FIRSTRAND BANK

'17

ANNUAL REPORT

for the year ended 30 June 2017

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FIRSTRAND BANK LIMITED

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about this report

The annual report covers the following:

- strategic overview and regional presence;
- a detailed analysis of the bank's normalised financial results, as the bank believes this most accurately reflects its economic performance (normalised results have been derived from the audited financial results);
- a summary risk and capital management report; and
- the audited annual financial statements.

Jaco van Wyk, CA(SA), supervised the preparation of this annual report.

FIRSTRAND BANK

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

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

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

INTRODUCTION

FirstRand's portfolio of leading financial services franchises provides a universal set of transactional, lending, investment and insurance products and services. The franchises operate in markets and segments where they can deliver competitive and differentiated client-centric value propositions, leveraging the relevant distribution channels, product skills, licences and operating platforms of the wider group. Strategy is executed on the back of disruptive and innovative thinking, underpinned by an owner-manager culture combined with the disciplined allocation of financial resources.

The group executes its strategy through the appropriate platforms (legal entities) of which FirstRand Bank is one. The simplified group structure on page A04 outlines the various platforms and shows that FRB is one of the group's wholly-owned subsidiaries.

GROUP STRATEGY

FirstRand's strategy accommodates a broad set of growth opportunities across the entire financial services universe from a product, market, segment and geographic perspective. The group believes this will create long-term franchise value, ensure sustainable and superior returns for shareholders, within acceptable levels of volatility and maintain balance sheet strength.

Currently group earnings are tilted to its domestic market where the lending and transactional franchises have delivered sustained growth since 2010 resulting from the acquisition of a deep and loyal customer base. The group recognises the imperative to continue to protect and grow these very valuable banking franchises, but it also believes that through the utilisation of the origination capabilities and distribution networks of those franchises, it can diversify and capture a larger share of profits from savings, insurance and investment products within its existing customer base.

The growth opportunity is significant given the annual flows to other providers from FNB's customer base alone. Through the manufacture and sale of its own insurance, savings and investment products, the group will, over time, offer differentiated value propositions for customers and generate new and potentially meaningful revenue streams for the group. To date, progress looks promising and FirstRand is incrementally increasing its share of the insurance, savings and investment profit pools that exist within its own customer base. The group also continues to protect and grow its large transactional and lending franchises.

The group's strategy outside of its domestic market centres on growing its presence and offerings in nine markets in the rest of Africa where it believes it can organically build competitive advantage and scale over time. In addition, it is focusing on leveraging its current operations in the UK to create new revenue streams.

Execution on this new framework has picked up momentum in the year under review as the customer-facing operating franchises increasingly leverage group-wide technology platforms, customer bases, distribution channels, licences and skills.

In South Africa, the bank continues to focus on:

- growing profitable market share;
- cross-sell and up-sell; and
- leveraging the group's building blocks (i.e. customer bases, distribution channels and systems).

Whether or not these platforms are part of FirstRand Bank, the optimal leverage of group-wide resources is key to protecting and growing FirstRand's large and successful lending and transactional franchises. For example, the manufacture of credit funds on the asset management platform provides protection and upside to RMB's origination franchise. Sales of investment products, manufactured on the asset management platform, create non-interest revenue (NIR) growth for FNB.

In the rest of Africa, the bank's balance sheet is utilised in RMB's cross-border lending and trade finance activities. The group's subsidiaries in the rest of Africa form part of FirstRand EMA (Pty) Ltd (refer to the simplified group structure on page A04) and thus fall outside of the bank.

For more information on the group's strategy, please refer to the group's 2017 annual integrated report which is published on the group's website, www.firstrand.co.za.

REGIONAL PRESENCE

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

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

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

China is strategically important to the African continent's growth story. 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 through the capital and banking markets. It has built a particularly strong track record in arranging and distributing African-based debt instruments.

The Guernsey branch (trading as FNB Channel Islands) was established in 2015. It primarily services high income and high net worth customers, providing the bank with hard-currency deposits, further enabling funding diversification to support hard-currency lending activities.

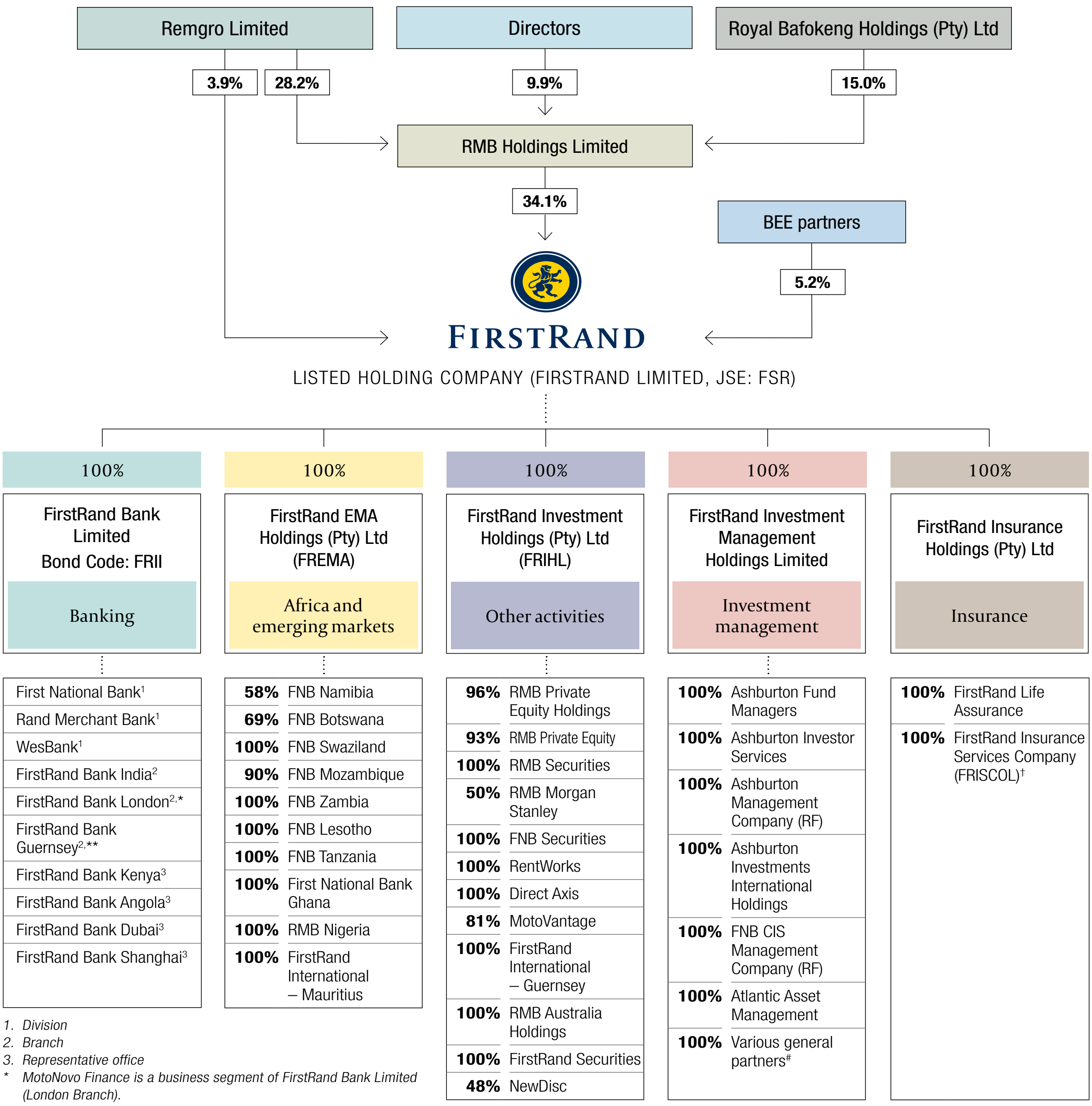
FirstRand Bank remains the only South African bank with a branch in India. During the year under review, FirstRand completed a strategic review of its Indian business, which resulted in some changes to the in-country structure and operations. The group decided to exit retail and business banking activities, but remains fully committed to the well-established and profitable corporate and investment banking (CIB) franchise, which services Indian clients active in the Indo-Africa corridor. The services offered range from advisory, financing, trade, debt capital markets and a global markets 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 ensure that the investment banking offering encompasses inward investment.

Explaining the difference between bank and group

FIRSTRAND GROUP

	Inside the bank	*Outside the bank*
Geographical presence	**Branches:** London (incl. MotoNovo Finance) Guernsey India **Representative offices:** Kenya Angola Dubai Shanghai	**Full service banking subsidiaries in:** Namibia Botswana Swaziland Lesotho Zambia Mozambique Tanzania Ghana **Corporate and investment banking subsidiary in:** Nigeria
Activities	Banking in South Africa and in the jurisdictions outlined above Cross-border activities booked on FRB's balance sheet Insurance (commissions)	Banking in the subsidiaries outlined above RMB's private equity businesses Insurance (life licence and MotoVantage, cell captives) Asset management

SIMPLIFIED GROUP AND SHAREHOLDING STRUCTURE



1. *Division*
2. *Branch*
3. *Representative office*

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

** *Trading as FNB Channel Islands.*

\# *Ashburton Investments has a number of general partners for fund seeding purposes – all of these entities fall under FirstRand Investment Management Holdings Limited.*

† *With effect from 1 July 2017.*

Structure shows effective consolidated shareholding

For segmental analysis purposes, entities included in FRIHL and FREMA, FirstRand Investment Management Holdings Limited and FirstRand Insurance Holdings (Pty) Ltd are reported as part of the results of the managing franchise. The group's securitisations and conduits are in FRIHL.

BOARD OF DIRECTORS

Lauritz Lanser (Laurie) Dippenaar / 68
Non-executive chairman
MCom, CA(SA) / Appointed May 1998

Johan Petrus Burger / 58
Chief executive officer
BCom (Hons), CA(SA) / Appointed May 1998

Alan Patrick Pullinger / 51
Deputy chief executive officer
MCom, CA(SA), CFA / Appointed October 2015

Hetash Surendrakumar (Harry) Kellan / 45
Financial director
BCom (Hons), CA(SA) / Appointed January 2014

Mary Sina Bomela / 44
Non-executive director
BCom (Hons), CA(SA), MBA / Appointed September 2011

Hermanus Lambertus (Herman) Bosman / 48
Non-executive director
BCom, LLB, LLM, CFA / Appointed April 2017

Jan Jonathan (Jannie) Durand / 50
Non-executive director
BAccSc (Hons), MPhil, CA(SA) / Appointed October 2012

Grant Glenn Gelink / 67
Independent non-executive director
BCom (Hons), BCompt (Hons), CA(SA) / Appointed January 2013

Patrick Maguire Goss / 69
Independent non-executive director
BEcon (Hons), BAccSc (Hons), CA(SA) / Appointed May 1998

Nolulamo Nobambiswano (Lulu) Gwagwa / 58
Independent non-executive director
BA, MTRP, MSc, PhD / Appointed July 2010

Paul Kenneth Harris / 67
Non-executive director
MCom / Appointed May 1998

William Rodger (Roger) Jardine / 51
Independent non-executive director
BSc, MSc / Appointed January 2004

Francois (Faffa) Knoetze / 54
Non-executive director
BCom (Hons), FASSA, FIA / Appointed April 2016

Russell Mark Loubser / 67
Independent non-executive director
BCom (Hons), CA(SA), MCom / Appointed September 2014

Paballo Joel Makosholo / 38
Non-executive director
MCom, IEDP, CA(SA) / Appointed October 2015

Thandie Sylvia Mashego / 39
Non-executive director
BCom (Hons), CA(SA), MBL / Appointed January 2017

Ethel Gothatamodimo Matenge-Sebesho / 62
Independent non-executive director
MBA, CAIB / Appointed June 2006

Amanda Tandiwe (Tandi) Nzimande / 47
Independent non-executive director
CTA, CA(SA), HDip Co Law / Appointed July 2010

Benedict James (Ben) van der Ross / 70
Independent non-executive director
Dip Law / Appointed January 2004

Jan Hendrik (Hennie) van Greuning / 64
Independent non-executive director
DCom, DCompt, CA(SA), CFA / Appointed November 2008

CORPORATE GOVERNANCE

COMPLIANCE STATEMENT

FirstRand Limited is the bank controlling company of FirstRand Bank Limited. The governance structures for FirstRand Bank Limited were constituted at a FirstRand Limited level in terms of authority received from the South African Registrar of Banks. The directors of FirstRand ensure compliance with all relevant regulations including the SA Banks Act, SA Companies Act, Basel Committee and Financial Stability Board requirements and other best practice regulations flowing from both local and international authorities. FirstRand endorses the report on corporate governance for South Africa 2016 and is satisfied that the bank has applied these principles in all material respects throughout the year.

Stakeholders are referred to FirstRand Limited's annual integrated report available on www.firstrand.co.za for detailed disclosures on the group's corporate governance practices.

BOARD CHANGES

Movements in the directorate during the year under review.

		Effective date
Appointments		
TS Mashego	Non-executive director	1 January 2017
HL Bosman	Non-executive director	3 April 2017
Resignations/retirements		
VW Bartlett	Independent non-executive director (retired)	29 November 2016
D Premnarayen	Independent non-executive director (retired)	29 November 2016
P Cooper	Alternate non-executive director (resigned)	30 April 2017
Change of designation		
AT Nzimande	Non-executive director	31 December 2016
AT Nzimande	Independent non-executive director	1 January 2017

Responsibilities of directors

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

Composition and frequency of meetings

A common board serves FirstRand and FirstRand Bank Limited. FirstRand Bank Limited has a unitary board. The chairperson, Laurie Dippenaar, is non-executive, but not independent. The board members believe that it is appropriate for him to chair the bank's board, notwithstanding the fact that he does not fulfil the strict criteria of independence as defined. Pat Goss is the lead independent director and a strong independent element of non-executive directors exists on the board which provides the necessary objectivity essential for its effective functioning.

The roles of chairman and CEO are separate with segregated duties. FirstRand's audit committee is constituted in accordance with South African banking regulations.

The board comprises 20 directors of whom three serve in an executive capacity. The directors of the bank are listed on page A05. 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 and ensures a clear balance of power and authority at board level, such that no one director has unfettered powers of decision making. The board meets quarterly. Two further meetings are scheduled to approve the annual financial statements, and to review the strategic plans and the resulting budgets. Additional meetings are convened as and when necessary.

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

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

Limitation to appointment period

There is a formal and transparent board nomination process. Non-executive directors that are appointed to the company must satisfy any requirement in terms of the Companies Act. Non-executive directors (other than the chairperson) are subject to re-election and shall rotate every three years at each annual general meeting of the company. The re-election of the non-executive directors (other than the chairperson) is in terms of the Memorandum of Incorporation (MOI) of the company and the Companies Act provisions. The retirement age of non-executive directors (other than the chairperson) is set at age 70 and such directors are compelled to resign annually at the annual general meeting after turning 70, and may be considered for re-election, should their specialised skills be required and the board unanimously supported their nomination.

COMPANY SECRETARY

The company secretary is suitably qualified and experienced. She is, *inter alia*, responsible for the duties stipulated in section 88 of the Companies Act 71 of 2008, as amended and the certificate required to be signed in terms of subsection (2)(e) thereof appears on page C13.

analysis of financial results – normalised

A 08 – 89

A FirstRand Bank Limited

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The bank's portfolio produced a **resilient performance**

Normalised earnings	↑ 4%	2016: 14%
ROE	↓ 22.2%	2016: 23.0%
ROA	↓ 1.71%	2016: 1.75%
Credit loss ratio	↑ 0.88%	2016: 0.84%
NPLs as % of advances	↓ 2.27%	2016: 2.43%
CET1	↑ 14.1%	2016: 13.9%

FNB

Normalised earnings

↑ 7%

2016: 13%

RMB

Normalised earnings

↑ 12%

2016: (2%)

WesBank

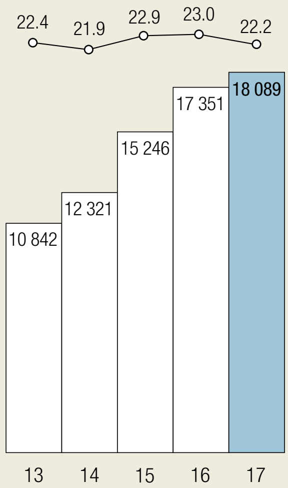
Normalised earnings

↓ 10%

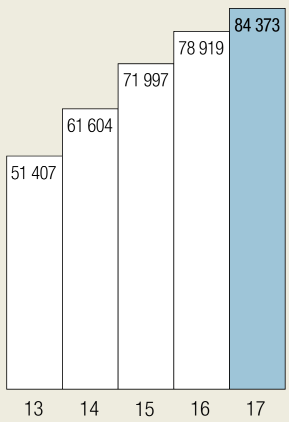
2016: 30%

TRACK RECORD

Normalised earnings (R million) *and ROE* (%)
CAGR 14%



Normalised net asset value (R million)
CAGR 13%



KEY FINANCIAL RESULTS, RATIOS AND STATISTICS – NORMALISED

This section is based on normalised results. A detailed reconciliation between IFRS and normalised results is set out on pages A88 to A89.

R million	2017	2016	% change
Earnings performance			
Attributable earnings – IFRS (refer page C53)	**18 300**	16 931	8
Headline earnings	**18 269**	16 959	8
Normalised earnings	**18 089**	17 351	4
Normalised net asset value	**84 373**	78 919	7
Tangible normalised net asset value	**84 140**	78 813	7
Average normalised net asset value	**81 646**	75 458	8
Capital adequacy* – IFRS			
Capital adequacy ratio (%)	**17.3**	17.1	
Tier 1 ratio (%)	**14.3**	14.2	
Common Equity Tier 1 ratio (%)	**14.1**	13.9	
Balance sheet			
Normalised total assets	**1 082 151**	1 031 579	5
Advances (net of credit impairments)	**799 419**	764 088	5
Ratios and key statistics			
ROE (%)	**22.2**	23.0	
ROA (%)	**1.71**	1.75	
Average loan-to-deposit ratio (%)	**93.5**	93.2	
Diversity ratio (%)	**42.5**	41.6	
Credit impairment charge	**6 984**	6 255	12
NPLs as % of advances	**2.27**	2.43	
Credit loss ratio (%)	**0.88**	0.84	
Specific coverage ratio (%)	**38.6**	38.6	
Total impairment coverage ratio (%)	**80.3**	78.2	
Performing book coverage ratio (%)	**0.97**	0.99	
Cost-to-income ratio (%)	**54.4**	54.0	
Effective tax rate (%)	**22.9**	24.2	
Number of employees	**35 979**	36 310	(1)

* *Includes foreign branches. Ratios include unappropriated profits.*

SUMMARY INCOME STATEMENT – NORMALISED

for the year ended 30 June

R million	2017	2016	% change
Net interest income before impairment of advances	**39 849**	38 333	4
Impairment charge	**(6 984)**	(6 255)	12
Net interest income after impairment of advances	**32 865**	32 078	2
Non-interest revenue	**29 506**	27 261	8
– Fee and commission income	**22 199**	21 119	5
– Markets, client and other fair value income	**3 692**	2 807	32
– Investment income	**137**	91	51
– Other non-interest revenue	**3 478**	3 244	7
Income from operations	**62 371**	59 339	5
Operating expenses	**(37 721)**	(35 392)	7
Income before tax	**24 650**	23 947	3
Indirect tax	**(876)**	(763)	15
Profit before tax	**23 774**	23 184	3
Income tax expense	**(5 448)**	(5 614)	(3)
Profit for the year	**18 326**	17 570	4
NCNR preference shareholders	**(237)**	(219)	8
Normalised earnings attributable to ordinary equityholders of the bank	**18 089**	17 351	4

SUMMARY STATEMENT OF OTHER COMPREHENSIVE INCOME – NORMALISED

for the year ended 30 June

R million	2017	2016	% change
Profit for the year	**18 326**	17 570	4
Items that may subsequently be reclassified to profit or loss			
Cash flow hedges	**(150)**	118	(>100)
Fair value (losses)/gains arising during the year	**(141)**	144	(>100)
Reclassification adjustments for amounts included in profit or loss	**(67)**	20	(>100)
Deferred income tax	**58**	(46)	(>100)
Available-for-sale financial assets	**(393)**	(495)	(21)
Losses arising during the year	**(483)**	(679)	(29)
Reclassification adjustments for amounts included in profit or loss	**(67)**	7	(>100)
Deferred income tax	**157**	177	(11)
Exchange differences on translating foreign operations	**(512)**	482	(>100)
(Losses)/gains arising during the year	**(512)**	482	(>100)
Items that may not subsequently be reclassified to profit or loss			
Remeasurements on defined benefit post-employment plans	**288**	(31)	(>100)
Gains/(losses) arising during the year	**400**	(43)	(>100)
Deferred income tax	**(112)**	12	(>100)
Other comprehensive (loss)/income for the year	**(767)**	74	(>100)
Total comprehensive income for the year	**17 559**	17 644	–
Attributable to			
Ordinary equityholders	**17 322**	17 425	(1)
NCNR preference shareholders	**237**	219	8
Total comprehensive income for the year	**17 559**	17 644	–

SUMMARY STATEMENT OF FINANCIAL POSITION – NORMALISED

as at 30 June

R million	2017	2016*	2015*
ASSETS			
Cash and cash equivalents	**53 924**	50 997	53 725
Derivative financial instruments	**35 098**	39 923	34 112
Commodities	**14 380**	12 514	7 354
Investment securities	**127 972**	111 430	103 673
Advances	**799 419**	764 088	705 257
– Advances to customers	**752 479**	719 693	675 387
– Marketable advances	**46 940**	44 395	29 870
Accounts receivable	**5 651**	4 561	4 301
Non-current assets and disposal groups held for sale	**–**	–	125
Current tax asset	**1**	166	–
Amounts due by holding company and fellow subsidiaries	**28 869**	32 793	27 318
Property and equipment	**14 928**	13 632	12 821
Intangible assets	**233**	106	71
Deferred income tax asset	**1 676**	1 369	1 202
Total assets	**1 082 151**	1 031 579	949 959
EQUITY AND LIABILITIES			
Liabilities			
Short trading positions	**15 211**	14 221	5 270
Derivative financial instruments	**43 660**	50 624	40 811
Creditors, accruals and provisions	**13 079**	12 500	12 370
Current tax liability	**123**	75	69
Deposits	**876 690**	826 617	779 798
– Deposits from customers	**653 260**	612 507	567 033
– Debt securities	**170 594**	146 280	152 505
– Other	**52 836**	67 830	60 260
Employee liabilities	**8 840**	8 772	8 848
Other liabilities	**4 225**	5 386	3 977
Amounts due to holding company and fellow subsidiaries	**14 580**	13 997	11 836
Tier 2 liabilities	**18 370**	17 468	11 983
Total liabilities	**994 778**	949 660	874 962
Equity			
Ordinary shares	**4**	4	4
Share premium	**16 804**	16 804	16 804
Reserves	**67 565**	62 111	55 189
Capital and reserves attributable to ordinary equityholders	**84 373**	78 919	71 997
NCNR preference shares	**3 000**	3 000	3 000
Total equity	**87 373**	81 919	74 997
Total equities and liabilities	**1 082 151**	1 031 579	949 959

* *Certain prior year numbers have been restated. Refer to pages C40 to C41 for detailed information.*

On a net basis there are no reconciling items between the summary IFRS and normalised statements of financial position.

FLOW OF FUNDS ANALYSIS – NORMALISED

R million	**June 2017 vs June 2016 12-month movement**	June 2016 vs June 2015 12-month movement
Sources of funds		
Capital account movement (including profit and reserves)	**5 454**	6 922
Working capital movement	**2 809**	(2 313)
Short trading positions and derivative financial instruments	**(1 149)**	12 953
Investments	**(3 289)**	(6 006)
Deposits and long-term liabilities	**50 975**	52 304
Total	**54 800**	63 860
Application of funds		
Advances	**(35 331)**	(58 831)
Cash and cash equivalents	**(2 927)**	2 728
Investment securities (e.g. liquid asset portfolio)	**(16 542)**	(7 757)
Total	**(54 800)**	(63 860)

OVERVIEW OF RESULTS

INTRODUCTION

Globally the economic environment improved and this allowed the US Federal Reserve to continue with gradual monetary policy normalisation. Economic activity in emerging economies held up better than was widely anticipated, with fears of a hard landing in China abating, and Brazil and Russia recovering from deep recessions.

Unfortunately, South Africa could not benefit materially from these improved conditions given the prevailing environment of macroeconomic weakness, political and policy uncertainty, and low economic growth. These uncertainties were further exacerbated by allegations of state capture, the sudden replacement of the finance minister in early 2017, and concerns about corporate governance and financial stress at some large state owned enterprises (SOEs).

In the year under review, the South African economy suffered its first recession since the 2008 financial crisis and the government's sovereign debt ratings were lowered again. The private sector remained cautious with both business and consumer confidence falling to multi-year lows.

The combination of improved global risk appetite, increased foreign capital flows to emerging markets and the relatively high yield offered by South Africa's fixed income market attracted foreign investors to domestic capital markets, and this provided support to the rand. Inflation also started to fall earlier this year and was back within the target band by the second quarter of 2017. This allowed the South African Reserve Bank to end the policy tightening cycle, which provided some relief to consumers.

Macroeconomic conditions in the rest of the sub-Saharan region improved slightly but remained subdued. Economic activity in Namibia and Botswana was impacted by South African macroeconomic weakness and some local economic challenges.

OVERVIEW OF RESULTS

Despite these significant macro pressures, FirstRand Bank's performance was characterised by quality topline growth, ongoing focus on cost management and continued conservatism in both origination and provisioning strategies. The bank continued to strengthen its balance sheet and protect its return profile.

Normalised earnings for the year to June 2017 increased 4% with a normalised ROE of 22.2%. The following table shows a breakdown of sources of normalised earnings from the portfolio per operating franchise.

Sources of normalised earnings

	Year ended 30 June				
R million	2017	% composition	2016	% composition	% change
FNB	**11 415**	**62**	10 658	61	7
RMB	**4 140**	**23**	3 692	21	12
WesBank	**2 313**	**13**	2 560	15	(10)
FCC (including Group Treasury) and other*	**458**	**3**	660	4	(31)
NCNR preference dividend	**(237)**	**(1)**	(219)	(1)	8
Normalised earnings	**18 089**	**100**	17 351	100	4

* *Includes capital endowment, the impact of accounting mismatches, interest rate management and foreign currency liquidity management.*

FNB's performance was underpinned by solid non-interest revenue (NIR) growth on the back of ongoing customer gains and growth in transactional volumes, and high quality net interest income (NII) growth, particularly from deposit generation.

RMB produced a strong performance, driven by fee income, and structuring and flow trading income. Good cost management was maintained, origination strategies continued to be anchored to protecting the return profile and credit provisions remained conservative.

WesBank's performance was significantly impacted by both local and international securitisation transactions, the impact of which reverses at a FirstRand group level. Overall results in rand terms were affected by the currency appreciation impacting the results of the UK business (MotoNovo).

At a bank level, total NII increased 4%, underpinned by good growth in deposits (+6%) and positive endowment on the back of higher average interest rates. Advances growth was subdued (+5%) given the bank's appropriate risk appetite. Margins in many of the asset-generating businesses continued to come under pressure from higher term funding and liquidity costs. Term lending in RMB and WesBank's corporate business remained muted due to ongoing discipline in origination to preserve returns given the prevailing competitive pressures.

Bank NIR growth of 8% reflects resilient fee and commission income growth of 5% at FNB, which continued to benefit from volumes in digital and electronic channels, and solid growth in customer numbers. Fee and commission income represents 75% (2016: 77%) of NIR.

Total cost growth of 7% was down on the 9% increase in the prior year, but continues to trend above inflation due to ongoing investment in new growth initiatives and platforms to extract further efficiencies.

Operating jaws were negative for the year reflecting slowing topline growth. The cost-to-income ratio deteriorated marginally to 54.4%.

The bank's impairment ratio of 88 bps remains below its through-the-cycle threshold and well within expectations. The 12% increase in the impairment charge resulted from the following:

- some normalisation of WesBank's charge, which was anticipated given the cycle and the fact that the charge had been below the long run average since 2010;
- new business strain on the back of strong book growth across FNB's premium and commercial customer segments resulting from new customer acquisition and its cross-sell and up-sell strategies. These books, remain below through-the-cycle thresholds and have been appropriately priced for risk; and
- the increasing number of FNB and WesBank customers entering debt-review. The bank does not reclassify these customers and discloses them in NPLs until they fully rehabilitate.

Retail portfolio provisions were increased at a franchise level. The bank believes this is prudent given its current view on the domestic macroeconomic environment.

Corporate provisions decreased as certain large corporate exposures were rehabilitated or written off, thereby impacting these and the bank's overall portfolio provisions.

Overall portfolio provisions at 97 bps remain conservative and above the overall annual charge.

OPERATING FRANCHISE REVIEWS

FNB

FNB represents the bank's activities in the retail and commercial segments in South Africa. It is growing its franchise on the back of a compelling customer offering that provides a broad range of innovative financial services products.

FNB produced a good performance given the tough operating environment, growing pre-tax profits 7%.

FNB financial highlights

	Year ended 30 June		
R million	2017	2016	% change
Normalised earnings	**11 415**	10 658	7
Normalised profit before tax	**15 855**	14 804	7
Total assets	**347 611**	334 004	4
Total liabilities	**331 885**	319 305	4
NPLs (%)	**2.97**	2.93	
Credit loss ratio (%)	**1.12**	1.03	
Cost to-income ratio (%)	**54.5**	55.1	

Segment results

	Year ended 30 June		
R million	2017	2016	% change
Normalised profit before tax			
Retail	**9 382**	9 171	2
Commercial	**6 914**	5 990	15
FNB Africa*	**(441)**	(357)	(24)
Total FNB	**15 855**	14 804	7

* *Relates to head office costs and FNB's activities in India. Earnings of the subsidiaries in the rest of Africa form part of FREMA and are not reported in the bank.*

FNB's performance reflects the success of its strategy to:

- grow and retain core transactional accounts;
- provide digital platforms to deliver cost effective and innovative transactional propositions to its customers;
- use its deep customer relationships and sophisticated data analytics to effectively cross-sell and up-sell a broad range of financial services products;
- apply disciplined origination strategies;
- provide innovative savings products to grow its retail deposit franchise; and
- right-size its physical infrastructure to achieve efficiencies.

FNB continued to see good growth in customers:

	Year-on-year growth
Segment	Customer numbers %
Consumer	**3**
Premium	**7**
Commercial	**11**

FNB NII increased 8% driven by moderate growth in advances (+4%) and excellent growth in deposits (+13%) with some positive endowment effect from higher average interest rates during the year.

The table below demonstrates the growth in advances and deposits on a segment basis and reflects FNB's ongoing success in growing its deposit franchise.

Segment analysis of advances and deposit growth

	Deposit growth		Advances growth	
Segment	%	R billion	%	R billion
Retail	**14**	**24.5**	**4**	**8.9**
– Consumer	**10**	**7.7**	**3**	**1.3**
– Premium	**16**	**16.8**	**4**	**7.6**
Commercial	**12**	**20.9**	**7**	**5.6**
Africa*	**(96)**	**(0.7)**	**(64)**	**(0.5)**
Total FNB	**13**	**44.7**	**4**	**14.0**

* *Includes India. FNB is in the process of exiting its activities in India.*

The subdued overall growth in advances reflects, to a degree, a high level of prudency in FNB's origination strategies, particularly in the consumer segment where households have experienced significant pressure on disposable income. FNB's focus on cross-selling into its core transactional retail and commercial customer bases has, however, resulted in good growth in both advances and deposits in the premium and commercial segments.

The following tables unpack advances, at both a segment and product level, and reflect the segment-specific nature of FNB's risk appetite and origination strategies.

The consumer segment saw good growth in its affordable housing book, but unsecured lending contracted on the back of a conservative risk appetite. In the premium segment, mortgages showed muted growth as FNB continues to focus on low risk origination, however, unsecured grew strongly on the back of cross-sell and up-sell.

R million	Consumer		
	Advances		
	2017	2016	%
Residential mortgages	**22 480**	20 224	11
Card	**9 211**	9 366	(2)
Personal loans	**7 416**	8 142	(9)
Retail other	**3 198**	3 270	(2)

R million	Premium		
	Advances		
	2017	2016	%
Residential mortgages	**173 018**	169 229	2
Card	**14 589**	12 602	16
Personal loans	**6 956**	6 301	10
Retail other	**12 231**	11 074	10

R million	Commercial		
	2017	2016	%
Advances	**83 566**	77 941	7

NIR growth of 6% was achieved despite actions FNB took in its consumer segment to simplify its product offering. This resulted in some customers moving into lower revenue-generating product lines with the resultant negative impact on NIR for the full year of approximately R540 million. This impact will not be repeated and indications are that this improved customer value proposition will ensure sustainable growth in NIR for the consumer segment going forward.

NIR growth in the retail and commercial segments continued to be robust, increasing 3% and 9%, respectively.

Overall fee and commission income benefited from strong volume growth of 10% with excellent momentum across FNB's digital and electronic channels, as can be seen from the table below. There was some negative impact from a reduction in cash-related NIR and the cost of rewards linked to the e-migration and cross-sell strategy.

Channel volumes

Thousands	2017	2016	% change
ATM/ADT	**232 310**	225 045	3
Internet	**214 701**	201 019	7
Banking app	**99 410**	59 075	68
Mobile	**43 818**	36 469	20
Point-of-sale	**1 166 844**	1 051 480	11

Cost growth was well contained at 6%. The cost-to-income ratio decreased to 54.5%.

As expected, FNB's overall bad debts and NPLs increased year-on-year (NPLs +6%), however, the rolling six months reflect a flattening trajectory in retail. NPL formation in the commercial book is ticking up, but this is not unexpected given previous book growth and some residual pressure in the agric sector.

NPLs in FNB's unsecured books, which have shown strong advances growth particularly in the premium segment, are trending in line with expectations. This reflects the quality of new business written, appropriate pricing strategies and the positive effect of cutbacks in higher risk origination buckets.

Overall provisioning levels have increased with overlays maintained.

RMB

RMB represents the bank's activities in the corporate and investment banking segments in South Africa, the broader African continent and India. The business strategy leverages a market-leading origination franchise to deliver an integrated corporate and investment banking value proposition to corporate and institutional clients. This, combined with an expanding market-making and distribution product offering, contributes to a well-diversified and sustainable earnings base. The strategy is underpinned by sound risk management, designed to effectively balance the relationship between profit growth, returns and earnings volatility.

RMB financial highlights

	Year ended 30 June		
R million	2017	2016	% change
Normalised earnings	**4 140**	3 692	12
Normalised profit before tax	**5 757**	5 128	12
Total assets	**391 094**	375 527	4
Total liabilities	**386 200**	371 143	4
Credit loss ratio (%)	**0.24**	0.27	
Cost to-income ratio (%)	**51.9**	52.9	

RMB delivered a strong operational performance, with pre-tax profits increasing 12% to R5.8 billion. RMB's balance sheet remains robust, with high quality earnings and solid operational leverage. Cost growth, notwithstanding continued spend on regulatory and compliance initiatives, is in line with inflation given the benefits of platform investment and ongoing automation.

*Breakdown of profit contribution by activity**

	Year ended 30 June		
R million	2017	2016	% change
Investment banking and advisory	**3 286**	3 212	2
Corporate and transactional banking	**1 215**	1 046	16
Markets and structuring	**1 255**	1 111	13
Investing**	**37**	(62)	>100
Investment management	**36**	40	(10)
Other	**(72)**	(219)	67
Total RMB	**5 757**	5 128	12

* *Refer to additional business unit disclosure on page A32.*

** *The majority of investing activities (private equity) are in FRIHL, and thus fall outside the bank.*

In an environment characterised by difficult credit markets and lower economic growth, the investment banking and advisory activities delivered a resilient performance. Advisory, lending and capital market mandates were secured particularly off the back of client activity in offshore markets. Disciplined financial resource allocation and good advances growth continued to preserve returns, and cost containment further benefited the results. Given the prevailing weak credit cycle and macroeconomic environment, credit provisioning levels remained conservative.

Corporate and transactional banking's focus on leveraging platforms, managing costs and expanding product offerings contributed to strong profit growth. The business benefited from increased demand for structured and traditional trade products as well as increased transactional banking volumes in a tough operating environment.

Markets and structuring activities delivered a strong performance with improved quality of earnings driven by good client flows and the execution of large structuring deals. A solid commodities performance and sustained equity flows also contributed to profitability in the current year.

Other activities reported a reduced loss in the current year, impacted by the curtailment of losses in the RMB Resouces portfolio and higher endowment earned on capital invested. This was offset by costs associated with Global Markets' platform investment, which is aimed at driving efficiencies, ensuring regulatory and legislative compliance and improving risk mitigation.

WESBANK

WesBank represents the bank's activities in instalment credit and related services in the retail, commercial and corporate segments of South Africa and through MotoNovo Finance in the UK. Through the Direct Axis brand, WesBank also operates in the unsecured lending market in South Africa. WesBank's leading position in its chosen markets is due to its long-standing alliances with leading motor manufacturers, suppliers and dealer groups, strong point-of-sale presence and innovative channel origination strategies.

WesBank financial highlights

	Year ended 30 June		
R million	2017	2016	% change
Normalised earnings	**2 313**	2 560	(10)
Normalised profit before tax	**3 214**	3 545	(9)
Total assets	**170 523**	168 366	1
Total liabilities	**167 327**	164 912	1
NPLs (%)	**4.37**	3.81	
Credit loss ratio (%)	**1.80**	1.66	
Cost-to-income ratio (%)	**45.8**	43.9	
Net interest margin (%)	**4.99**	4.87	

WesBank's pre-tax profits declined 9% year-on-year primarily driven by the impacts of securitisations in the retail SA VAF portfolio, declining margins as a result of regulatory caps in the personal loans portfolio and suppressed demand in the corporate portfolio. The negative impact of the appreciation of the rand against the GBP on MotoNovo's performance was offset by positive day one impacts of the Turbo Finance 7 securitisation.

Overall advances were flat year-on-year, negatively impacted by securitisations of more than R17 billion in both the retail SA VAF and MotoNovo books during the year. New business production in the local retail portfolios showed positive trends for the year, however, corporate production was negatively impacted by the lengthening of replenishment cycles and reduced market demand. MotoNovo new business volumes continued to track up in local currency (GBP+11.7%), but slowed from prior years, reflecting lower risk appetite. All new business volumes continue to reflect good quality and the overall risk profile remains in line with current credit appetite.

NPLs as a percentage of advances increased to 4.37% (2016: 3.81%). NPLs continue to be inflated by the high proportion of restructured debt-review accounts, most of which are still paying according to arrangement, have never defaulted or have balances lower than when these entered debt review. WesBank continues to monitor vintage performance closely. MotoNovo's impairments are now trending above its through-the-cycle threshold. This is due to increased conservatism in impairment models and a deterioration in underlying arrears levels. This in turn has resulted in increased portfolio provisions.

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

*Breakdown of profit contribution by activity**

	Year ended 30 June		
R million	2017	2016	% change
Normalised profit before tax			
VAF	**2 758**	3 047	(9)
– Retail SA	**1 414**	1 731	(18)
– MotoNovo**	**1 010**	950	6
– Corporate and commercial	**334**	366	(9)
Personal Loans	**456**	498	(8)
Total WesBank	**3 214**	3 545	(9)

* *Refer to additional segment disclosure on page A33.*

** *MotoNovo increased by 33% in GBP terms to GBP59 million.*

Retail SA VAF pre-tax profits declined 18% year-on year, mainly as a result of the derecognition of revenues related to advances securitised during the year (which eliminates at a FirstRand group level), as well as an increase in credit impairments. Normalising for the impact of securitisations, pre-tax profits would have increased 2%. As anticipated, impairment levels are trending upwards, with WesBank remaining conservatively provided.

MotoNovo's performance was positively impacted by the Turbo Finance 7 securitisation during the year and the resultant day-one recognition of future margin on the sale of the securitised assets (which eliminates at a FirstRand group level). This was partly offset by higher than expected levels of additional investment, particularly in its collections area and the building out of the personal loans offering. In addition, new business growth slowed on the back of relationship terminations in certain distribution channels showing elevated risk and some adjustment to credit appetite. Normalising for the securitisation impact, profits would be up 9% in GBP terms, but down 13% in rand terms due to significant rand appreciation.

Personal loans pre-tax profits declined 8% despite healthy book growth, mainly due to ongoing investment spend in new channels and the impact of the National Credit Amendment Act (NCAA) rate caps which impacted margins. Profits from the corporate business were down 9% year-on-year, mainly because of competitive pricing pressures, lengthening of replenishment cycles and reduced market demand as corporates delay investment cycles.

WesBank produced strong growth in NIR of 11%. This was mainly driven by increases in full maintenance lease (FML) rental income on the back of good new business growth. Advances-related NIR growth was muted in line with book growth.

Growth in operating expenses was 8%, mainly driven by investments in new business initiatives and origination channels and volume-related expenditure in MotoNovo, Direct Axis and FML. Core operational costs were well contained.

Segment analysis of normalised earnings

	Year ended 30 June				
R million	2017	% composition	2016	% composition	% change
Retail	**8 510**	**46**	8 635	50	(1)
– FNB*	**6 437**		6 345		
– WesBank	**2 073**		2 290		
Commercial	**5 218**	**29**	4 583	26	14
– FNB	**4 978**		4 313		
– WesBank	**240**		270		
Corporate and investment banking	**4 140**	**23**	3 692	21	12
– RMB	**4 140**		3 692		
Other	**221**	**2**	441	3	(50)
– FCC (including Group Treasury) and elimination adjustments	**458**		660		
– Dividends paid on NCNR preference shares	**(237)**		(219)		
Normalised earnings	**18 089**	**100**	17 351	100	4

* *Includes FNB Africa, which relate to head office costs, and FNB's activities in India.*

MANAGEMENT OF FINANCIAL RESOURCES

The management of the group's financial resources, which it defines as capital, funding and liquidity, and risk capacity, is critical and supportive to the achievement of FirstRand's stated growth and return targets, and is driven by the group's overall risk appetite.

Forecast growth in earnings and balance sheet risk weighted assets is based on the group's macroeconomic outlook and evaluated against available financial resources, considering the requirements of capital providers and regulators. The expected outcomes and constraints are then stress tested and the group sets financial and prudential targets through different business cycles and scenarios to enable FirstRand to deliver on its commitments to stakeholders at a defined confidence level. These stress scenarios include further sovereign downgrades below investment grade on a local currency basis.

The management of the group's financial resources is executed through Group Treasury and is independent of the operating franchises. This ensures the required level of discipline is applied in the allocation of financial resources and pricing of these resources. This also ensures that Group Treasury's mandate is aligned with the operating franchises' growth, return and volatility targets, to deliver shareholder value.

