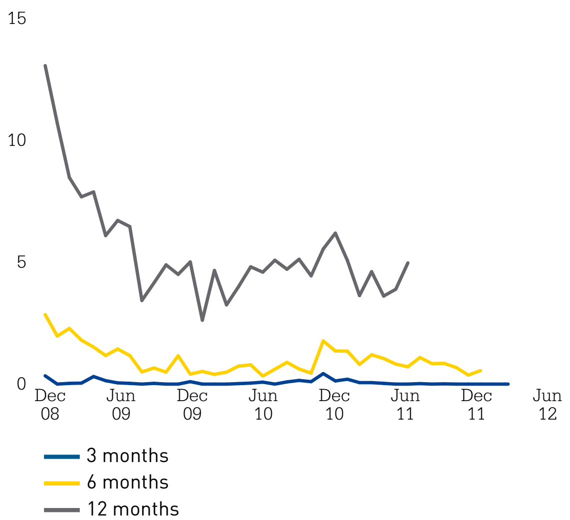
The WesBank retail six and twelve month cumulative vintage analysis continues to show a noticeable improvement in the quality of business written since mid-2007.

WesBank retail vintage analysis (%)

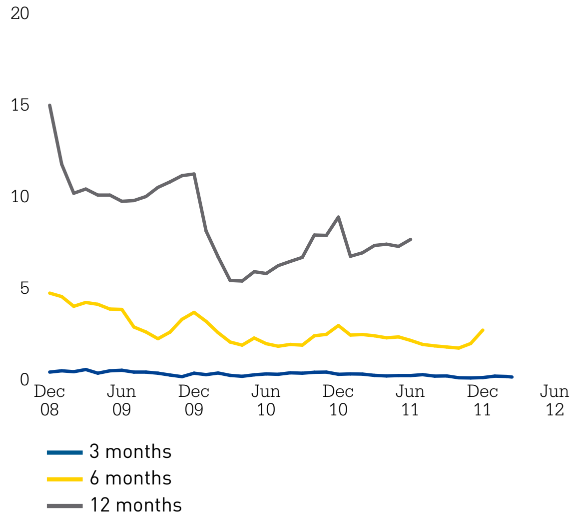


The vintage analyses of FNB and WesBank unsecured portfolios show an uptick in default experience, however, the portfolios remain within risk appetite. Continued actions are undertaken to ensure these portfolios remain within risk appetite.

FNB Card vintage analysis (%)



Unsecured (excluding FNB Card) vintage analysis (%)



The value of the Bank's repossessed property portfolio at 30 June 2012 was R100 million (June 2011: R255 million).

CREDIT PORTFOLIO MANAGEMENT continued

Segmental advances, NPLs and impairment analysis

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

	June 2012				
R million/%	Advances	NPLs	NPLs as a % of advances	Total impairment charge	Impairments as % of average advances
FNB	220 615	11 605	5.26	2 373	1.12
FNB Retail	185 111	9 940	5.37	2 107	1.18
Residential mortgages	158 763	8 763	5.52	928	0.60
– FNB HomeLoans (Consumer segment)	107 694	5 584	5.19	567	0.54
– Wealth	40 700	2 734	6.72	296	0.73
– Affordable housing (Mass segment)	10 369	445	4.29	65	0.70
Credit Card	11 946	271	2.27	40	0.35
Personal banking	8 780	272	3.10	416	6.22
– Overdrafts	2 450	70	2.86	102	5.51
– Loans	6 330	202	3.19	314	6.49
Mass (secured and unsecured)	5 622	634	11.28	723	15.18
FNB Commercial	35 646	1 665	4.67	167	0.50
FNB Other*	(142)	–	–	99	0.02
WesBank	110 390	4 025	3.65	1 019	0.98
WesBank asset backed finance	104 489	3 712	3.55	755	0.76
– WesBank Retail	74 346	2 636	3.55	378	0.55
– WesBank Corporate	30 143	1 076	3.57	377	1.26
WesBank loans	5 901	313	5.30	264	4.84
RMB	155 989	2 028	1.30	422	0.30
GTS	2 605	9	0.35	(28)	(1.08)
Corporate Centre*	3 724	–	–	800	0.17
Total	493 323	17 667	3.58	4 586	0.99
Special impairments**	–	–	–	705	0.15
Total	493 323	17 667	3.58	5 291	1.14

* *Refer to Corporate Centre and other on page 68.*
** *Impairments relate to FNB (R405 million) and GTS (R300 million).*

June 2011				
Advances	NPLs	NPLs as a % of advances	Total impairment charge	Impairments as % of average advances
203 341	13 015	6.40	2 420	1.22
172 389	11 186	6.49	1 921	1.14
153 132	10 293	6.72	1 203	0.80
104 071	7 113	6.83	728	0.70
40 864	2 796	6.84	404	1.03
8 197	384	4.68	71	0.98
10 758	446	4.15	149	1.39
4 593	131	2.85	178	4.66
1 251	44	3.52	62	5.36
3 342	87	2.60	116	4.36
3 906	316	8.09	391	11.37
31 278	1 866	5.97	333	1.12
(326)	(37)	11.35	166	0.04
98 009	4 308	4.40	1 240	1.31
93 008	3 966	4.26	1 090	1.21
63 208	2 505	3.96	646	1.06
29 800	1 461	4.90	444	1.53
5 001	342	6.84	150	3.35
128 077	1 749	1.37	479	0.38
2 593	18	0.69	9	0.42
6 576	–	–	3	–
438 596	19 090	4.35	4 151	0.98
–	–	–	–	–
438 596	19 090	4.35	4 151	0.98

LISTED DEBT INSTRUMENTS

Stock exchanges

JSE Limited (JSE)

	Issuer	Bond code	ISIN code
Subordinated debt	FirstRand Bank Limited	FRB03	ZAG000026774
	FirstRand Bank Limited	FRB05	ZAG000031337
	FirstRand Bank Limited	FRB06	ZAG000045758
	FirstRand Bank Limited	FRB07	ZAG000047598
	FirstRand Bank Limited	FRB08	ZAG000047796
	FirstRand Bank Limited	FRB09	ZAG000047804
	FirstRand Bank Limited	FRB10	ZAG000092487
Upper Tier II	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	FRJ13	ZAG000079823
	FirstRand Bank Limited	FRJ14	ZAG000069683
	FirstRand Bank Limited	FRJ15	ZAG000094368
	FirstRand Bank Limited	FRJ16	ZAG000073826
	FirstRand Bank Limited	FRJ17	ZAG000094343
	FirstRand Bank Limited	FRJ18	ZAG000084187
	FirstRand Bank Limited	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	FRS54	ZAG000087032
	FirstRand Bank Limited	FRS55	ZAG000087040
	FirstRand Bank Limited	FRS56	ZAG000087271
	FirstRand Bank Limited	FRS57	ZAG000087313
	FirstRand Bank Limited	FRS59	ZAG000089855
	FirstRand Bank Limited	FRS60	ZAG000090267
	FirstRand Bank Limited	FRS61	ZAG000090523
	FirstRand Bank Limited	FRS62	ZAG000090614
	FirstRand Bank Limited	FRS63	ZAG000091513
	FirstRand Bank Limited	FRS64	ZAG000092529
	FirstRand Bank Limited	FRS65	ZAG000094277
	FirstRand Bank Limited	FRS66	ZAG000094327
	FirstRand Bank Limited	FRS67	ZAG000095720
	FirstRand Bank Limited	FRS69	ZAG000095829

	Issuer	Bond code	ISIN code
Senior unsecured	FirstRand Bank Limited	FRS70	ZAG000095910
	FirstRand Bank Limited	FRS71	ZAG000096009
	FirstRand Bank Limited	FRS72	ZAG000096033
	FirstRand Bank Limited	FRS73	ZAG000096157
	FirstRand Bank Limited	FRS74	ZAG000096223
	FirstRand Bank Limited	FRS75	ZAG000096363
	FirstRand Bank Limited	FRS76	ZAG000096413
	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	FRX24	ZAG000073693
	FirstRand Bank Limited	FRX31	ZAG000084195
	FirstRand Bank Limited	FRX45	ZAG000076480
Inflation-linked bonds	FirstRand Bank Limited	FRBI04	ZAG000044306
	FirstRand Bank Limited	FRBI07	ZAG000055849
	FirstRand Bank Limited	FRBI22	ZAG000079666
	FirstRand Bank Limited	FRBI23	ZAG000076498
	FirstRand Bank Limited	FRBI28	ZAG000079237
	FirstRand Bank Limited	FRBI33	ZAG000079245
	FirstRand Bank Limited	FRI15	ZAG000051137
Credit-linked notes	FirstRand Bank Limited	FRC08	ZAG000051749
	FirstRand Bank Limited	FRC11	ZAG000054131
	FirstRand Bank Limited	FRC17	ZAG000056011
	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	FRC47	ZAG000084310
	FirstRand Bank Limited	FRC55	ZAG000085507
	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	FRC73	ZAG000089046
	FirstRand Bank Limited	FRC74	ZAG000089178
	FirstRand Bank Limited	FRC75	ZAG000089566