The group continues to monitor and proactively manage a fast-changing regulatory environment and ongoing macroeconomic challenges. Prior to the downgrade of the South African sovereign to sub-investment grade on a foreign currency basis, through the establishment of FirstRand Securities Limited, the group became a member of the interest rate derivatives clearing service, SwapClear, one of the clearing platforms provided by multi-national clearing house LCH.

This was an important step to protect and enhance FirstRand's counterparty status in international funding markets. Participation in clearing interest rate derivatives through SwapClear will mitigate risk and reduce trading costs for both the bank and its clients and provides the group with enhanced international access to financial market infrastructure as well as to greater liquidity pools.

Balance sheet strength

Capital position

Current targeted ranges and actual ratios are summarised below.

%	CET1	Tier 1	Total	Leverage#
Regulatory minimum*	7.3	8.5	10.8	4.0
Targets	10.0 – 11.0	>12.0	>14.0	>5.0
Actual**	**14.1**	**14.3**	**17.3**	**7.4**

* *Excluding the bank-specific individual capital requirement and add-on for domestic systemically important banks.*

** *FRB including foreign branches and unappropriated profits.*

\# *Based on Basel III regulations.*

The bank has maintained its strong capital position. Capital planning is undertaken on a three-year forward-looking basis, and the level and composition of capital is determined taking into account business units' organic growth plans and stress-testing scenario outcomes. In addition, the bank considers external issues that could impact capital levels, which include regulatory and accounting changes, macroeconomic conditions and outlook.

The bank continues to actively manage its capital composition and, to this end, issued approximately R2.3 billion Basel III-compliant Tier 2 instruments in the domestic market during the year. This resulted in a more efficient capital structure which is closely aligned with the bank's internal targets. It remains the bank's intention to continue optimising its capital stack by frequently issuing Tier 2 instruments in domestic and/or international markets. This ensures sustainable support for ongoing growth initiatives and compensates for the haircut applied to Tier 2 instruments which are not compliant with Basel III.

Liquidity position

Given the liquidity risk introduced by its business activities across various currencies, the bank's objective is to optimise its funding profile within structural and regulatory constraints to enable its franchises to operate in an efficient and sustainable manner. Liquidity buffers are actively managed via high quality liquid assets (HQLA) that are available as protection against unexpected events or market disruptions. The quantum and composition of the available sources of liquidity are defined by the behavioural funding liquidity at risk and the market liquidity depth of these resources. In addition, adaptive overlays to liquidity requirements are derived from stress testing and scenario analysis of the cash inflows and outflows related to business activity.

The bank exceeds the 80% (2016: 70%) minimum liquidity coverage ratio (LCR) requirement as set out by the Basel Committee for Banking Supervision (BCBS) with the LCR at 105% (2016: 102%). At 30 June 2017, the bank's available HQLA sources of liquidity per the LCR was R155 billion, with an additional R10 billion of management liquidity available.

FirstRand expects to be fully compliant with the net stable funding ratio (NSFR) requirements once implemented on 1 January 2018.

Regulatory changes

During May 2017, the SARB's Financial Stability Department released a discussion document on designing a deposit insurance scheme (DIS) for South Africa. As a member of the G20, South Africa has agreed to adopt the FSB's *Key Attributes of Effective Resolution Regimes for Financial Institutions*, one of which requires jurisdictions to have a privately-funded depositor protection and/or a resolution fund in place.

The paper motivates the need for an explicit, privately-funded DIS for South Africa, the main objective being the protection of less financially sophisticated depositors in the event of a bank failure. It presents proposals on the key design features of such a DIS and aims to solicit views on these proposals. The paper also refers to the discussion paper titled *Strengthening South Africa's Resolution Framework for Financial Institutions*, published by National Treasury on 13 August 2015. Together, the proposed resolution framework and the DIS are expected to form the comprehensive regulatory architecture for reducing the social and economic cost of failing financial institutions and will be captured by the Resolution Bill.

No timelines around the Resolution Bill have been formally communicated. It will contain high level principles of the DIS, with the actual mechanics captured in supplemental regulations or directives once designed and agreed. Only once finalised will banks be in a better position to fully assess the potential impact of a DIS in South Africa.

PROSPECTS

South Africa's growth prospects remain weak and uncertain. Persistent political and policy uncertainty, ongoing governance issues at SOEs and further erosion of confidence in institutional strength and independence all continue to weigh on confidence, which in turn constrains private sector investment, places pressure on employment and ultimately undermines GDP growth. Such a macroeconomic environment will be characterised by low domestic demand growth (consumption, investment and government spending), downward pressure on personal incomes and further rating agency downgrades. Many of these pressures will create headwinds for topline growth in the bank's domestic franchises. Sub-Saharan growth rates are, however, expected to show a recovery over the next twelve months, which should be supportive of the rest of Africa portfolio.

FirstRand remains committed to its current investment cycle despite pressures on growth, as it believes its strategies to diversify its financial services offering and build the rest of Africa and UK franchises will deliver outperformance over the medium to long term. In addition, the group remains focused on driving efficiencies and managing core costs.

The group aims to deliver real growth in earnings and an ROE near the upper end of its stated target range of 18% to 22%.

SEGMENT REPORT

for the year ended 30 June 2017

	FNB							
	Retail							
R million	Residential mortgages	Card	Personal loans	Retail other	**Retail**	Commercial	FNB Africa*	**Total FNB**
Net interest income before impairment of advances	3 825	2 486	2 699	6 421	**15 431**	8 605	3	**24 039**
Impairment charge	(285)	(699)	(1 071)	(1 063)	**(3 118)**	(530)	(15)	**(3 663)**
Net interest income after impairment of advances	3 540	1 787	1 628	5 358	**12 313**	8 075	(12)	**20 376**
Non-interest revenue	413	1 835	826	8 980	**12 054**	7 035	816	**19 905**
Income from operations	3 953	3 622	2 454	14 338	**24 367**	15 110	804	**40 281**
Operating expenses	(1 725)	(2 027)	(977)	(9 800)	**(14 529)**	(8 161)	(1 242)	**(23 932)**
Income before tax	2 228	1 595	1 477	4 538	**9 838**	6 949	(438)	**16 349**
Indirect tax	(12)	(60)	(16)	(368)	**(456)**	(35)	(3)	**(494)**
Profit before tax	2 216	1 535	1 461	4 170	**9 382**	6 914	(441)	**15 855**
Income tax expense	(620)	(430)	(409)	(1 168)	**(2 627)**	(1 936)	123	**(4 440)**
Profit for the year	1 596	1 105	1 052	3 002	**6 755**	4 978	(318)	**11 415**
Attributable to								
Ordinary equityholders	1 596	1 105	1 052	3 002	**6 755**	4 978	(318)	**11 415**
NCNR preference shareholders	–	–	–	–	**–**	–	–	**–**
Profit for the year	1 596	1 105	1 052	3 002	**6 755**	4 978	(318)	**11 415**
Attributable earnings to ordinary equityholders	1 596	1 105	1 052	3 002	**6 755**	4 978	(318)	**11 415**
Headline earnings adjustments	–	–	–	–	**–**	–	–	**–**
Headline earnings	1 596	1 105	1 052	3 002	**6 755**	4 978	(318)	**11 415**
TRS and IFRS 2 liability remeasurement	–	–	–	–	**–**	–	–	**–**
IAS 19 adjustment	–	–	–	–	**–**	–	–	**–**
Normalised earnings	1 596	1 105	1 052	3 002	**6 755**	4 978	(318)	**11 415**

The segmental analysis is based on the management accounts for the respective segments.

* *FNB Africa results reported above relate to head office costs and FNB's activities in India. Earnings of the African subsidiaries form part of FREMA (see simplified group structure on page A04) and are not reported in bank.*

** *Refer to additional activity disclosure on page A32.*

\# *Refer to additional segmental information on page A33.*

RMB							
Investment banking	Corporate banking	Total RMB**	WesBank#	FCC (including Group Treasury) and other	FRB – normalised	Normalised adjustments	FRB – IFRS
3 985	1 484	5 469	9 205	1 136	39 849	(1 200)	38 649
(544)	(75)	(619)	(3 052)	350	(6 984)	–	(6 984)
3 441	1 409	4 850	6 153	1 486	32 865	(1 200)	31 665
6 339	1 671	8 010	2 781	(1 190)	29 506	1 443	30 949
9 780	3 080	12 860	8 934	296	62 371	243	62 614
(5 129)	(1 860)	(6 989)	(5 488)	(1 312)	(37 721)	52	(37 669)
4 651	1 220	5 871	3 446	(1 016)	24 650	295	24 945
(109)	(5)	(114)	(232)	(36)	(876)	–	(876)
4 542	1 215	5 757	3 214	(1 052)	23 774	295	24 069
(1 277)	(340)	(1 617)	(901)	1 510	(5 448)	(84)	(5 532)
3 265	875	4 140	2 313	458	18 326	211	18 537
3 265	875	4 140	2 313	221	18 089	211	18 300
–	–	–	–	237	237	–	237
3 265	875	4 140	2 313	458	18 326	211	18 537
3 265	875	4 140	2 313	221	18 089	211	18 300
–	–	–	–	–	–	(31)	(31)
3 265	875	4 140	2 313	221	18 089	180	18 269
–	–	–	–	–	–	(63)	(63)
–	–	–	–	–	–	(117)	(117)
3 265	875	4 140	2 313	221	18 089	–	18 089

R million	FNB							
	Retail							
	Residential mortgages	Card	Personal loans	Retail other	**Retail**	Commercial	FNB Africa**	**Total FNB**
Cost-to-income ratio (%)	40.7	46.9	27.7	63.6	**52.9**	52.2	>100	**54.5**
Diversity ratio (%)	9.7	42.5	23.4	58.3	**43.9**	45.0	99.6	**45.3**
Credit loss ratio (%)	0.15	3.05	7.43	7.14	**1.27**	0.66	2.90	**1.12**
NPLs as a percentage of advances (%)	2.33	3.89	8.54	5.56	**3.04**	2.73	17.95	**2.97**
Income statement includes								
Depreciation	(4)	(3)	(2)	(1 549)	**(1 558)**	(43)	(11)	**(1 612)**
Amortisation	–	(5)	–	(32)	**(37)**	–	(7)	**(44)**
Impairment charges	–	–	–	(9)	**(9)**	2	–	**(7)**
Statement of financial position includes								
Advances (after ISP – before impairments)	195 498	23 800	14 372	15 429	**249 099**	83 566	273	**332 938**
NPLs net of ISP	4 560	926	1 227	858	**7 571**	2 280	49	**9 900**
Total deposits (including non-recourse deposits)	926	1 554	1	202 212	**204 693**	188 301	27	**393 021**
Total assets	194 050	22 866	12 997	30 935	**260 848**	86 044	719	**347 611**
Total liabilities*	193 617	22 099	12 261	20 654	**248 631**	82 096	1 158	**331 885**
Capital expenditure	4	19	1	2 076	**2 100**	189	–	**2 289**

The segmental analysis is based on the management accounts for the respective segments.

* *Total liabilities are net of interdivisional balances.*

** *FNB Africa results reported above relate to head office costs and FNB's activities in India. Earnings of the African subsidiaries form part of FREMA (see simplified group structure on page A04) and are not reported in bank.*

Refer to additional activity disclosure on page A32.

† *Refer to additional segmental information on page A33.*

RMB							
Investment banking	Corporate banking	**Total RMB#**	**WesBank†**	FCC (including Group Treasury) and other	**FRB – normalised**	Normalised adjustments	**FRB – IFRS**
49.7	59.0	**51.9**	**45.8**	(>100)	**54.4**	–	**54.1**
61.4	53.0	**59.4**	**23.2**	>100	**42.5**	–	**44.5**
0.24	0.20	**0.24**	**1.80**	(0.04)	**0.88**	–	**0.88**
0.50	0.09	**0.44**	**4.37**	–	**2.27**	–	**2.27**
(129)	(3)	**(132)**	**(552)**	(15)	**(2 311)**	–	**(2 311)**
(42)	–	**(42)**	**(5)**	(3)	**(94)**	–	**(94)**
–	(1)	**(1)**	**3**	–	**(5)**	4	**(1)**
228 045	39 545	**267 590**	**170 195**	43 555	**814 278**	(281)	**813 997**
1 137	35	**1 172**	**7 437**	–	**18 509**	–	**18 509**
79 295	102 444	**181 739**	**41**	301 889	**876 690**	–	**876 690**
348 935	42 159	**391 094**	**170 523**	172 923	**1 082 151**	–	**1 082 151**
345 614	40 586	**386 200**	**167 327**	109 366	**994 778**	–	**994 778**
839	9	**848**	**1 361**	3	**4 501**	–	**4 501**

SEGMENT REPORT
for the year ended 30 June 2016

	FNB							
	Retail							
R million	Residential mortgages	Card	Personal loans	Retail other	**Retail**	Commercial	FNB Africa*	**Total FNB**
Net interest income before impairment of advances	3 755	2 308	2 567	5 926	**14 556**	7 645	8	**22 209**
Impairment charge	(414)	(565)	(1 051)	(755)	**(2 785)**	(390)	2	**(3 173)**
Net interest income after impairment of advances	3 341	1 743	1 516	5 171	**11 771**	7 255	10	**19 036**
Non-interest revenue	377	1 651	796	8 862	**11 686**	6 443	621	**18 750**
Income from operations	3 718	3 394	2 312	14 033	**23 457**	13 698	631	**37 786**
Operating expenses	(1 766)	(1 969)	(998)	(9 186)	**(13 919)**	(7 674)	(986)	**(22 579)**
Income before tax	1 952	1 425	1 314	4 847	**9 538**	6 024	(355)	**15 207**
Indirect tax	(13)	(51)	(16)	(287)	**(367)**	(34)	(2)	**(403)**
Profit before tax	1 939	1 374	1 298	4 560	**9 171**	5 990	(357)	**14 804**
Income tax expense	(544)	(385)	(363)	(1 277)	**(2 569)**	(1 677)	100	**(4 146)**
Profit for the year	1 395	989	935	3 283	**6 602**	4 313	(257)	**10 658**
Attributable to								
Ordinary equityholders	1 395	989	935	3 283	**6 602**	4 313	(257)	**10 658**
NCNR preference shareholders	–	–	–	–	**–**	–	–	**–**
Profit for the year	1 395	989	935	3 283	**6 602**	4 313	(257)	**10 658**
Attributable earnings to ordinary equityholders	1 395	989	935	3 283	**6 602**	4 313	(257)	**10 658**
Headline earnings adjustments	–	–	–	–	**–**	–	–	**–**
Headline earnings	1 395	989	935	3 283	**6 602**	4 313	(257)	**10 658**
TRS and IFRS 2 liability remeasurement	–	–	–	–	**–**	–	–	**–**
IAS 19 adjustment	–	–	–	–	**–**	–	–	**–**
Normalised earnings	1 395	989	935	3 283	**6 602**	4 313	(257)	**10 658**

The segmental analysis is based on the management accounts for the respective segments.

* *FNB Africa results reported above relate to head office costs and FNB's activities in India. Earnings of the African subsidiaries form part of FREMA (see simplified group structure on page A04) and are not reported in bank.*

** *Refer to additional activity disclosure on page A32.*

Refer to additional segmental information on page A33.

† *Restated. Refer to page C39 for more detailed information.*

RMB							
Investment banking	Corporate banking	Total RMB**	WesBank#	FCC (including Group Treasury) and other	FRB – normalised	Normalised adjustments	FRB – IFRS†
4 110	1 466	**5 576**	**9 047**	1 501	**38 333**	(1 556)	**36 777**
(514)	(162)	**(676)**	**(2 701)**	295	**(6 255)**	–	**(6 255)**
3 596	1 304	**4 900**	**6 346**	1 796	**32 078**	(1 556)	**30 522**
5 337	1 593	**6 930**	**2 497**	(916)	**27 261**	625	**27 886**
8 933	2 897	**11 830**	**8 843**	880	**59 339**	(931)	**58 408**
(4 768)	(1 844)	**(6 612)**	**(5 068)**	(1 133)	**(35 392)**	357	**(35 035)**
4 165	1 053	**5 218**	**3 775**	(253)	**23 947**	(574)	**23 373**
(83)	(7)	**(90)**	**(230)**	(40)	**(763)**	–	**(763)**
4 082	1 046	**5 128**	**3 545**	(293)	**23 184**	(574)	**22 610**
(1 143)	(293)	**(1 436)**	**(985)**	953	**(5 614)**	154	**(5 460)**
2 939	753	**3 692**	**2 560**	660	**17 570**	(420)	**17 150**
2 939	753	**3 692**	**2 560**	441	**17 351**	(420)	**16 931**
–	–	**–**	**–**	219	**219**	–	**219**
2 939	753	**3 692**	**2 560**	660	**17 570**	(420)	**17 150**
2 939	753	**3 692**	**2 560**	441	**17 351**	(420)	**16 931**
–	–	**–**	**–**	–	**–**	28	**28**
2 939	753	**3 692**	**2 560**	441	**17 351**	(392)	**16 959**
–	–	**–**	**–**	–	**–**	494	**494**
–	–	**–**	**–**	–	**–**	(102)	**(102)**
2 939	753	**3 692**	**2 560**	441	**17 351**	–	**17 351**

Segment report for the year ended 30 June 2016 *continued*

	FNB							
	Retail							
R million	Residential mortgages	Card	Personal loans	Retail other	**Retail**	Commercial	FNB Africa**	**Total FNB**
Cost-to-income ratio (%)	42.7	49.7	29.7	62.1	**53.0**	54.5	>100	**55.1**
Diversity ratio (%)	9.1	41.7	23.7	59.9	**44.5**	45.7	98.7	**45.8**
Credit loss ratio (%)	0.22	2.73	7.84	5.66	**1.20**	0.53	(0.33)	**1.03**
NPLs as a percentage of advances (%)	2.46	3.46	7.33	5.49	**3.03**	2.49	18.53	**2.93**
Income statement includes								
Depreciation	(6)	(3)	(5)	(1 336)	**(1 350)**	(41)	(4)	**(1 395)**
Amortisation	–	–	–	(12)	**(12)**	–	(1)	**(13)**
Impairment charges	–	–	–	5	**5**	–	–	**5**
Statement of financial position includes								
Advances (after ISP – before impairments)	189 453	21 968	14 443	14 344	**240 208**	77 941	761	**318 910**
NPLs net of ISP	4 664	759	1 059	787	**7 269**	1 941	141	**9 351**
Total deposits (including non-recourse deposits)	882	1 557	1	177 710	**180 150**	167 401	757	**348 308**
Total assets	188 018	21 229	13 157	31 561	**253 965**	78 891	1 148	**334 004**
Total liabilities*	187 680	20 526	12 605	21 588	**242 399**	75 399	1 507	**319 305**
Capital expenditure	3	5	2	1 962	**1 972**	191	25	**2 188**

The segmental analysis is based on the management accounts for the respective segments.

* *Total liabilities are net of interdivisional balances.*

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Refer to additional activity disclosure on page A32.

† *Refer to additional segmental information on page A33.*

‡ *Restated. Refer to page C39 for more detailed information.*

	RMB							
	Investment banking	Corporate banking	**Total RMB#**	**WesBank†**	FCC (including Group Treasury) and other	**FRB – normalised**	Normalised adjustments	**FRB – IFRS‡**
	50.5	60.3	**52.9**	**43.9**	>100	**54.0**	–	**54.2**
	56.5	52.1	**55.4**	**21.6**	(>100)	**41.6**	–	**43.1**
	0.24	0.48	**0.27**	**1.66**	(0.04)	**0.84**	–	**0.84**
	1.42	0.34	**1.27**	**3.81**	–	**2.43**	–	**2.43**
	(103)	(3)	**(106)**	**(461)**	(27)	**(1 989)**	–	**(1 989)**
	(6)	–	**(6)**	**(22)**	(5)	**(46)**	–	**(46)**
	(44)	2	**(42)**	**(77)**	–	**(114)**	–	**(114)**
	216 383	34 442	**250 825**	**168 274**	40 897	**778 906**	(281)	**778 625**
	3 073	116	**3 189**	**6 413**	–	**18 953**	–	**18 953**
	98 312	105 222	**203 534**	**60**	274 715	**826 617**	–	**826 617**
	339 258	36 269	**375 527**	**168 366**	153 682	**1 031 579**	–	**1 031 579**
	336 224	34 919	**371 143**	**164 912**	94 300	**949 660**	–	**949 660**
	73	2	**75**	**1 306**	10	**3 579**	–	**3 579**

ADDITIONAL ACTIVITY DISCLOSURE – RMB

R million	Year ended 30 June 2017						
	IB&A	**C&TB**	**M&S**	**INV**	**IM**	**Other**	**Total**
Normalised profit before tax							
Global Markets	**–**	**–**	**1 280**	**–**	**36**	**(197)***	**1 119**
IBD	**3 336**	**–**	**17**	**16**	**–**	**–**	**3 369**
Private Equity	**–**	**–**	**–**	**21**	**–**	**–**	**21**
Other RMB	**(50)**	**–**	**(42)**	**–**	**–**	**125**	**33**
Investment banking	**3 286**	**–**	**1 255**	**37**	**36**	**(72)**	**4 542**
Corporate banking	**–**	**1 215**	**–**	**–**	**–**	**–**	**1 215**
Total RMB – 2017	**3 286**	**1 215**	**1 255**	**37**	**36**	**(72)**	**5 757**

R million	Year ended 30 June 2016						
	IB&A	C&TB	M&S	INV	IM	Other	Total
Normalised profit before tax							
Global Markets	–	–	1 100	(34)	31	(43)	1 054
IBD	3 512	–	11	91	9	–	3 623
Private Equity	–	–	–	(119)	–	–	(119)
Other RMB	(300)	–	–	–	–	(176)	(476)
Investment banking	3 212	–	1 111	(62)	40	(219)	4 082
Corporate banking	–	1 046	–	–	–	–	1 046
Total RMB – 2016	3 212	1 046	1 111	(62)	40	(219)	5 128

Note:

IB&A – investment banking and advisory

C&TB – corporate and transactional banking

M&S – markets and structuring

INV – investing

IM – investment management

* *Includes investments in Global Markets' platform investment.*

ADDITIONAL SEGMENTAL DISCLOSURE – WESBANK

R million	Year ended 30 June 2017				
	VAF				
	Retail		Corporate and commercial	Personal loans	Total WesBank
	South Africa	MotoNovo			
NII before impairment of advances	**4 056**	**2 171**	**557**	**2 421**	**9 205**
Impairment charge	**(1 503)**	**(476)**	**(66)**	**(1 007)**	**(3 052)**
Normalised profit before tax	**1 414**	**1 010**	**334**	**456**	**3 214**
Normalised earnings	**1 018**	**727**	**240**	**328**	**2 313**
Advances	**95 285**	**30 029**	**31 364**	**13 517**	**170 195**
NPLs	**5 662**	**172**	**258**	**1 345**	**7 437**
Advances margin (%)	**3.51**	**6.98**	**2.10**	**18.65**	**4.99**
NPLs (%)	**5.94**	**0.57**	**0.82**	**9.95**	**4.37**
Credit loss ratio (%)	**1.55**	**1.62**	**0.22**	**7.93**	**1.80**

R million	Year ended 30 June 2016				
	VAF				
	Retail		Corporate and commercial	Personal loans	Total WesBank
	South Africa	MotoNovo			
NII before impairment of advances	4 344	1 808	636	2 259	9 047
Impairment charge	(1 366)	(338)	(22)	(975)	(2 701)
Normalised profit before tax	1 731	950	366	498	3 545
Normalised earnings	1 247	684	270	359	2 560
Advances	98 377	28 866	29 161	11 870	168 274
NPLs	4 857	126	302	1 128	6 413
Advances margin (%)	3.75	5.65	2.45	19.52	4.87
NPLs (%)	4.94	0.44	1.04	9.50	3.81
Credit loss ratio (%)	1.41	1.36	0.07	8.73	1.66

income statement analysis

A 36 – 48

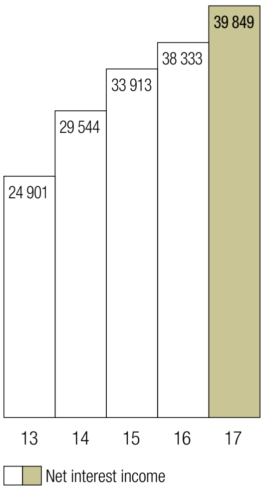
NET INTEREST INCOME (BEFORE IMPAIRMENT OF ADVANCES)

NET INTEREST INCOME (BEFORE IMPAIRMENT OF ADVANCES) – UP 4%

Net interest income

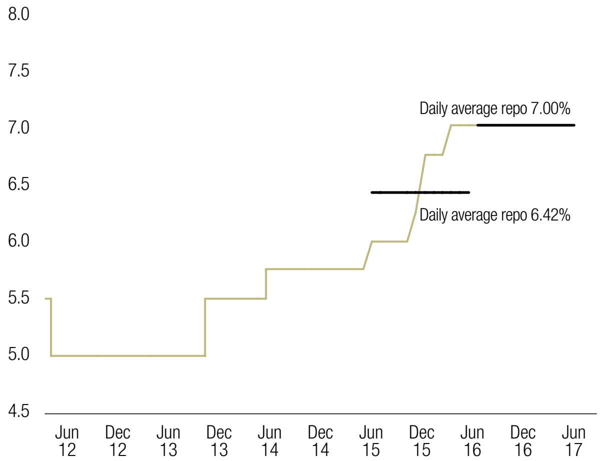
R million

CAGR 12%



Repo rate

%



Note: R183 billion = average endowment book for the year. Rates were higher by 58 bps on average in the current year, which translates into a positive endowment impact of approximately R1 060 million for the year.

Margin cascade table

Percentage of average interest-earning banking assets	%
2016 normalised margin	**5.17**
Capital and deposit endowment	**0.16**
Interest earning assets*	**–**
– Change in balance sheet mix	**0.07**
– Asset pricing	**(0.07)**
Liabilities	**(0.01)**
– Change in funding mix	**0.07**
– Deposit pricing	**(0.08)**
Group Treasury and other movements	**(0.21)**
– Accounting mismatches (MTM vs accrual on term issuance)	**(0.09)**
– Liquidity management	**(0.10)**
– Increase in HQLA and liquidity mismatches	**(0.07)**
– Term funding cost	**(0.03)**
– Interest rate and FX management	**–**
– Other NII in operating franchises	**(0.02)**
2017 normalised margin	**5.11**

* *Includes the effects of the Turbo Finance 7 securitisation of the MotoNovo book and the consequential accounting treatment thereof.*

Activity analysis of net interest income before impairment of advances

R million	Year ended 30 June		
	2017	2016**	% change
Net interest income			
Lending	**18 702**	18 541	1
Transactional*	**14 190**	12 602	13
Deposits	**2 720**	2 634	3
Capital endowment	**4 963**	4 282	16
Group Treasury	**30**	596	(95)
Other (negative endowment e.g. fixed assets)	**(756)**	(322)	>100
Total net interest income	**39 849**	38 333	4

* *Includes NII related to credit cards, overdrafts and transactional deposit products, and deposit endowment.*

** *2016 numbers were restated in order to provide better attribution of NII by nature of activity. Includes investment income which is lending in nature, e.g. HQLA corporate advances.*

KEY DRIVERS

- Positive capital and deposit endowment from the cumulative 125 bps increase in the repo rate during the year ended June 2016, which resulted in an average increase of 58 bps in the repo rate for the year.
- NII growth supported by:
  - higher capital levels; and
  - advances and deposit growth of 5% and 6%, respectively.
- FNB's deposit margins decreased by 1 bps. The positive endowment given the higher average rate environment was offset by a change in mix with strong growth in lower yielding deposit products as well as increased competitive pressures. Advances margins remained under pressure, impacted by the negative impact from the implementation of the NCAA rate caps in 2016 as well as higher levels of suspended interest on NPLs.
- WesBank's VAF margins increased 10 bps, positively impacted by the mix change in new business in the retail SA VAF book and the securitisation transactions in the MotoNovo book, offset by continued elevated funding and liquidity costs and increased competitive pressure.
- Investment banking advances margins remained under pressure, impacted by continued high levels of funding and liquidity costs as well as competitive pricing pressure, especially in the investment-grade space.
- The dollar funding carry costs relating to pre-funding dollar liquidity in previous financial years was flat year-on-year after a decrease of R74 million in 2016.
- Negative mark-to-market movement of c.R300 million (2016: R65 million positive movement) on fair value term funding instruments due to movements in the domestic yield curve. This will reverse over the duration of the underlying instruments, which are long dated.
- The ongoing build-up of HQLA in compliance with LCR prudential regulatory requirements negatively impacted the bank's interest margin.

Average balance sheet and margins

R million	Notes	June 2017 Average balance[#]	June 2017 Interest income/ (expense)	June 2017 Average rate %	June 2016[†] Average balance	June 2016[†] Interest income/ (expense)	June 2016[†] Average rate %
INTEREST-EARNING ASSETS							
Average prime rate (RSA)				**10.50**			9.92
Balances with central banks		**20 274**	**–**	**–**	18 506	–	–
Cash and cash equivalents		**15 112**	**601**	**3.98**	11 586	437	3.77
Liquid assets portfolio		**87 030**	**6 841**	**7.86**	89 339	6 513	7.29
Loans and advances to customers	1	**657 574**	**72 881**	**11.08**	622 284	66 257	10.65
Interest-earning assets		**779 990**	**80 323**	**10.30**	741 715	73 207	9.87
INTEREST-BEARING LIABILITIES							
Average JIBAR				**7.34**			6.59
Deposits due to customers	2	**(483 623)**	**(24 287)**	**5.02**	(446 675)	(19 745)	4.42
Group Treasury funding		**(282 948)**	**(19 156)**	**6.77**	(266 855)	(16 785)	6.29
Interest-bearing liabilities		**(766 571)**	**(43 443)**	**5.67**	(713 530)	(36 530)	5.12
ENDOWMENT AND TRADING BOOK							
Other assets*		**190 527**	**–**	**–**	178 868	–	–
Other liabilities**		**(117 069)**	**–**	**–**	(123 784)	–	–
NCNR preference shareholders		**(3 000)**	**–**	**–**	(3 000)	–	–
Equity		**(83 877)**	**–**	**–**	(80 269)	–	–
Endowment and trading book		**(13 419)**	**2 969**	**(22.13)**	(28 185)	1 656	(5.88)
Total interest-bearing liabilities, endowment and trading book		**(779 990)**	**(40 474)**	**5.19**	(741 715)	(34 874)	4.70
Net interest margin on average interest-earning assets		**779 990**	**39 849**	**5.11**	741 715	38 333	5.17

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

* *Includes preference share advances, trading assets and securitisation notes.*

** *Includes trading liabilities.*

[#] *Includes level 1 HQLA and level 2 HQLA, and corporate bonds not qualifying as HQLA.*

[†] *Comparatives have been restated due to refinements in the calculations.*

Note 1 – Margin analysis on loans and advances to customers

R million	June 2017		June 2016	
	Average balance	**Average margin %**	Average balance	Average margin %
Average prime rate (RSA)		**10.50**		9.92
ADVANCES				
Retail – secured	**311 853**	**2.66**	308 452	2.69
Residential mortgages	**191 454**	**1.67**	185 354	1.73
VAF	**120 399**	**4.24**	123 098	4.14
Retail – unsecured	**67 426**	**12.31**	61 315	12.60
Card	**23 089**	**9.35**	21 193	9.63
Personal loans	**29 336**	**16.29**	26 324	17.02
– FNB	**16 528**	**14.46**	15 291	15.21
– WesBank	**12 808**	**18.65**	11 033	19.52
Retail other	**15 001**	**9.09**	13 798	8.76
Corporate and commercial	**278 295**	**2.24**	252 517	2.38
FNB commercial	**79 569**	**3.43**	71 564	3.53
– Mortgages	**18 711**	**2.40**	16 776	2.49
– Overdrafts	**30 044**	**4.37**	26 568	4.51
– Term loans	**30 814**	**3.14**	28 220	3.23
WesBank corporate	**29 044**	**2.10**	29 452	2.45
RMB investment banking*	**137 477**	**1.70**	119 932	1.82
RMB corporate banking	**32 205**	**1.71**	31 569	1.78
Total advances	**657 574**	**3.47**	622 284	3.54

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

* *Assets under agreement to resell and preference share advances are excluded from loans and advances to customers.*

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

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

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

Note 2 – Margin analysis on deposits due to customers

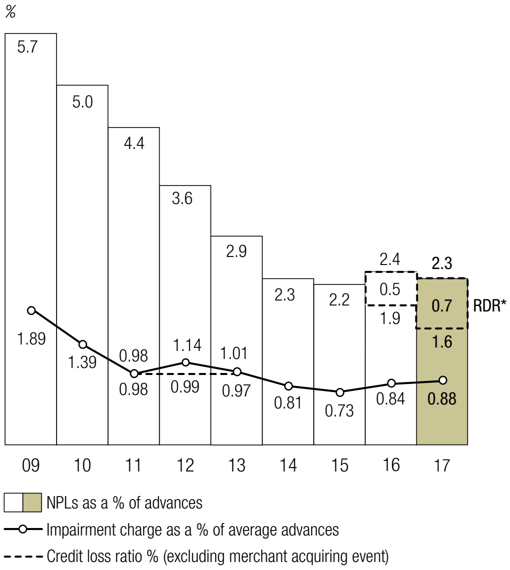
	June 2017		June 2016*	
R million	Average balance	Average margin %	Average balance	Average margin %
Average JIBAR (RSA)		**7.34**		6.59
DEPOSITS				
Retail	**174 797**	**2.86**	154 001	3.00
Current and savings	**54 504**	**6.75**	52 149	6.37
Call	**47 421**	**1.31**	38 090	1.62
Term	**72 872**	**0.96**	63 762	1.07
Commercial	**174 485**	**2.91**	159 717	2.80
Current and savings	**64 599**	**6.05**	59 996	5.53
Call	**66 569**	**1.47**	60 105	1.62
Term	**43 317**	**0.46**	39 616	0.44
Corporate and investment banking	**134 341**	**0.84**	132 957	0.77
Current and savings	**58 613**	**1.38**	56 832	1.38
Call	**53 014**	**0.46**	53 932	0.34
Term	**22 714**	**0.37**	22 193	0.28
Total deposits	**483 623**	**2.32**	446 675	2.26

Average balances are daily averages for FNB and WesBank, and monthly averages for RMB.

* *Comparatives have been restated due to refinements in the calculations.*

CREDIT HIGHLIGHTS

NPLs and impairment history



* *Restructured debt-review*

Credit portfolio management

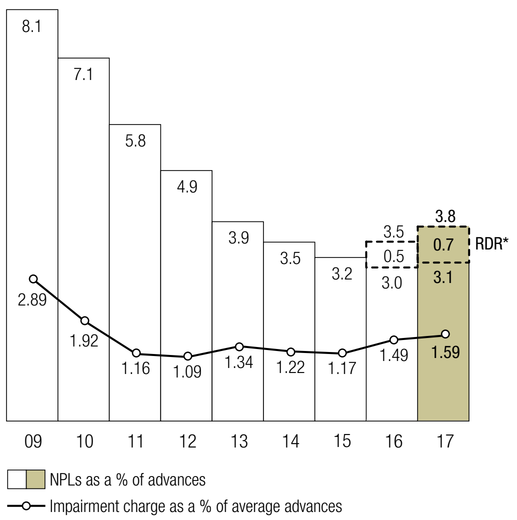
R million	Year ended 30 June 2017	2016	% change
Total gross advances	**814 278**	778 906	5
NPLs	**18 509**	18 953	(2)
NPLs as a % of advances	**2.27**	2.43	
Impairment charge	**6 984**	6 255	12
Credit loss ratio (%)	**0.88**	0.84	
Total impairments	**14 859**	14 818	–
– Portfolio impairments	**7 711**	7 510	3
– Specific impairments	**7 148**	7 308	(2)
Specific coverage ratio (%)*	**38.6**	38.6	
Total impairment coverage ratio (%)**	**80.3**	78.2	
Performing book coverage ratio (%)#	**0.97**	0.99	

* *Specific impairments as a percentage of NPLs.*

** *Total impairments as a percentage of NPLs.*

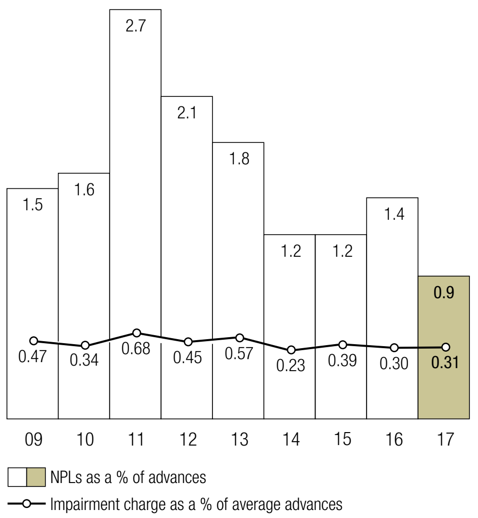
Portfolio impairments as a percentage of the performing book.

Retail NPLs and impairments



* *Restructured debt-review*

Corporate and commercial NPLs and impairments



Credit impairments increased 12%, with the credit loss ratio increasing from 84 bps in June 2016 to 88 bps, reflecting the deteriorating macroeconomic environment in South Africa.

The 3% increase in portfolio impairments reflects the more muted book growth as well as the deteriorating macroeconomic environment in South Africa. The improvement in commodity prices over the last 12 months did, however, result in a significant reduction of impairments raised in the current year in RMB against its mining, and oil and gas portfolios.

The total impairment coverage ratio increased from 78.2% at June 2016 to 80.3%, reflecting the impact of a significant reduction in corporate NPLs as a result of the work-out and write-off of certain large corporate exposures, in spite of a partial central overlay release and the lower NPL coverage on paying debt-review customers.

KEY DRIVERS

- Retail NPLs as a % of advances increased to 3.80% (2016: 3.53%):
  - Residential mortgage NPLs reduced 2% year-on-year. NPLs have trended up marginally for the six months to June 2017, reflecting the turn of the cycle, resulting in lower cure rates and an increase in new NPL formation across the portfolio, which is expected to continue.
  - An increase of 16% in FNB loans and a 22% increase in card NPLs, reflecting the worsening macroeconomic environment, new business strain and the increasing number of debt-review NPLs. Debt-review NPLs comprise 35% and 26%, respectively, of the FNB loans and card NPL portfolios.
- Retail SA VAF and WesBank personal loans NPLs increased 17% and 19% respectively. An increase in the proportion of restructured debt-review accounts as well as the worsening credit cycle adversely impacted NPL formation. The total retail SA VAF charge of 1.55% has been impacted by the growth in NPLs together with adjustments in LGD models.
- NPLs in MotoNovo increased 37% (GBP +58%), moderating from the first half performance, reflecting the positive impact of certain risk mitigation strategies implemented towards the end of 2016. The growth in NPLs was expected given the strong book growth experienced over the last three financial years and the maturing of the advances book.
- Corporate NPLs decreased 59% since June 2016. The decrease was specifically due to the work-out and write-off of certain large resource-related NPLs in the RMB investment banking advances book as well as certain WesBank corporate exposures, which originated in previous reporting periods.
- FNB commercial NPLs increased 17% reflecting strong book growth, an increase in agric NPLs as a result of book growth and the impact of the recent drought conditions, and an increase in specialised finance NPLs.
- Post write-off recoveries remained robust at R2 093 million (June 2016: R1 856 million) driven by card, the unsecured retail lending portfolios and retail SA VAF.

The table below provides an overview of the coverage ratios between debt-review and non-debt review/operational NPLs.

R million	June 2017					
	Operational NPLs	Debt-review NPLs	Total NPLs	Total NPLs % change	Operational NPLs % change	Debt-review NPLs as a % of total NPLs
Residential mortgages	4 090	470	4 560	(2)	(5)	10
Card	689	237	926	22	23	26
Personal loans	798	429	1 227	16	(1)	35
Retail other	677	181	858	9	2	21
FNB retail NPLs	6 254	1 317	7 571	4	(1)	17
WesBank loans	220	1 125	1 345	19	(18)	84
SA VAF	2 757	2 905	5 662	17	16	51
WesBank retail NPLs	2 977	4 030	7 007	17	12	58
Total NPLs	13 162	5 347	18 509	(2)	(10)	29

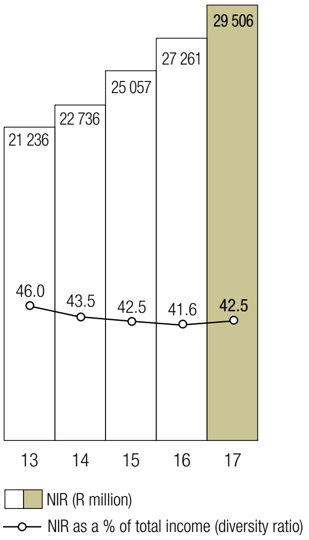
Coverage ratio (%)	Debt-review coverage		Non-debt review coverage		Total NPL coverage			
	June 2017	June 2016	June 2017	June 2016	June 2017	June 2016	Change	
FNB credit card	**45.1**	43.0	**74.2**	76.0	**67.0**	67.3	(0.3)	↓
FNB retail other	**37.9**	43.0	**75.5**	75.6	**67.1**	70.4	(3.3)	↓
FNB loans	**48.2**	66.7	**69.2**	70.1	**61.9**	71.3	(9.4)	↓
WesBank loans	**31.6**	32.6	**71.3**	70.2	**38.1**	41.2	(3.1)	↓
SA VAF	**15.5**	18.3	**44.1**	40.5	**29.3**	29.5	(0.2)	↓

NON-INTEREST REVENUE

NON-INTEREST REVENUE – UP 8%

Non-interest revenue and diversity ratio

NIR CAGR 9%



Analysis of non-interest revenue

		Year ended 30 June		
R million	Notes	2017	2016	% change
Fee and commission income	1	**22 199**	21 119	5
Markets, client and other fair value income	2	**3 692**	2 807	32
Investment income		**137**	91	51
Other non-interest revenue	3	**3 478**	3 244	7
Non-interest revenue		**29 506**	27 261	8

NIR growth was resilient given the difficult macroeconomic environment, with fee and commission income growth benefiting from robust volume growth, specifically in electronic channels, combined with solid growth in customer numbers. Fee and commission income represents 75% (June 2016: 77%) of NIR.

The overall downward long-term trend in the diversity ratio, despite NIR growth over the past five years, results from strong deposit growth, positive endowment impact, specific credit strategies, including change in mix in retail advances and repricing strategies. NIR growth has been negatively impacted by the ongoing success of the e-migration strategy (resulting in lower fees) and regulatory pressures.

Note 1 – Fee and commission income – up 5%

R million	Year ended 30 June 2017	2016	% change
Bank commissions and fee income	**22 546**	21 342	6
– Card commissions	**3 437**	3 062	12
– Cash deposit fees	**1 623**	1 752	(7)
– Commissions on bills, drafts and cheques*	**2 206**	2 124	4
– Bank charges*,**	**15 280**	14 404	6
Knowledge-based fees	**1 448**	1 337	8
Management and fiduciary fees	**765**	683	12
Insurance income	**996**	1 032	(3)
Other non-bank commissions	**710**	638	11
Gross fee and commission income	**26 465**	25 032	6
Fee and commission expenditure	**(4 266)**	(3 913)	9
Total fee and commission income	**22 199**	21 119	5

* *Bank charges which better relate more to commissions on bills, drafts and cheques have been reallocated in the prior year.*

** *Bank charges include annual and monthly administrative fees, fees for customer transaction processing (e.g. SASwitch fees), cash withdrawal fees, debit order charges, internet banking fees and utilisation of other banking services.*

KEY DRIVERS

- FNB grew NIR 6% driven by increased cross-sell into the client base, as well as growth in the main-banked client base, specifically in premium (+7%) and commercial (+11%).
- The e-migration and cross-sell strategy remains successful, but impacted absolute NIR growth negatively through lower fee levels, specifically lower cash deposit fees, and higher reward costs. In addition, through the simplification of the product offering and pricing strategies in the consumer segment, fee income growth was curtailed by c.R540 million.
- Transaction volume growth remained robust at 10%. Electronic volumes increased 11%, whilst manual volumes grew 1%.

	Increase in transaction volumes %
Mobile (excluding prepaid)	**20**
Internet banking	**7**
Cheque card	**10**
Banking app	**68**
ADT/ATM deposits	**13**

- Insurance revenue decreased marginally, negatively impacted by slower new business volumes in MotoNovo and the rand appreciation.
- Knowledge-based fees remained robust, underpinned by key lending transactions, underwriting mandates and structuring fees.
- The bank's management and fiduciary fee income growth of 12% reflects increased management fees from the group's associates and joint ventures.

Note 2 – Markets, client and other fair value income – up 32%

	Year ended 30 June		
R million	**2017**	2016	% change
Client	**1 832**	1 134	62
Markets	**1 185**	1 446	(18)
Other	**675**	227	>100
Total markets, client and other fair value income	**3 692**	2 807	32

KEY DRIVERS

- Client revenues remained resilient, with the structuring business posting a strong performance, emanating from notable client-driven solutions, as well as the non-repeat of a prior year specific credit event.
- Flow trading and residual risk activities delivered a balanced performance across all asset classes relative to the prior year, which benefited from heightened levels of volatility in the foreign exchange and fixed income markets. This was coupled with a solid commodities and equities performance, benefiting from increased prices and sustained volumes.
- The increase in other fair value income relates to gains on economic hedges relating to the securitisation transactions, the majority of which eliminate at a FirstRand group level. The remaining external portion of the economically hedged fair value income pulls to par over the life of the instrument. This was partially offset by lower net TRS fair value income (impacted by the move in FirstRand's share price year-on-year, the number of shares hedged through the TRS, and the grant values and vesting of the various schemes).

Note 3 – Other non-interest revenue – up 7%

KEY DRIVERS

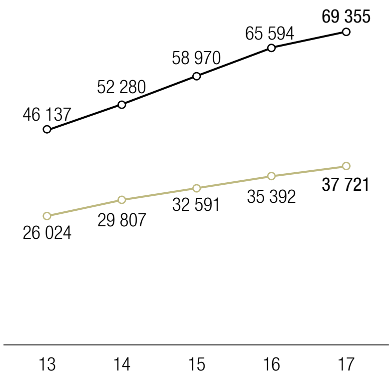
- The most significant other non-interest income item relates to various intercompany charges from other FirstRand group companies, such as service charges and management fees. These eliminate on consolidation on a group level.
- The remaining significant other non-interest income items relate to various rental income streams. Rental income in WesBank and FNB showed strong growth, with WesBank in particular showing strong growth in its FML book.

OPERATING EXPENSES

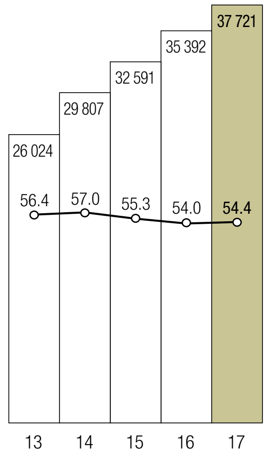
OPERATING EXPENSES – UP 7%

Operating jaws

R million



Operating efficiency



Operating expenses

R million	Year ended 30 June 2017	2016	% change
Staff expenditure	**21 847**	20 724	5
– Direct staff expenditure*	**14 508**	13 737	6
– Other staff-related expenditure*	**7 339**	6 987	5
Depreciation of property and equipment	**2 311**	1 989	16
Amortisation of intangible assets	**94**	46	>100
Advertising and marketing	**1 114**	1 025	9
Insurance	**231**	225	3
Lease charges	**1 267**	1 189	7
Professional fees	**1 636**	1 521	8
Audit fees	**246**	288	(15)
Computer expenses	**1 912**	1 577	21
Repairs and maintenance	**1 145**	1 070	7
Telecommunications	**275**	251	10
Cooperation agreements and joint ventures	**646**	579	12
Property	**834**	767	9
Business travel	**313**	350	(11)
Other expenditure	**3 850**	3 791	2
Total operating expenses	**37 721**	35 392	7

* *Prior year numbers are restated by R480 million to reflect the change in the treatment of retirement benefit contributions due to amended legislation, moving it from other staff-related expenditure to direct staff expenditure.*

KEY DRIVERS

- Cost growth slowed to 7% from the 9% recorded in 2016, a pleasing result given the bank's ongoing investment spend on new initiatives and platforms, highlighting the focus on operational efficiencies given the pressure on topline growth due to the constrained macroeconomic environment.
- This outcome was primarily driven by a modest increase of 5% in staff costs.

	% change	REASONS
Direct staff costs	6	Impacted by unionised increases at an average of 7.8% in August 2016 and a slight decrease in staff complement across the bank.
Other staff-related expenditure	5	The increase was driven by a modest increase of 3% in variable staff costs related to lower levels of normalised earnings and NIACC growth in the current year. Normalised share-based payment expenses increased marginally given the increase in FirstRand's share price.

- The 16% increase in depreciation was driven by strong growth in WesBank's FML book, continuing investment in infrastructure (e.g. ATMs/ADTs), ongoing investment in electronic platforms and commissioning of new premises over the previous three financial years.
- The increase in amortisation of intangibles is due to software capitalised in FNB and RMB.
- The 8% growth in professional fees and 21% growth in computer expenses reflect continued spend on licensing fees, projects related to various electronic platforms and infrastructure upgrades as well as additional compliance-related projects.
- Advertising and marketing costs increased substantially due to market segment-focused advertising campaigns on TV, radio and the internet across the operating franchises.
- Growth in lease charges was driven by increased property and equipment rental.

balance sheet analysis and financial resource management

A 50 – 82

ECONOMIC VIEW OF THE BALANCE SHEET

The structure of the balance sheet reflects the bank's long-term strategy to increase balance sheet resilience, diversify credit exposures across sectors and segments, and increase market liquidity with less reliance on institutional funding.

When assessing the underlying risk in the balance sheet, the bank's asset profile is dominated by a balanced advances portfolio, which constitutes 78% of total assets. The composition of the net advances portfolio consists of retail secured (39%), retail unsecured (9%), corporate and commercial (49%) and rest of Africa and other (3%). Total NPLs were R18.5 billion (2.27% as a percentage of advances) with a credit loss ratio of 0.88%.

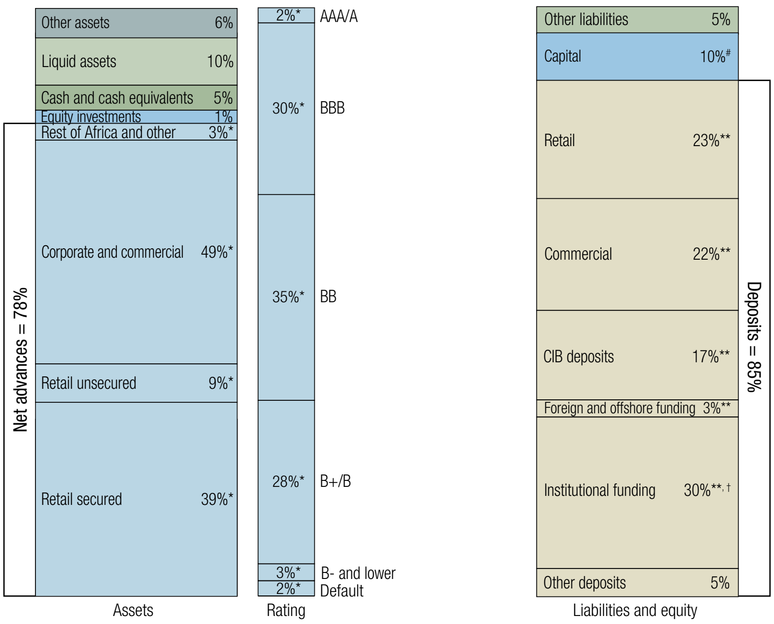
Cash and cash equivalents, and liquid assets represent 5% and 10%, respectively, of total assets. Only a small portion of assets relate to the investment and markets businesses. Market risk arising from trading activities has remained low.

FRB's funding profile continues to reflect the structural funding issues associated with the South African banking sector, however, the bank has continued to improve its risk-adjusted funding profile whilst targeting a lower proportion of institutional funding relative to peers. The weighted average remaining term of the bank's institutional funding was 33 months at 30 June 2017 (2016: 31 months).

The bank's capital ratios remained strong with the CET1 ratio 14.1%, Tier 1 ratio 14.3% and total capital adequacy ratio 17.3%. Gearing decreased to 12.9 times (2016: 13.1 times).

Economic view of the balance sheet

%



* *As a proportion of loans and advances.*

** *As a proportion of deposits.*

\# *Ordinary equity (8%) and NCNR preference shares and Tier 2 liabilities (2%).*

† *Includes CIB institutional funding and foreign branch platform.*

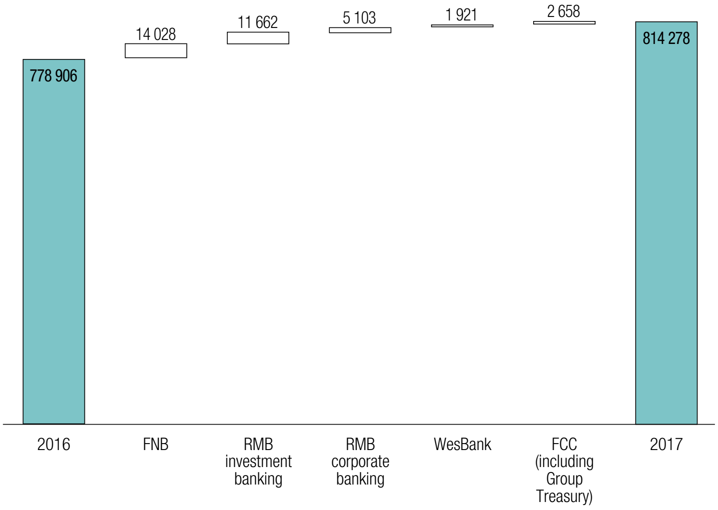
Note: Derivative-, securities lending- and short trading position assets and liabilities have been netted off.

Disclosures relating to the deposit split were previously based on a risk counterparty view. This has been refined to align to a finance product and segment view. "Other deposits" comprises collateral received and repurchase agreements.

ADVANCES – UP 5%

Gross advances growth by franchise

R million



Advances

	As at 30 June		
R million	2017	2016	% change
Gross advances	**814 278**	778 906	5
Impairment of advances	**(14 859)**	(14 818)	–
Net advances	**799 419**	764 088	5

Advances growth slowed to 5% from 8% in the prior year. This was driven by the difficult macroeconomic environment resulting in disciplined resource allocation and by the strengthening of the rand against the US dollar and British pound year-on-year. On a constant-currency basis, the bank achieved 6% advances growth.

Growth rates moderated across all retail portfolios compared to the prior year, reflecting the impact of the continued deterioration in the South African macroeconomic environment, higher average interest rates and the bank's resultant conservative risk appetite.

The constrained macroeconomic environment, higher funding costs and disciplined pricing of financial resources continues to place pressure on the corporate portfolio, specifically in South Africa. Despite this, the portfolio produced solid balance sheet growth during the reporting period.

PORTFOLIO/PRODUCT	% CHANGE	KEY DRIVERS
FNB retail	**4**	
Residential mortgages	3	• 2% growth in FNB HomeLoans, reflecting a slowdown in nominal house price inflation and lower demand. • Satisfactory growth of 11% in secured affordable housing on the back of client demand.
Card	8	• Underpinned by targeted client acquisition, increased client migration as well as increased limits and utilisation in the premium segment. Growth in card in the consumer segment has been marginally negative given reduced risk appetite.
Personal loans	–	• Growth was flat compared to the 16% growth recorded in the 2016 financial year reflecting a more conservative origination appetite, with further cuts made in November 2016. The growth has been differentiated between the consumer and premium segments.
Retail other	8	• Growth driven by increases in transactional banking accounts (primarily overdrafts), although moderating from the prior year, reflecting lower risk appetite.
FNB commercial	**7**	• Reflecting targeted new client acquisition in the business segment, resulting in growth of 13% in agric and 6% in commercial property finance.
RMB*	**14**	• Growth from the SA core advances book was solid in spite of the constrained macroeconomic environment and competitive pressures. Cross-border growth was up 13% in constant currency terms, reflecting drawdowns of pre-existing facilities and targeted new credit extension. In rand terms, the cross-border book increased 1% year-on-year.
WesBank	**1**	• WesBank's advances grew 1% impacted by the devaluation of the pound against the rand, as well as the timing of securitisation transactions during the current year. In constant-currency terms advances grew 4%. • Overall growth in advances was negatively impacted by a decrease of 9% in new passenger vehicle sales and customers opting to "buy down" or move into secondhand vehicles given historic high new vehicle price inflation. In addition, the R10 billion securitisation in the MotoNovo book and R7 billion in retail SA VAF in the current year, constrained absolute advances growth. • New business volumes in MotoNovo remained resilient with the book growing 20% in GBP (4% in rand), driven by increased volumes, new products and increased footprint. Growth rates have moderated from the 34% in GBP terms recorded in the prior financial year, reflecting tightening of credit criteria in higher risk origination buckets. • Loans reflected good advances growth of 14% benefiting from increased growth in lower risk segments of the market, offset by cuts in higher risk buckets and impacted by the introduction of NCAA rates. • Corporate new business volumes contracted 19%, reflecting the difficult macroeconomic environment.

* *Core advances.*

CREDIT

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

CREDIT HIGHLIGHTS AT A GLANCE

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

		Year ended 30 June		
R million	Notes	2017	2016	% change
Total gross advances	1	**814 278**	778 906	5
NPLs	2	**18 509**	18 953	(2)
NPLs as a % of advances	2	**2.27**	2.43	
Impairment charge	3	**6 984**	6 255	12
Credit loss ratio (%)	3	**0.88**	0.84	
Total impairments	4	**14 859**	14 818	–
– Portfolio impairments	4	**7 711**	7 510	3
– Specific impairments	4	**7 148**	7 308	(2)
Specific coverage ratio (%)*	4	**38.6**	38.6	
Total impairment coverage ratio (%)**	4	**80.3**	78.2	
Performing book coverage ratio (%)#		**0.97**	0.99	

* *Specific impairments as a percentage of NPLs.*

** *Total impairments as a percentage of NPLs.*

\# *Portfolio impairments as a percentage of the performing book.*

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

NOTE 1: ANALYSIS OF ADVANCES

Segmental analysis of advances

	Advances			
	As at 30 June			% composition
R million	2017	2016	% change	2017
Retail	**387 930**	379 321	2	**48**
Retail – secured	**320 812**	316 696	1	**39**
Residential mortgages	**195 498**	189 453	3	**24**
VAF	**125 314**	127 243	(2)	**15**
– SA	**95 285**	98 377	(3)	**12**
– MotoNovo*	**30 029**	28 866	4	**3**
Retail – unsecured	**67 118**	62 625	7	**9**
Card	**23 800**	21 968	8	**3**
Personal loans	**27 889**	26 313	6	**4**
– FNB	**14 372**	14 443	–	**2**
– WesBank	**13 517**	11 870	14	**2**
Retail other	**15 429**	14 344	8	**2**
Corporate and commercial	**401 064**	378 224	6	**49**
FNB commercial	**83 566**	77 941	7	**10**
WesBank corporate	**31 364**	29 161	8	**4**
RMB investment banking	**228 045**	216 383	5	**28**
RMB corporate banking	**39 545**	34 442	15	**5**
HQLA corporate advances**	**18 544**	20 297	(9)	**2**
FNB Africa#	**273**	761	(64)	**–**
FCC (including Group Treasury)	**25 011**	20 600	21	**3**
Securitisation notes	**19 223**	14 641	31	**2**
Other	**5 788**	5 959	(3)	**1**
Total advances	**814 278**	778 906	5	**100**
Of which:				
Accrual book	**583 234**	532 248	10	**72**
Fair value book†	**231 044**	246 658	(6)	**28**

* *MotoNovo book GBP1.77 billion (+20%) (2016: GBP1.47 billion).*
** *Managed by the Group Treasurer.*
# *Includes FNB's activities in India.*
† *Including advances classified as available-for-sale.*

The table below reflects assets under agreements to resell included in the RMB corporate and investment banking loan books.

	Advances			
	As at 30 June			% composition
R million	2017	2016	% change	2017
Corporate and investment banking advances	**267 590**	250 825	7	**100**
Less: assets under agreements to resell	**(29 047)**	(40 818)	(29)	**(11)**
RMB advances net of assets under agreements to resell	**238 543**	210 007	14	**89**

Sector and geographic analysis of advances

	As at 30 June			% composition
R million	2017	2016	% change	2017
Gross advances	**815 960**	780 374	5	**100**
Less: interest in suspense	**(1 682)**	(1 468)	15	**–**
Advances net of interest in suspense	**814 278**	778 906	5	**100**
Sector analysis				
Agriculture	**30 220**	28 032	8	**4**
Banks	**4 951**	10 674	(54)	**1**
Financial institutions*	**132 200**	115 944	14	**16**
Building and property development*	**42 637**	43 984	(3)	**5**
Government, Land Bank and public authorities	**22 740**	19 524	16	**3**
Individuals	**372 740**	366 556	2	**46**
Manufacturing and commerce	**92 148**	86 185	7	**11**
Mining	**16 461**	16 426	–	**2**
Transport and communication	**18 635**	19 320	(4)	**2**
Other services*	**81 546**	72 261	13	**10**
Total advances	**814 278**	778 906	5	**100**
Geographic analysis				
South Africa	**739 728**	708 002	4	**91**
Other Africa	**26 982**	25 740	5	**3**
UK	**35 810**	32 255	11	**4**
Other Europe	**5 475**	6 155	(11)	**1**
North America	**1 727**	798	>100	**–**
South America	**434**	952	(54)	**–**
Australasia	**1**	409	(100)	**–**
Asia	**4 121**	4 595	(10)	**1**
Total advances	**814 278**	778 906	5	**100**

* *An analysis of other services was undertaken and resulted in R19 310 million being restated to financial institutions (R14 641 million) and to building and property development (R4 669 million) in the prior year.*

NOTE 2: ANALYSIS OF NPLs

Segmental analysis of NPLs

	NPLs				NPLs as a % of advances	
	As at 30 June			% composition	As at 30 June	
R million	2017	2016	% change	2017	2017	2016
Retail	**14 750**	13 380	10	**80**	**3.80**	3.53
Retail – secured	**10 394**	9 647	8	**56**	**3.24**	3.05
Residential mortgages	**4 560**	4 664	(2)	**25**	**2.33**	2.46
VAF	**5 834**	4 983	17	**31**	**4.66**	3.92
– SA	**5 662**	4 857	17	**31**	**5.94**	4.94
– MotoNovo*	**172**	126	37	**–**	**0.57**	0.44
Retail – unsecured	**4 356**	3 733	17	**24**	**6.49**	5.96
Card	**926**	759	22	**5**	**3.89**	3.46
Personal loans	**2 572**	2 187	18	**14**	**9.22**	8.31
– FNB	**1 227**	1 059	16	**7**	**8.54**	7.33
– WesBank	**1 345**	1 128	19	**7**	**9.95**	9.50
Retail other	**858**	787	9	**5**	**5.56**	5.49
Corporate and commercial	**3 710**	5 432	(32)	**20**	**0.93**	1.44
FNB commercial	**2 280**	1 941	17	**12**	**2.73**	2.49
WesBank corporate	**258**	302	(15)	**2**	**0.82**	1.04
RMB investment banking	**1 137**	3 073	(63)	**6**	**0.50**	1.42
RMB corporate banking	**35**	116	(70)	**–**	**0.09**	0.34
HQLA corporate advances**	**–**	–	–	**–**	**–**	–
FNB Africa#	**49**	141	(65)	**–**	**17.95**	18.53
FCC (including Group Treasury)	**–**	–	–	**–**	**–**	–
Securitisation notes	**–**	–	–	**–**	**–**	–
Other	**–**	–	–	**–**	**–**	–
Total NPLs	**18 509**	18 953	(2)	**100**	**2.27**	2.43
Of which:						
Accrual book	**17 706**	16 321	8	**96**	**3.04**	3.07
Fair value book	**803**	2 632	(69)	**4**	**0.35**	1.07

* *MotoNovo NPLs of GBP10 million (+58%) (2016: GBP6 million).*

** *Managed by the Group Treasurer.*

\# *Includes FNB's activities in India.*

Sector and geographic analysis of NPLs

	NPLs				NPLs as a % of advances	
	As at 30 June			% composition	As at 30 June	
R million	**2017**	2016	% change	**2017**	**2017**	2016
Sector analysis						
Agriculture	**620**	393	58	**3**	**2.05**	1.40
Banks	**–**	41	–	**–**	**–**	0.38
Financial institutions	**94**	91	3	**1**	**0.07**	0.08
Building and property development	**1 060**	1 237	(14)	**6**	**2.49**	2.81
Government, Land Bank and public authorities	**27**	12	>100	**–**	**0.12**	0.06
Individuals	**14 084**	13 027	8	**75**	**3.78**	3.55
Manufacturing and commerce	**950**	766	24	**5**	**1.03**	0.89
Mining	**485**	2 013	(76)	**3**	**2.95**	12.25
Transport and communication	**152**	196	(22)	**1**	**0.82**	1.01
Other services	**1 037**	1 177	(12)	**6**	**1.27**	1.63
Total NPLs	**18 509**	18 953	(2)	**100**	**2.27**	2.43
Geographic analysis						
South Africa	**17 761**	16 675	7	**96**	**2.40**	2.36
Other Africa	**111**	1 569	(93)	**1**	**0.41**	6.10
UK	**172**	126	37	**1**	**0.48**	0.39
Other Europe	**58**	62	(6)	**–**	**1.06**	1.01
North America	**358**	379	(6)	**2**	**20.73**	47.49
South America	**–**	–	–	**–**	**–**	–
Australasia	**–**	–	–	**–**	**–**	–
Asia	**49**	142	(65)	**–**	**1.19**	3.09
Total NPLs	**18 509**	18 953	(2)	**100**	**2.27**	2.43

Security and recoverable amounts by portfolio

	As at 30 June 2017			As at 30 June 2016		
R million	NPLs	Security held and expected recoveries	Specific impairment	NPLs	Security held and expected recoveries	Specific impairment
Retail	**14 750**	**9 522**	**5 228**	13 380	8 566	4 814
Retail – secured	**10 394**	**7 633**	**2 761**	9 647	7 118	2 529
Residential mortgages	**4 560**	**3 567**	**993**	4 664	3 647	1 017
VAF	**5 834**	**4 066**	**1 768**	4 983	3 471	1 512
– SA	**5 662**	**3 995**	**1 667**	4 857	3 422	1 435
– MotoNovo	**172**	**71**	**101**	126	49	77
Retail – unsecured	**4 356**	**1 889**	**2 467**	3 733	1 448	2 285
Card	**926**	**306**	**620**	759	248	511
Personal loans	**2 572**	**1 301**	**1 271**	2 187	967	1 220
– FNB	**1 227**	**468**	**759**	1 059	304	755
– WesBank	**1 345**	**833**	**512**	1 128	663	465
Retail other	**858**	**282**	**576**	787	233	554
Corporate and commercial	**3 710**	**1 810**	**1 900**	5 432	3 034	2 398
FNB commercial	**2 280**	**1 225**	**1 055**	1 941	993	948
WesBank corporate	**258**	**111**	**147**	302	128	174
RMB investment banking	**1 137**	**453**	**684**	3 073	1 842	1 231
RMB corporate banking	**35**	**21**	**14**	116	71	45
HQLA corporate advances*	**–**	**–**	**–**	–	–	–
FNB Africa**	**49**	**29**	**20**	141	45	96
FCC (including Group Treasury)	**–**	**–**	**–**	–	–	–
Securitisation notes	**–**	**–**	**–**	–	–	–
Other	**–**	**–**	**–**	–	–	–
Total	**18 509**	**11 361**	**7 148**	18 953	11 645	7 308

* *Managed by the Group Treasurer.*

** *Includes FNB's activities in India.*

NOTE 3: ANALYSIS OF INCOME STATEMENT CREDIT IMPAIRMENTS

Income statement impairments

The bad debt charge increased marginally from 84 bps at 30 June 2016 to 88 bps at 30 June 2017.

	Total impairment charge			As a % of average advances	
	Year ended 30 June			Year ended 30 June	
R million	2017	2016	% change	2017	2016
Retail	**6 104**	5 464	12	**1.59**	1.49
Retail – secured	**2 264**	2 118	7	**0.71**	0.69
Residential mortgages	**285**	414	(31)	**0.15**	0.22
VAF	**1 979**	1 704	16	**1.57**	1.40
– SA	**1 503**	1 366	10	**1.55**	1.41
– MotoNovo*	**476**	338	41	**1.62**	1.36
Retail – unsecured	**3 840**	3 346	15	**5.92**	5.71
Card	**699**	565	24	**3.05**	2.73
Personal loans	**2 078**	2 026	3	**7.67**	8.24
– FNB	**1 071**	1 051	2	**7.43**	7.84
– WesBank	**1 007**	975	3	**7.93**	8.73
Retail other	**1 063**	755	41	**7.14**	5.66
Corporate and commercial	**1 215**	1 088	12	**0.31**	0.30
FNB commercial	**530**	390	36	**0.66**	0.53
WesBank corporate	**66**	22	>100	**0.22**	0.07
RMB investment banking	**544**	514	6	**0.24**	0.24
RMB corporate banking	**75**	162	(54)	**0.20**	0.48
HQLA corporate advances**	**–**	–	–	**–**	–
FNB Africa#	**15**	(2)	(>100)	**2.90**	(0.33)
FCC (including Group Treasury)†	**(350)**	(295)	19	**(0.04)**	(0.04)
Securitisation notes	**–**	–	–	**–**	–
Other	**(350)**	(295)	19	**(0.04)**	(0.04)
Total impairment charge	**6 984**	6 255	12	**0.88**	0.84
Of which:					
Portfolio impairment charge	**454**	565	(20)	**0.06**	0.08
Specific impairment charge	**6 530**	5 690	15	**0.82**	0.76

* *MotoNovo impairment charge of GBP28 million (+76%) (2016: GBP16 million).*

** *Managed by the Group Treasurer.*

\# *Includes FNB's activities in India.*

† *Percentages calculated on total average advances.*

NOTE 4: ANALYSIS OF BALANCE SHEET IMPAIRMENTS AND COVERAGE RATIOS

The bank constantly monitors market conditions as well as recent and expected recoveries on NPLs to determine coverage ratios.

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	2017	2016	% change	2017	2016
Specific impairments					
Retail	**5 228**	4 814	9	**35.4**	36.0
Retail – secured	**2 761**	2 529	9	**26.6**	26.2
Residential mortgages	**993**	1 017	(2)	**21.8**	21.8
VAF	**1 768**	1 512	17	**30.3**	30.3
– SA*	**1 667**	1 435	16	**29.3**	29.5
– MotoNovo (UK)	**101**	77	31	**58.7**	61.1
Retail – unsecured	**2 467**	2 285	8	**56.6**	61.2
Card	**620**	511	21	**67.0**	67.3
Personal loans*	**1 271**	1 220	4	**49.4**	55.8
– FNB	**759**	755	1	**61.9**	71.3
– WesBank	**512**	465	10	**38.1**	41.2
Retail other*	**576**	554	4	**67.1**	70.4
Corporate and commercial	**1 900**	2 398	(21)	**51.2**	44.1
FNB commercial	**1 055**	948	11	**46.3**	48.8
WesBank corporate	**147**	174	(16)	**57.0**	57.6
RMB investment banking	**684**	1 231	(44)	**60.2**	40.1
RMB corporate banking	**14**	45	(69)	**40.0**	38.8
HQLA corporate advances**	**–**	–	–	**–**	–
FNB Africa#	**20**	96	(79)	**40.8**	68.1
FCC (including Group Treasury)	**–**	–	–	**–**	–
Securitisation notes	**–**	–	–	**–**	–
Other	**–**	–	–	**–**	–
Total specific impairments/implied loss given default†	**7 148**	7 308	(2)	**38.6**	38.6
Portfolio impairments‡	**7 711**	7 510	3	**41.7**	39.6
Total impairments/total impairment coverage ratio^	**14 859**	14 818	–	**80.3**	78.2

* *The coverage ratio is negatively impacted by accounts that have been restructured in terms of the debt-review process. These accounts are reported in NPLs even though the clients may be fully performing in terms of the revised payment terms. This is in line with bank's policy not to reclassify accounts out of NPLs, i.e. accounts will only migrate out of NPLs when clients have repaid all arrears.*

** *Managed by the Group Treasurer.*

Includes FNB's activities in India.

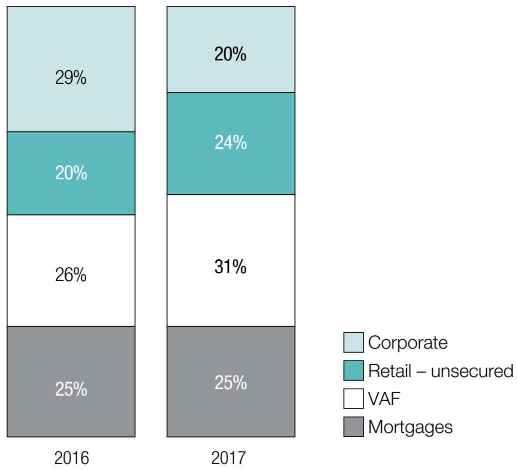
† *Specific impairments as a percentage of NPLs.*

‡ *Portfolio impairments as a percentage of NPLs.*

^ *Total impairments as a percentage of NPLs.*

The graph below provides the NPL distribution over the last two financial years across all portfolios, showing a decrease in the proportion of corporate NPLs and an increase in VAF and unsecured lending NPLs.

NPL distribution



RECONCILIATION OF IMPAIRMENTS

The following table provides an analysis of the balance sheet impairments.

Balance sheet impairments and credit fair value adjustments

	Amortised cost book		Fair value book		Total book	
	As at 30 June		As at 30 June		As at 30 June	
R million	2017	2016	2017	2016	2017	2016
Non-performing book	**6 734**	6 243	**414**	1 065	**7 148**	7 308
Performing book	**5 589**	5 156	**2 122**	2 354	**7 711**	7 510
Total impairments	**12 323**	11 399	**2 536**	3 419	**14 859**	14 818

The following table provides a reconciliation of the balance sheet impairments.

Balance sheet impairments

	As at 30 June		
R million	**2017**	2016	% change
Opening balance	**14 818**	13 514	10
Acquisitions	**26**	6	>100
Exchange rate difference	**(111)**	120	(>100)
Unwinding and discounted present value on NPLs	**(79)**	(77)	3
Bad debts written off	**(8 872)**	(6 856)	29
Net new impairments created	**9 077**	8 111	12
Closing balance	**14 859**	14 818	–

The bank's income statement charge continues to benefit from strong post write-off recoveries in the retail book.

The following table provides an analysis of the income statement impact of impairments.

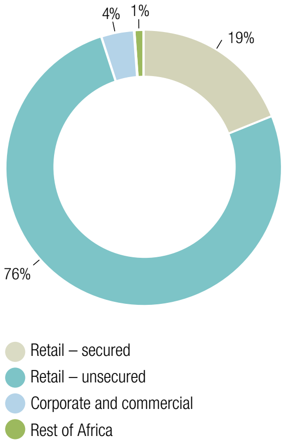
Income statement impairments

	As at 30 June		
R million	**2017**	2016	% change
Specific impairment charge	**8 623**	7 546	14
Specific impairment charge – amortised cost	**8 493**	7 461	14
Credit fair value adjustments – non-performing book	**130**	85	53
Portfolio impairment charge	**454**	565	(20)
Portfolio impairment charge – amortised cost	**440**	393	12
Credit fair value adjustments – performing book	**14**	172	(92)
Total impairments before recoveries	**9 077**	8 111	12
Recoveries of bad debts written off	**(2 093)**	(1 856)	13
Total impairments	**6 984**	6 255	12

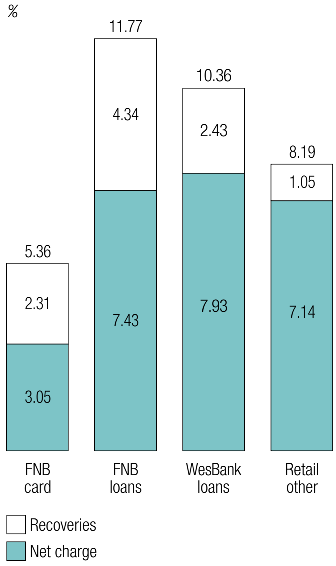
IMPACT OF POST WRITE-OFF RECOVERIES

Post write-off recoveries amounted to R2 093 million (2016: R1 856 million), primarily emanating from the unsecured retail lending portfolio, specifically FNB loans and FNB card.

Post write-off recoveries split



Retail unsecured credit loss ratios and recoveries

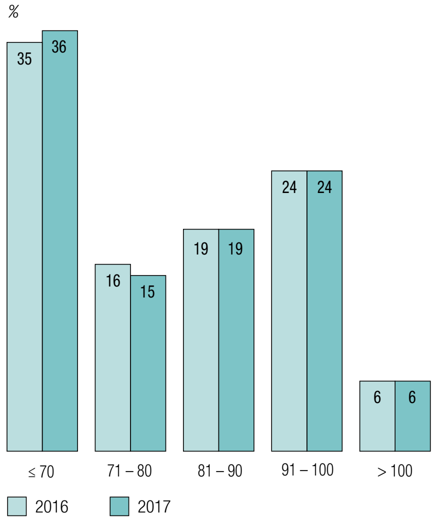


RISK ANALYSES

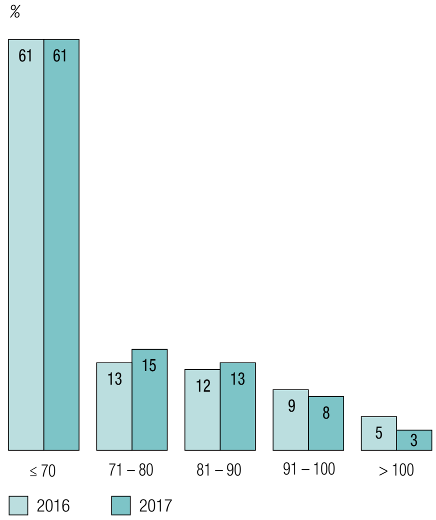
The graphs below provide loan balance-to-value ratios and age distributions of residential mortgages.

Loan-to-value ratios for new business are an important consideration in the credit origination process. The bank, however, places more emphasis on counterparty creditworthiness as opposed to relying only on the underlying security.

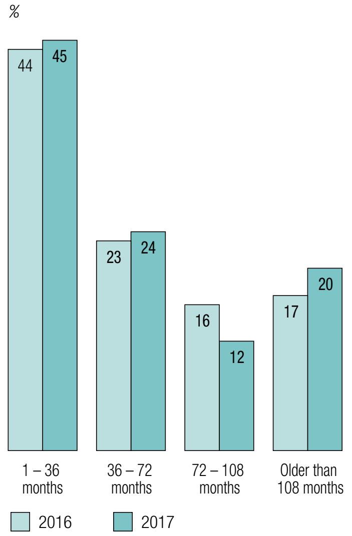
Residential mortgages balance-to-original value



Residential mortgages balance-to-market value



Residential mortgages age distribution



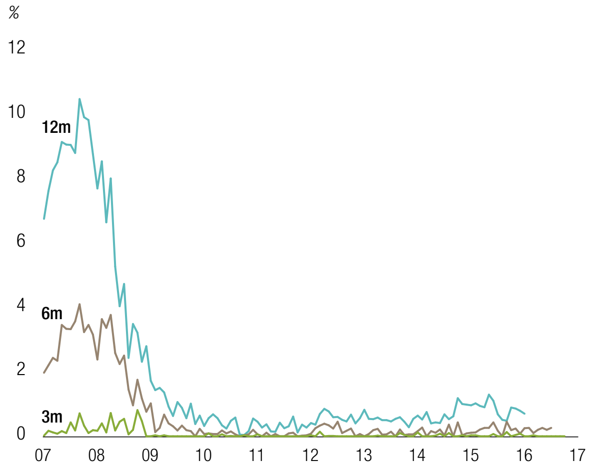
The following graph shows arrears in the FNB HomeLoans portfolio. It includes accounts where more than one full payment is in arrears expressed as a percentage of total advances. The increase over the previous 12 month period reflects the reclassification of restructured debt-review accounts to arrears status.

FNB HomeLoans arrears

The following graphs provide the vintage analyses for FNB HomeLoans, retail SA VAF, FNB card, FNB loans and WesBank personal loans. Vintage graphs reflect the default experience three, six and twelve months after each origination date as well as the impact of origination strategies and the macroeconomic environment on portfolio performance. It does not take into account the impact of cures or subsequent recoveries. As such, vintage graphs are not indicative of the actual credit impairment charge of a product.

Vintages in FNB HomeLoans have trended lower due to strong collections, despite a tough macroeconomic environment. Lower volumes of new HomeLoans business kept book growth muted as credit appetite remained conservative.

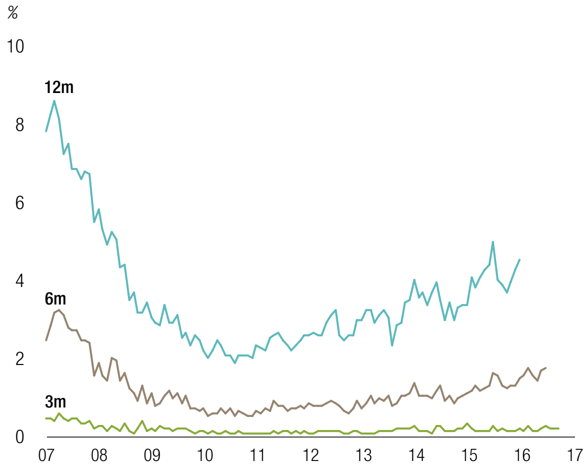
FNB HomeLoans vintage analysis



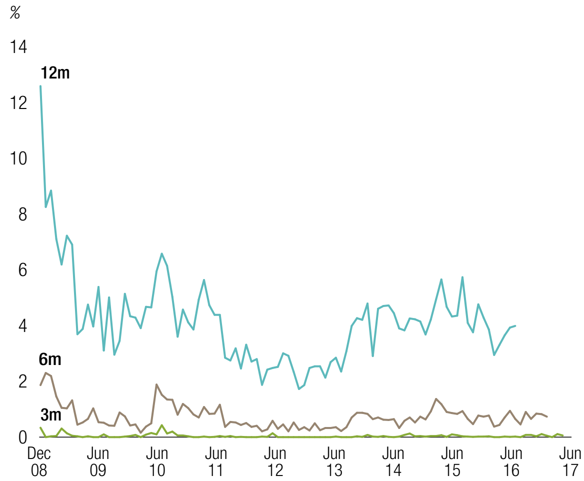
The retail SA VAF cumulative vintage analysis remained well below 2007 levels. More recently, vintages are reflecting continued increases, as expected given the challenging macroeconomic environment as well as the increasing proportion of debt-review NPLs. Risk appetite has been adjusted, with a continued focus on originating a portfolio weighted towards quality, low-risk business. Vintage deterioration is closely monitored and credit parameters adjusted to ensure that performance remains in line with expectations when considering the credit cycle.

FNB card has seen modest advances growth, however, this was concentrated towards higher income segment customers. The book contracted in the lower income bands given the conservative credit appetite in this segment. This, together with good collections, kept default rates within expectations.

WesBank retail SA VAF vintage analysis



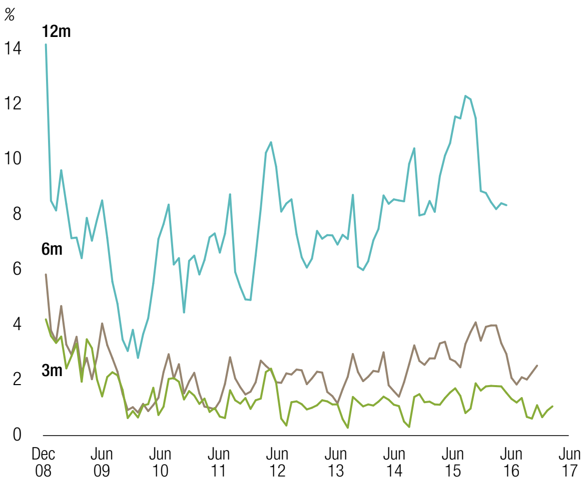
FNB card vintage analysis



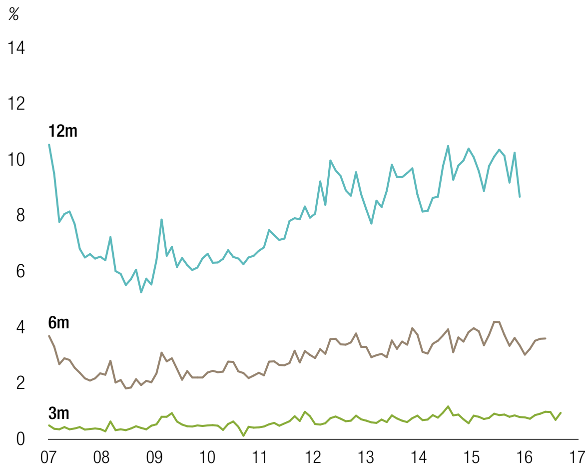
The FNB personal loans portfolio default experience has remained within risk appetite. Risk cuts, conservative origination, especially in the lower income segments, and focused collections ensured that book performance remained within expectations.