	Issuer	Bond code	ISIN code
	FirstRand Bank Limited	FRC76	ZAG000089574
	FirstRand Bank Limited	FRC77	ZAG000089608
	FirstRand Bank Limited	FRC78	ZAG000089806
	FirstRand Bank Limited	FRC79	ZAG000089947
	FirstRand Bank Limited	FRC80	ZAG000090077
	FirstRand Bank Limited	FRC81	ZAG000090325
	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	FRC88	ZAG000091596
	FirstRand Bank Limited	FRC89	ZAG000091604
	FirstRand Bank Limited	FRC90	ZAG000092388
	FirstRand Bank Limited	FRC91	ZAG000092370
	FirstRand Bank Limited	FRC92	ZAG000092511
	FirstRand Bank Limited	FRC93	ZAG000092545
	FirstRand Bank Limited	FRC94	ZAG000092677
	FirstRand Bank Limited	FRC95	ZAG000092792
	FirstRand Bank Limited	FRC96	ZAG000093204
	FirstRand Bank Limited	FRC97	ZAG000093212
	FirstRand Bank Limited	FRC98	ZAG000093220
	FirstRand Bank Limited	FRC99	ZAG000093501
	FirstRand Bank Limited	FRC101	ZAG000093576
	FirstRand Bank Limited	FRC103	ZAG000093840
	FirstRand Bank Limited	FRC104	ZAG000093857
	FirstRand Bank Limited	FRC105	ZAG000093998
	FirstRand Bank Limited	FRC106	ZAG000093956
	FirstRand Bank Limited	FRC107	ZAG000094574
	FirstRand Bank Limited	FRC108	ZAG000094871
	FirstRand Bank Limited	FRC109	ZAG000094889
	FirstRand Bank Limited	FRC110	ZAG000094954
	FirstRand Bank Limited	FRC112	ZAG000095621
	FirstRand Bank Limited	FRC113	ZAG000095761
	FirstRand Bank Limited	FRC114	ZAG000095837
	FirstRand Bank Limited	FRC115	ZAG000095852
	FirstRand Bank Limited	FRC116	ZAG000095860
	FirstRand Bank Limited	FRC117	ZAG000095928
	FirstRand Bank Limited	FRC118	ZAG000096280
	FirstRand Bank Limited	FRC119	ZAG000096298
	FirstRand Bank Limited	FRC120	ZAG000096306
	FirstRand Bank Limited	FRC121	ZAG000096314
	FirstRand Bank Limited	FRC122	ZAG000096322
	FirstRand Bank Limited	FRC123	ZAG000096272
	FirstRand Bank Limited	FRC124	ZAG000096579
	FirstRand Bank Limited	FRC125	ZAG000096678

	Issuer	Bond code	ISIN code
Senior unsecured callable bonds	FirstRand Bank Limited	FR002U	ZAG000042748
	FirstRand Bank Limited	FR003U	ZAG000042755
Investment security index contracts	Rand Merchant Bank	RMBI01	ZAG000050865
	Rand Merchant Bank	RMBI02	ZAG000052986
	Rand Merchant Bank	RMBI03	ZAG000054032
	Rand Merchant Bank	RMBI04	ZAG000055013
	Rand Merchant Bank	RMBI05	ZAG000055864
	Rand Merchant Bank	RMBI06	ZAG000056722
	Rand Merchant Bank	RMBI07	ZAG000057910
	Rand Merchant Bank	RMBI08	ZAG000072265
Structured notes	FirstRand Bank Limited	OILRMB	ZAG000152732
	FirstRand Bank Limited	COLRMB	ZAE000155222

London Stock Exchange (LSE)

European medium term note (EMTN) programme

	Issuer	ISIN code
Senior unsecured	FirstRand Bank Limited	XS0635404477
	FirstRand Bank Limited	XS0610341967
	FirstRand Bank Limited	XS0595260141

Administration

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Registration No. 1929/001225/06

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DL Kennedy (Risk Advisory), NB Kader (Tax),
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JK Mazzocco (Talent & Transformation),
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S Gwala (Special Projects), TJ Brown (Chairman of the board),
MJ Comber (Deputy chairman of the board)

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