WesBank personal loans vintages show a marginal deterioration from 2010 levels. This is expected given the challenging macroeconomic conditions and increased debt review applications. To counter this, credit parameters are continuously adjusted to ensure performance remains in line with expectations. Recent adjustments to credit appetite are proving effective and have assisted in countering macroeconomic conditions.

FNB personal loans vintage analysis



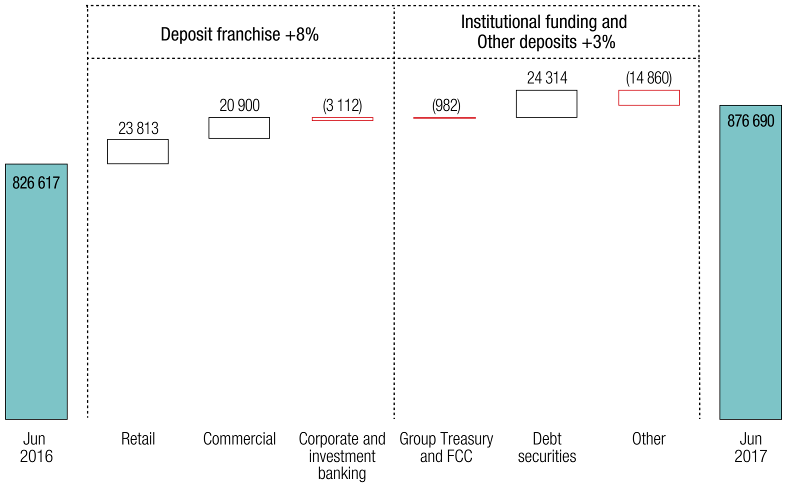
WesBank personal loans vintage analysis



DEPOSITS – UP 6%

Funding portfolio year-on-year growth

R million



KEY DRIVERS

- FNB's deposits increased 13%:
  - retail deposit growth of 14% was supported by ongoing product innovation, with excellent growth of 16% from the premium segment; and
  - commercial deposit growth of 12% was driven by new client acquisition and cross-sell.
- RMB corporate banking grew average daily operational deposits 3%, against a backdrop of a tough client operating environment. Total deposits were down year-on-year due to larger cyclical withdrawals.
- FirstRand, like the rest of the SA banking sector, is dependent on institutional funding in the form of Group Treasury deposits (which grew 10%) and debt securities, which reflected significant growth of 17%. This was impacted by:
  - foreign currency funding and structured issuances in the domestic market – absolute growth was affected by rand appreciation during the year; and
  - an increase in debt securities, which was driven by an increase in funding from the institutional funding market in the form of NCDs and floating rate notes.
- Other deposits include repurchase agreements and cash collateral, both of which decreased during the year.

FUNDING AND LIQUIDITY

INTRODUCTION AND OBJECTIVES

The group strives 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 and to outperform at the margin, which will provide the group with a natural liquidity buffer.

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

Compliance with the Basel III liquidity ratios influences the bank's funding strategy, in particular as it seeks to restore the correct risk-adjusted pricing of liquidity. The bank is actively building its deposit franchise through innovative and competitive products and pricing, while also improving the risk profile of its institutional funding. This continues to improve the funding and liquidity profile of the bank.

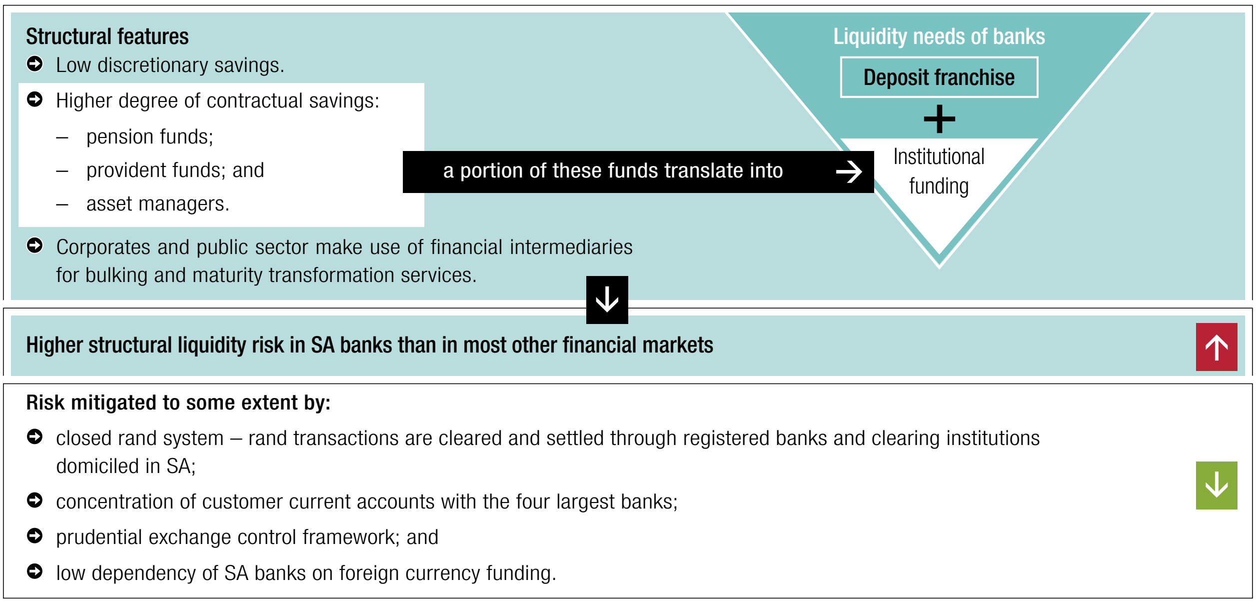
Given market conditions and the regulatory environment, the bank increased its holdings of available liquidity over the year in line with risk appetite. The bank utilised new market structures, platforms and the SARB committed liquidity facility to efficiently increase available liquidity holdings.

At 30 June 2017, the bank exceeded the 80% minimum LCR requirement with an LCR of 105% (2016: 102%) at a FirstRand Bank SA (i.e. excluding foreign branches) level.

At 30 June 2017, the bank's available HQLA sources of liquidity per the LCR amounted to R155 billion, with an additional R10 billion of management liquidity available.

FUNDING MANAGEMENT

The following diagram illustrates the structural features of the banking sector in South Africa and its impact on liquidity risk.



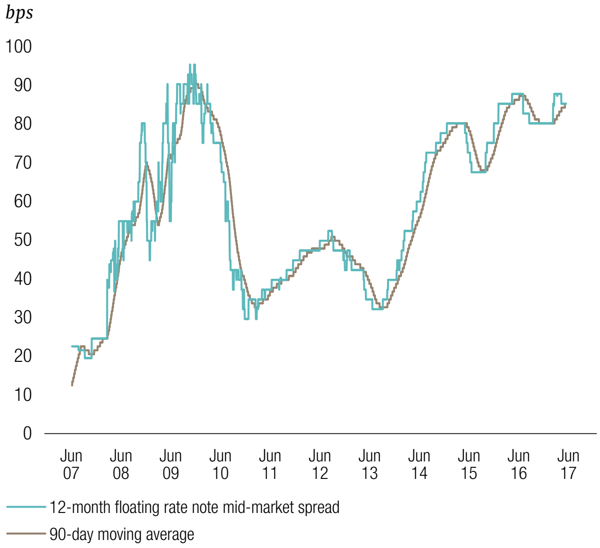
Liquidity demanded by banks as a consequence of money supply constraints introduced by the LCR as well as the central bank's open market operations without a commensurate increase in savings flows, resulted in higher liquidity costs. In light of the structural features discussed above, focus remains on achieving a better risk-adjusted diversified funding profile which also supports the bank in meeting its Basel III requirements.

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

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

The following graph is a representation of the market cost of liquidity, which is measured as the spread paid on NCDs relative to the prevailing swap curve for that tenor. The liquidity spread graph is based on the most actively-traded money market instrument issued by banks, namely 12-month NCDs. The graph shows that liquidity spreads remain elevated.

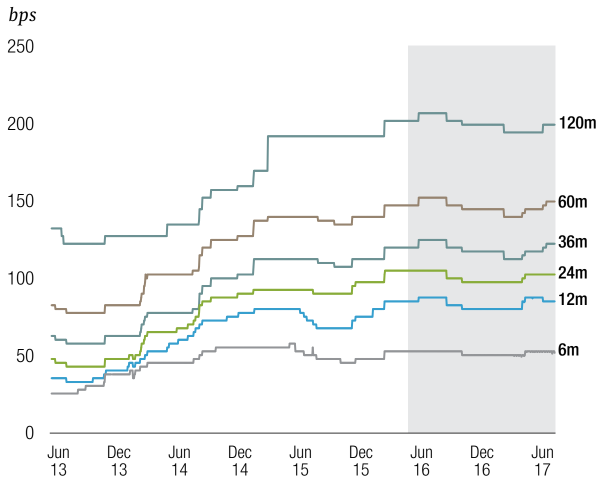
12-month floating rate note mid-market spread



Source: Bloomberg (RMBP screen) and Reuters.

The following graph shows that long-term funding spreads remain elevated from a historical perspective and still appear to be reflecting a high liquidity premium. The liquidity spreads for instruments with maturities less than 12 months in particular are still high.

Long-term funding spreads



Source: Bloomberg (RMBP screen) and Reuters.

Funding measurement and activity

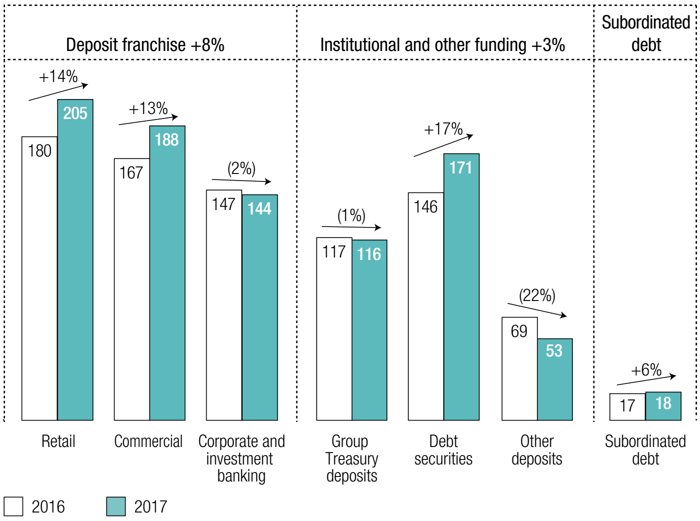
FirstRand Bank, FirstRand's wholly-owned subsidiary and debt issuer, generates a larger proportion of its funding from deposits compared to the South African aggregate, however, its funding profile also reflects the structural features described previously.

The bank manages its funding structure by source, counterparty type, product, currency and market. The deposit franchise is the most efficient source of funding and represented 60% of total bank funding liabilities as at 30 June 2017 (2016: 59%). The bank continued to focus on growing its deposit franchise across all segments, with increasing emphasis on savings and investment products. Progress continues to be made in developing suitable products to attract a greater proportion of clients' available liquidity with improved risk-adjusted pricing for source and behaviour. To fund operations, the bank accesses the domestic money markets daily and, from time to time, capital markets. The bank issues various capital and funding instruments in the capital markets on an auction and reverse-enquiry basis with strong support from investors, both domestically and internationally.

The following graph provides a segmental analysis of the bank's funding base and illustrates the success of its deposit franchise focus, as well as the diversification of the bank's funding from a counterparty perspective.

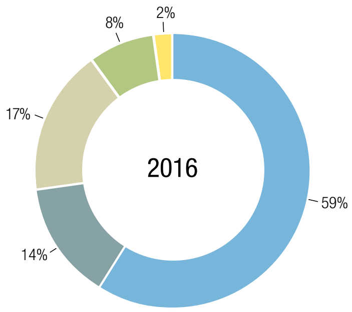
Funding portfolio growth

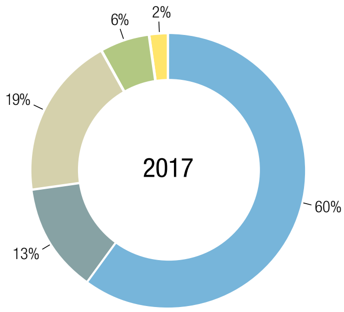
R billion



The graphs below show that the bank's funding mix has remained stable over the last 12 months.

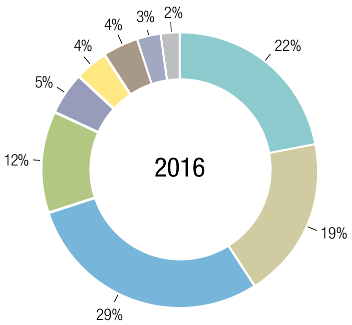
Bank's funding mix

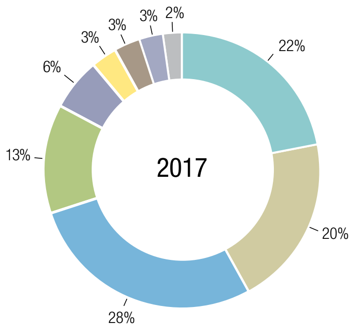




The following chart illustrates the bank's funding instruments by type, including senior debt and securitisations.

Bank's funding analysis by instrument type





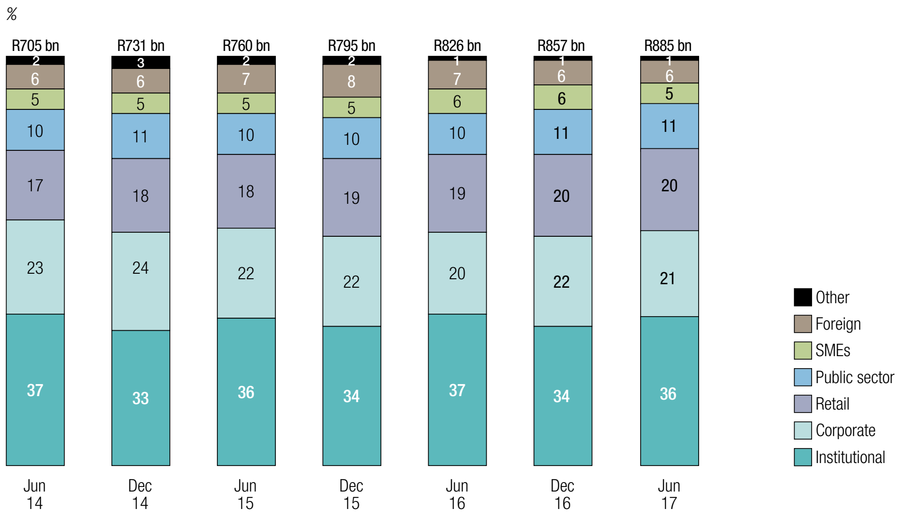
As a result of the bank's focus on growing its deposit and transactional banking franchise, a significant proportion of funds are contractually short dated. As these deposits are anchored to clients' service requirements and given the balance granularity created by individual clients' independent activity,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

The table below provides an analysis of the bank's funding sources (excluding foreign branches) per counterparty type as opposed to the FRB segment view.

	June 2017				June 2016
% of funding liabilities	Total	Short term	Medium term	Long term	Total
Institutional funding	**35.9**	**11.5**	**4.1**	**20.3**	37.0
Deposit franchise	**64.1**	**49.2**	**8.7**	**6.2**	63.0
Corporate	**20.5**	**17.5**	**2.3**	**0.7**	20.1
Retail	**20.0**	**15.2**	**3.4**	**1.4**	19.2
SMEs	**5.4**	**4.5**	**0.6**	**0.3**	5.5
Governments and parastatals	**10.7**	**8.7**	**0.9**	**1.1**	10.2
Foreign	**6.2**	**3.2**	**1.5**	**1.5**	6.9
Other	**1.3**	**0.1**	**–**	**1.2**	1.1
Total	**100.0**	**60.7**	**12.8**	**26.5**	100.0

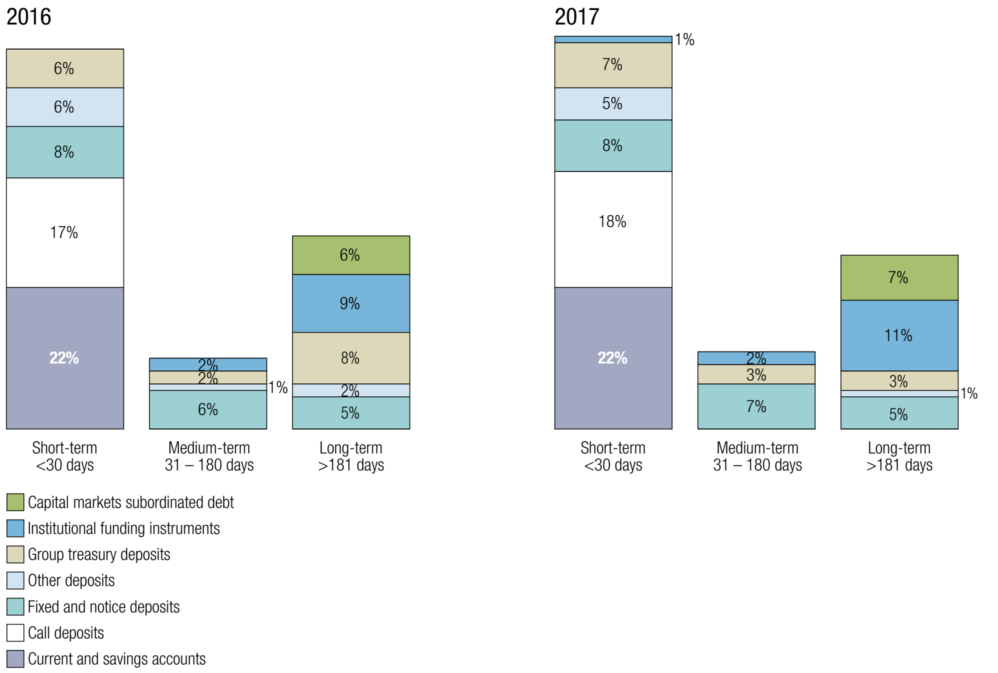
The following graph provides an analysis of the bank's funding analysis by source.

Funding analysis by source of FirstRand Bank (excluding foreign branches)



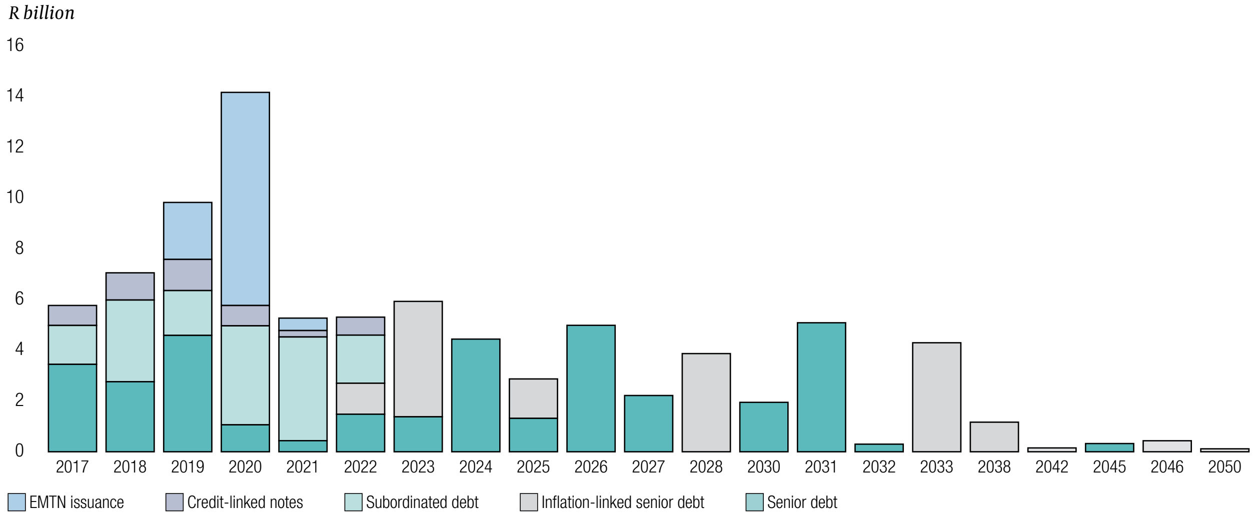
The following chart illustrates a breakdown of the bank's funding liabilities by instrument and term.

Bank's funding liabilities by instrument type and term



The maturity profile of all issued capital markets instruments is shown in the following chart. The bank does not have concentration risk in any one year and seeks to efficiently issue across the curve considering investor demand.

Maturity profile of capital market instruments of the bank (excluding foreign branches)



Funds transfer pricing

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

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

FOREIGN CURRENCY BALANCE SHEET

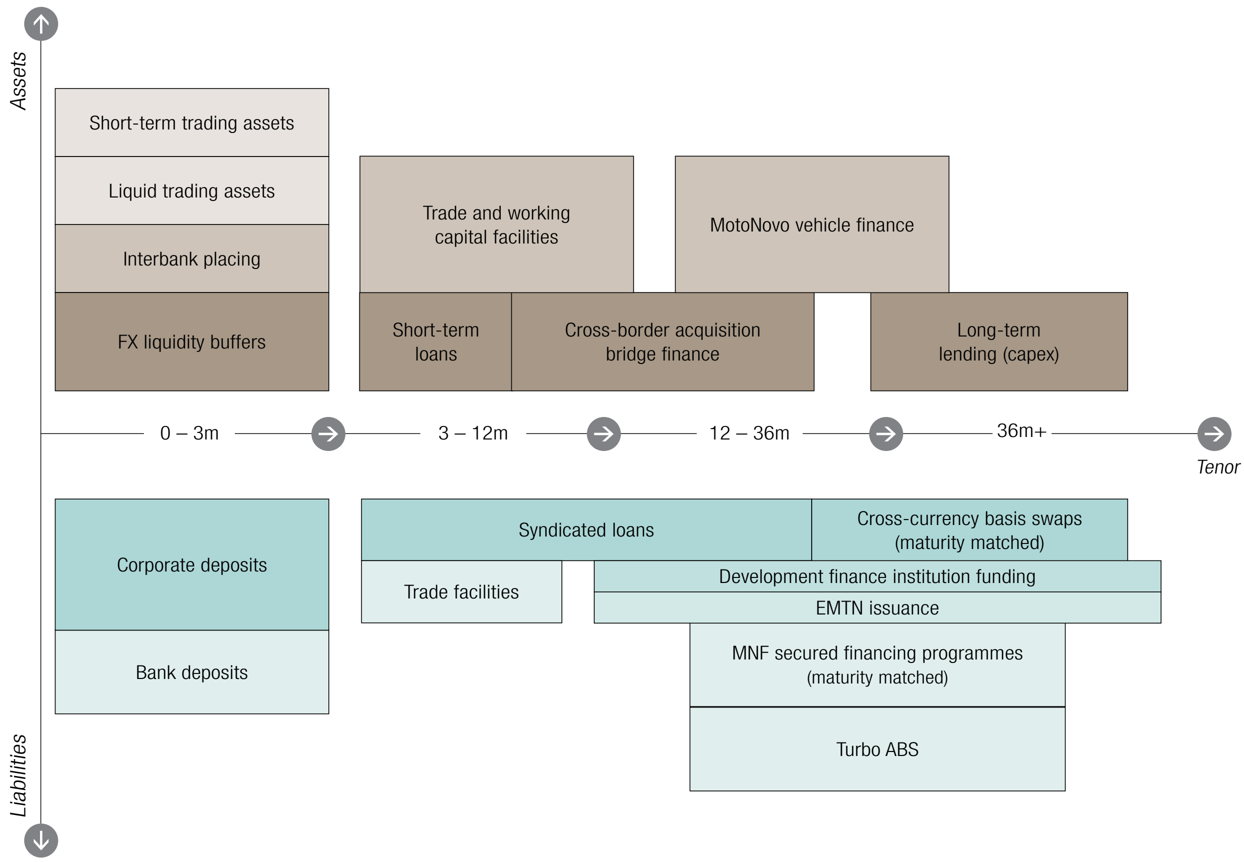
Given that the group continues to grow its businesses in the rest of Africa, and given the size of MotoNovo, the active management of foreign currency liquidity risk continues to be a strategic focus. The group seeks to avoid exposing itself to undue liquidity risk and to maintain liquidity risk within the risk appetite approved by the board and risk committee. The SARB via *Exchange Control Circular 6/2010* introduced macro-prudential limits applicable to authorised dealers. The group utilises its own foreign currency balance sheet measures based on economic risk and has set internal limits below those allowed by the macro-prudential limits framework.

FirstRand's foreign currency activities, specifically lending and trade finance, have steadily increased over the past five years. It is, therefore, important to have a sound framework for the assessment and management of foreign currency external debt, given the inherent vulnerabilities and liquidity risks associated with cross-border financing. These limits include the bank's exposure to branches, foreign currency assets and guarantees.

Philosophy on foreign currency external debt

A key determinant in an institution's ability to fund and refinance in currencies other than its domestic currency is the sovereign risk and associated external financing requirement. The group's framework for the management of external debt takes into account sources of sovereign risk and foreign currency funding capacity, and the macroeconomic vulnerabilities of South Africa. To determine South Africa's foreign currency funding capacity, the group considers the external debt of all South African entities (private and public sector, financial institutions) as all these entities utilise the South African system's capacity, namely, confidence and export receipts. The group employs a self-imposed structural borrowing limit and a liquidity risk limit more onerous than required in terms of regulations. This philosophy has translated into a resilient and sustainable foreign currency balance sheet. Following the sovereign credit rating downgrade to sub-investment grade, the group experienced a limited impact.

Graphical representation of the foreign currency balance sheet



REGULATORY UPDATE

BASEL III LIQUIDITY RATIOS

The BCBS framework for sound liquidity risk management seeks to address two aspects:

- LCR – addresses short-term liquidity risk; and
- net stable funding ratio (NSFR) – addresses the structural liquidity risk of the balance sheet.

LIQUIDITY COVERAGE RATIO

The LCR has been fully adopted by the SARB with the inclusion of a committed liquidity facility (CLF). Phasing in of the LCR commenced in 2015 and banks are required to be fully compliant by 2019. The minimum LCR requirement is currently 80%, with 10% incremental step-ups each calendar year to 100% on 1 January 2019.

The group remains focused on building a diversified pool of available HQLA, which is constrained by the limited availability of these assets in the South African market.

DISCLOSURE REQUIREMENTS

The BCBS published the liquidity coverage ratio disclosure standards in March 2014 with the objective to reduce market uncertainty around liquidity positions. The standardised templates are completed semi-annually and the bank publishes the quarterly disclosure templates on its website.

These disclosures reveal industry reporting inconsistencies which are being addressed via the Banking Association South Africa with SARB and the South African Institute of Chartered Accountants.

NET STABLE FUNDING RATIO

The NSFR is a structural balance sheet ratio focusing on promoting a more resilient banking sector. The ratio calculates the amount of available stable funding relative to the amount of required stable funding. The industry continues to await communication from the SARB in terms of prudential requirements in relation to NSFR prudential requirements at a consolidated group level.

In line with *Directive 4/2016*, banks have been submitting a monthly NSFR monitoring template since August 2016 to enable the SARB to assess the readiness of banks to comply with the 100% NSFR requirement from 1 January 2018 per the Bank of International Settlements (BIS) timelines. Banks have been engaging on a bilateral basis on interpretive matters relating to this form.

The SARB has applied its discretion on the treatment of deposits with maturities of up to six months placed by financial institutions. The NSFR framework assigns a 0% available stable funding (ASF) factor to these funds, whereas the SARB has elected to apply a 35% factor. Additionally, industry is awaiting clarity on treatment of assets eligible for the committed liquidity facility. It is expected that the SARB will follow the route of the Australian regulator by differentiating these assets for required stable funding (RSF) purposes. Both changes are anticipated to significantly assist the South African banking sector in meeting NSFR requirements.

RESOLUTION FRAMEWORK

In September 2015, the SARB and Financial Services Board (FSB) published for public comment a discussion document, *Strengthening South Africa's Resolution Framework for Financial Institutions*. The paper sets out the motivation, principles and policy proposals for such a strengthened framework and is intended to solicit public comment and serve as a basis for further industry discussions in preparation for the drafting of a Special Resolution Bill (SRB).

The Resolution Authority (proposed new unit in SARB), will be responsible for bank resolution. The exact details of the legislative framework that will support the resolution regime and the Resolution Authority's respective powers are still being finalised and should be disclosed when the SRB is released. Resolution plans will allow the Resolution Authority to plan for an event from which a bank's recovery action has failed or is deemed likely to fail. Bank resolution plans will be owned and maintained by the Resolution Authority, but will require a significant amount of bilateral engagement and input from individual banks to enable it to develop a customised plan that is most appropriate to each bank. As part of the Resolution Framework and powers of the Resolution Authority, DIS is proposed to protect depositors and enhance financial stability. A discussion paper on designing a DIS was issued in May 2017. Given the significant impact on the banks of funding the DIS, banks continue to actively engage with the SARB on the size of the fund and the funding mechanics.

LIQUIDITY RISK POSITION

The following table provides details on the available sources of liquidity by Basel LCR definition and management's assessment of the required buffer.

Bank's composition of liquid assets

	As at 30 June 2017						
	Marketable assets	HQLA Basel III view after haircut*				Management view after haircuts	
R billion	Total June 2017*	Level 1	Level 2	Total June 2017	Total June 2016	Total June 2017	Total June 2016
Cash and deposits with central banks	**31**	**29**	**–**	**29**	26	**29**	26
Government bonds and bills	**93**	**93**	**–**	**93**	78	**93**	74
Other liquid assets	**59**	**–**	**33**	**33**	37	**43**	52
Total	**183**	**122**	**33**	**155**	141	**165**	152

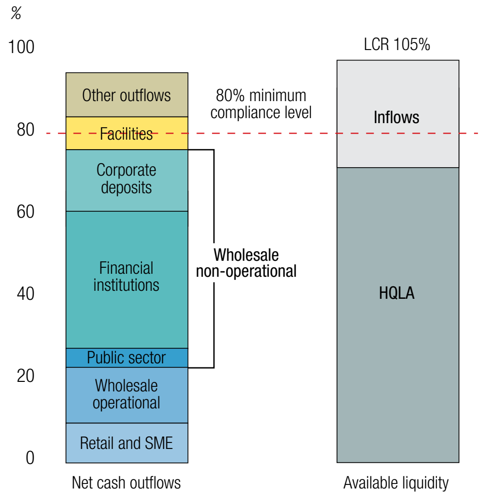
* *The surplus HQLA holdings by foreign branches in excess of the minimum required LCR of 80% (2016: 70%), have been excluded in the calculation of the consolidated group LCR.*

The bank's LCR increased from 102% to 105% due to an increase in HQLA of R10 billion offsetting the R5 billion increase in net cash flows as a result of an increase in wholesale non-operational deposits in the current year.

The following graph illustrates FRB South Africa's LCR position and demonstrates the bank's compliance with the 80% (2016: 70%) minimum requirement.

Funding from institutional clients is a significant contributor to the bank's net cash outflows as measured under the LCR. Other significant contributors to cash outflows are corporate funding and off-balance sheet facilities granted to clients. The bank has strategies in place to increase funding sourced through its deposit franchise and to reduce reliance on the less efficient institutional funding sources, as well as to offer facilities more efficiently.

Bank SA LCR



CAPITAL

The bank actively manages its capital base commensurate with its strategy, risk appetite and risk profile. The optimal level and composition of capital and leverage is determined after taking the following into account:

- Prudential requirements
- Rating agencies' considerations
- Investor expectations
- The board's risk appetite
- Peer comparison
- Strategic and organic growth
- Economic and regulatory capital requirements
- Proposed regulatory, tax and accounting changes
- Macro environment and stress test impacts
- Issuance of additional capital instruments

The capital planning process ensures that the total capital adequacy and CET1 ratios remain within or above targets across economic and business cycles. Capital is managed on a forward-looking basis and the bank remains appropriately capitalised under a range of normal and severe stress scenarios, which includes expansion initiatives, corporate transactions, as well as ongoing regulatory, accounting and tax developments. The bank aims to back all economic risk with loss absorbing capital and remains well capitalised in the current environment. FRB's internal targets have been aligned to the SARB end-state minimum capital requirements and are subject to ongoing review and consideration of various stakeholder expectations.

The bank is currently subject to the SARB transitional capital requirements, which include a 50% phased-in requirement for both the capital conservation and domestic systemically important banks (D-SIB) buffer add-ons. The SARB has not implemented any countercyclical buffer requirement for South African exposures. The BCBS issued various consultative documents that are at different stages of testing, finalisation and implementation, and the actual impact on banks remains unclear. The bank continues to participate in the BCBS quantitative impact studies to assess and incorporate, where relevant, the effect of these consultative documents.

The Basel III leverage ratio is a supplementary measure to the risk-based capital ratios and greater emphasis has been placed on monitoring the interplay between capital and leverage.

YEAR UNDER REVIEW

FRB comfortably operated above its capital and leverage targets during the year under review. No changes were made to current internal targets. The table below summarises the capital and leverage ratios at 30 June 2017.

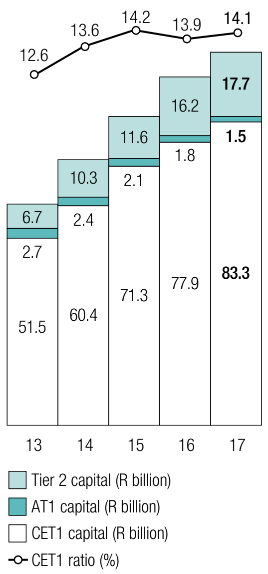
Capital adequacy and leverage position

	Capital			Leverage
%	CET1	Tier 1	Total	Total
Regulatory minimum*	7.3	8.5	10.8	4.0
Internal target	10.0 – 11.0	>12.0	>14.0	>5.0
Actual				
FRB including foreign branches				
– Including unappropriated profits	**14.1**	**14.3**	**17.3**	**7.4**
– Excluding unappropriated profits	12.3	12.5	15.5	6.4
FRB excluding foreign branches				
– Including unappropriated profits	**14.2**	**14.5**	**17.2**	**7.1**
– Excluding unappropriated profits	12.5	12.7	15.5	6.3

* *Excluding the bank-specific individual capital requirement and D-SIB add-on.*

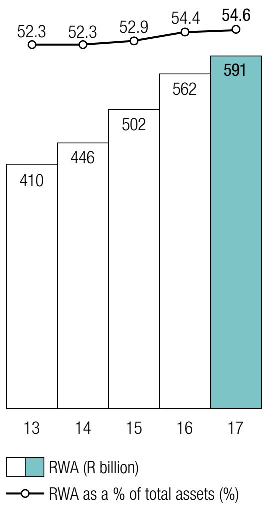
The graphs below show the historical overview of capital adequacy, RWA and leverage for FirstRand Bank (including foreign branches).

*Capital adequacy**

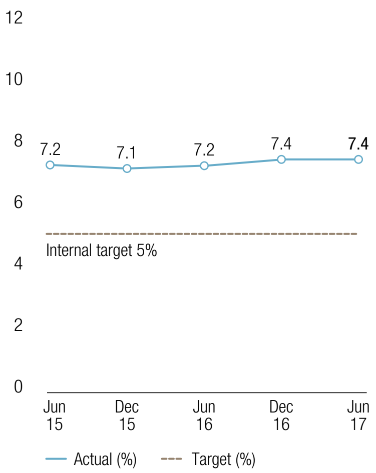


* *Includes unappropriated profits.*

RWA history



*Leverage**



* *Includes unappropriated profits.*

Supply of capital

The tables below summarise FirstRand Bank's (including foreign branches) qualifying capital components and related movements.

Composition of capital analysis

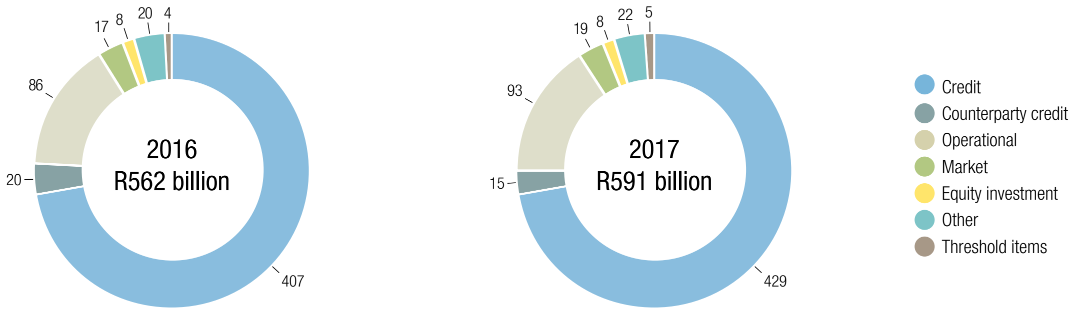
	Year ended 30 June	
R million	2017	2016
Including unappropriated profits		
CET1	**83 274**	77 906
Tier 1	**84 774**	79 706
Total qualifying capital	**102 527**	95 933
Excluding unappropriated profits		
CET1	**72 565**	68 536
Tier 1	**74 065**	70 336
Total qualifying capital	**91 818**	86 563

KEY DRIVERS		
CET1 capital	↑	• Ongoing internal capital generation through earnings.
AT1 capital	↓	• Additional 10% haircut on NCNR preference shares not compliant with Basel III.
Tier 2 capital	↑	• Issuance of Basel III compliant instruments totalling R2.3 billion during the current financial year. • Redemption of the FRB 10 (R1 billion) and FRB 09 (R100 million) in January 2017 and June 2017, respectively. • Tier 2 mix comprises instruments compliant with Basel III of R13.5 billion and Basel II old-style instruments of R4.7 billion.

Demand for capital

The graphs below unpack the RWA composition per risk type.

RWA analysis
(R billion)



KEY DRIVERS		
Credit	↑	Organic growth, model recalibrations and regulatory refinement.
Counterparty credit	↓	Volumes, mark-to-market and exchange rate movements.
Operational	↑	Recalibration of portfolios subject to the advanced measurement approach. Increase in gross income for entities on the standardised approach.
Market	↑	Volume and mark-to-market movements. Incorporates impact of sovereign downgrade.
Other assets	↑	Increase in property and equipment and other assets.
Threshold items*	↑	Movement in deferred tax assets and investments in financial and banking entities.

* *Risk weighted at 250%.*

Capital adequacy position for the bank and its foreign branches

The bank's registered foreign branches must comply with SARB regulations and those of the respective in-country regulators, with primary focus placed on Tier 1 capital and total capital adequacy ratios. Based on the outcome of detailed stress testing, each entity targets a capital level in excess of the regulatory minimum. Adequate controls and processes are in place to ensure that each entity is adequately capitalised to meet local and SARB regulatory requirements. Capital generated by branches in excess of targeted levels is returned to FirstRand Bank, usually in the form of a return of profits. During the year, no restrictions were experienced on the repayment of such profits to the bank.

The RWA and capital adequacy positions of FirstRand Bank and its foreign branches are set out below.

RWA and capital adequacy positions of FirstRand Bank and its foreign branches

	As at 30 June			
	2017			2016
	RWA R million	Tier 1 %	Total capital adequacy %	Total capital adequacy %
Basel III (SARB regulations)				
FirstRand Bank*,**	**591 174**	**14.3**	**17.3**	17.1
FirstRand Bank South Africa*	**550 648**	**14.5**	**17.2**	16.9
FirstRand Bank London	**38 385**	**10.9**	**17.8**	17.4
FirstRand Bank India	**1 965**	**31.1**	**31.7**	24.3
FirstRand Bank Guernsey#	**114**	**37.9**	**37.9**	43.9

* *Includes unappropriated profits.*
** *Includes foreign branches.*
# *Trading as FNB Channel Islands.*

In terms of Regulation 43 of the *Regulations relating to Banks*, the following additional common disclosures are required:

- composition of capital;
- reconciliation of IFRS financial statements to regulatory capital and reserves;
- main features of capital instruments; and
- leverage common disclosure templates.

Refer to www.firstrand.co.za/investorcentre/pages/commondisclosure.aspx.

Scan with your smart device's QR code reader to access the common disclosure templates on the group's website.

CREDIT RATINGS

The ratings on the South Africa sovereign were lowered by S&P Global Ratings (S&P) and Moody's Investors Service (Moody's) on 3 April 2017 and 9 June 2017, respectively. This was primarily driven by reduced economic growth prospects, lower fiscal strength and the perceived weakening of South Africa's institutional framework. The table below summarises the South Africa sovereign ratings following these actions.

Sovereign ratings as at 6 September 2017

	South Africa sovereign – long-term ratings		
	Outlook	Foreign currency	Local currency
S&P	Negative	BB+	BBB-
Moody's	Negative	Baa3	Baa3

Sources: S&P Global Ratings and Moody's Investors Service.

Following the downgrade of the South Africa sovereign rating, South African banks were downgraded by S&P and Moody's on 5 April 2017 and 12 June 2017, respectively. These downgrades were not a reflection of the banks' financial position, but rather an alignment to the sovereign rating.

FirstRand Bank's standalone credit ratings remain unchanged and are reflective of its resilient market position as one of South Africa's leading banks, focused on strategy, good core profitability, financial flexibility, robust risk management and sound capitalisation.

The following table summarises the credit ratings for FirstRand Bank Limited.

FirstRand Bank counterparty credit ratings as at 6 September 2017

		FirstRand Bank Limited				
		Counterparty		National scale		Standalone credit rating*
	Outlook	Long term	Short term	Long term	Short term	
S&P	Negative	BB+	B	zaAA	zaA-1+	bbb
Moody's	Negative	Baa3	P-3	Aaa.za	P-1.za	baa3

* *Refers to a rating agency's measure of a bank's intrinsic creditworthiness before considering external factors, e.g. affiliate or government support. S&P uses the standalone credit profile and Moody's the baseline credit assessment.*

Sources: S&P Global Ratings and Moody's Investors Service.

Presentation and reconciliations

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PRESENTATION

NORMALISED RESULTS

The bank believes normalised earnings more accurately reflect operational performance. Consequently, headline earnings have been adjusted to take into account non-operational and accounting anomalies, which, in terms of the JSE Listings Requirements, constitute *pro forma* financial information.

This *pro forma* financial information, which is the responsibility of the bank's directors, has been prepared for illustrative purposes to more accurately reflect operational performance and because of its nature may not fairly present in terms of IFRS, the bank's financial position, changes in equity and results of operations or cash flows. Details of the nature of these adjustments and reasons thereof can be found below and continues on page A85. The *pro forma* financial information should be read in conjunction with the unmodified Deloitte and PricewaterhouseCoopers Inc. independent reporting accountants' report, which is available for inspection at FirstRand's registered office.

DESCRIPTION OF DIFFERENCE BETWEEN NORMALISED AND IFRS RESULTS

Margin-related items included in fair value income

In terms of IFRS, the bank is required to or has elected to measure certain financial assets and liabilities at fair value through profit or loss. In terms of the bank's IFRS accounting policies, the gains or losses on these assets and liabilities are included in fair value income within NIR. This results in NIR including gains or losses that are related to lending, borrowing and economic interest rate hedges. To reflect the economic substance of these amounts, the amount of fair value income relating to margin is presented in NII in the normalised results.

The amount reclassified from NIR to NII includes the following items:

- NII on the wholesale advances book in RMB;
- fair value gains on derivatives used as interest rate hedges but which do not qualify for hedge accounting; and
- currency translations and associated costs inherent to the USD funding and liquidity pool.

Previously this adjustment was shown as three separate normalised adjustments, being economic interest rate hedges, fair value annuity income and USD liquidity funding.

Classification of impairment on restructured advance

Included in gross advances and impairment of advances is an amount for an advance that was restructured to an equity investment. The restructure resulted in the bank having significant influence over the counterparty and an investment in an associate was recognised. The bank believes that the circumstances that led to the impairment arose prior to the restructure. For normalised reporting, the bank retained the gross advance and impairment. This amount is classified in advances and impairments rather than investments in associates as this more accurately reflects the economic nature of the transaction.

IAS 19 remeasurement of plan assets

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

Cash-settled share-based payments and the economic hedge

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

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

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

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

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

Headline earnings adjustments

All adjustments required by *Circular 2/2015 Headline Earnings* in calculating headline earnings are included in normalised earnings on a line-by-line basis based on the nature of the adjustment.

The description and the amount of these adjustments are provided in the reconciliation between headline earnings and IFRS profit on page A86.

STATEMENT OF HEADLINE EARNINGS – IFRS

for the year ended 30 June

R million	2017	2016	% change
Profit for the year (refer page C53)	**18 537**	17 150	8
NCNR preference shareholders	**(237)**	(219)	8
Earnings attributable to ordinary equityholders	**18 300**	16 931	8
Adjusted for	**(31)**	28	(>100)
(Gain)/loss on disposal of available-for-sale assets	**(66)**	8	
Loss/(gain) on disposal of property and equipment	**26**	(1)	
(Reversal of impairment)/impairment of assets in terms of IAS 36	**(4)**	23	
Tax effects of adjustments	**13**	(2)	
Headline earnings	**18 269**	16 959	8

RECONCILIATION FROM HEADLINE TO NORMALISED EARNINGS

for the year ended 30 June

R million	2017	2016	% change
Headline earnings	**18 269**	16 959	8
Adjusted for	**(180)**	392	(>100)
TRS and IFRS 2 liability remeasurement*	**(63)**	494	(>100)
IAS 19 adjustment	**(117)**	(102)	15
Normalised earnings	**18 089**	17 351	4

* *The bank uses a TRS with external parties to economically hedge itself against the exposure to changes in the FirstRand share price associated with the bank's long-term incentive schemes.*

The TRS is accounted for as a derivative in terms of IFRS, with the full fair value change recognised in NIR.

In the current period, FirstRand's share price increased R2.31 and during the prior year decreased R8.48.

This resulted in a mark-to-market fair value gain in the current year (compared to a loss in the prior year) being included in the bank's IFRS attributable earnings). The normalised results reflect the adjustment to normalise this year-on-year IFRS fair value volatility from the TRS, as described in more detail on page A85.

RECONCILIATION OF NORMALISED TO IFRS SUMMARY INCOME STATEMENT

for the year ended 30 June 2017

R million	Normalised	IAS 19 adjustment	Margin-related items included in fair value income	TRS adjustment	Headline earnings	IFRS
Net interest income before impairment of advances	**39 849**	–	(1 287)	87	–	**38 649**
Impairment charge	**(6 984)**	–	–	–	–	**(6 984)**
Net interest income after impairment of advances	**32 865**	–	(1 287)	87	–	**31 665**
Non-interest revenue	**29 506**	–	1 287	116	40	**30 949**
Income from operations	**62 371**	–	–	203	40	**62 614**
Operating expenses	**(37 721)**	163	–	(115)	4	**(37 669)**
Income before tax	**24 650**	163	–	88	44	**24 945**
Indirect tax	**(876)**	–	–	–	–	**(876)**
Profit before tax	**23 774**	163	–	88	44	**24 069**
Income tax expense	**(5 448)**	(46)	–	(25)	(13)	**(5 532)**
Profit for the year	**18 326**	117	–	63	31	**18 537**
Attributable to						
NCNR preference shareholders	**(237)**	–	–	–	–	**(237)**
Ordinary equityholders	**18 089**	117	–	63	31	**18 300**
Headline and normalised earnings adjustments	**–**	(117)	–	(63)	(31)	**(211)**
Normalised earnings attributable to ordinary equityholders of the bank	**18 089**	–	–	–	–	**18 089**

RECONCILIATION OF NORMALISED TO IFRS SUMMARY INCOME STATEMENT

for the year ended 30 June 2016

R million	Normalised	IAS 19 adjustment	Margin-related items included in fair value income	TRS adjustment	Headline earnings	IFRS
Net interest income before impairment of advances	38 333	–	(1 556)	–	–	36 777
Impairment charge	(6 255)	–	–	–	–	(6 255)
Net interest income after impairment of advances	32 078	–	(1 556)	–	–	30 522
Non-interest revenue	27 261	–	1 556	(924)	(7)	27 886
Income from operations	59 339	–	–	(924)	(7)	58 408
Operating expenses	(35 392)	142	–	238	(23)	(35 035)
Income before tax	23 947	142	–	(686)	(30)	23 373
Indirect tax	(763)	–	–	–	–	(763)
Profit before tax	23 184	142	–	(686)	(30)	22 610
Income tax expense	(5 614)	(40)	–	192	2	(5 460)
Profit for the year	17 570	102	–	(494)	(28)	17 150
Attributable to						
NCNR preference shareholders	(219)	–	–	–	–	(219)
Ordinary equityholders	17 351	102	–	(494)	(28)	16 931
Headline and normalised earnings adjustments	–	(102)	–	494	28	420
Normalised earnings attributable to ordinary equityholders of the bank	17 351	–	–	–	–	17 351

summary risk and capital management report

B 02 – 33

B summary risk and capital management report

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RISK MANAGEMENT APPROACH

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

FirstRand believes that effective risk, performance and financial resource management are key to its success and underpin the delivery of sustainable returns to stakeholders. These disciplines are, therefore, deeply embedded in the group's tactical and strategic decision-making.

The group believes a strong balance sheet and resilient earnings streams are key to growth, particularly during periods of uncertainty. FirstRand's franchises have consistently executed on a set of strategies which are aligned to certain group financial strategies and frameworks designed to ensure earnings resilience and growth, balance sheet strength, an appropriate risk/return profile and an acceptable level of earnings volatility under adverse conditions. These deliverables are underpinned by the application of critical financial discipline through frameworks set at the centre. These frameworks include:

RISK MANAGEMENT FRAMEWORK	PERFORMANCE MANAGEMENT FRAMEWORK	BALANCE SHEET FRAMEWORK
Key principles: • ensure material risks are identified, measured, monitored, mitigated and reported; • assess impact of the cycle on the group's portfolio; • understand and price appropriately for risk; and • originate within cycle-appropriate risk appetite and volatility parameters.	**Key principles:** • allocate capital appropriately; • ensure an efficient capital structure with appropriate/conservative gearing; and • require earnings to exceed cost of capital, i.e. positive net income after capital charge (NIACC).	**Key principles:** • execute sustainable funding and liquidity strategies; • protect credit rating; • preserve a "fortress" balance sheet that can sustain shocks through the cycle; and • ensure group remains appropriately capitalised.

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 reputational damage.

Risk taking is an essential part of the group's business and the group explicitly recognises core risk competencies as necessary and important differentiators in the competitive environment in which it operates. These core risk competencies are integrated in all management functions, business areas and at risk-type level across the group to support business by providing the checks and balances to ensure sustainability and performance, create opportunity, achieve desired objectives, and avoid adverse outcomes and reputational damage.

A business profits from taking risks, but will only generate an acceptable profit commensurate with the risk associated with its activities if these risks are properly managed and controlled. The group's aim is not to eliminate risk, but to achieve an appropriate balance between risk and reward. This balance is achieved by controlling risk at the level of individual exposures, at portfolio level and in aggregate across all risk types and businesses through the application of the risk appetite framework. The group's risk appetite framework enables organisational decision-making and is aligned with FirstRand's strategic objectives.

Core risk competencies

1	2	3	4
IDENTIFICATION	**ASSESSMENT**	**MONITORING**	**MANAGEMENT**

FirstRand's core risk competencies are integrated in all management functions across the group to support business by providing the checks and balances to ensure sustainability, performance, the achievement of desired objectives and avoidance of adverse outcomes and reputational damage.

The group is exposed to a number of risks that are inherent in its operations. The group's core competencies are applied by the individual business areas to ensure these risks are appropriately managed. The risk appetite per key risk is monitored to ensure balance between risk and reward. Risk limits established across all risk types are an integral part of managing the risks and are instrumental in constraining risk appetite within acceptable levels. The risk definitions, roles and responsibilities of each stakeholder in business, support and control functions in the management of these risks are described in the group's business performance and risk management framework (BPRMF).

FRANCHISE ACTIVITIES AND RESULTANT RISKS

The group's strategy is executed through its portfolio of franchises within the framework set by the group.

	FNB	RMB	WesBank	Ashburton Investments	FCC
Key activities	**Retail and commercial banking, and insurance**	**Corporate and investment banking**	**Instalment finance and short-term insurance (VAPS)****	**Asset management**	**Group-wide functions**
Market segments	consumer small business agricultural medium corporate public sector	financial institutions large corporates public sector	retail, commercial and corporate	retail and institutional	custodianship mandate to manage relationships with key external stakeholders ownership of key frameworks ensure group delivers on commitments to stakeholders
Products and services	transactional and deposit taking mortgage and personal loans credit and debit cards investment products insurance products (funeral, risk, credit life) card acquiring credit facilities distribution channels FNB Connect wealth and investment management*	advisory structured finance markets and structuring transactional banking and deposit taking principal investing solutions and private equity	asset-based finance full maintenance leasing personal loans value-added products and services (short-term insurance)	traditional and alternative investment solutions	
Risks	Retail and commercial credit risk Insurance risk	Corporate and counterparty credit risk Traded market risk	Retail, commercial and corporate credit risk		Interest rate risk in the banking book Funding and liquidity risk Foreign exchange risk
Risks (all franchises)	Equity investment risk Operational risk				
Other risks	Strategic, business, reputational, model, environmental and social, and regulatory risk				

* *With effect from 1 July 2017, the wealth and investment management business moved from Ashburton Investments to FNB.*

** *Value-added products and services.*

RISK PROFILE

The following table provides a high-level overview of the bank's risk profile in relation to its targets and minimum requirements. Refer to page B09 for a detailed discussion of the group's risk appetite.

Normalised ROE 22.2% 2016: 23.0% **Normalised earnings growth** +4% 2016: +14%	The quality of the group's operating franchises' growth strategies and disciplined allocation of financial resources has over time enabled the group to deliver on its earnings growth and return targets.	*The CFO's report in FirstRand's annual integrated report provides an overview of the group's financial position and performance for the year ended 30 June 2017.*
Capital adequacy 17.3% 2016: 17.1% Target >**14%** **Tier 1** 14.3% 2016: 14.2% Target >**12%** **CET1** 14.1% 2016: 13.9% Target **10% – 11%** **Leverage ratio** 7.4% 2016: 7.2% Target >**5%**	FirstRand Bank has maintained its strong capital position and continues to focus on loss-absorbing capital. The bank continues to actively manage capital composition given the grandfathering and redemption of old-style Tier 2 instruments. To this end, the bank has issued R2.3 billion Basel III-compliant Tier 2 instruments in the domestic market during the year. This results in a more efficient composition which is closely aligned with the bank's internal targets. The Basel III leverage ratio is a supplementary measure to the risk-based capital ratio and greater emphasis has been placed on monitoring the interplay between capital and leverage. FirstRand Bank has maintained a leverage ratio above the bank's internal targets.	*For a detailed analysis of capital adequacy and leverage refer to page B16 of this report.*

Note: Capital and leverage ratios include unappropriated profits and include foreign branches.

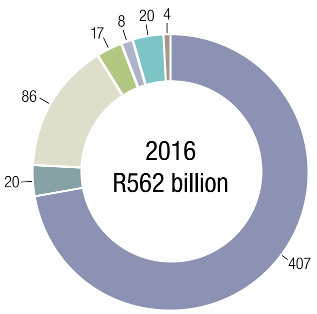
Liquidity coverage ratio 105% 2016: 102% Minimum requirement: 80% (2016: 70%)	Liquidity buffers are actively managed via high quality, highly liquid assets that are available as protection against unexpected events or market disruptions. The bank exceeds the 80% minimum liquidity coverage ratio (LCR) as set out by the BCBS with an LCR measurement of 105%. The bank's high quality liquid asset (HQLA) holdings amounted to R155 billion.	*For a detailed analysis of funding and liquidity risk refer to page B23 of this report.*

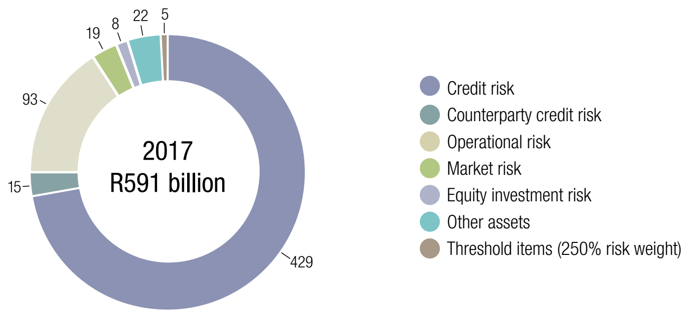
Normalised NPLs		
2.27% 2016: 2.43%	Bank credit loss rates increased as expected, impacted by a more challenging macroeconomic environment. Performance is acceptable and within risk appetite. Credit origination strategies are aligned to the group's macroeconomic outlook.	*For a detailed analysis of credit risk refer to page B17 of this report.*
Normalised credit loss ratio		
0.88% 2016: 0.84% Long-run average **100 – 110 bps**		

Market risk 10-day ETL		
R299 million 2016: R241 million	The interest rate risk asset class represents the most significant market risk in the trading book exposure at June 2017. The market risk profile remained within risk appetite.	*For a detailed analysis of market risk in the trading book refer to page B25 of this report.*

NII sensitivity downward 200 bps		
-R1.5 billion 2016: -R1.8 billion	Assuming no change in the balance sheet and management action in response to interest rate movements, an instantaneous, sustained parallel 200 bps decrease in interest rates would result in a reduction in projected 12-month NII of R1 498 million. A similar increase in interest rates would result in an increase in projected 12-month NII of R957 million. The bank's average endowment book was R183 billion for the year.	*For a detailed analysis of interest rate risk in the banking book refer to page B28 of this report.*
NII sensitivity upward 200 bps		
R1 billion June 2016: R1.5 billion		

Risk weighted assets (RWA) analysis
R billion





For a detail analysis of risk and capital management refer to the Pillar 3 disclosure on www.firstrand.co.za/investorpages.aspx.

CURRENT AND EMERGING CHALLENGES

Identifying and monitoring challenges emerging in the wider operating environment and risk landscape, both domestically, in the rest of Africa and the UK, are integral to the group's approach to risk management. Challenges in the global environment are also monitored to identify possible impacts on the group's operating environment.

SOUTH AFRICA AND THE REST OF AFRICA

- Significant downward pressure on revenue growth given challenging macroeconomic conditions in South Africa.
- Effect of the sovereign rating downgrades on the macroeconomic environment and funding costs as well as risk of a further sovereign (local currency) downgrade.
- Increasing cost and scarcity of financial resources.
- Ongoing introduction of new regulations and legislation (particularly in banking activities), which could impact profitability over the medium to long term.
- Intensifying competition in banking profit pools from non-traditional competitors (specifically those with low-cost infrastructures) and insurance players.
- Increase in political risk.
- Increasing risk of protest actions and social unrest associated with deteriorating socio-economic conditions in South Africa.
- Rising regulatory and macroeconomic risks in the rest of Africa.

GLOBAL LANDSCAPE

- Rising income and wealth disparity.
- Global societal trends of deepening social and cultural polarisation, and intensifying national sentiment.
- Deteriorating job prospects and the impact of rapid economic and technological change on global labour markets.
- Importance of protecting and strengthening global cooperation in light of countries withdrawing from international cooperation agreements (for example Brexit) and the effect of migration.
- Environmental-related risks include extreme weather conditions, failure of climate change mitigation and possibility of a water crisis.
- Rising cyber dependency, increasing incidence of data fraud/theft as well as large-scale cyberattacks.

RESPONSES

These challenges and associated risks are continuously identified, potential impacts determined, reported to and debated by appropriate risk committees and management. Developments in South Africa and other key markets are monitored with appropriate responses, strategic adjustments and proactive financial resource management actions implemented where required. Credit origination and funding strategies are assessed and adjusted in light of macroeconomic conditions and market liquidity. Actions are in place to ensure a resilient funding model. Significant investment in people, systems, processes and data projects are made to:

- manage the risks emanating from the large number of regulatory requirements;
- address possible control weaknesses and improve system security;
- improve operational business resilience capability; and
- improve risk data management aggregation and reporting.

FINANCIAL RESOURCE MANAGEMENT

FirstRand is expected, at a defined confidence level, to deliver on its commitments to its stakeholders. The management of financial resources, defined as capital, funding, liquidity and risk capacity is critical to the achievement of FirstRand's stated growth and return targets, and is driven by the group's overall risk appetite.

Forecast growth in earnings and balance sheet risk weighted assets is based on the group's macroeconomic outlook and evaluated against available financial resources, considering the requirements of capital providers and regulators. The expected outcomes and constraints are then stress tested and the group sets financial and prudential targets through different business cycles and scenarios to enable FirstRand to deliver on its commitments to stakeholders at a defined confidence level. These stress scenarios include further sovereign downgrades below investment grade on a local currency basis.

The management of the group's financial resources is executed through Group Treasury and is independent of the operating franchises. This ensures the required level of discipline is applied in the allocation and pricing of financial resources. This also ensures that Group Treasury's mandate is aligned with the operating franchises' growth, return and volatility targets to deliver shareholder value.

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, forecasting and business origination strategies. The house view focuses on the key macroeconomic variables that impact group financial and risk performance and position. The macroeconomic outlook for South Africa and a number of other jurisdictions where the group operates, is reviewed on a monthly basis and spans a three-year forecast horizon. Other jurisdictions with less data are updated less frequently, but at least quarterly. Business plans for the next three years are captured in the budget and forecasting process. Scenario planning is then used to assess whether the desired profile can be delivered and whether the business will remain within the constraints that have been set. The scenarios are based on changing macroeconomic variables, plausible event risks, and regulatory and competitive changes.

The strategy, risk and financial resource management processes inform the capital and funding plans of the group. A thorough analysis and understanding of the value drivers, markets and macroeconomic environment also inform portfolio optimisation decisions and the price and allocation of financial resources.

RISK APPETITE

The group's risk appetite enables organisational decision-making and is integrated with FirstRand's strategic objectives. Business and strategic decisions are aligned to risk appetite measures to ensure these are met during a normal cyclical downturn. At a business unit-level, strategy and execution are influenced by the availability and price of financial resources, earnings volatility limits and required hurdle rates and targets.

Risk appetite statement

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

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

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

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

Risk capacity is the absolute maximum level of risk the group can technically assume given its current available financial resources. Risk capacity provides a reference for risk appetite and is not intended to be reached under any circumstances.

Risk limits are clearly defined risk boundaries for different measures per risk type, and are also referred to as thresholds, tolerances or triggers.

The following diagram includes the quantitative measures and qualitative principles of the group's risk appetite framework during normal business cycles. The measures are reassessed as part of the group's ongoing review and refinement of risk appetite.

Process for determining risk appetite

Risk capacity

EARNINGS	CAPITAL

Filters

Strategic objectives and growth, return and volatility targets

Constraints based on commitments to stakeholders including regulators, depositors, debtholders and shareholders

Risk appetite

QUANTITATIVE MEASURES

	EARNINGS GROWTH, RETURN AND VOLATILITY TARGETS	MINIMUM CAPITAL AND LEVERAGE RATIO TARGETS	MINIMUM LIQUIDITY TARGETS AND TARGETED CREDIT RATING
Normal business cycles	**ROE** 18% – 22%	**Capital** CET1: 10% – 11%	**Liquidity** To exceed minimum regulatory requirements with appropriate buffers
	Earnings growth Nominal GDP plus >0% – 3%	**Basel III leverage** > 5%	**Credit rating*** Equal to highest in SA banking industry

** Refers to a rating agency's measure of a bank's intrinsic creditworthiness before considering external factors and refers to FirstRand Bank Limited.*

QUALITATIVE PRINCIPLES

Always act with a fiduciary mindset.	Limit concentrations in risky asset classes or sectors.
Comply with prudential regulatory requirements.	Avoid reputational damage.
Comply with the spirit and intention of accounting and regulatory requirements.	Manage the business on a through-the-cycle basis to ensure sustainability.
Build and maintain a strong balance sheet which reflects conservatism and prudence across all disciplines.	Identify, measure, understand and manage the impact of downturn and stress conditions.
Do not take risk without a deep understanding thereof.	Strive for operational excellence and responsible business conduct.
Comply with internal targets in various defined states to the required confidence interval.	Ensure the group's sources of income remain appropriately diversified across business lines, products, markets and regions.
Do not implement business models with excessive gearing through either on- or off-balance sheet leverage.	

The risk appetite statement aims to drive the discipline of balancing risk, return and sustainable growth across all the portfolios. Through this process the group ultimately seeks to achieve an optimal trade-off between its ability to take on risk and the sustainability of the returns delivered to stakeholders.

APPLICATION OF THE RISK/REWARD FRAMEWORK

Risk appetite, targets and limits are used to monitor the group's risk/reward profile on an ongoing basis and are measured point-in-time and on a forward-looking basis. Risk appetite influences franchise business plans and informs risk-taking activities and strategies. The risk/reward framework provides for a structured approach to define risk appetite, targets and limits that apply to each key resource as well as the level of risk that can be assumed in this context. The group cascades overall appetite into targets and limits at risk type, franchise and subsequent activity level, and these represent the constraints the group imposes to ensure its commitments are attainable. Management of risk is the responsibility of everybody across all levels of the group, supported through the three lines of control, the BPRMF and the group's risk governance committees.

RISK GOVERNANCE

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

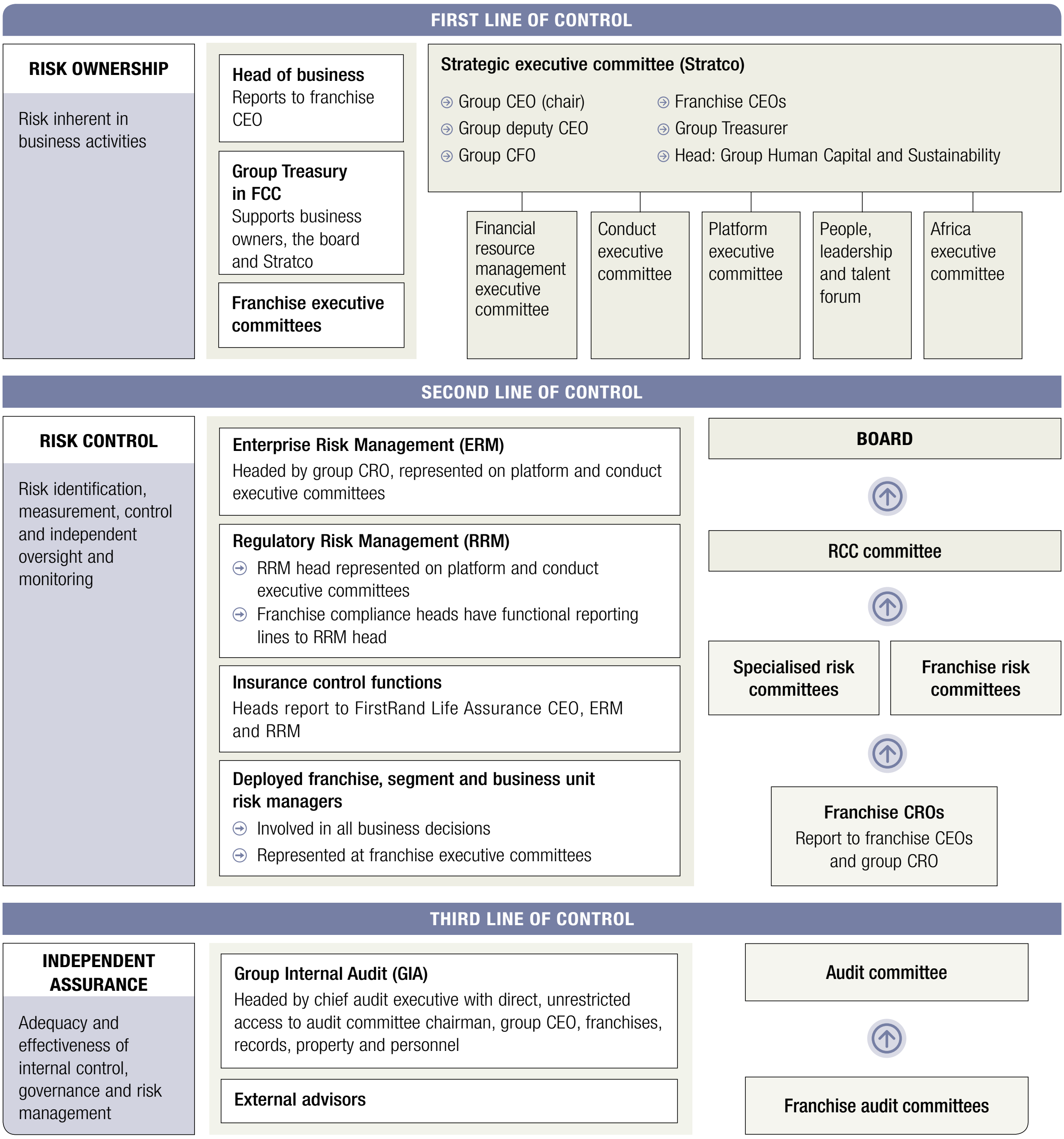
The group's BPRMF describes the group's approach to risk management. Effective risk management requires multiple points of control or safeguards that should be consistently applied at various levels throughout the organisation. There are three lines of control across the group's operations, which are recognised in the BPRMF. The responsibilities of the different business areas in the operating franchises and FCC in the lines of risk control are described in the diagram on the next page.

The risk management structure is set out in the group's BPRMF. As a policy of the board, the BPRMF delineates the roles and responsibilities of key stakeholders in business, support and control functions across the various franchises and the group.

The primary board committee overseeing risk matters across the group is the FirstRand risk, capital management and compliance (RCC) committee. It has delegated responsibility for a number of specialist topics to various subcommittees. 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 risk governance structure on page B13.

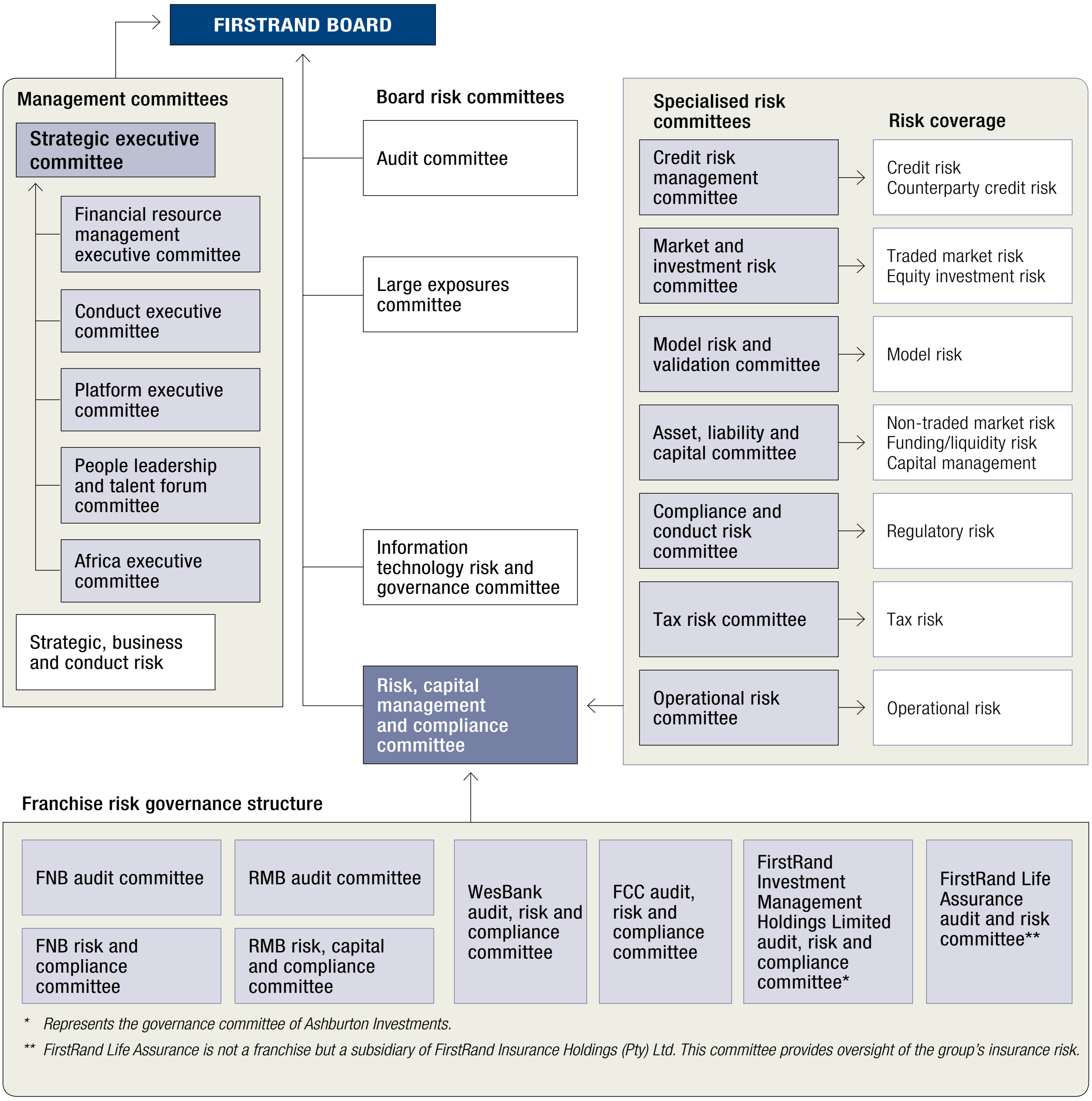
The group board committees comprise members of franchise advisory boards, audit and risk committees to ensure a common understanding of the challenges businesses face and how these are addressed across the group. The franchise audit, risk and compliance committees support the board risk committees and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

Lines of risk control



The following diagram illustrates how the risk committees fit into the board committee structure and the risk coverage of each committee. Further detail on the roles and responsibilities of the RCC committee and its subcommittees relating to each particular risk type is provided in the group's Pillar 3 disclosure on www.firstrand.co.za. Other board committees also exist, with clearly defined responsibilities. The strategic executive committee ensures alignment of franchise strategies, sets risk appetite and is responsible for optimal deployment of the group's financial and non-financial resources.

Risk governance structure



DISCLOSURE OF KEY RISKS

The definitions of key risks, a description of how each risk arise and the group's objectives, policies and processes for managing these risks are provided below.

The financial instruments recognised on the group's balance sheet, expose the group to various financial risks. The quantitative information required by IFRS 7 are presented in the notes to the financial statements in the annual integrated report and sets out the group's exposure to these financial and insurance risks.

Further detailed analysis of the group's risks and the Pillar 3 disclosure requirements are provided in the Pillar 3 risk and capital management report and can be found on the group's website www.firstrand.co.za/investorpages.aspx.

Financial and insurance risks

RISK	DEFINITION	DISCLOSURE	REPORT REFERENCE
Capital management	The overall capital management objective is to maintain sound capital ratios and a strong credit rating to ensure confidence in the group's solvency and quality of capital during calm and turbulent periods in the economy and financial markets.	• Capital adequacy and composition of capital • Common disclosure templates in line with directive 3/2015 and 4/2014	Group Pillar 3 disclosure
Credit risk	The risk of loss due to the non-performance of a counterparty in respect of any financial or other obligation. For fair value portfolios, the definition of credit risk is expanded to include the risk of losses through fair value changes arising from changes in credit spreads. Credit risk also includes credit default, pre-settlement, country, concentration and securitisation risk.	• IFRS 7 quantitative information	FRB annual financial statements
		• Pillar 3 disclosure requirements	Group Pillar 3 disclosure
Counterparty credit risk	The risk of a counterparty to a contract, transaction or agreement defaulting prior to the final settlement of the transaction's cash flows.	• Pillar 3 disclosure requirements	Group Pillar 3 disclosure
Funding and liquidity risk		• IFRS 7 quantitative information	FRB annual financial statements
• Funding liquidity risk	The risk that a bank will not be able to effectively meet current and future cashflow and collateral requirements without negatively affecting the normal course of business, financial position or reputation.	• Funding and liquidity risk governance, assessment and management • Liquidity risk profile	Group Pillar 3 disclosure
• Market liquidity risk	The risk that market disruptions or lack of market liquidity will cause a bank to be unable (or able, but with difficulty) to trade in specific markets without affecting market prices significantly.		
Market risk in the trading book	The risk of adverse revaluation of any financial instrument as a consequence of changes in market prices or rates.	• IFRS 7 quantitative information	FRB annual financial statements
		• Pillar 3 disclosure requirements	Group Pillar 3 disclosure

RISK	DEFINITION	DISCLOSURE	REPORT REFERENCE
Non-traded market risk - Interest rate risk in the banking book - Structural foreign exchange risk	The sensitivity of a bank's financial position and earnings to unexpected, adverse movements in interest rates. Foreign exchange risk is the risk of an adverse impact on the group's financial position and earnings as a result of movements in foreign exchange rates impacting balance sheet exposures.	- Projected NII sensitivity - Net structural foreign exposures	FRB annual financial statements
		- Governance, assessment and management - NII sensitivity - Banking book NAV sensitivity - Net structural foreign exposures	Group Pillar 3 disclosure
Equity investment risk	The risk of an adverse change in the fair value of an investment in a company, fund or any other financial instrument, whether listed, unlisted or bespoke financial instruments.	- Investment risk exposure and sensitivity	FRB annual financial statements
		- Governance, assessment and management - Investment risk exposure, sensitivity and capital	Group Pillar 3 disclosure

Non-financial risks

RISK	DEFINITION	DISCLOSURE	REPORT REFERENCE
Operational risk	The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes fraud and criminal activity (internal and external), project risk, legal risk, business continuity, information and IT risk, process and human resources risk. Strategic, business and reputational risks are excluded from the definition.	- Assessment and management	FRB summary risk and capital management report
		- Pillar 3 disclosure requirements	Group Pillar 3 disclosure
Regulatory risk	The risk of statutory or regulatory sanction and material financial loss or reputational damage as a result of failure to comply with any applicable laws, regulations or supervisory requirements.	- Assessment and management	FRB summary risk and capital management report
		- Pillar 3 disclosure requirements	Group Pillar 3 disclosure
Strategic risk	The risk to current or prospective earnings arising from inappropriate business decisions or the improper implementation of such decisions.	- Assessment and management - Pillar 3 disclosure requirements	Group Pillar 3 disclosure
Business risk	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.		
Model risk	The use of models presents model risk, which is the potential for adverse consequences from decisions based on incorrect or misused model outputs and reports. Model risk can lead to financial losses, poor business and strategic decision-making, or damage to the group's reputation.		
Reputational risk	The risk of reputational damage due to compliance failures, pending litigations, underperformance or negative media coverage.		
Environmental and social risk	Relates to environmental and social issues which impact the group's ability to successfully and sustainably implement business strategy.	- Governance and assessment	The environmental and social risk report on www.firstrand.co.za

CAPITAL MANAGEMENT

INTRODUCTION AND OBJECTIVES

The overall capital management objective is to maintain sound capital ratios and a strong credit rating to ensure confidence in the bank's solvency and quality of capital during calm and turbulent periods in the economy and financial markets. The bank, therefore, maintains capitalisation ratios aligned to its risk appetite and appropriate to safeguard operations and stakeholder interests. The key focus areas and considerations of capital management are to ensure an optimal level and composition of capital, effective allocation of resources including capital and risk capacity, and a sustainable dividend policy.

CAPITAL ADEQUACY AND PLANNING

The capital planning process ensures that the total capital adequacy and CET1 ratios remain within or above targets across economic and business cycles. Capital is managed on a forward-looking basis and the bank remains appropriately capitalised under a range of normal and severe stress scenarios, which include expansion initiatives, corporate transactions, as well as ongoing regulatory, accounting and tax developments. The bank aims to back all economic risk with loss-absorbing capital and remains well capitalised in the current environment.

The bank continues to focus on maintaining strong capital and leverage levels, with focus on the quality of capital and optimisation of the bank's RWA and capital mix during the transitional period of Basel III implementation.

FirstRand Bank comfortably operated above its capital and leverage targets during the year. No changes were made to current internal targets. The table below summarises FirstRand Bank's (including foreign branches) qualifying capital components.

Composition of capital analysis

R million	CET1 capital	Tier 1 capital	Total qualifying capital
Internal targets	**10% – 11%**	**> 12%**	**> 14%**
2017			
Including unappropriated profits	**83 274**	**84 774**	**102 527**
Risk weighted assets	**591 174**	**591 174**	**591 174**
Capital adequacy (%)	**14.1**	**14.3**	**17.3**
2016			
Including unappropriated profits	77 906	79 706	95 933
Risk weighted assets	561 575	561 575	561 575
Capital adequacy (%)	13.9	14.2	17.1

Leverage position

%	2017	2016
Internal target	**>5.0**	
Including unappropriated profits	**7.4**	7.2

Capital adequacy for the bank and its foreign branches

The bank's registered foreign branches must comply with SARB regulations and those of the respective in-country regulators, with primary focus placed on Tier 1 capital and total capital adequacy ratios. Based on the outcome of detailed stress testing, each entity targets a capital level in excess of the regulatory minimum. Adequate controls and processes are in place to ensure that each entity is adequately capitalised to meet local and SARB regulatory requirements. Capital generated by branches in excess of targeted levels is returned to FirstRand Bank, usually in the form of a return of profits. During the year, no restrictions were experienced on the repayment of such profits to the bank.

CREDIT RISK

INTRODUCTION AND OBJECTIVES

Credit risk arises primarily from advances and certain investment securities. Other sources of credit risk include reinsurance assets, cash and cash equivalents, accounts receivable and derivative balances.

The goal of credit risk management is to maximise the group's measure of economic profit, NIACC, within acceptable levels of earnings volatility by maintaining credit risk exposure within acceptable parameters.

Credit risk management objectives are two-fold:

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

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

CREDIT RISK PROFILE* (AUDITED)

	June 2017	June 2016
Gross advances (R million)	**813 997**	778 625
Credit loss ratio (%)	**0.88**	0.85
NPLs as % of advances	**2.27**	2.43
Specific coverage ratio (%)**	**38.6**	38.6
Total impairments coverage ratio (%)	**78.8**	76.7
Performing book coverage ratio (%)	**0.93**	0.95

* *Metrics provided on an IFRS basis.*

** *Specific impairments as a percentage of NPLs.*

YEAR UNDER REVIEW AND FOCUS AREAS

YEAR UNDER REVIEW	RISK MANAGEMENT FOCUS AREAS
• Aligned credit origination strategies to the group's macroeconomic outlook with particular reference to low economic growth and lack of employment growth. • Reviewed counterparty ratings impacted by the sovereign downgrade and re-assessed associated origination strategies. • Continued roll-out of the group's IFRS 9 programme, focusing on model development and validation against established group frameworks. • Implemented model risk management software to enhance model risk management practices across the credit value chain. • Continued to roll-out minimum requirements and data architecture refinements related to the Basel principles for risk data aggregation and risk reporting (BCBS 239).	• Ongoing review of risk appetite and credit origination strategies, as macroeconomic prospects unfold. • Continue to monitor sovereign rating prospects, and the ratings of associated entities, with proactive revisions where required. • Complete validation of IFRS 9 credit models and implement in production and complete end-to-end parallel runs. • Continue to invest in people, systems and processes related to credit model risk management to ensure appropriate governance with increasing model complexity. • Continue to roll-out data architecture refinements related to BCBS 239.

ASSESSMENT AND MANAGEMENT

Credit risk is managed through the implementation of comprehensive policies, processes and controls to ensure a sound credit risk management environment with appropriate credit granting, administration, measurement, monitoring and reporting of credit risk exposure. Credit risk management across the group is split into three distinct portfolios: retail, commercial and corporate, and are aligned to customer profiles.

The assessment of credit risk across the group relies on internally-developed quantitative models for addressing regulatory and business needs. The models are used for the internal assessment of the three primary credit risk components:

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

Management of the credit portfolio is reliant on these three credit risk measures. PD, EAD and LGD are inputs into the portfolio and 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.

The group employs a granular, 100-point master rating scale, which has been mapped to the continuum of default probabilities, as illustrated in the following table. FirstRand (FR)1 is the lowest PD and FR100 the highest. External ratings have also been mapped to the master rating scale for reporting purposes. These mappings are reviewed and updated on a regular basis.

Mapping of FR grades to rating agency scales

FR rating	Midpoint PD	International scale mapping*
1 – 14	**0.06%**	**AAA, AA, A**
15 – 25	**0.29%**	**BBB**
26 – 32	**0.77%**	**BB+, BB**
33 – 39	**1.44%**	**BB-**
40 – 53	**2.52%**	**B+**
54 - 83	**6.18%**	**B**
84 – 90	**13.68%**	**B-**
91 – 99	**59.11%**	**Below B-**
100	**100%**	**D (Defaulted)**

* *Indicative mapping to the international rating scales of S&P Global Ratings (S&P). The group currently only uses mapping to S&P's rating scales.*

RATING PROCESS

The group employs a consistent rating process differentiated by the type of counterparty and the type of model employed. 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 portfolio.

PORTFOLIO	MODEL TYPE	MODEL DESCRIPTIONS
Large corporate portfolios (RMB and WesBank) Private sector counterparties including corporates and securities firms, and public sector counterparties. Products include loan facilities, structured finance facilities, contingent products and derivative instruments.	**PD**	• Internally developed statistical rating models using internal and external data covering full economic cycles is used and results supplemented with qualitative assessments based on international rating agency methodologies. • All ratings (and associated PDs) are reviewed by the wholesale credit committee and, if necessary, final adjustments are made to ratings to reflect information not captured by the models.
	LGD	• LGD estimates are based on modelling a combination of internal and suitably adjusted international data with the wholesale credit committee responsible for reviewing and approving LGDs. The LGD models consider the type of collateral underlying the exposure.
	EAD	• EAD estimates are based on suitably adjusted international data. The credit conversion factor approach is typically used to inform the EAD estimation process. The same committee process responsible for reviewing and approving PDs is applied to the review and approval of EADs.
Low default portfolios: sovereign and bank exposures South African and non-South African banks, local and foreign currency sovereign and sub-sovereign exposures.	**PD**	• PDs are based on internally-developed statistical and expert judgement models, which are used in conjunction with external rating agency ratings and structured peer group analysis to determine final ratings. PD models are calibrated using external default data and credit spread market data. • All ratings (and associated PDs) are reviewed by the wholesale credit committee and, if necessary, final adjustments are made to ratings to reflect information not captured by the models.
	LGD	• LGD estimates are based on modelling a combination of internal and suitably adjusted international data with the same committee process responsible for reviewing and approving LGDs as for PDs. The LGD models consider the type of collateral underlying the exposure.
	EAD	• Estimation is based on regulatory guidelines with credit conversion factors used, as appropriate. External data and expert judgement are used due to the low default nature of the exposures.
Specialised lending portfolios (RMB, FNB commercial) Exposures to private-sector counterparties for the financing of project finance, high volatility commercial real estate, and income-producing real estate.	**PD**	• The rating systems are 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. • All ratings (and associated PDs) are reviewed by the wholesale credit committee and, if necessary, final adjustments are made to ratings to reflect information not captured by the models.
	LGD	• The LGD estimation process is similar to that followed for the PD with simulation and expert judgement used as appropriate.
	EAD	• EAD estimates are based on internal as well as suitably adjusted external data. The credit conversion factor approach is typically used to inform the EAD estimation process.

PORTFOLIO	MODEL TYPE	MODEL DESCRIPTIONS
Commercial portfolios (FNB commercial) Exposures to SME corporate and retail clients. Products include loan facilities, contingent products and term lending products.	PD	• **SME corporate** – counterparties are scored using financial statement information in addition to other internal risk drivers, the output of which is calibrated to internal historical default data. • **SME retail** – 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.
	LGD	• **SME corporate** – 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. • **SME retail** – LGD estimates are applied on a portfolio level, estimated from internal historical default and recovery experience.
	EAD	• **SME corporate** – portfolio-level credit conversion factors are estimated on the basis of the group's internal historical experience and benchmarked against international studies. • **SME retail** – EAD estimates are applied on a portfolio level, estimated from internal historical default and recovery experience.
Residential mortgages (FNB HomeLoans, One Account, FNB housing finance and wealth (RMB Private Bank and FNB Private Clients)) Exposures to individuals for the financing of residential properties.	PD	• Portfolios/products 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.
	LGD	• LGD estimates are based on subsegmentation with reference to collateral or product type, time in default and post-default payment behaviour. Final estimates are based on associated analyses and modelling of historical internal loss data.
	EAD	• EAD estimates are based on subsegmentation with reference to product-level analyses and modelling of historical internal exposure data.
Qualifying revolving retail exposures (FNB card, FNB value banking solutions and wealth) Exposures to individuals providing a revolving limit through credit card or overdraft facility.	PD	• Portfolios/products 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.
	LGD	• LGD estimates are based on subsegmentation with reference to product type. Final estimates are based on associated analyses and modelling of historical internal loss data.
	EAD	• EAD measurement plays a significant role in the assessment of risk due to the typically high level of undrawn facilities characteristic of these product types. EAD estimates are based on actual historic EAD, segmented appropriately, e.g. straight versus budget in the case of credit cards.
Other exposures (FNB personal loans, WesBank loans and WesBank vehicle and asset finance (VAF))	PD	• Portfolios/products 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.
	LGD	• LGD estimates are based on subsegmentation with reference to collateral (in the case of WesBank VAF) or product type and time in default. Final estimates are based on associated analyses and modelling of historical internal loss data.
	EAD	• EAD estimates are based on subsegmentation with reference to product-level analyses and modelling of historical internal exposure data.

The following tables provide the main parameters used for the calculation of capital requirements for the exposures in the advanced internal ratings-based models split by asset class and shown within fixed regulatory PD ranges. These exposures are for **FirstRand Bank (SA)**, where the advanced internal ratings-based models are applied. The information provided in the different columns are explained as follows:

- regulatory supplied credit conversion factors (CCF) are used;
- number of obligors corresponds to the number of counterparties in the PD band;
- average PD and LGD are weighted by EAD;
- average maturity is the obligor maturity in years weighted by EAD;
- RWA density is the total RWA to EAD post credit risk mitigation; and
- provisions are only included on a total basis.

A breakdown of credit exposures per portfolio by PD range is included in the Pillar 3 disclosure on www.firstrand.co.za.

CREDIT RISK EXPOSURES

FirstRand Bank (SA) advanced internal ratings-based approach credit risk exposures by portfolio and PD range

	Total FirstRand Bank (SA)					
	As at 30 June 2017					
PD scale	Original on-balance sheet gross exposure R million	Off-balance sheet exposures pre-CCF R million	Average CCF %	EAD post-CRM and post-CCF R million	Average PD %	Number of obligors
0.00 to < 0.15	153 312	28 845	39.70	149 364	0.02	205 679
0.15 to < 0.25	86 617	50 355	49.46	101 192	0.18	114 571
0.25 to < 0.50	158 064	66 025	43.12	174 022	0.36	327 244
0.50 to < 0.75	73 797	24 050	49.44	84 033	0.66	444 836
0.75 to < 2.50	249 161	51 953	53.04	256 941	1.54	1 683 646
2.50 to < 10.00	128 314	21 462	28.95	139 951	4.79	2 776 791
10.00 to < 100.00	31 065	2 279	49.51	32 220	26.89	991 481
100.00 (default)	18 354	33	18.20	18 847	100.0	1 166 850
Total	898 684	245 002	45.56	956 570	4.14	7 711 098

	Total FirstRand Bank (SA)					
	As at 30 June 2017					
PD scale	Average LGD %	Average maturity Years	RWA R million	RWA density %	Expected loss R million	Provisions R million
0.00 to < 0.15	30.37	2.11	8 382	5.61	11	
0.15 to < 0.25	31.41	1.62	25 691	25.39	56	
0.25 to < 0.50	27.67	1.35	55 042	31.63	178	
0.50 to < 0.75	26.29	0.97	27 409	32.62	151	
0.75 to < 2.50	26.15	0.74	107 171	41.71	1 086	
2.50 to < 10.00	35.57	0.53	94 328	67.40	2 468	
10.00 to < 100.00	40.00	0.39	36 621	113.66	3 495	
100.00 (default)	40.69	0.51	16 191	85.90	6 524	
Total	29.79	1.13	370 835	38.77	13 969	13 239

FirstRand Bank (SA) advanced internal ratings-based approach credit risk exposures by portfolio and PD range continued

	Total FirstRand Bank (SA)					
	As at 30 June 2016					
PD scale	Original on-balance sheet gross exposure R million	Off-balance sheet exposures pre-CCF R million	Average CCF %	EAD post-CRM and post-CCF R million	Average PD %	Number of obligors
0.00 to < 0.15	202 581	31 089	57.59	157 192	0.07	140 981
0.15 to < 0.25	46 826	35 929	55.70	80 116	0.21	102 951
0.25 to < 0.50	88 503	54 821	51.59	110 293	0.37	265 777
0.50 to < 0.75	52 241	20 910	56.10	63 088	0.61	519 395
0.75 to < 2.50	271 490	63 381	57.73	293 256	1.46	2 570 708
2.50 to < 10.00	158 973	21 085	56.08	144 513	4.34	1 919 358
10.00 to < 100.00	32 786	4 214	31.86	34 168	28.76	1 204 366
100.00 (default)	16 133	86	79.20	16 123	100.00	1 073 723
Total	869 533	231 515	55.18	898 749	4.18	7 797 259

	Total FirstRand Bank (SA)					
	As at 30 June 2016					
PD scale	Average LGD %	Average maturity Years	RWA R million	RWA density %	Expected loss R million	Provisions R million
0.00 to < 0.15	28.35	1.55	15 489	9.85	53	
0.15 to < 0.25	34.96	1.80	23 127	28.87	43	
0.25 to < 0.50	26.09	1.31	30 452	27.61	98	
0.50 to < 0.75	31.40	0.96	21 326	33.80	111	
0.75 to < 2.50	26.32	0.99	109 919	37.48	1 033	
2.50 to < 10.00	37.19	1.37	100 210	69.34	2 211	
10.00 to < 100.00	38.73	0.85	37 560	109.93	3 788	
100.00 (default)	41.08	1.46	12 204	75.69	6 047	
Total	30.26	1.26	350 287	38.97	13 384	13 157

FUNDING AND LIQUIDITY RISK

INTRODUCTION AND OBJECTIVES

The group strives to fund its activities in a sustainable, diversified, efficient and flexible manner, underpinned by strong counterparty relationships within prudential limits and minimum 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.

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

Compliance with the Basel III LCR influences the group's funding strategy, in particular as it seeks to restore the correct risk-adjusted pricing of liquidity. The group is actively building its deposit franchise through innovative and competitive product and pricing, while also improving the risk profile of its institutional funding. This continues to improve the funding and liquidity profile of the group.

Given market conditions and the regulatory environment, the group increased its holdings of available liquidity over the year in line with risk appetite. The group utilised new market structures, platforms and the SARB committed liquidity facility to efficiently increase the available liquidity holdings.

Liquidity risk arises from all assets and liabilities with differing maturity profiles.

LIQUIDITY RISK PROFILE

	FirstRand Bank	
R billion	June 2017	June 2016*
High quality liquid assets (HQLA)		
– Cash and deposit with central banks	**29**	26
– Government bonds and bills	**93**	78
– Corporate bonds and other	**33**	37
Total HQLA	**155**	141
FirstRand Bank (SA) LCR %	**105**	102

* *2016 numbers restated to the Basel III view.*

YEAR UNDER REVIEW AND FOCUS AREAS

YEAR UNDER REVIEW	RISK MANAGEMENT FOCUS AREAS
• During the year, the deposit franchise grew 8%, with institutional and other funding increasing by 3%. • Innovative customer deposit products showed strong growth, supporting the group's strategy to grow its deposit franchise. • Provisional directive on the NSFR in November 2015 has subsequently been issued as directive 4 of 2016 in August 2016. The SARB has applied their discretion in relation to the treatment deposits with maturity of up to 6 months received from financial institutions. The NSFR framework assigns a 0% available stable funding factor to these funds whereas the SARB has elected to apply a 35% factor. It is anticipated that this change will significantly assist the South African banking sector in meeting NSFR requirements. On a *pro forma* basis FirstRand expects that it would exceed the minimum requirements.	• Continue to focus on the Basel III liquidity regime with emphasis on both funding and market liquidity risk management. • Further optimise and diversify the funding profile on a risk-adjusted basis in line with Basel III and LCR requirements. • Continue to focus on growing the deposit franchise through innovative products and improve the risk profile of institutional funding. • Continue to optimise the group's market liquidity risk profile by developing execution platforms for additional funding sources.

ASSESSMENT AND MANAGEMENT

The group focuses on continuously monitoring and analysing the potential impact of other risks and events on the funding and liquidity position of the group to ensure business activities preserve and improve funding stability. This ensures the group is able to operate through periods of stress when access to funding is constrained.

Mitigation of market and funding liquidity risks is achieved via contingent liquidity risk management. Buffer stocks of high quality, highly liquid assets are held either to be sold into the market or provide collateral for loans to cover any unforeseen cash shortfall that may arise.

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

STRUCTURAL LIQUIDITY RISK	DAILY LIQUIDITY RISK	CONTINGENCY LIQUIDITY RISK
Managing the risk that structural, long term on- and off-balance sheet exposures cannot be funded timeously or at reasonable cost.	Ensuring that intraday and day-to-day anticipated and unforeseen payment obligations can be met by maintaining a sustainable balance between liquidity inflows and outflows.	Maintaining a number of contingency funding sources to draw upon in times of economic stress.

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; and
- proactively evaluating the potential secondary and tertiary effects of other risks on the group.

MARKET RISK IN THE TRADING BOOK

INTRODUCTION AND OBJECTIVES

The group distinguishes between **market risk in the trading book** and **non-traded market risk**. For non-traded market risk, the group distinguishes between **interest rate risk in the banking book (IRRBB)** and **structural foreign exchange risk**.

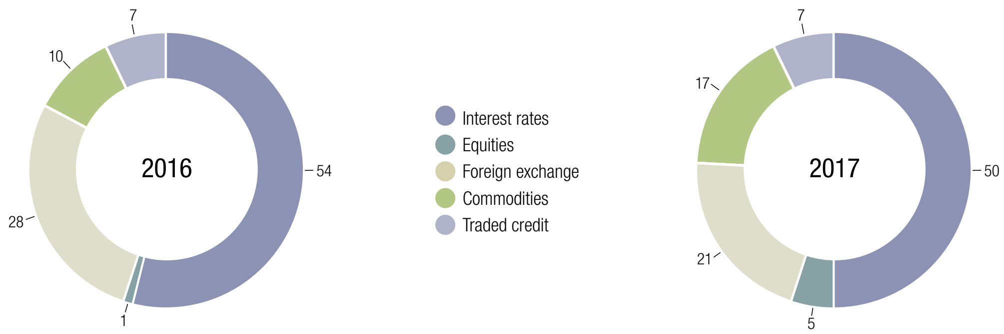
Group's market risk in the trading book emanates mainly from the provision of hedging solutions for clients, market-making activities and term-lending products, and is taken and managed by RMB. The relevant businesses in RMB function as the centres of expertise with respect to all market risk-related activities. Market risk is managed and contained within the group's appetite. Overall diversified levels of market risk have remained fairly low during the last few years, with this trend continuing over the year under review. There are no significant concentrations in the portfolio, which also reflects overall lower levels of risk.

Market risk in the trading book includes interest rate risk in the trading book, traded equity and credit risk, commodity risk, foreign exchange risk and interest rate risk in the RMB banking book which is managed as part of the trading book.

MARKET RISK IN THE TRADING BOOK PROFILE

Traded market risk VaR exposure per asset class for the group excluding subsidiaries in the rest of Africa (excluding diversification effects across jurisdictions)

%



YEAR UNDER REVIEW AND FOCUS AREAS

YEAR UNDER REVIEW	RISK MANAGEMENT FOCUS AREAS
• Overall diversified levels of market risk increased over the year. There are no significant concentrations in the portfolio.	• Given the impending regulatory changes regarding BCBS's documents, *Fundamental review of the trading book* and BCBS 239, RMB is reviewing the current target operating platform market risk, considering platform capabilities across both front office and risk areas, and aligning market risk processes, analysis and reporting in line with these requirements.

ASSESSMENT AND MANAGEMENT

Management and monitoring of the FirstRand domestic banking book is split between the RMB book and the remaining domestic banking book. RMB manages the majority of its banking book under the market risk framework, with risk measured and monitored in conjunction with the trading book and management oversight provided by the market and investment risk committee. The RMB banking book interest rate risk exposure was R56.8 million on a 10-day expected tail loss (ETL) basis at 30 June 2017 (2016: R95.3 million). Interest rate risk in the remaining domestic banking book is discussed in the *interest rate risk in the banking book* section.

The risk related to market risk-taking activities is measured as the higher of the group's internal ETL measure (as a proxy for economic capital) and regulatory capital based on Value-at-Risk (VaR) plus stressed VaR (sVaR).

ETL	The internal measure of risk is an ETL metric at the 99% confidence level under the full revaluation methodology using historical risk factor scenarios (historical simulation method). In order to accommodate the regulatory stress loss imperative, the set of scenarios used for revaluation of the current portfolio comprises historical scenarios which incorporate both the past 260 trading days and at least one static period of market distress observed in history (2008/2009). The choice of period 2008/2009 is based on the assessment of the most volatile period in recent history. ETL is liquidity adjusted for illiquid exposures. Holding periods, ranging between 10 and 90 days or more, are used in the calculation and are based on an assessment of distressed liquidity of portfolios.
VaR	VaR is calculated at the 99%, 10-day actual holding period level using data from the past 260 trading days.

NON-TRADED MARKET RISK

For non-traded market risk, the group distinguishes between **interest rate risk in the banking book** and **structural foreign exchange risk**.

RISK AND JURISDICTION	RISK MEASURE	MANAGED BY
Interest rate risk in the banking book		
Domestic – FNB, WesBank and FCC balance sheet	• 12-month earnings sensitivity; and • economic sensitivity of open risk position.	Group Treasury
Subsidiaries in rest of Africa and international branches	• 12-month earnings sensitivity; and • economic sensitivity of open risk position.	In-country management
Structural foreign exchange risk		
Group	• total capital in a functional currency other than rand; • impact of translation back to rand reflected in group; and • foreign currency translation reserve value.	Group Treasury

Interest rate risk in the banking book (IRRBB)

IRRBB originates from the differing repricing characteristics of balance sheet positions/instruments, yield curve risk, basis risk and client optionality embedded in banking book products.

IRRBB PROFILE

The following tables show the 12-month NII sensitivity for sustained, instantaneous parallel 200 bps downward and upward shocks to interest rates. The decreased sensitivity is attributable to the level of strategic hedges put in place to manage the margin impact of the capital and deposit endowment books through the cycle. At 30 June 2017, the book was positioned to benefit from further interest rate hikes, whilst protecting against rate uncertainty. Given current uncertainty on the length and extent of the hiking cycle, the endowment book remains actively managed.

Projected NII sensitivity to interests rate movements (audited)

	FirstRand Bank	
R million	June 2017	June 2016
Downward 200 bps	**(1 498)**	(1 821)
Upward 200 bps	**957**	1 475

The bulk of the NII sensitivity relates to the endowment book mismatch. The bank's average endowment book was R183 billion for the year. Total sensitivity in the bank is measured to rand rate moves.

YEAR UNDER REVIEW AND FOCUS AREAS

YEAR UNDER REVIEW	RISK MANAGEMENT FOCUS AREAS
• There was no change in the monetary policy rate in the current financial year. The last change in interest rates was in March 2016 when the policy rate was increased by 25 bps.	• The BCBS, through the task force for IRRBB, has published a more robust regulation for IRRBB which is due to be implemented by December 2017. The group is addressing these new requirements. • Given current uncertainty about the level and direction of future interest rates, the endowment book remains actively managed.

ASSESSMENT AND MANAGEMENT

FirstRand Bank (South Africa)

The measurement techniques used to monitor IRRBB include NII sensitivity/earnings risk and NAV/economic value of equity (EVE). A repricing gap is also generated to better understand the repricing characteristics of the balance sheet. In calculating the repricing gap, all banking book assets, liabilities and derivative instruments are placed in gap intervals based on repricing characteristics. The repricing gap, however, is not used for management decisions.

The internal funds transfer pricing process is used to transfer interest rate risk from the franchises to Group Treasury. This process allows risk to be managed centrally and holistically in line with the group's macroeconomic outlook. Management of the resultant risk position is achieved by balance sheet optimisation or through the use of derivative transactions. Derivative instruments used are mainly interest rate swaps, for which a liquid market exists. Where possible, hedge accounting is used to minimise accounting mismatches, thus ensuring that amounts deferred in equity are released to the income statement at the same time as movements attributable to the underlying hedged asset/liability. Interest rate risk from the fixed-rate book is managed to low levels with remaining risk stemming from timing and basis risk.

Sensitivity analysis

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

Structural foreign exchange risk

Structural foreign exchange risk arises as a result of the group's offshore operations with a functional currency other than the South African rand, and is the risk of a negative impact on the group's financial position, earnings, or other key ratios as a result of negative translation effects.

The group is exposed to foreign exchange risk both as a result of on-balance sheet transactions in a currency other than the rand, as well as through structural foreign exchange risk from the translation of foreign entities' results into rand. The impact on equity as a result of structural foreign exchange risk is recognised in the foreign currency translation reserve balance, which is included in qualifying capital for regulatory purposes.

Structural foreign exchange risk as a result of net investments in entities with a functional currency other than rand is an unavoidable consequence of having offshore operations and can be a source of both investor value through diversified earnings, as well as unwanted volatility as a result of rand fluctuations. Group Treasury is responsible for actively monitoring the net capital invested in foreign entities, as well as the currency value of any capital investments and dividend distributions. Reporting and management for the group's foreign exchange exposure and macro prudential limit utilisation is centrally owned by Group Treasury as the clearer of all currency positions in the group. Group Treasury is also responsible for oversight of structural foreign exchange risk with reporting through to group ALCCO, a subcommittee of the RCC committee.

STRUCTURAL FOREIGN EXCHANGE PROFILE

Net structural foreign exposures (audited)

	FirstRand Bank	
R million	June 2017	June 2016
Total net foreign exposure	**4 834**	4 616
Impact on equity from 15% currency translation shock	**725**	692

YEAR UNDER REVIEW AND FOCUS AREAS

YEAR UNDER REVIEW	RISK MANAGEMENT FOCUS AREAS
• Continued to strengthen principles regarding the management of foreign exchange positions and funding of the group's foreign entities. • Monitored the net open forward position in foreign exchange exposure against limits in each of the group's foreign entities.	• Continue to assess and review the group's foreign exchange exposures and enhance the quality and frequency of reporting.

ASSESSMENT AND MANAGEMENT

The ability to transact on-balance sheet in a currency other than the home currency (rand) is governed by in-country macro-prudential and regulatory limits. In the group, additional board limits and management appetite levels are set for this exposure. The impact of any residual on-balance positions is managed as part of market risk reporting (see *market risk in the trading book* section). Group Treasury is responsible for consolidated group reporting and utilisation of these limits against approved limits and appetite levels.

Foreign exchange risk in the banking book comprises funding and liquidity management, and risk mitigating activities which are managed to low levels. To minimise funding risk across the group, foreign currency transactions are matched where possible, with residual liquidity risk managed centrally by Group Treasury (see *funding and liquidity risk* section). Structural foreign exchange risk impacts both the current NAV of the group as well as future profitability and earnings potential. Economic hedging is done where viable, given market constraints and within risk appetite levels. Where possible, hedge accounting is applied. Any open hedges are included as part of market risk in the trading book.

OPERATIONAL RISK

INTRODUCTION AND OBJECTIVES

The group continues to evaluate and enhance existing frameworks, policies, methodologies, processes, standards, systems and infrastructure to ensure that the operational risk management practices are practical, adequate, effective, adaptable, and in line with regulatory developments and emerging best practice.

YEAR UNDER REVIEW AND FOCUS AREAS

YEAR UNDER REVIEW	RISK MANAGEMENT FOCUS AREAS
• Established minimum standards for the risk management treatment of critical third-party service providers and key insourced arrangements. • Formalised risk acceptance through policy implementation. • Automated key risk drivers to assist in the identification of key risks. • Formalised actions with defined timelines for compliance with the Basel principles for risk data aggregation and reporting. • Reviewed contingency plans to manage business resilience risks associated with water supply shortages and mass protest action, given the current external environment. • Internal validation of the application and quality of operational risk management tools within business. • Ongoing review of key outsourcing arrangements. • Process automation projects continued to reduce manual processes and improve controls. • Upgrading key facilities and infrastructure with completion planned for 2018. • Continued to review and align risk mitigation strategies to combat cybercrime and ensure that controls are adequate and effective. • Refined processes, and improved data quality and records management practices. • Information governance now forms an integral part of the group's overall risk management framework.	• Enhance the quality and coverage of process-based risk, and control identification and assessments. • Enhance risk management procedures related to critical third parties, third-party outsourcing and key interfranchise insourcing. • Enhance value and use of operational risk management information and analysis to business. • Address gaps relating to BCBS 239. • Embed control testing as part of the responsibilities of the second line of control. • Prioritise operational risk management activities to support execution of strategy and strengthen key controls. • Enhance operational risk management awareness and skills within the organisation. • Assess risk management and measurement impact of changes to the BCBS's operational risk capital approach. • Align IT and related frameworks with changing business models and the technology landscape. • Conduct regular IT risk assessments to ensure improvement of identified gaps. • Improve information management capabilities and the control environment, and awareness programmes on records management, data quality and data privacy management.

ASSESSMENT AND MANAGEMENT

The group obtains assurance that the principles and standards in the operational risk management framework are being adhered to by the three lines of control model which is 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 on the adequacy and effectiveness of operational risk management processes and practices.

In line with international best practice, a variety of tools are employed and embedded in the assessment and management of operational risk.

A number of key risks exist for which specialised teams, frameworks, policies and processes have been established and integrated into the broader operational risk management and governance programmes. These include business resilience, legal risk, IT risk, information governance, fraud and security risks, and risk insurance. Insurance is not a mitigating factor in the calculation of capital.

The principal operational risks currently facing the group are:

- **commercial and violent crime** (including internal fraud);
- **information security risk** (risk of loss or theft of information), given the growing sophistication of cyberattacks globally;
- **business disruption** due to increased mass protest action and possible national water and electricity supply shortages, given its potential impact on operations; and
- **execution, delivery and process management risk** (the risk of process weaknesses and control deficiencies) as the business continues to grow and evolve.

REGULATORY RISK

INTRODUCTION AND OBJECTIVES

The group expects ethical behaviour that contributes to the overall objective of prudent regulatory compliance and risk management by striving to observe both the spirit and the letter of the law. Management's ownership and accountability contributes to this through providing responsible financial products and services, and treating customers fairly. The compliance culture also embraces broader standards of integrity and ethical conduct which affects all employees. RRM's objective is to ensure business practice, policies, frameworks and approaches across the group are consistent with applicable laws and that regulatory risks are identified and proactively managed.

Compliance with laws and regulations applicable to its operations is critical to the group as non-compliance may have potentially serious consequences and lead to both civil and criminal liability, including penalties, claims for loss and damages, or restrictions imposed by regulatory authorities.

YEAR UNDER REVIEW AND FOCUS AREAS

YEAR UNDER REVIEW	RISK MANAGEMENT FOCUS AREAS
• The Financial Intelligence Centre Amendment Bill was signed into law by the President on 26 April 2017. The Minister of Finance, who must determine the commencement date, has recently pronounced on sections that took effect and announced that the remaining sections would be effective from 2 October 2017. In this regard, draft regulations and guidance has been published for comment whilst further transitional periods for implementation of related regulations and requirements will be agreed with the relevant regulatory authorities. • The Financial Sector Regulation Bill, was recently passed by the National Assembly after which it was sent to the President for acceptance. • The Regulations relating to Banks is currently in process of being amended in line with various new and/or revised internationally agreed frameworks and requirements.	• Continue to cooperate with regulatory authorities and other stakeholders. • Continue to make significant investments in people, systems and processes to manage risks emanating from the large number of new local and international regulatory requirements, including the Financial Intelligence Centre Act, National Credit Act, Financial Advisory and Intermediary Services Act and Protection of Personal Information Act. • Ongoing investment in systems, processes and resources to ensure compliance with anti-money laundering and combating the financing of terrorism (AML/CFT) legislation. • Strengthen focus on anti-bribery and corruption strategy and programmes to ensure compliance with both local and international regulatory instruments with extraterritorial reach. • Continue to focus on managing regulatory and conduct risk posed by clients and other external stakeholders. • Continue to focus on managing organisational culture risk detection, prevention and remediation, which supports regulatory risk management. • Ongoing focus on remediation actions required in respect of identified regulatory risk management matters, including matters identified by the SARB during its AML/CFT inspection, and AML/CFT compliance assessments by regulators in other jurisdictions such as Namibia, Botswana and Swaziland. • Continue to work closely with regulators and industry on the authenticated collections project; the main objective of which is to prevent debit order abuse. • Continue to manage risks associated with illicit cross-border flows.

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 to the board and SARB. These include:

- risk identification through documenting which laws, regulations and supervisory requirements are applicable to the group;
- 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 the group's business units, the public policy and regulatory affairs office, GIA, ERM, external auditors, internal and external legal advisors, and the company secretary's office to ensure effective functioning of compliance processes.

PUBLIC POLICY AND REGULATORY AFFAIRS OFFICE

In line with the responsibilities of FirstRand as the group's holding company, the public policy and regulatory affairs office facilitates the process through which the board maintains an effective relationship with both local and international regulatory authorities for the group's regulated subsidiaries and branches. The office also provides the group with a central point of engagement, representation and coordination in respect of relevant regulatory and public policy-related matters at a strategic level. This function is differentiated from the existing and continuing engagement with regulators at an operational level, i.e. regulatory reporting, compliance and audit. Its main objective is to ensure that group and franchise executives are aware of key developments relating to public policy, legislation and regulation pertinent to the group's business activities. It also supports executives in developing the group's position on issues pertaining to government policy, proposed and existing legislation and regulation.

This office reports directly to the group CEO and deputy CEO and indirectly, through designated subcommittees, to the board and maintains close working relationships with RRM, ERM and business units where specific technical expertise resides.

annual financial statements

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c FirstRand Bank annual financial statements

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DIRECTORS' RESPONSIBILITY STATEMENT AND APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

TO THE SHAREHOLDER OF FIRSTRAND BANK LIMITED

The directors of FirstRand Bank Limited (the bank) are responsible for the preparation and fair presentation of the annual financial statements comprising the statement of financial position, income statement, and statements of comprehensive income, changes in equity and cash flows, and the notes to the annual financial statements. These annual financial statements have been prepared in accordance with IFRS, including interpretations issued by the IFRS Interpretations Committee, the Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, the JSE Listings Requirements and the requirements of the Companies Act no 71 of 2008.

In discharging this responsibility, the directors rely on management to prepare the annual financial statements and for keeping adequate accounting records in accordance with the bank's system of internal control. Jaco van Wyk, CA (SA), supervised the preparation of the annual financial statements for the year.

In preparing the annual financial statements, suitable accounting policies in accordance with IFRS have been applied and reasonable judgements and estimates have been made by management. No new or amended IFRS standards became effective for the year ended 30 June 2017 that had an effect on the bank's reported earnings, financial position or reserves, or a material impact on the accounting policies. The annual financial statements incorporate full and responsible disclosure in line with the bank's philosophy on corporate governance.

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

Effective risk management requires various points of control. The directors and management are the risk owners, assisted by enterprise risk management and internal audit. Enterprise risk management is responsible for independent oversight and monitoring of controls and reports to the risk, capital and compliance committee, who oversees the bank's risk governance structures and processes. Internal audit provides independent assurance on the adequacy and effectiveness of controls and report to the audit committee.

Based on the information and explanations given by management and internal audit, 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 and maintaining accountability for the bank's assets and liabilities. Nothing has come to the attention of the directors to indicate any breakdown in the functioning of internal controls, resulting in a material loss to the bank, during the year and up to the date of this report. Based on the effective internal controls implemented by management, the directors are satisfied that the annual financial statements fairly present the state of affairs of the bank at the end of the financial year and the net income and cash flows for the year.

The directors have reviewed the bank's budgets and flow of funds forecasts and considered the bank's ability to continue as a going concern in light of current and anticipated economic conditions. 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 bank has adequate resources to continue in business for the foreseeable future. The going concern basis, therefore, continues to apply and has been adopted in the preparation of the annual financial statements. It is the responsibility of the bank's independent external auditors, Deloitte & Touche and PricewaterhouseCoopers Inc, to report on the fair presentation of the financial statements. These financial statements have been audited in terms of section 29(1) of the Companies Act 71 of 2008. Their unmodified report appears on page C6.

The annual financial statements of the bank, which appear on pages C13 to C182, and the summary risk and capital management report, which appear on section B, were approved by the board of directors on 6 September 2017 and are signed on its behalf by:

LL Dippenaar	**JP Burger**
Chairman	Chief executive officer

Sandton

6 September 2017

AUDIT COMMITTEE REPORT

The audit committee has satisfied itself that Deloitte & Touche and PricewaterhouseCoopers Inc. (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 carried out their statutory duties, including re-evaluating the performance of the external auditors, agreeing the terms of their audit plan, budget and terms of engagement. The audit committee has reviewed a documented assessment of the going concern assertion of the company and budgets for the next three years.

The audit committee is satisfied with the financial statements, accounting policies and the internal financial controls of the company.

A more comprehensive audit committee report is available in the FirstRand Limited annual governance report.

The audit committee has reviewed the annual financial statements of the bank and recommended it to the board for approval.

Signed on behalf of the group audit committee:

JH van Greuning

JH van Greuning
Chairman, audit committee

Sandton

6 September 2017

INDEPENDENT AUDITORS' REPORT

To the shareholders of FirstRand Bank Limited

Report on the audit of the financial statements

Our Opinion

We have audited the financial statements of FirstRand Bank Limited set out on pages C15 to C182, which comprise the statement of financial position as at 30 June 2017, and the income statement and statement of other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of FirstRand Bank Limited (the Company) as at 30 June 2017, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act of South Africa.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report.

We are independent of the Company in accordance with the Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa.

We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B).

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We communicate the key audit matters that relate to the audit of the financial statements of the current period in the table below.

<table>
<tr><th>Key audit matter</th><th>How the matter was addressed in the audit</th></tr>
<tr><td>Valuation of complex financial instruments which are subject to judgement
The valuation of complex financial instruments requires significant judgement by management where valuation assumptions are not market observable.

These key assumptions include unobservable market rates, projected cash flows and the consideration of recent market developments in valuation methodologies relating to the impact of counterparty and own credit risk, regulation and funding costs.

The financial instruments impacted by these subjective assumptions include:
● Advances book carried at fair value (primarily Rand Merchant Bank and Group Treasury);
● Complex derivative financial instruments (primarily those which are longer dated and valued with reference to unobservable assumptions); and
● Investment securities valued with reference to unobservable assumptions which would primarily be unlisted equities.

As the impact of these assumptions on the valuation of the related financial instruments significantly affects the measurement of profit and loss and disclosures of financial risks in the financial statements, it was considered a key audit matter.

We focused on the following areas of judgement relating to the financial instruments described above:
● The impact of unobservable market rates on the recognition of fair value gains and losses;
● Consideration of recent market developments in valuation methodologies, particularly relating to the impact of counterparty and own credit risk, regulation and funding costs; and
● The reasonableness of projected cash flows incorporated into valuation models.

Related disclosures in the financial statements:
● Accounting policies, note 9 - Critical accounting estimates, assumptions and judgements
● Note 26 – Fair value measurements</td><td>Our audit of the valuation of the fair value advances book, complex derivative instruments and investment securities subject to these subjective assumptions included, inter alia, the following audit procedures with the assistance of our valuation experts:
● Tested the design and effectiveness of the relevant financial reporting controls relating to valuation;
● Evaluated the technical and practical appropriateness and accuracy of valuation methodologies (including key assumptions made and modelling approaches adopted) applied by management with reference to market practice and consistency with prior periods;
● For selected instruments we have independently reperformed the valuation;
● Assessed the appropriateness and sensitivity of unobservable market rates, projected cash flows and valuation adjustments with reference to the best available independent information; and
● Assessed the completeness and accuracy of the disclosures.

For the areas described above, our audit evidence supported management's assumptions and disclosures.</td></tr>
</table>

Key audit matter	How the matter was addressed in the audit
Impairment of advances The quality of credit is one of the primary risks managed by a bank. As such, the quality of the advances book, and the resultant credit impairments held, are key considerations by management. Impairment of advances at the statement of financial position date represents management's best estimate of the losses incurred based on historical data, collateral valuations, observable macro trends and other relevant and observable information. The impairment of advances is significant to the financial statements, given the considerable judgement required to be applied by management in the recognition and measurement of credit risk. As a result, we determined this to be a key audit matter. <u>Corporate advances</u> Corporate advances are typically individually significant and the calculation of impairments is inherently judgemental in nature. The impact of macro-economic events, including negative economic sentiment, global pressure on commodity prices, depressed oil prices and foreign exchange volatility result in a challenging operating environment and may have an impact on the credit risk of underlying counterparties. As a result, management apply significant judgements, estimates and assumptions in order to determine: ● The probability of default(PD), particularly for industries or counterparties evidencing indicators of distress; ● The valuation and expected recoverability of collateral; and ● The timing and quantum of expected future cash flows to be collected.	Our audit of the impairment of advances included, inter alia, the following audit procedures with the assistance of our credit experts: ● Across all significant portfolios we assessed the advances impairment practices applied by management against the requirements of IFRS and for consistency with prior periods. In addition, we tested the design and effectiveness of relevant controls over the processes used to calculate impairments, including controls relating to data and models. ● Considered the potential for impairment to be affected by events which were not captured by the models due to timing or other inherent limitations (such as changes in economic conditions) and evaluated how the Company had responded to these by making further adjustments where appropriate (in the form of overlays). <u>Corporate advances</u> ● Areas of significant judgement were identified and assessed for reasonableness for individually significant advances. We assessed, against actual experience and industry practice, the appropriateness of assumptions made by management in determining the level of impairment, including the probability of default and valuation of collateral. ● Independently recalculated a reasonable range of significant impairment losses, and compared the level raised by management to this range. ● Inspected a sample of legal agreements and supporting documentation to confirm the legal right to and existence of collateral. We further assessed the collateral valuation methodologies applied against historical experience and industry practice. ● A sample of counterparties from high risk industries or geographical locations were identified and tested for potential impairment, by using historical data and best available external evidence to assess the appropriateness of recognised impairments. ● Selected a sample of advances that had not been identified as impaired and determined if this was reasonable by forming an independent view on whether a specific impairment should be recognised.

<table>
<tr><th>Key audit matter</th><th>How the matter was addressed in the audit</th></tr>
<tr><td>

Impairment of advances continued
<u>Retail advances</u>
Retail advances are typically higher volume, lower value and therefore a significant portion of the impairment is calculated on a portfolio basis. This requires the use of statistical models incorporating data and assumptions which are not always necessarily observable.

Management applies professional judgement in developing the models, analysing data and determining the most appropriate assumptions and estimates. The inputs into the model process requiring significant management judgement, include:
● The probability of default (PD);
● The loss given default (LGD);
● Whether the loss event (that is the point at which impairment is recognised) had been identified in a timely manner;
● The emergence periods between the impairment event occurring and a specific or portfolio impairment being recognised; and
● The identification and treatment of cured and renegotiated loans.

Management also evaluates the overall portfolio provisions, as determined by the model, and may, in certain circumstances, recognise additional provisions (in the form of overlays) where there is uncertainty in respect of the models ability to address specific trends or conditions due to inherent limitations of modelling based on past performance, the timing of model updates and macro-economic events which could impact retail consumers.

Related disclosures in the financial statements:
● Note 31.1 – Financial risk - Credit risk
● Accounting policies, note 9 – Critical accounting estimates, assumptions and judgements

</td><td>

<u>Retail advances</u>
● Where impairments were specifically calculated, we assessed whether the loss event (that is the point at which impairment is recognised) had been identified in a timely manner by management. Where impairments had been identified, we examined the forecasts of future cash flows and assumptions applied and assessed these assumptions against external evidence used by management, where available.
● Where impairments were calculated on a modelled basis (portfolio impairments), we assessed the appropriateness of these models and the data and assumptions used by management. This included:
o Comparing those assumptions which could have a material impact with actual experience and industry practice, including the determination of probabilities of default, expected loss in the event of default, the emergence periods, the curing of defaulted or renegotiated loans as well as the potential divergence of these assumptions for specific advance categories such as advances subject to debt counselling.
o Testing the operation of actuarial models, including, where required, building our own independent assessment and comparing our results to those of management.

Based on the procedures described above, our audit evidence supported the total credit impairments, inclusive of overlays, to be within an acceptable range in the context of an incurred loss model. The financial statements incorporated appropriate disclosures relating to the impairment of advances.

</td></tr>
</table>

Key audit matter	How the matter was addressed in the audit
Taxation The Company, through its diverse and complex financial services offerings, operates in multiple tax jurisdictions and is therefore subject to a wide range of taxation laws as well as the interpretive nature of these tax laws. Management judgement is applied to the application and interpretation of regulations from various tax authorities across a multitude of products and transactions which can have a significant impact on the financial statements. As a result, this was viewed as a key audit matter. Related disclosures in the financial statements: ● Accounting policies, note 9 – Critical accounting estimates, assumptions and judgements	Our assessment of the impact of material interpretive tax matters included, inter alia, the following audit procedures performed with the assistance of our tax specialists: ● Evaluated the adequacy of the Company's tax risk control framework with reference to the Company's ability to identify tax issues. ● Analysed the judgements applied by management in the accounting and disclosure of tax risk, in the context of available supporting information. ● Examined correspondence between the Company and the relevant tax authorities. Based on the procedures described above and in the context of the uncertainty that exists, we found these matters were appropriately accounted for and disclosed in the financial statements.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Annual Financial Statements, which includes the Directors' report, the Audit committee report and the Company secretary's certification as required by the Companies Act of South Africa, which we obtained prior to the date of this report, and the Annual Report 2017, which is expected to be made available to us after that date. Other information does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information and we do not and will not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Statements

The directors are responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In terms of the Independent Regulatory Board for Auditors (IRBA) Rule, published in Government Gazette Number 39475 dated 4 December 2015, we report that Deloitte & Touche and PricewaterhouseCoopers Inc. have been the joint auditors of FirstRand Bank Limited in its current form for 19 years. In addition, prior to the formation of FirstRand Bank Limited, Deloitte & Touche were one of the joint auditors of First National Bank of Southern Africa Limited for 9 years.

DELOITTE & TOUCHE

Deloitte & Touche
Registered auditor
Per: Darren Shipp CA (SA)
Partner

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Registered auditor
Director: Francois Prinsloo

Johannesburg

6 September 2017

COMPANY SECRETARY'S CERTIFICATION

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

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

C Low
Company Secretary

Sandton

6 September 2017

DIRECTORS' REPORT

NATURE OF BUSINESS

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

SHARE CAPITAL

Ordinary share capital

Details of FirstRand Bank Limited's share capital are presented in note 23 of the annual financial statements.

DIVIDENDS

Ordinary cash dividends of R11 963 million were paid during the 2017 financial year (2016: R9 981 million).

Dividends of R237 million were paid on non-cumulative non-redeemable preference shares (2016: R219 million).

PROFIT AFTER TAX

Profit after tax amounted to R18 537 million (2016: R17 150 million).

FINANCIAL REPORTS

The company financial statements have been prepared in line with the documented 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 24 of the annual financial statements.

ACCOUNTING POLICIES

1 INTRODUCTION AND BASIS OF PREPARATION

1.1 Introduction

The bank's annual financial statements have been prepared in accordance with IFRS, including interpretations issued by the IFRS Interpretations Committee, the Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, the JSE Listing Requirements and the requirements of the Companies Act no 71 of 2008 (Companies Act).These financial statements comprise the statement of financial position (also referred to as the balance sheet) as at 30 June 2017, and the statement of other comprehensive income, income statement, statement of changes in equity and statement of cash flows for the year ended, and the notes, comprising a summary of significant accounting policies and other explanatory notes.

The bank adopts the following significant accounting policies in preparing its annual financial statements:

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES				
2	**Investments in other entities**	Subsidiaries and associates (section 2.1)	Related party transactions (section 2.2)	
3	**Income, expenses and taxation**	Income and expenses (section 3.1)	Income tax (section 3.2)	
4	**Financial instruments**	Classification (section 4.1)	Measurement (section 4.2)	Impairment (section 4.3)
		Transfers and de-recognition (section 4.4)	Offset and collateral (section 4.5)	Derivatives and hedge accounting (section 4.6)
5	**Other assets and liabilities**	Property and equipment (section 5.1)	Intangible assets (section 5.1)	Commodities (section 5.1)
		Provisions (section 5.1)	Non-current assets held for sale (section 5.2)	Leases (section 5.3)
6	**Capital and reserves**	Share capital	Dividends and non-cash distributions	Other reserves
7	**Transactions with employees**	Employee benefits (section 7.1)	Share-based payment transactions (section 7.2)	

These policies have been consistently applied to all years presented, except for the voluntary change in presentation outlined in section 8.

1.2 Basis of preparation

There were no revised or new standards adopted in the current or prior year that impacted the bank's reported earnings, financial position, or reserves or a material impact on the accounting policies.

The bank has voluntarily changed the manner in which it presents certain items of net interest income and non-interest revenue, the classification of certain credit investments and the presentation of accrued interest on deposits. The new presentation provides more meaningful insights to users about how the bank manages its business. The change in presentation has had no impact on the profit or loss or net asset value of the bank and only affects the classification of items on the income statement and statement of financial position. The impacts on previously reported results are set out in section 8 of the accounting policies, Restatement of prior year numbers.

The segmental analysis included in the segment report is based on the information reported to the bank's chief operating decision maker for the respective segments under the current franchise management structures. The information is prepared in terms of IFRS and certain adjustments 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 addition, certain normalised adjustments are also processed to the segment results. In the past these normalised adjustments were processed at a total profit for the year level. Based on a change in the internal method of management reporting, these entries are now processed above the line on a line-by-line basis at a franchise level. In order to facilitate comparability, the segment report for 30 June 2016 has been presented in line with the updated internal method of management reporting.

Use of judgements and estimates

The preparation of annual financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the bank's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are outlined in section 9.

Presentation of annual financial statements, functional and foreign currency

Items included in the annual financial statements of each of the bank's branches are measured using the currency of the primary economic environment in which the entity operates (the functional currency).

Presentation	The bank presents its statement of financial position in order of liquidity. Where permitted or required under IFRS, the bank offsets assets and liabilities or income and expenses and presents the net amount in the statement of financial position or in the statement of other comprehensive income.
Materiality	IFRS disclosure is only applicable to material items. Management applies judgement and considers both qualitative and quantitative factors in determining materiality applied in preparing these annual financial statements.
Functional and presentation currency of the bank	South African rand (R)
Level of rounding	All amounts are presented in millions of rands. The bank has a policy of rounding in increments of R500 000. Amounts less than R500 000 will therefore round down to R nil and are presented as a dash.
Foreign operations with a different functional currency from the bank presentation currency	The financial position and results of the bank's foreign operations are translated at the closing or average exchanges rate as required per IAS 21. Upon translation into the bank's presentation currency, exchange differences that arise are recognised as a separate component of other comprehensive income (the foreign currency translation reserve) and are reclassified to profit or loss on disposal or partial disposal of the foreign operation. The net investment in a foreign operation includes any monetary items for which settlement is neither planned nor likely in the foreseeable future.
Foreign currency transactions of the bank	Translated into the functional currency using the exchange rates prevailing at the date of the transactions.
Translation and treatment of foreign denominated balances	Translated at the relevant exchange rates, depending on whether they are monetary items (in which case the closing spot rate is applied) or non-monetary items. For non-monetary items measured at cost the rate applied is the transaction date rate. For non-monetary items measured at fair value the rate at the date the fair value is determined (reporting date) is applied. Foreign exchange gains or losses are recognised in profit or loss. To the extent that foreign exchange gains or losses relate to available-for-sale financial assets the following applies: ➢ equity instruments are recognised in other comprehensive income as part of the fair value movement; and ➢ debt instruments are allocated between profit or loss (those that relate to changes in amortised cost) and other comprehensive income (those that relate to changes in fair value).

2 INVESTMENTS IN OTHER ENTITIES

2.1 Subsidiaries, structured entities and associates

	Subsidiaries and other structured entities	Associates
Typical shareholding in the assessment of entities that are not structured entities	Greater than 50%	Between 20% and 50%
When an entity is a structured entity and control of an entity is not evidenced through shareholding, the bank considers the substance of the arrangement and the bank's involvement with the entity to determine whether the bank has control or significant influence over the significant decisions that impact the relevant activities of the entity.		
Nature of the relationship between the bank and the investee	Entities over which the bank has control as defined in IFRS 10. From time to time, the bank also sponsors the formation of structured entities primarily for the purpose of allowing clients to hold investments, for asset securitisation transactions and for buying and selling credit protection. Where the sponsorship does not result in control, the sponsorship is disclosed in terms of IFRS 12.	Entities over which the bank has significant influence as defined in IAS 28.
Investments in subsidiaries, other structured entities and associates		
The bank measures investments in these entities at cost less impairment (in terms of IAS 36), with the exception of investments acquired and held exclusively with the view to dispose of in the near future (within 12 months) that are measured at fair value less cost to sell in terms of IFRS 5.		
Interests in unconsolidated structured entities		
Interests in unconsolidated structured entities may expose the bank to variability in returns from the structured entity. However, because of a lack of power over the structured entity, it is not consolidated. Normal customer/supplier relationships where the bank transacts with the structured entity on the same terms as other third parties are not considered to be interests in the entity. From time to time the bank also sponsors the formation of structured entities primarily for asset securitisation transactions and for buying and selling credit protection. Where the interest or sponsorship does not result in control, and does not represent a normal customer or supplier relationship, disclosures of these interests or sponsorships are made in the notes in terms of IFRS 12.		

2.2 Related party transactions

Related parties of the bank, as defined, include:

Parent company	Subsidiaries and fellow subsidiaries	Associates and associates of the bank's parent and fellow subsidiaries	Post-employment benefit funds (pension funds)
Groups that have significant influence over the bank's parent	Key management personnel (KMP)	Close family members of KMP	Entities controlled, jointly controlled or significantly influenced by KMP or their close family members

The ultimate parent of the bank is FirstRand Limited, incorporated in South Africa. Key management personnel of the bank are the FirstRand Limited board of directors, the bank's board of directors and the bank's prescribed officers, including any entities which provide key management personnel services to the bank. Their close family members include spouse/domestic partner and children, domestic partner's children and any other dependants of the individual or their domestic partner.

3 INCOME, EXPENSES AND TAXATION

3.1 Income and expenses

Net interest revenue recognised in profit or loss
Net interest includes: ➢ interest on financial instruments measured at amortised cost and available-for-sale debt instruments determined using the effective interest method. ➢ interest on compound instruments. Where instruments with characteristics of debt, such as redeemable preference shares, are included in loans and advances or long-term liabilities and are measured at amortised cost, dividends received or paid on these instruments are included in the cash flows used to determine the effective interest rate of the instrument. ➢ interest on debt instruments designated at fair value through profit or loss that are held by and managed as part of the bank's funding operations and intercompany balances. ➢ an amount related to the unwinding of the discounted present value of non-performing loans measured at amortised cost on which specific impairments have been raised and where the recovery period is significant. When these advances are impaired, they are recognised at recoverable amount i.e. the present value of the expected future cash flows, and an element of time value of money is included in the specific impairment raised. As the advance moves closer to recovery, the portion of the discount included in the specific impairment unwinds. ➢ the difference between the purchase and resale price in repurchase and reverse repurchase agreements where the related advance or deposit is measured at amortised cost, because the amount is in substance interest. ➢ the net gains or losses arising on the sale of amortised cost advances to securitisation vehicles in the bank.

The net gain or losses on the sale of a book of advances at fair value is in substance the present value of future margin and therefore the amount is included in net interest income (NII) on the date of sale.

The total interest expense is reduced by the amount of interest incurred in respect of liabilities used to fund the bank's fair value activities. This amount is reported in fair value income within non-interest revenue.

Non-interest revenue recognised in profit or loss

Net fee and commission income

Fee and commission income	Fees and transaction costs that do not form an integral part of the effective interest rate are recognised as income when the outcome of the transaction involving the rendering of services can be reliably estimated as follows: ➢ fees for services rendered are recognised on an accrual basis when the service is rendered, e.g. banking fee and commission income, and asset management and related fees; ➢ fees earned on the execution of a significant act, e.g. knowledge-based fee and commission income, and non-banking fee and commission income, when the significant act has been completed; and ➢ commission income on bills and promissory notes endorsed is credited to profit or loss over the life of the relevant instrument on a time apportionment basis. Commission earned on the sale of insurance products to customers of the bank on behalf of an insurer is recognised as fee and commission income. Other non-banking fee and commission income relates to fees and commissions earned for rendering services to clients other than those related to the banking and asset management operations.
Fee and commission expenses	Fee and commission expenses are expenses that are incremental and directly attributable to the generation of fee and commission income, and are recognised as part of fee and commission income. These include transaction and service fees, which are expensed as the services are received.
Customer loyalty programmes	The bank operates a customer loyalty programme, eBucks, in terms of which it undertakes to provide goods and services to certain customers. The reward credits are accounted for as a separately identifiable component of the fee and commission income transactions. The consideration allocated to the reward credits is measured at the fair value of the reward credit and recognised in fee and commission income over the period in which the customers utilise the reward credits. Expenses relating to the provision of the reward credits are recognised as fee and commission expenses as incurred.

Fair value gains or losses	
Fair value gains or losses of the bank recognised in non-interest revenue includes the following: ➢ fair value adjustments and interest on trading financial instruments including derivative instruments that do not qualify for hedge accounting; ➢ fair value adjustments that are not related to credit risk on advances designated at fair value through profit or loss; ➢ a component of interest expense that relates to interest paid on liabilities which fund the bank's fair value operations. The interest expense is reduced by the amount that is included in fair value income; ➢ fair value adjustments on financial instruments designated at fair value through profit or loss in order to eliminate an accounting mismatch, except for such instruments relating to the bank's funding operations for which the interest component is recognised in interest income; ➢ ordinary and preference dividends on equity instruments designated at fair value through profit or loss or held for trading; and ➢ any difference between the carrying amount of the liability and the consideration paid, when the bank repurchases debt instruments that it has issued.	
Gains less losses from investing activities	
The following items are included in gains less losses from investing activities: ➢ any gains or losses on disposals of investments in subsidiaries, associates and joint ventures; ➢ any amounts recycled from other comprehensive income in respect of available-for-sale financial assets; and ➢ dividend income on any equity instruments that are considered long term investments of the bank, including dividends from subsidiaries, associates and joint ventures.	
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.	
Expenses	
Expenses of the bank, apart from certain fee and commission expenses included in net fee and commission income, are recognised and measured in terms of the accrual principle and presented as operating expenses in profit or loss.	
Indirect tax expense	Indirect tax includes other taxes paid to central and local governments including value added tax and securities transfer tax. Indirect tax is disclosed separately from income tax and operating expenses in the income statement.

3.2 Income tax expenses

Income tax includes South African and foreign corporate tax payable and where applicable, includes capital gains tax.

Current income tax	
The current income tax expense is calculated by adjusting the net profit for the year for items that are non-taxable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted at the reporting date, in each particular jurisdiction within which the bank operates.	
Deferred income tax	
Recognition	On temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the annual financial statements.
Typical temporary differences in the bank that deferred tax is provided for	➢ Depreciation of property and equipment; ➢ revaluation of certain financial assets and liabilities, including derivative contracts; ➢ provisions; ➢ impairment losses; and ➢ tax losses carried forward.
Measurement	Using the liability method under IAS 12 and applying tax rates and laws that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.
Presentation	In profit or loss unless it relates to items recognised directly in equity or other comprehensive income. Items directly recognised in equity or other comprehensive income relate to: ➢ the issue or buy back of share capital; ➢ fair value re-measurement of available-for-sale investments; and ➢ derivatives designated as hedging instruments in effective cash flow hedges. Tax in respect of these transactions is recognised directly in other comprehensive income and subsequently reclassified to profit or loss (where applicable) at the same time as the related gain or loss.
Deferred tax assets	The bank recognises deferred income tax assets only if it is probable that future taxable income will be available against which the unused tax losses can be utilised, based on management's review of the bank's budget and forecast information. 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.

4 FINANCIAL INSTRUMENTS

4.1 Classification

Management determines the classification of its financial instruments at initial recognition. The following table sets out the different classes of financial instruments of the bank:

Derivatives
Derivatives are either designated as hedging instruments in effective hedging relationships or are classified as held for trading and measured at fair value through profit or loss.
Cash and cash equivalents and accounts receivable
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. Money at short notice constitutes amounts withdrawable in 32 days or less. Cash and cash equivalents and accounts receivable are measured at amortised cost in accordance with IAS 39.
Advances
Advances that are not designated at fair value through profit or loss are measured at amortised cost in accordance with IAS 39. These include retail and corporate bank advances. Various advances to customers, structured notes and other investments held by the investment banking division of the bank, which would otherwise be measured at amortised cost, have been designated at fair value to eliminate the accounting mismatch between the assets and the underlying derivatives used to manage the risk arising from the assets and / or are managed on a fair value basis. Advances include marketable advances representing certain debt investment securities qualifying as high quality liquid assets that are under the control of the Group Treasurer and corporate bonds held by RMB investment bank.
Investment securities
The majority of investment securities of the bank are either designated at fair value because they are managed on a fair value basis or are classified as available-for-sale. There is a portfolio of debt investment securities measured at amortised cost. Investment securities that represent an interest in the residual value of the investee are classified as equities within investment securities.
Financial liabilities and compound financial instruments
The bank classifies a financial instrument that it issues as a financial liability or an equity instrument in accordance with the substance of the contractual agreement. Tier 2 instruments which have write down or conversion features are classified based on the nature of the instrument and the definitions of debt and equity. Compound instruments are those financial instruments that have components of both financial liabilities and equity such as issued convertible bonds. At initial recognition the instrument and the related transaction costs are split into their separate components in terms of the definitions and criteria of IAS 32 and are subsequently accounted for as a financial liability or equity.

Deposits, Tier 2 liabilities and other funding liabilities
Liabilities are generally measured at amortised cost but may be measured at fair value through profit or loss if they are managed on a fair value basis or the fair value designation reduces or eliminates an accounting mismatch. Tier 2 and other funding liabilities are presented in separate lines on the statement of financial position of the bank.

4.2 Measurement

Initial measurement	All financial instruments are initially measured at fair value including transaction costs, except for those classified as fair value through profit or loss in which case the transaction costs are expensed upfront in profit or loss, usually as part of operating expenses. Any upfront income earned on financial instruments is recognised as is detailed under policy 3.1, depending on the underlying nature of the income.
Subsequent measurement	Amortised cost items are measured using the effective interest method, less any impairment losses. This includes available-for-sale debt instruments. Fair value items are measured at fair value at reporting date as determined under IFRS 13. The fair value gains or loss are either recognised in profit or loss (held for trading or designated at fair value through profit or loss) or in other comprehensive income (available-for-sale financial assets) until the items are disposed of or impaired.

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.

4.3 Impairment of financial assets

General

A financial asset or a group of financial assets is impaired if there is objective evidence of impairment and its carrying amount is greater than its estimated recoverable amount. Included in impairments of loans and advances are the fair value of credit moves recognised in respect of advances designated at fair value through profit or loss.

Scope	This policy applies to: ➢ advances measured at amortised cost; ➢ investment securities measured at amortised cost; ➢ advances and debt instruments classified as available-for-sale; and ➢ accounts receivable.
Objective evidence of impairment	The bank assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. The following factors are considered when determining whether there is objective evidence that the asset has been impaired: ➢ breaches of loan covenants and conditions;

	➢ time period of overdue contractual payments; ➢ actuarial credit models; ➢ loss of employment or death of the borrower; and ➢ probability of liquidation of the customer. Where objective evidence of impairment exists, impairment testing is performed based on the following: ➢ the loss given default (LGD) which is the expected loss that will be realised at default after taking into account recoveries through collateral and guarantees; ➢ the probability of default (PD) which is a measure of the expectation of how likely the customer is to default; and ➢ the exposure at default (EAD) which is the expected amount outstanding at the point of default. For available-for-sale equity instruments 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.
Assessment of objective evidence of impairment	An assessment of impairment is first performed individually for financial assets that are individually significant (typically corporate) and then individually or collectively for financial assets that are not individually significant (typically retail). If the bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and performs a collective assessment for impairment. Financial assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.
Collective assessment	For the purposes of a collective assessment of impairment, financial assets are grouped on the basis of similar credit risk characteristics; i.e. on the basis of the bank's grading process that considers asset type, industry, geographical location, collateral type, past due status and other relevant factors. Those characteristics are relevant to the estimation of future cash flows for groups of such financial assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the financial assets being evaluated.

Recognition of impairment loss	If there is objective evidence of impairment, an impairment loss is recognised in a separate line in profit or loss. The amount of the loss is measured as the difference between the financial assets' 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. 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. For available-for-sale financial assets which are impaired the cumulative loss is reclassified from other comprehensive income to profit or loss.
Reversal of impairment 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 (where applicable) and the amount of the reversal is recognised in profit or loss; and ➢ impairment losses recognised on available-for-sale equity instruments are not subsequently reversed through profit or loss, but are recognised directly in other comprehensive income.

Impairment of advances

The adequacy of impairments of advances is assessed through the ongoing review of the quality of credit exposures. For amortised cost and fair value advances, impairments are recognised through the use of the allowance account method and an impairment charge in the income statement. The following table sets out the bank policy on the ageing of advances (i.e. when an advance is considered past due or non-performing) and the accounting treatment of past due, impaired and written off advances:

Past due advances	The past due analysis is only performed for advances with specific expiry or instalment repayment dates or demand loans for which payment has 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.	
	Type of advance	Bank policy on past due/impaired
Past due advances	Loans with a specific expiry date (e.g. term loans etc.) and loans repayable by regular instalments (e.g. mortgage loans and personal loans).	Treated as overdue where one full instalment is in arrears for one day or more and remains unpaid as at the reporting date. Advances on which partial payments have been made are included in neither past due nor impaired until such time as the sum of the unpaid amounts equals a full instalment, at which point it is reflected as past due.
	Loans payable on demand (e.g. overdrafts).	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.
	The full outstanding amount is reported as past due even if part of the balance in not yet due.	
Non-performing loans	Retail loans. Retail loans	Individually impaired if three or more instalments are due or unpaid or if there is evidence before this that the customer is unlikely to repay the obligations in full. if three or more instalments are due or unpaid or if there is evidence before this that the customer is unlikely to repay the obligations in full.
	Commercial and wholesale loans.	Analysed on a case-by-case basis taking into account breaches of key loan conditions, excesses and similar risk indicators.
Renegotiated advances	Advances that would otherwise be past due that have been renegotiated i.e. 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.	Classified as neither past due nor impaired assets. Non-performing advances cannot be reclassified as neither past due nor impaired unless the arrears balance has been repaid. Renegotiated advances are considered as part of the collective evaluation of

	Excludes advances extended or renewed as part of the ordinary course of business for similar terms and conditions as the original.	impairment where advances are grouped on the basis of similar credit risk characteristics. The adherence to the new terms and conditions is closely monitored.
Impairments		
Specific	Created for non-performing loans where there is objective evidence that an incurred loss event will have an adverse impact on the estimated future cash flows from the advance. Potential recoveries from guarantees and collateral are incorporated into the calculation of impairment figures.	
Portfolio	Created with reference to performing advances. The impairment provision on the performing portfolio is split into two parts: ➢ an incurred but not reported (IBNR) provision i.e. 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; and ➢ the portfolio specific impairment (PSI) which reflects the decrease in estimated future cash flows for the sub segment of the performing portfolio where there is objective evidence of impairment.	
Write-offs		
When an advance is uncollectible, it is written off against the related allowance account. Such advances 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 impairment of advances in profit or loss.		

4.4 Transfers and derecognition

Financial instruments are derecognised when the contractual rights or obligations expire or are extinguished, discharged or cancelled, for example an outright sale or settlement.

For financial assets this includes assets transferred that meet the derecognition criteria. Financial assets are transferred when the bank has either transferred the contractual right to receive cash flows from the asset or it has assumed an obligation to pay over all the cash flows from the asset to another entity (i.e. pass through arrangement under IAS 39).

For financial liabilities this includes when there is a substantial modification to the terms and conditions of an existing financial liability. A substantial modification to the terms occurs where the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 percent different from the discounted present value of the remaining cash flows of the original financial liability.

The following transactions are entered into by the bank in the normal course of business in terms of which it transfers financial assets directly to third parties or structured entities, and either achieves derecognition or continues to recognise the asset:

Transaction type	Description	Accounting treatment
	Transfers without derecognition	
Repurchase agreements	Investment securities and advances are sold to an external counterparty in exchange for cash and the bank agrees to repurchase the assets at a specified price at a specified future date. The counterparty's only recourse is to the transferred investment securities and advances that are subject to the repurchase agreement. The bank remains exposed to all the underlying risks on the assets including counterparty, interest rate, currency, prepayment and other price risks.	The transferred assets continue to be recognised by the bank in full. Such advances and investment securities are disclosed separately in the relevant notes. The bank recognises an associated liability for the obligation for the cash received as a separate category of deposits. Both the transferred assets and corresponding deposits are usually measured at fair value through profit or loss.
Securities lending and reverse repurchase agreements	Investment securities are lent to external counterparties in exchange for cash collateral as security for the return of the securities. The bank's only recourse in respect of 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 underlying securities purchased under agreements to resell (reverse repos) are not recognised on the statement of financial position. The bank does not recognise securities borrowed in the annual financial statements, unless these have been on sold to third parties, in which case the obligation to return these securities is recognised as a financial liability measured at either amortised cost or fair value.

Transaction type	Description	Accounting treatment
Other transfers	The bank enters into transactions in terms of which it sells advances to conduits of the FirstRand group but retains substantially all the risks and rewards of ownership related to the transferred advances.	Similar to repurchase agreements above.
Transaction type	**Description**	**Accounting treatment**
	Transfers with derecognition	
Traditional securitisations and other structured transactions	Specific advances or investment securities are transferred to a structured entity, which then issues liabilities to third party investors, for example variable rate notes or investment grade commercial paper. The bank assumes an obligation to pay over all the cash flows it collects from the securitised assets to the structured entity. The bank may acquire other financial assets or liabilities that continue to expose it to the returns of the transferred securitised assets. For example the bank may take up some of the notes issued by the structured entity that it is unable to issue into the market, enter into an interest rate swap with the structured entity or continue to be exposed through a clean-up call in terms of which it has an option to repurchase the remaining securitised assets once their value falls below a certain level.	The securitisation results in full derecognition of the securitised financial assets by the bank: ➢ if the bank does not have the power to control the structured entity, and the bank did not retain substantially all the risks and rewards; or ➢ in situations where the bank neither transfers nor retains substantially all the risks and rewards, but the bank has relinquished control of the assets. Where the bank has continuing involvement in the derecognised assets it makes disclosures around the risks it is exposed to and the other financial assets and liabilities it has recognised.
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 gains or losses within non-interest revenue.	
	Neither transferred nor derecognised	
Synthetic securitisation transactions	Credit risk related to specific advances is transferred to a structured entity through credit derivatives.	The bank continues to recognise the advances and recognises associated credit derivatives which are measured at fair value through profit or loss.

4.5 Offsetting of financial instruments and collateral arrangements

Where the requirements of IFRS are met, the bank offsets financial assets and financial liabilities and presents the net amount. Financial assets and financial liabilities subject to master netting arrangements (MNA) or similar agreements are not offset, if the right of set-off under these agreements is only enforceable in the event of default, insolvency and bankruptcy.

Details of the offsetting and collateral arrangements of the bank are set out in the following table:

Derivative financial instruments	The bank's derivative transactions that are not transacted on an exchange are entered into under International Derivatives Swaps and Dealers Association (ISDA) MNA. Generally, under such agreements the amounts owed by each counterparty that are due on a single day in respect of all transactions outstanding in the same currency under the agreement are aggregated into a single net amount payable by one party to the other. In certain circumstances, e.g. when a credit event such as default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is due or payable in settlement of all transactions (close-out netting). Financial collateral (mostly cash) is also obtained, often daily, for the net exposure between counterparties to mitigate credit risk.
Repurchase and reverse repurchase agreements, and securities lending and borrowing transactions	These transactions by the bank are covered by master agreements with netting terms similar to those of the ISDA MNA. Where the bank has entered into a repurchase and reverse repurchase or securities borrowing and lending transaction, with the same counterparty, the advance and liability balances are set-off in the statement of financial position only if they are due on a single day, denominated in the same currency and the bank has the intention to settle these amounts on a net basis. The bank receives and accepts collateral for these transactions in the form of cash and other investment securities.
Other advances and deposits	The advances and deposits that are offset relate to transactions where the bank has a legally enforceable right to offset the amounts and the bank has the intention to settle the net amount.

It is the bank's policy that all items of collateral are valued at the inception of a transaction and at various points throughout the life of a transaction, either through physical inspection or indexation methods, as appropriate. For wholesale and commercial portfolios, the value of collateral is reviewed as part of the annual facility review. For mortgage portfolios, collateral valuations are updated on an on-going basis through statistical indexation models. However, in the event of default, more detailed reviews and valuations of collateral are performed, which yields a more accurate financial effect. For asset finance, the total security reflected represents only the realisation value estimates of the vehicles repossessed at the date of repossession. Where the repossession has not yet occurred, the realisation value of the vehicle is estimated using internal models and is included as part of total recoveries.

4.6 Derivative financial instruments and hedge accounting

Derivative instruments are classified as held either for trading or formally designated as hedging instruments as required by IAS 39, which impacts the method of recognising the resulting fair value gains or losses.

For derivatives used in fair value hedges changes in the fair value of the derivatives are recorded in profit or loss as part of fair value gains or losses within non-interest revenue, together with any changes in the fair value of the hedged item that are attributable to the hedged risk.

For derivatives used in cash flow hedges, the effective portion of changes in the fair value of derivatives is recognised in the cash flow hedge reserve in other comprehensive income and reclassified to profit or loss in the periods in which the hedged item affects profit or loss; the ineffective portion is recognised immediately in profit or loss as part of fair value gains or losses within non-interest revenue.

The bank documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions at the inception of the transaction. The bank also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The bank treats derivatives embedded in other financial or non-financial instruments, such as the conversion option in a convertible bond, as separate derivatives when they meet the requirements for bifurcation of IAS 39. Where bifurcated derivatives meet the criteria for hedge accounting, they are accounted for in terms of the applicable hedge accounting rules.

5 OTHER ASSETS AND LIABILITIES

5.1 Classification and measurement

Classification	Measurement
Property and equipment	
Information regarding land and buildings is kept at the bank’s registered office and is open for inspection in terms of Section 26 of the Companies Act.	
Property and equipment of the bank includes: ➢ assets utilised by the bank in the normal course of operations to provide services including freehold property and leasehold premises and leasehold improvements (owner occupied properties); ➢ assets which are owned by the bank and leased to third parties under operating leases as part of the bank's revenue generating operations; ➢ capitalised leased assets; and ➢ other assets utilised in the normal course of operations including computer and office equipment, motor vehicles and furniture and fittings.	Historical cost less accumulated depreciation and impairment losses, except for land which is not depreciated. Depreciation is on a straight line basis over the useful life of the asset, except for assets capitalised under finance leases where the bank is the lessee; in which case it is depreciated over the life of the lease.

Classification	Measurement
Intangible assets	
Intangible assets of the bank includes: ➢ internally generated intangible assets (including computer software and other assets such as trademarks or patents) are capitalised when the requirements of IAS 38 relating to the recognition of internally generated assets have been met; ➢ external computer software development costs are capitalised when they 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; and ➢ material acquired trademarks, patents and similar rights are capitalised where the bank will receive a benefit from these intangible assets for more than one financial period. All other costs related to intangible assets are expensed in the financial period incurred.	Cost less accumulated amortisation and any impairment losses. Amortisation is on a straight line basis over the useful life of the asset.
Commodities	
Commodities acquired for short term trading purposes include the following: ➢ commodities acquired for the intention of resale in the short term or if they form part of the trading operations of the bank; and ➢ certain commodities subject to option agreements whereby the counterparty may acquire the commodity at a future date.	Fair value less costs to sell with changes in fair value being recognised in non-interest revenue as fair value gains or losses within non-interest revenue. The price risk in commodities subject to option agreements is fully hedged through a short position and if the party exercises the option the net profit earned on the transaction will be an interest margin recognised as interest revenue.
Commodities acquired with a longer term investment intention.	Lower of cost (using the weighted average method) or net realisable value.
Forward contracts to purchase or sell commodities where net settlement occurs, or where physical delivery occurs and the commodities are held to settle a further derivative contract, are recognised as derivative instruments.	Fair value through profit or loss.
Provisions	
The bank will only recognise a provision measured in terms of IAS 37 when there is uncertainty around the amount or timing of payment. Where there is no uncertainty the bank will recognise the amount as an accrual. The bank usually recognises provisions related to litigation and claims.	

Other assets that are subject to depreciation and intangible assets are reviewed for impairment whenever objective evidence of impairment exists. Impairment losses are recognised in profit or loss as part of operating expenses.

Other assets are derecognised when they are disposed of or, in the case of intangible assets, when no future economic benefits are expected from its use. Gains or losses arising on derecognition are determined as the difference between the carrying amount of the asset and the net proceeds received, and are recorded in profit or loss as part of non-interest revenue.

5.2 Non-current assets and disposal groups held for sale

Assets and liabilities are classified and separately presented as held for sale by the bank when the specific conditions for classification as held for sale under IFRS 5 are met.

Any impairment losses on classification or that arise before sale and after the re-measurement of assets and liabilities in terms of their relevant IFRSs, are recognised in profit or loss in operating expenses, or as part of equity accounted earnings in the case of associates. If a disposal group contains assets that are outside of the measurement scope of IFRS 5, any impairment loss is allocated to those non-current assets in the disposal group that are within the measurement scope of IFRS 5. Any increases in fair value less costs to sell are recognised in non-interest revenue when realised.

When there is a change in intention to sell, any non-current assets and disposal groups held for sale are immediately reclassified back to their original line items. They are re-measured in terms of the relevant IFRS, with any adjustment being taken to profit or loss depending on the underlying asset to which it relates; for example operating expenses for property and equipment or intangible assets and equity accounted earnings for associates.

5.3 Leases

The bank classifies leases of property and equipment where the lessee assumes substantially all the risks and rewards of ownership as finance leases. The bank classifies leases as operating leases if the lessor effectively retains the risks and rewards of ownership of the leased asset. The bank regards instalment sale agreements as financing transactions.

	Bank is the lessee	Bank is the lessor
Finance leases		
Inception	Capitalised as assets and a corresponding lease liability for future lease payments is recognised.	Recognise assets sold under a finance lease as advances and impair the advances, as required, in line with policy 4.3.
Over life of lease	The asset is depreciated – refer to policy 5.1.	Unearned finance income is recognised as interest income over the term of the lease using the effective interest method.

	Bank is the lessee	Bank is the lessor
Operating leases	Recognised as an operating expense in profit or loss on a straight line basis over the period of the lease. Any difference between the actual lease amount payable and the straight-lined amount calculated is recognised as a liability of the bank in creditors and accruals.	Assets held under operating leases are recognised as a separate category of property and equipment (assets held under leasing arrangements) and depreciated - refer to policy 5.1. Rental income is recognised as other non-interest revenue on a straight line basis over the lease term.
Instalment credit sale agreements where the bank is the lessor	The bank regards instalment credit sale 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 revenue in proportion to capital balances outstanding.	

6 CAPITAL AND RESERVES

Transaction	Liability	Equity
Shares issued and issue costs	Preference shares, where the bank does not have the unilateral ability to avoid repayments, are classified as liabilities. Preference shares which qualify as Tier 2 capital have been included in Tier 2 liabilities. Other preference share liabilities have been included in other liabilities as appropriate.	Ordinary shares and any preference shares which meet the definition of equity including non-cumulative non-redeemable (NCNR) preference shares issued by the bank are recognised as equity. These instruments do not obligate the bank to make payments to investors. Any incremental costs directly related to the issue of new shares or options, net of any related tax benefit, are deducted from the issue price.
Dividends paid/declared	Recognised as interest expense on the underlying liabilities.	Dividends on ordinary shares and NCNR preference shares are recognised against equity. A corresponding liability is recognised when the dividends have been approved by the company's shareholders and distribution is no longer at the discretion of the entity.

Transaction	Liability	Equity
Distribution of non-cash assets to owners	The liability to distribute non-cash assets is recognised as a dividend to owners at the fair value of the asset to be distributed. The difference between the carrying amount of the assets distributed and the fair value of the assets on the date of distribution is recognised as non-interest revenue in profit or loss for the period.	The carrying amount of the dividend payable is re-measured at the end of each reporting period and on settlement date. The initial carrying amount and any subsequent changes are recognised in equity.

Transaction	Equity
Other reserves	Other reserves recognised by the bank relates to the capital redemption reserve funds.

7 TRANSACTIONS WITH EMPLOYEES

7.1 Employee benefits

The bank operates defined benefit and defined contribution schemes, the assets of which are held in separate trustee administered funds. These funds are registered in terms of the Pension Funds Act, 1956, and membership of the pension fund is compulsory for all bank employees. The defined benefit plans are funded by contributions from employees and the relevant bank companies, taking into account the recommendations of independent qualified actuaries.

Defined contribution plans	
Contributions are recognised as an expense, included in staff costs, when the employees have rendered the service entitling them to the contributions. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.	
Defined benefit plans	
Defined benefit obligation liability	**Recognition** The liabilities and assets of these funds are reflected as a net asset or liability in the statement of financial position i.e. the present value of the defined benefit obligation at the reporting date less the fair value of plan assets. Where the value is a net asset, the amount recognised is limited to the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Defined benefit plans continued	
	Measurement The present value of the defined benefit obligation is calculated annually by independent actuaries using the projected credit unit method. The discount rate used is the rate of risk free government bonds that are denominated in the currency in which the benefits will be paid and have terms to maturity approximating the terms of the related pension liability.
Plan assets	The plan assets are carried at fair value. Where the plan assets include qualifying insurance policies that exactly match the amount and timing of some or all of the benefits under the plan, the fair value is deemed to be the present value of the related obligation. If the qualifying insurance policy has a limit of indemnity the fair value of the insurance policy is limited to that amount.
Post-employment benefits	
Profit or loss	Included as part of staff costs: ➢ current and past service costs calculated using the projected unit credit method; ➢ gains or losses on curtailments and settlements that took place in the current period; ➢ net interest income calculated by applying the discount rate at the beginning of the period to the net asset or liability; and ➢ actuarial gains or losses on long term employee benefits.
Other comprehensive income	All other re-measurements in respect of the obligation and plan assets are included in other comprehensive income and never reclassified to profit or loss.
Termination benefits	
The bank recognises termination benefits as a liability in the statement of financial position and as an expense, included in staff costs, in profit or loss when it has a present obligation relating to termination. The bank has a present obligation at the earlier of when the bank can no longer withdraw the offer of the termination benefit or when the bank recognises any related restructuring costs.	
Liability for short term employee benefits	
Leave pay	The bank recognises a liability for the employees' rights to annual leave in respect of past service. The amount recognised by the bank is based on the current salary of employees and the contractual terms between the employee and the bank. The expense is included in staff costs.
Bonuses	The bank recognises a liability and an expense for management and staff bonuses when it is probable that the economic benefits will be paid and the amount can be reliably measured. The expense is included in staff costs.

7.2 Share-based payment transactions

The bank operates cash settled share-based compensation plans for employees.

Options granted under cash settled plans result in a liability being recognised and measured at fair value until settlement. An expense is recognised in profit or loss for employee services received over the vesting period of the plans.

8 Restatement of prior year numbers

8.1 Description of restatements

The bank has made the following changes to the presentation of non-interest revenue, advances and deposits**.**

8.1.1 Fair value credit adjustments

The bank has historically included all fair value gains and losses on advances measured at fair value through profit or loss (including interest and fair value credit adjustments) in non-interest revenue. The bank's presentation has been changed to include the credit valuation adjustment on fair value advances in the impairment line in the income statement rather than as part of non-interest revenue. The movement in the credit valuation adjustment on fair value advances is separately disclosed in the notes as required by IFRS 7.9c.

8.1.2 Credit based investments included in advances

The bank's presentation and classification of debt investment securities qualifying as high quality liquid assets that are under the control of the Group Treasurer and corporate bonds held by RMB investment bank was changed to advances rather than investment securities. These instruments, given their specific nature, are included as a separate category of advances, namely marketable advances, in a sub-total on the face of the statement of financial position.

8.1.3 Margin on securitised assets

Previously, any net income on the sale of advances to a group securitisation vehicle was reclassified from NIR to NII reflecting the underlying nature of the income received on advances over time. IFRS doesn't have specific rules about presentation of items in profit or loss. Therefore, the bank's presentation of these instruments has changed to present these amounts as part of net interest income.

8.1.4 Accrued interest on deposits

The bank previously recognised accrued interest on certain deposits as part of creditors, accruals and provisions in the statement of financial position. During the current financial year accrued interest was reclassified to deposits. This is more in line with the bank's current practice for advances where the accrued interest is recognised as part of the carrying value of the underlying financial instrument.

These changes in presentation had no impact on the profit or loss or net asset value of the bank and only affect the classification of items on the income statement and the statement of financial position.

RESTATED INCOME STATEMENT

for the year ended 30 June 2016

R million	As previously reported	Margin on securitised assets	Fair value credit adjustments	Restated
Interest and similar income	62 712	1 234	-	63 946
Interest expense and similar charges	(27 169)	-	-	(27 169)
Net interest expense before impairment of advances	35 543	1 234	-	36 777
Impairment and fair value of credit of advances	(5 998)	-	(257)	(6 255)
Net interest expense after impairment of advances	29 545	1 234	(257)	30 522
Non-interest revenue	28 863	(1 234)	257	27 886
Income from operations	58 408	-	-	58 408
Operating expenses	(35 035)	-	-	(35 035)
Income before indirect tax	23 373	-	-	23 373
Indirect tax	(763)	-	-	(763)
Profit before income tax	22 610	-	-	22 610
Income tax expense	(5 460)	-	-	(5 460)
Profit for the year	17 150	-	-	17 150
Attributable to				
Ordinary equityholders	16 931	-	-	16 931
NCNR preference shareholders	219	-	-	219
Profit for the year	17 150	-	-	17 150

RESTATED STATEMENT OF FINANCIAL POSITION

as at 30 June 2016

R million	As previously reported	Reallocation of credit investments	Accrued interest on deposits	Restated
ASSETS				
Cash and cash equivalents	50 997	-	-	50 997
Derivative financial instruments	39 923	-	-	39 923
Commodities	12 514	-	-	12 514
Investment securities	155 825	(44 395)	-	111 430
Advances	719 693	44 395	-	764 088
- Advances to customers	719 693	-	-	719 693
- Marketable advances	-	44 395	-	44 395
Accounts receivable	4 561	-	-	4 561
Current tax asset	166	-	-	166
Amounts due by holding company and fellow subsidiaries	32 793	-	-	32 793
Property and equipment	13 632	-	-	13 632
Intangible assets	106	-	-	106
Deferred income tax asset	1 369	-	-	1 369
Total assets	1 031 579	-	-	1 031 579
EQUITY AND LIABILITIES				
Liabilities				
Short trading positions	14 221	-	-	14 221
Derivative financial instruments	50 624	-	-	50 624
Creditors, accruals and provisions	12 644	-	(144)	12 500
Current tax liability	75	-	-	75
Deposits	826 473	-	144	826 617
- Deposits from customers	612 492	-	15	612 507
- Debt securities	146 280	-	-	146 280
- Other	67 701	-	129	67 830
Employee liabilities	8 772	-	-	8 772
Other liabilities	5 386	-	-	5 386
Amounts due to holding company and fellow subsidiaries	13 997	-	-	13 997
Tier 2 liabilities	17 468	-	-	17 468
Total liabilities	949 660	-	-	949 660
Equity				
Ordinary shares	4	-	-	4
Share premium	16 804	-	-	16 804
Reserves	62 111	-	-	62 111
Capital and reserves attributable to ordinary equityholders	78 919	-	-	78 919
NCNR preference shares	3 000	-	-	3 000
Total equity	81 919	-	-	81 919
Total equity and liabilities	1 031 579	-	-	1 031 579

RESTATED STATEMENT OF FINANCIAL POSITION

as at 30 June 2015

R million	As previously reported	Reallocation of credit investments	Accrued interest on deposits	Restated
ASSETS				
Cash and cash equivalents	53 725	-	-	53 725
Derivative financial instruments	34 112	-	-	34 112
Commodities	7 354	-	-	7 354
Investment securities	133 543	(29 870)	-	103 673
Advances	675 387	29 870	-	705 257
- Advances to customers	675 387	-	-	675 387
- Marketable advances	-	29 870	-	29 870
Accounts receivable	4 301	-	-	4 301
Non-current assets and disposal groups held for sale	125	-	-	125
Amounts due by holding company and fellow subsidiaries	27 318	-	-	27 318
Property and equipment	12 821	-	-	12 821
Intangible assets	71	-	-	71
Deferred income tax asset	1 202	-	-	1 202
Total assets	949 959	-	-	949 959
EQUITY AND LIABILITIES				
Liabilities				
Short trading positions	5 270	-	-	5 270
Derivative financial instruments	40 811	-	-	40 811
Creditors, accruals and provisions	12 465	-	(95)	12 370
Current tax liability	69	-	-	69
Deposits	779 703	-	95	779 798
- Deposits from customers	567 033	-	-	567 033
- Debt securities	152 505	-	-	152 505
- Other	60 165	-	95	60 260
Employee liabilities	8 848	-	-	8 848
Other liabilities	3 977	-	-	3 977
Amounts due to holding company and fellow subsidiaries	11 836	-	-	11 836
Tier 2 liabilities	11 983	-	-	11 983
Total liabilities	874 962	-	-	874 962
Equity				
Ordinary shares	4	-	-	4
Share premium	16 804	-	-	16 804
Reserves	55 189	-	-	55 189
Capital and reserves attributable to ordinary equityholders	71 997	-	-	71 997
NCNR preference shares	3 000	-	-	3 000
Total equity	74 997	-	-	74 997
Total equity and liabilities	949 959	-	-	949 959

9 CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

9.1 Introduction

In preparing the annual financial statements, management makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Unless stated otherwise the judgements applied by management in applying the accounting policies are consistent with the prior year. Included below are all the critical accounting estimates, assumptions and judgements made by the bank, except those related to fair value measurement which are included in note 26.

9.2 Subsidiaries, structured entities and associates

Consolidated annual financial statements	After applying the accounting principles listed above, the bank has concluded that it has no material subsidiaries, structured entities or associates and therefore the bank does not prepare annual consolidated financial statements. This has been agreed by the various stakeholders. The bank is a wholly owned subsidiary of FirstRand Limited, who prepares consolidated annual financial statements.
Subsidiaries	Only one party can have control over a subsidiary. In determining whether the bank has control over an entity, consideration is given to any rights the bank has that result in the ability to direct the relevant activities of the investee, and the bank's exposure to variable returns. In operating entities shareholding is most often the clearest indication of control. Generally where the bank's shareholding is greater than 50%, the investment is accounted for as a subsidiary.
Structured entities	Structured entities are those where voting rights generally relate to administrative tasks only and the relevant activities are determined only by means of a contractual arrangement. When assessing whether the bank has control over a structured entity specific consideration is given to the purpose and design of the structured entity and whether the bank has power over decisions that relate to activities that the entity was designed to conduct. The bank currently controls a structured entity that has been established for the purpose of creating high quality liquid assets that can be pledged as collateral under the SARB's committed liquidity facility if required. The bank does not consolidate the entity. The structured entity is merely a mechanism to facilitate the transaction and as there was no drawdown on the facility in the current year, the structured entity has no economic substance. The bank has not provided any additional financial or other support to this entity in the current year. The bank does not have the intention to provide additional support in the foreseeable future and, as such, is not exposed to any additional risks from the relationship with this entity.
Associates	Determining whether the bank has significant influence over an entity: ➢ significant influence may arise from rights other than voting rights for example management agreements; and

	➢ the bank considers both the rights that it has as well as currently exercisable rights that other investors have when assessing whether it has the practical ability to significantly influence the relevant activities of the investee. The bank does not have any associates that are material to its financial position, results of operations or cash flows
Foreign operations	Management have reviewed the economies where the bank's foreign operations are conducted and have not identified any hyperinflationary economies in terms of the requirements of IFRS. The bank only operates in South Africa, the UK and India.

9.3 Taxation

The bank is subject to direct tax in a number of jurisdictions. As such there may be transactions and calculations for which the ultimate tax determination has an element of uncertainty during the ordinary course of business. In determining whether an interpretation and/or application of the various tax rules may result in a dispute of which the outcome may not be favourable to the bank, the bank seeks ,where relevant, expert advice to determine whether the unfavourable outcome is probable or possible. Where payment is determined to be possible but not probable the tax exposure is disclosed as a contingent liability. The bank recognises liabilities based on objective estimates of the amount of tax that may be due. Where the final tax determination is different from the amounts that were initially recorded, the difference will impact the income tax and deferred income tax provisions in the period in which such determination is made.

9.4 Impairment of financial assets

Impairment of financial assets	
In determining whether an impairment loss should be recognised, 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.	
General	
Collective impairment assessments of groups of financial assets	Future cash flows in a group of financial assets are estimated on the basis of the contractual cash flows of the assets in the bank and historical loss experience for assets with similar credit risk characteristics. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows for groups of financial assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are regularly reviewed by the bank to reduce any differences between loss estimates and actual loss experience.
Impairment assessment of collateralised financial assets	The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether the bank elects to foreclose or not.
Advances	
The bank continuously assesses its credit portfolios for impairment. Significant advances are monitored by the credit committee and impaired in accordance with the bank's impairment policy when an indication of impairment is observed. The objective of the measurement of an impairment loss is to produce a quantitative measure of the bank’s credit risk exposure. In determining the amount of the impairment the bank considers the PD, EAD and LGD.	

Performing loans
The assessment of whether objective evidence of impairment exists requires judgement and depends on the class of the financial asset. In the retail portfolios the account status, namely arrears versus non-arrears status, is taken as a primary indicator of an impairment event. In the commercial portfolios, other indicators such as the existence of high-risk accounts, based on internally assigned risk ratings and management judgements are used, while the wholesale portfolio assessment (which includes RMB investment banking and RMB corporate banking) includes a judgemental review of individual industries for objective signs of distress. Where impairment is required to be determined for the performing book, the following estimates are required: ➢ the 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 to 12 months; and ➢ the PSI is the decrease in future cash flows primarily estimated based on analysis of historical loss and recovery rates for comparable sub segments of the portfolio. The sensitivity of modelled provisions to key assumptions has been assessed for each portfolio. This assessment was performed by calculating the impact on modelled provisions of adjusting model inputs to reflect conservative assumptions. The impact of increasing conservatism was tested by varying assumptions individually and simultaneously. The sensitivity of modelled provisions for performing loans was assessed by adjusting loss emergence period assumptions and arrears definitions. The arrears definition was adjusted so that early and/or partial arrears are considered to be objective evidence of impairment and the loss emergence period was increased by one month. Based on the results of the sensitivity analysis performed, management is satisfied that the current total provisions held for performing accounts is appropriate. The table below provides a breakdown of the range of loss emergence periods for the main classes of advances

	Loss emergence range
Retail secured	3 – 6 months
Retail unsecured	3 months
Corporate and commercial	3 months (FNB and WesBank) and 12 months (RMB)

The tables below display the sensitivity of the total impairment provisions to the change in the arrears definition and the one-month increase in the loss emergence period as discussed above.

	2017		
R million	Total portfolio provisions	Sensitivity- arrears definition	Sensitivity - loss emergence period
Retail secured	1 422	594	121
Residential mortgages	526	74	30
VAF	896	520	91
Retail unsecured	1 909	722	279
Card	356	44	71
Personal loans	1 027	426	155
- FNB	626	84	86
- WesBank	401	342	69
Retail other	526	252	53
Corporate and commercial	3 685	46	65
FNB commercial	503	20	55
WesBank corporate	194	26	10
RMB investment banking*	2 111	- **	- **
RMB corporate banking**	877	- **	- **
Rest of Africa	9	-	-
FNB Africa***	9	-	-
FCC and other**	405	-	-
Total portfolio provisions	7 430	1 362	465

* *The majority of the RMB investment banking book is carried at fair value. Information about the sensitivity of the fair value of these advances to changes in the assumptions used to measure these advances are provided in note 26 fair value measurements*

** *The increase in the portfolio impairment of the RMB amortised cost advances, was R35 million for RMB investment banking and R109 million for RMB corporate banking. The sensitivity was calculated as follows:*

- *For the IBNR portion of the portfolio provisions the impairment was calculated based on the EAD instead of the net exposure. This assumes a stress scenario where the counterparties will draw down further; and*
- *For the PSI portion of the portfolio provision the impairment was calculated using industry stressed PD's instead of turbulent PD's.*

*** *FNB Africa is inclusive of FNB's activities in India.*

*****These provisions are not sensitive to changes in the assumptions used to calculate the amounts.*

R million	2016 Total portfolio provisions	Sensitivity- arrears definition	Sensitivity - loss emergence period
Retail secured	1 333	639	130
Residential mortgages	475	79	29
VAF	858	560	101
Retail unsecured	1 603	906	218
Card	322	45	31
Personal loans	883	626	140
- FNB	543	85	92
- WesBank	340	541	48
Retail other	398	235	47
Corporate and commercial	3 530	62	53
FNB commercial	488	30	42
WesBank corporate	199	32	11
RMB investment banking*	2 077	- **	- **
RMB corporate banking**	766	- **	- **
Rest of Africa	9	-	-
FNB Africa***	9	-	-
FCC and other** **	754	-	-
Total portfolio provisions	7 229	1 607	401

* *The majority of the RMB investment banking book is carried at fair value. Information about the sensitivity of the fair value of these advances to changes in the assumptions used to measure these advances are provided in note 26 fair value measurements.*

** *The increase in the portfolio impairment of the RMB amortised cost advances, was Rnil million for RMB investment banking and R 91 million for RMB corporate banking. The sensitivity was calculated as follows:*

- *For the IBNR portion of the portfolio provisions the impairment was calculated based on the EAD instead of the net exposure. This assumes a stress scenario where the counterparties will draw down further; and*
- *For the PSI portion of the portfolio provision the impairment was calculated using industry stressed PD's instead of turbulent PD's.*

*** *FNB Africa is inclusive of FNB's activities in India.*

**** *These provisions are not sensitive to changes in the assumptions used to calculate the amounts.*

Non-performing loans

Management's estimates of future cash flows on individually impaired loans are based on internal historical loss experience, supplemented by analysis of comparable external data (for commercial and wholesale loans) for assets with similar credit risk characteristics.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Management is comfortable that the level of provisions held for non-performing loans is appropriate, considering the impact of a 10% relative change in NPL LGDs on modelled provisions.

The table below illustrates the sensitivity of provisions held on non-performing loans to the LGD estimates applied. Sensitivities were calculated by increasing LGDs relatively by 10%.

R million	2017 Average NPL LGD (%)	Total specific provisions	Provisions sensitivity*
Retail		**5 228**	**494**
Retail secured		**2 761**	**256**
Residential mortgages	**22**	**993**	**99**
VAF	**29**	**1 768**	**157**
Retail unsecured		**2 467**	**238**
Card	**67**	**620**	**58**
Personal loans		**1 271**	**126**
- FNB	**62**	**759**	**76**
- WesBank	**38**	**512**	**50**
Retail other	**67**	**576**	**54**
Corporate and commercial		**1 900**	**95**
FNB commercial	**46**	**1 055**	**79**
WesBank corporate	**57**	**147**	**2**
RMB investment banking**	**72**	**684**	**12**
RMB corporate banking**	**40**	**14**	**2**
Rest of Africa		**20**	
FNB Africa***	**-**	**20**	**-**
WesBank Africa	**-**	**-**	**-**
Total specific provisions		**7 148**	**589**

* This reflects the increase in the provision due to the 10% increase in the LGD.

** The sensitivity of specific impairments to the judgements and estimates made by management is calculated by applying a haircut of 10% to the estimated recoverable value of the non-performing loans.

*** FNB Africa is inclusive of FNB's activities in India.

R million	2016 Average NPL LGD (%)	Total specific provisions	Provisions sensitivity*
Retail secured		2 529	254
Residential mortgages	22	1 017	102
VAF	30	1 512	152
Retail unsecured		2 285	223
Card	67	511	51
Personal loans		1 220	121
- FNB	71	755	76
- WesBank	41	465	45
Retail other	70	554	51
Corporate and commercial		2 398	115
FNB commercial	49	948	80
WesBank corporate	50	174	4
RMB investment banking**	72	1 231	30
RMB corporate banking**	40	45	1
Rest of Africa		96	-
FNB Africa***	-	96	-
WesBank Africa	-	-	-
Total specific provisions		7 308	592

* This reflects the increase in the provision due to the 10% increase in the LGD.

** The sensitivity of specific impairments to the judgements and estimates made by management is calculated by applying a haircut of 10% to the estimated recoverable value of the non-performing loans.

*** FNB Africa is inclusive of FNB's activities in India.

Available-for-sale equity instruments

The bank determines that available-for-sale equity instruments are impaired 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.

9.5 Other assets and liabilities

Other assets and liabilities			
Property and equipment		**Intangible assets**	
The useful life of each asset is assessed individually. The benchmarks used when assessing the useful life of the individual assets are set out below.			
Leasehold premises	Shorter of estimated life or period of lease	Software development costs	3 years
Freehold property and property held under finance lease:		Trademarks	10 – 20 years
➢ Buildings and structures	50 years	Other, excluding service concession arrangements	3 - 10 years
➢ Mechanical and electrical	20 years	Service concession arrangements	Contractual term of 37 years
➢ Components	20 years		
➢ Sundries	3 -5 years		
Computer equipment	3 - 5 years		
Other equipment	Various between 3 – 10 years		
Provisions			
The bank has a policy and process in place to determine when to recognise provisions for potential litigation and claims. The recognition of such provisions is linked to the ranking of legal risk of potential litigation on the bank's litigation database.			

9.6 Transactions with employees

Employee benefits - defined contribution plans	
Determination of purchased pension on retirement from defined contribution plan	On retirement of current defined contribution active members, the fund provides a pension that can be purchased with the member's share. The pension so purchased is determined based on the purchasing member's demographic details (age, gender, age of spouse), the pension structure (guarantee period, spouse's reversion and pension increase target) and the economic assumptions at time of purchase (inflation linked bond yields available). A benefit on withdrawal and retrenchment are determined in terms of the prevailing legislation and is equivalent to the value of the actuarial reserve held in the fund.
Employee benefits - defined benefit plans	
Determination of required funding levels	Funding levels are monitored on an annual basis and the current agreed contribution rate in respect of the defined benefit pension fund is 21% of pensionable salaries (in excess of the minimum recommended contribution rate set by the fund actuary). The bank considers the recommended contribution rate as advised by the fund actuary with each actuarial valuation. In addition, the trustees of the fund target a funding position on the pensioner liabilities that exceeds the value of the best estimate actuarial liability. The funding position is also considered in relation to a solvency reserve basis, which makes allowance for the discontinuance cost of outsourcing the pensions. As at the last statutory actuarial valuation of the pension fund (during June 2016), all categories of liabilities were at least 100% funded. If the member chooses to buy into the fund, on that date the fair value of plan assets and the value of the plan liabilities on the defined benefit plan are increased by the amount of the initial contribution.

Determination of present value of defined benefit plan obligations	The cost of the benefits and the present value of the defined benefit pension funds and post-employment medical obligations depend on a number of factors that are determined annually on an actuarial basis, by independent actuaries, using the projected unit credit method which incorporates a number of assumptions. The key assumptions used in determining the charge to profit or loss arising from these obligations include the expected long-term rate of return on the relevant plan assets, discount rate and expected salary and pension increase rates. Any changes in these assumptions will impact the charge to profit or loss and may affect planned funding of the pension plans.
Cash settled share-based payment plans	
Determination of fair value	The liability is determined using a Black-Scholes option pricing model with a zero strike price. The following estimates are included in the model to determine the value: ➢ management's estimate of future dividends; ➢ the risk free interest rate is used; and ➢ staff turnover and historical forfeiture rates are used as indicators of future conditions.

INCOME STATEMENT

for the year ended 30 June

R million	Notes	2017	2016*
Interest and similar income	1.1	**71 547**	63 946
Interest expense and similar charges	1.2	**(32 898)**	(27 169)
Net interest income before impairment of advances		**38 649**	36 777
Impairment and fair value of credit of advances	11	**(6 984)**	(6 255)
Net interest income after impairment of advances		**31 665**	30 522
Non-interest revenue	2	**30 949**	27 886
Income from operations		**62 614**	58 408
Operating expenses	3	**(37 669)**	(35 035)
Income before indirect tax		**24 945**	23 373
Indirect tax	4.1	**(876)**	(763)
Profit before income tax		**24 069**	22 610
Income tax expense	4.2	**(5 532)**	(5 460)
Profit for the year		**18 537**	17 150
Attributable to			
Ordinary equityholders		**18 300**	16 931
NCNR preference shareholders		**237**	219
Profit for the year		**18 537**	17 150

** Restated, refer to page C39 for details.*

STATEMENT OF OTHER COMPREHENSIVE INCOME

for the year ended 30 June

R million	2017	2016
Profit for the year	**18 537**	17 150
Items that may subsequently be reclassified to profit or loss		
Cash flow hedges	**(150)**	118
- Fair value (losses)/gains arising during the year	**(141)**	144
- Reclassification adjustments for amounts included in profit or loss	**(67)**	20
- Deferred income tax	**58**	(46)
Available-for-sale financial assets	**(393)**	(495)
- Losses arising during the year	**(483)**	(679)
- Reclassification adjustments for amounts included in profit or loss	**(67)**	7
- Deferred income tax	**157**	177
Exchange differences on translating foreign operations	**(512)**	482
- (Losses)/gains arising during the year	**(512)**	482
Items that may not subsequently be reclassified to profit or loss		
Remeasurements on defined benefit post-employment plans	**171**	(133)
- Gains/(losses) arising during the year	**237**	(185)
- Deferred income tax	**(66)**	52
Other comprehensive loss for the year	**(884)**	(28)
Total comprehensive income for the year	**17 653**	17 122
Attributable to		
Ordinary equityholders	**17 416**	16 903
NCNR preference shareholders	**237**	219
Total comprehensive income for the year	**17 653**	17 122

STATEMENT OF FINANCIAL POSITION

as at 30 June

R million	Notes	2017	2016*	2015*
ASSETS				
Cash and cash equivalents	6	**53 924**	50 997	53 725
Derivative financial instruments	7	**35 098**	39 923	34 112
Commodities	8	**14 380**	12 514	7 354
Investment securities	9	**127 972**	111 430	103 673
Advances	10	**799 419**	764 088	705 257
- Advances to customers		**752 479**	719 693	675 387
- Marketable advances		**46 940**	44 395	29 870
Accounts receivable	12	**5 651**	4 561	4 301
Non-current assets and disposal groups held for sale		**-**	-	125
Current tax asset		**1**	166	-
Amounts due by holding company and fellow subsidiaries	13	**28 869**	32 793	27 318
Property and equipment	14	**14 928**	13 632	12 821
Intangible assets	15	**233**	106	71
Deferred income tax asset	16	**1 676**	1 369	1 202
Total assets		**1 082 151**	1 031 579	949 959
EQUITY AND LIABILITIES				
Liabilities				
Short trading positions	17	**15 211**	14 221	5 270
Derivative financial instruments	7	**43 660**	50 624	40 811
Creditors, accruals and provisions	18	**13 079**	12 500	12 370
Current tax liability		**123**	75	69
Deposits	19	**876 690**	826 617	779 798
- Deposits from customers		**653 260**	612 507	567 033
- Debt securities		**170 594**	146 280	152 505
- Other		**52 836**	67 830	60 260
Employee liabilities	20	**8 840**	8 772	8 848
Other liabilities	21	**4 225**	5 386	3 977
Amounts due to holding company and fellow subsidiaries	13	**14 580**	13 997	11 836
Tier 2 liabilities	22	**18 370**	17 468	11 983
Total liabilities		**994 778**	949 660	874 962
Equity				
Ordinary shares	23	**4**	4	4
Share premium	23	**16 804**	16 804	16 804
Reserves		**67 565**	62 111	55 189
Capital and reserves attributable to ordinary equityholders		**84 373**	78 919	71 997
NCNR preference shares	23	**3 000**	3 000	3 000
Total equity		**87 373**	81 919	74 997
Total equity and liabilities		**1 082 151**	1 031 579	949 959

** Restated, refer to pages C40 to C41 for details.*

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**	Defined benefit post-employment reserve	Cash flow hedge reserve
Balance as at 1 July 2015	4	16 804	**16 808**	(765)	190
Ordinary dividends	-	-	**-**	-	-
Preference dividends	-	-	**-**	-	-
Movement in other reserves	-	-	**-**	-	-
Total comprehensive income for the year	-	-	**-**	(133)	118
Balance as at 30 June 2016	4	16 804	**16 808**	(898)	308
Ordinary dividends	-	-	**-**	-	-
Preference dividends	-	-	**-**	-	-
Movement in other reserves	-	-	**-**	-	-
Total comprehensive income for the year	-	-	**-**	171	(150)
Balance as at 30 June 2017	4	16 804	**16 808**	(727)	158

	Ordinary share capital and ordinary equityholders' funds						
	Available-for-sale reserve	Foreign currency translation reserve	Other reserves	Retained earnings	**Reserves attributable to ordinary equity-holders**	**NCNR preference shares**	**Total equity**
	395	476	1 345	53 548	**55 189**	**3 000**	**74 997**
	-	-	-	(9 981)	**(9 981)**	**-**	**(9 981)**
	-	-	-	-	**-**	**(219)**	**(219)**
	-	-	-	-	**-**	**-**	**-**
	(495)	482	-	16 931	**16 903**	**219**	**17 122**
	(100)	958	1 345	60 498	**62 111**	**3 000**	**81 919**
	-	-	-	(11 963)	**(11 963)**	**-**	**(11 963)**
	-	-	-	-	**-**	**(237)**	**(237)**
	-	-	-	1	**1**	**-**	**1**
	(393)	(512)	-	18 300	**17 416**	**237**	**17 653**
	(493)	446	1 345	66 836	**67 565**	**3 000**	**87 373**

STATEMENT OF CASH FLOWS

for the year ended 30 June

R million	Notes	2017	2016*
Cash flows from operating activities			
Interest, fee and commission receipts		**93 130**	83 715
Trading and other income		**3 028**	3 320
Interest payments		**(32 659)**	(26 515)
Other operating expenses		**(29 945)**	(28 614)
Dividends received		**3 366**	3 034
Dividends paid		**(12 200)**	(10 200)
Cash generated from operating activities		**24 720**	24 740
Movements in operating assets and liabilities		**(17 601)**	(31 560)
- Liquid assets and trading securities		**29 071**	(7 206)
- Advances		**(89 577)**	(58 809)
- Deposits		**53 432**	40 996
- Creditors (net of debtors)		**(634)**	117
- Employee liabilities		**(4 746)**	(4 809)
- Other liabilities		**1 213**	4 364
- Taxation paid		**(6 360)**	(6 213)
Net cash generated from/(utilised by) operating activities		**7 119**	(6 820)
Cash flows from investing activities			
Acquisition of property and equipment		**(4 094)**	(3 243)
Proceeds on disposal of property and equipment		**448**	448
Acquisition of intangible assets		**(221)**	(104)
Proceeds on disposal of non-current assets held for sale		**-**	125
Net cash outflow from investing activities		**(3 867)**	(2 774)
Cash flows from financing activities			
(Repayment of)/proceeds from other liabilities		**(1 148)**	1 290
Proceeds from issue of Tier 2 liabilities		**902**	5 485
Net cash (outflow)/ inflow from financing activities		**(246)**	6 775
Net increase/(decrease) in cash and cash equivalents		**3 006**	(2 819)
Cash and cash equivalents at the beginning of the year		**50 997**	53 725
Effect of exchange rate changes on cash and cash equivalents		**(79)**	91
Cash and cash equivalents at the end of the year	6	**53 924**	50 997

* *Certain prior year numbers have been restated due to the reclassifications as explained in section 8 of the accounting policies. Cash in subsidiaries acquired has also been reclassified by setting it off against the acquisition amount.*

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 30 June

1 ANALYSIS OF INTEREST INCOME AND INTEREST EXPENSE

1.1 Interest and similar income

R million	**2017**	2016
Instruments at fair value	**4 744**	4 340
Instruments at amortised cost	**66 509**	59 146
Hedging instruments	**280**	460
Non-financial instruments	**14**	-
Interest and similar income	**71 547**	63 946
Advances	**61 689**	55 801
- Overdrafts and cash management accounts	**6 838**	5 748
- Term loans	**2 899**	2 642
- Card loans	**4 117**	3 674
- Instalment sales and hire purchase agreements	**14 233**	14 008
- Lease payments receivable	**436**	543
- Property finance	**20 386**	18 625
- Personal loans	**8 077**	7 287
- Preference share agreements	**39**	39
- Investment bank term loans	**700**	4
- Long-term loans to group associates	**15**	13
- Other advances	**2 522**	2 414
- Marketable advances	**1 427**	804
Cash and cash equivalents	**1 980**	1 799
Investment securities	**4 739**	3 347
Unwinding of discounted present value on NPLs	**79**	77
Amounts due by holding company and fellow subsidiaries	**1 357**	1 221
Other	**1 703**	1 701
Interest and similar income	**71 547**	63 946

1 ANALYSIS OF INTEREST INCOME AND INTEREST EXPENSE continued

1.2 Interest expense and similar charges

R million	**2017**	2016
Instruments at fair value	**(499)**	(604)
Instruments at amortised cost	**(32 183)**	(26 085)
Hedging instruments	**(213)**	(480)
Non-financial instruments	**(3)**	-
Interest expense and similar charges	**(32 898)**	(27 169)
Deposits from customers	**(28 430)**	(23 431)
- Current accounts	**(4 851)**	(4 287)
- Savings deposits	**(258)**	(182)
- Call deposits	**(9 505)**	(7 586)
- Fixed and notice deposits	**(13 816)**	(11 376)
Debt securities	**(12 555)**	(10 381)
- Negotiable certificates of deposit	**(4 614)**	(3 323)
- Fixed and floating rate notes	**(7 941)**	(7 058)
Other	**(3 411)**	(3 395)
- Repurchase agreements	**(1 296)**	(1 207)
- Securities lending	**(391)**	(437)
- Cash collateral and credit linked notes	**(1 724)**	(1 751)
Tier 2 liabilities	**(1 776)**	(1 349)
Amounts due to holding company and fellow subsidiaries	**(628)**	(650)
Other	**(775)**	(961)
Gross interest expense and similar charges	**(47 575)**	(40 167)
Less: interest expense relating to fair value activities reallocated to fair value income	**14 677**	12 998
Interest expense and similar charges	**(32 898)**	(27 169)

2 NON-INTEREST REVENUE

R million	Notes	2017	2016
Fee and commission income		**26 465**	25 032
- Instruments at amortised cost		**20 840**	19 713
- Instruments at fair value		**191**	237
- Non-financial instruments		**5 434**	5 082
Fee and commission expenses		**(4 266)**	(3 913)
Net fee and commission income	2.1	**22 199**	21 119
Held for trading		**3 707**	1 366
Designated at fair value through profit or loss		**1 616**	1 837
Other		**(21)**	69
Fair value gains or losses	2.2	**5 302**	3 272
Available-for-sale		**203**	37
Other		**-**	46
Gains less losses from investing activities	2.3	**203**	83
Other non-interest revenue	2.4	**3 245**	3 412
Total non-interest revenue		**30 949**	27 886

2 NON-INTEREST REVENUE continued

2.1 Net fee and commission income

R million	2017	2016
Banking fee and commission income	**22 546**	21 342
- Card commissions	**3 437**	3 062
- Cash deposit fees	**1 623**	1 752
- Commitment fees	**1 305**	868
- Commissions: bills, drafts and cheques	**651**	611
- Exchange commissions*	**1 555**	1 513
- Brokerage income	**163**	184
- Bank charges*	**13 812**	13 352
Knowledge-based fee and commission income	**1 448**	1 337
Management, trust and fiduciary fees	**765**	683
Insurance-related income, including commission	**996**	1 032
Fee and commission from service providers	**488**	431
Other non-banking fee and commission income	**222**	207
Fee and commission income	**26 465**	25 032
Transaction processing fees	**(1 036)**	(935)
Commission paid	**(240)**	(339)
Customer loyalty programmes	**(1 447)**	(1 193)
Cash sorting, handling and transportation charges	**(739)**	(678)
Card and cheque book related	**(348)**	(255)
ATM commissions paid	**(40)**	(30)
Other	**(416)**	(483)
Fee and commission expenses	**(4 266)**	(3 913)
Net fee and commission income	**22 199**	21 119

* Bank charges which better relate to exchange commissions have been reallocated to exchange commissions in the prior year.

2.2 Fair value gains or losses

R million	2017	2016
Dividend income on preference shares held	**3 259**	2 938
Other fair value gains or losses	**2 043**	334
Total fair value gains or losses	**5 302**	3 272

2 NON-INTEREST REVENUE continued

2.3 Gains less losses from investing activities

R million	**2017**	2016
Reclassification from other comprehensive income on the derecognition/sale of available-for-sale-assets	**66**	(7)
Preference share dividends	**19**	20
Other dividends received	**87**	23
Preference dividends from insurance profit share arrangements	**31**	-
Reversal of impairment of investment in subsidiaries	**-**	34
Other gains on derecognition of securitised assets	**-**	13
Total gains less losses from investing activities	**203**	83

2.4 Other non-interest revenue

R million	**2017**	2016
(Loss)/gain on disposal of property and equipment	**(26)**	1
Recoveries from holding company and fellow subsidiaries	**1 111**	1 356
Rental income	**1 225**	1 038
Income related to direct sale and other operating lease transactions	**403**	177
- Sales	**1 128**	716
- Cost of sales	**(900)**	(691)
- Other operating lease transactions	**175**	152
Other income	**532**	840
Total other non-interest revenue	**3 245**	3 412

3 OPERATING EXPENSES

R million	Notes	2017	2016
Auditors' remuneration		**(246)**	(288)
- Audit fees		**(204)**	(214)
- Fees for other services		**(37)**	(67)
- Prior year under accrual		**(5)**	(7)
Operating lease charges		**(1 267)**	(1 189)
Staff costs		**(21 799)**	(20 344)
- Salaries, wages and allowances*		**(14 508)**	(13 737)
- Contributions to employee benefit funds*		**(1 281)**	(1 339)
- Defined contribution schemes		**(1 147)**	(1 233)
- Defined benefit schemes	20.1	**(134)**	(106)
- Social security levies		**(301)**	(292)
- Share-based payments	24	**(1 455)**	(1 034)
- Movement in short-term employee benefits liability		**(3 630)**	(3 500)
- Other staff costs		**(624)**	(442)
Other operating costs		**(14 357)**	(13 214)
- Amortisation of intangible assets	15	**(94)**	(46)
- Depreciation of property and equipment	14	**(2 311)**	(1 989)
- Impairments incurred		**(5)**	(126)
- Impairment loss reversed		**4**	12
- Insurance		**(231)**	(225)
- Advertising and marketing		**(1 114)**	(1 025)
- Maintenance		**(1 145)**	(1 070)
- Property		**(834)**	(767)
- Computer		**(1 912)**	(1 577)
- Stationery		**(173)**	(150)
- Telecommunications		**(275)**	(251)
- Professional fees		**(1 636)**	(1 521)
- Expenses paid to holding company and fellow subsidiaries	28	**(986)**	(1 084)
- Other operating expenditure		**(3 645)**	(3 395)
Total operating expenses		**(37 669)**	(35 035)

* *Prior period numbers are restated to reflect the change in the treatment of retirement benefit contributions due to amended legislation reallocation of R480 million to direct staff costs.*

** *During the prior year WesBank recognised an impairment of R49 million relating to full maintenance lease agreements included in accounts receivable. For details on how the impairment was calculated, refer to section 9.4 of the critical estimates and assumptions note. The impairments recognised in the current and the remainder in the prior year relate to various individually insignificant amounts*

3 OPERATING EXPENSES continued

DIRECTORS' AND PRESCRIBED OFFICERS' EMOLUMENTS

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

Directors' and prescribed officers' emoluments

	2017			2016		
	Services as directors			Services as directors		
R thousand	**FirstRand**	**Group**	**Total**	FirstRand	Group	Total
Independent non-executive directors paid in ZAR						
VW Bartlett (retired 29 November 2016)	**373**	**124**	**497**	1 035	262	1 297
G Gelink	**1 283**	**1 116**	**2 399**	1 191	1 160	2 351
PM Goss	**947**	**272**	**1 219**	868	202	1 070
NN Gwagwa	**553**	**508**	**1 061**	693	197	890
WR Jardine	**859**	**151**	**1 010**	792	84	876
RM Loubser	**2 294**	**1 970**	**4 264**	2 062	1 605	3 667
EG Mantenge-Sebesho	**908**	**614**	**1 522**	822	556	1 378
AT Nzimande	**706**	**262**	**968**	768	80	848
BJ van der Ross	**989**	**748**	**1 737**	911	749	1 660
Non-executive directors paid in ZAR						
MS Bomela	**900**	**106**	**1 006**	908	358	1 266
HL Bosman (appointed 3 April 2017)	**125**	**45**	**170**	-	-	-
P Cooper (alternative to Paul Harris) (resigned 30 April 2017)	**17**	**138**	**155**	294	80	374
L Crouse (resigned 31 March 2016)	**-**	**-**	**-**	854	28	882
LL Dippenaar (chairman)	**5 265**	**301**	**5 566**	5 028	258	5 286
JJ Durand	**750**	**87**	**837**	681	63	744
PK Harris	**553**	**45**	**598**	521	44	565
F Knoetze (appointed 1 April 2016)	**900**	**792**	**1 692**	134	208	342
PJ Makosholo (appointed 1 October 2015)	**908**	**496**	**1 404**	607	382	989
TS Mashego (appointed 1 January 2017)	**282**	**138**	**420**	-	-	-
KB Schoeman (resigned 30 September 2015)	**-**	**-**	**-**	95	-	95
Total non-executive directors paid in ZAR	**18 612**	**7 913**	**26 525**	18 264	6 316	24 580
Foreign domiciled independent non-executive directors paid in USD						
USD thousand						
D Premnarayen (retired 29 November 2016)	**51**	**2**	**53**	305	20	325
JH van Greuning	**360**	**162**	**522**	290	290	580
Foreign domiciled independent non-executive directors paid in INR						
INR thousand						
D Premnarayen (retired 29 November 2016)[1]	**-**	**7 128**	**7 128**	-	-	-

1. *Includes fees earned in India between 1 July 2016 to 29 November 2016.*

3 OPERATING EXPENSES continued

R thousand	2017	2016	2015	2014	2013
JP Burger[1]					
Cash package paid during the year	**9 328**	8 461	7 040	6 591	6 103
Retirement contributions paid during the year	**158**	978	1 056	981	915
Other allowances	**254**	178	119	98	156
Guaranteed package	**9 740**	9 617	8 215	7 670	7 174
Performance related in respect of the year[2]	**13 900**	13 165	11 770	9 000	10 440
Portion of performance related deferred in share awards[3]	**11 900**	11 165	10 270	10 000	5 960
Variable pay	**25 800**	24 330	22 040	19 000	16 400
Total guaranteed and variable pay	**35 540**	33 947	30 255	26 670	23 574
Value of CIP awards during the year[4]					
Conditional share plan/conditional incentive plan	**18 350**	15 630	11 800	10 800	9 630
Total reward including CIP	**53 890**	49 577	42 055	37 470	33 204
AP Pullinger[1, 5]					
Cash package paid during the year	**6 718**	5 433	2 322	2 174	2 036
Retirement contributions paid during the year	**132**	1 075	464	556	407
Other allowances	**150**	154	133	13	122
Guaranteed package	**7 000**	6 662	2 919	2 743	2 565
Performance related in respect of the year[2]	**11 600**	11 000	11 750	15 000	13 200
Portion of performance related deferred in share awards[3]	**9 600**	9 000	10 250	9 000	7 800
Variable pay	**21 200**	20 000	22 000	24 000	21 000
Total guaranteed and variable pay	**28 200**	26 662	24 919	26 743	23 565
Value of CIP awards during the year[4]					
Conditional share plan/conditional incentive plan	**14 630**	10 000	9 250	7 500	7 500
Total reward including CIP	**42 830**	36 662	34 169	34 243	31 065

1. *FirstRand defines its prescribed officers as the group CEO, deputy group CEO, financial director and the CEOs of the group's operating franchises (FNB, RMB and WesBank) that contribute materially to group performance. All of these officers are members of the group strategic executive committee and attend board meetings.*
2. *Variable compensation paid in cash in respect of the year ended June, is paid (with an interest factor) in three tranches, during the following year ending on 30 June.*
3. *Performance payments deferred as a conditional award in terms of the FirstRand conditional incentive plan (CIP) vest two years after the award date. Refer to note 24.*
4. *Long-term incentive awards are made annually under the CIP and vesting is dependent on certain corporate targets being met on a cumulative basis over three years. Refer to note 24.*
5. *Prescribed officer appointed effective 30 September 2015. Emoluments include earnings in prior role from 1 July 2015 to 30 September 2015.*

3 OPERATING EXPENSES continued

R thousand	2017	2016	2015	2014	2013
HS Kellan[1, 5]					
Cash package paid during the year	**5 830**	4 938	4 493	4 046	-
Retirement contributions paid during the year	**40**	405	402	362	-
Other allowances	**130**	118	108	98	-
Guaranteed package	**6 000**	5 461	5 003	4 506	-
Performance related in respect of the year[2]	**5 250**	4 937	4 500	4 416	-
Portion of performance related deferred in share awards[3]	**3 250**	2 938	3 000	1 944	-
Variable pay	**8 500**	7 875	7 500	6 360	-
Total guaranteed and variable pay	**14 500**	13 336	12 503	10 866	-
Value of CIP awards during the year[4]					
Conditional share plan/conditional incentive plan	**8 600**	7 000	5 500	5 000	-
Total reward including CIP	**23 100**	20 336	18 003	15 866	-
J Formby (CEO RMB)[1, 6]					
Cash package paid during the year	**3 013**	2 630	-	-	-
Retirement contributions paid during the year	**52**	236	-	-	-
Other allowances	**176**	178	-	-	-
Guaranteed package	**3 241**	3 044	-	-	-
Performance related in respect of the year[2]	**12 250**	10 625	-	-	-
Portion of performance related deferred in share awards[3]	**10 250**	8 625	-	-	-
Variable pay	**22 500**	19 250	-	-	-
Total guaranteed and variable pay	**25 741**	22 294	-	-	-
Value of CIP awards during the year[4]					
Conditional share plan/conditional incentive plan	**7 500**	5 000	-	-	-
Total reward including CIP	**33 241**	27 294	-	-	-

1. *FirstRand defines its prescribed officers as the group CEO, deputy group CEO, financial director and the CEOs of the group's operating franchises (FNB, RMB and WesBank) that contribute materially to group performance. All of these officers are members of the group strategic executive committee and attend board meetings.*
2. *Variable compensation paid in cash in respect of the year ended June, is paid (with an interest factor) in three tranches, during the following year ending on 30 June.*
3. *Performance payments deferred as a conditional award in terms of the FirstRand CIP vest two years after the award date. Refer to note 24.*
4. *Long-term incentive awards are made annually under the CIP and vesting is dependent on certain corporate targets being met on a cumulative basis over the three years. Refer to note 24.*
5. *Prescribed officer appointed 1 October 2013. Emoluments include earnings in prior role from 1 July 2013 to 30 September 2013.*
6. *Prescribed officer appointed effective 30 September 2015. Emoluments include earnings in prior role from 1 July 2015 to 30 September 2015.*

3 OPERATING EXPENSES continued

R thousand	2017	2016	2015	2014	2013
J Celliers (CEO FNB)[1, 5]					
Cash package paid during the year	**6 505**	5 867	5 513	4 901	-
Retirement contributions paid during the year	**116**	582	551	490	-
Other allowances	**130**	118	108	122	-
Guaranteed package	**6 751**	6 567	6 172	5 513	-
Performance related in respect of the year[2]	**7 000**	6 625	5 950	5 400	-
Portion of performance related deferred in share awards[3]	**5 000**	4 625	4 450	2 600	-
Variable pay	**12 000**	11 250	10 400	8 000	-
Total guaranteed and variable pay	**18 751**	17 817	16 572	13 513	-
Value of CIP awards during the year[4]					
Conditional share plan/conditional incentive plan	**11 943**	10 000	8 200	7 000	-
Total reward including CIP	**30 694**	27 817	24 772	20 513	-
C de Kock (CEO Wesbank)[1, 5]					
Cash package paid during the year	**4 532**	3 972	3 098	2 778	-
Retirement contributions paid during the year	**35**	347	291	266	-
Other allowances	**136**	98	69	71	-
Guaranteed package	**4 703**	4 417	3 458	3 115	-
Performance related in respect of the year[2]	**5 250**	5 000	4 250	4 200	-
Portion of performance related deferred in share awards[3]	**3 250**	3 000	2 750	1 800	-
Variable pay	**8 500**	8 000	7 000	6 000	-
Total guaranteed and variable pay	**13 203**	12 417	10 458	9 115	-
Value of CIP awards during the year[4]					
Conditional share plan/conditional incentive plan	**9 200**	7 500	7 000	6 500	-
Total reward including CIP	**22 403**	19 917	17 458	15 615	-
SE Nxasana (retired 30 September 2015)					
Cash package paid during the year	**-**	2 113	8 056	7 522	7 037
Retirement contributions paid during the year	**-**	250	955	891	834
Other allowances	**-**	22	82	75	68
Guaranteed package	**-**	2 385	9 093	8 488	7 939
Performance related in respect of the year[2]	**-**	-	12 915	10 000	11 460
Portion of performance related deferred in share awards[3]	**-**	-	11 415	11 000	6 640
Variable pay	**-**	-	24 330	21 000	18 100
Total guaranteed and variable pay	**-**	2 385	33 423	29 488	26 039
Value of CIP awards during the year[4]					
Conditional share plan/conditional incentive plan	**-**	-	14 680	13 465	12 021
Total reward including CIP	**-**	2 385	48 103	42 953	38 060

1. *FirstRand defines its prescribed officers as the group CEO, deputy group CEO, financial director and the CEOs of the group's operating franchises (FNB, RMB and WesBank) that contribute materially to group performance. All of these officers are members of the group strategic executive committee and attend board meetings.*
2. *Variable compensation paid in cash in respect of the year ended June, is paid (with an interest factor) in three tranches, during the following year ending on 30 June.*
3. *Performance payments deferred as a conditional award in terms of the FirstRand CIP vest two years after the award date. Refer to note 24.*
4. *Long-term incentive awards are made annually under the CIP and vesting is dependent on certain corporate targets being met on a cumulative basis over three years. Refer to note 24.*
5. *Prescribed officer appointed 1 October 2013. Emoluments include earnings in prior role from 1 July 2013 to 30 September 2013.*

3 OPERATING EXPENSES continued

Cash package, retirement contributions and other allowances reflect what was paid to the prescribed officers during the year ended 30 June 2017 although the FirstRand remuneration cycle runs from 1 August to 31 July.

The cash variable pay and variable pay deferred in CIP awards for 2017 reflect the amounts allocated to the prescribed officer in respect of the year ended 30 June 2017, however, the cash portion will be paid in future periods in terms of the group's deferral structure.

All executive directors and prescribed officers have a notice period of one month. Non-executive directors are appointed for a period of three years and are subject to the Companies Act, 71 of 2008 provision relating to removal.

Ownership of FirstRand Bank Limited

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

Co-investment scheme

In addition to contractual and performance remuneration, eligible prescribed officers are entitled to participate in the co-investment scheme. Profit share, as shown in the table below, is based on a capital contribution placed at risk by participants. There is no cost to the group associated with the co-investment scheme.

R thousand	**2017**	2016
JP Burger	**2 446**	2 101
JR Formby	**4 942**	4 071
AP Pullinger	**2 617**	2 305
SE Nxasana (retired 30 September 2015)	**-**	172

Long-term executive management retention scheme

LTEMRS[1] participation award made in December 2016			
Executive directors	**R thousand**	**Prescribed officers**	**R thousand**
JP Burger	188	J Celliers	469
AP Pullinger	188	C de Kock	938
HS Kellan	563	J Formby	938

1. *In addition to the group's existing long-term incentive plan, and in order to better align executive interest with those of the group's shareholders, the group has during the year under review introduced a long-term executive management retention scheme ("LTEMRS"). The scheme is a five-year scheme, where members of the group's strategic committee are eligible to participate, on a voluntary basis, by purchasing a predetermined fixed amount of participation awards. Participants paid an upfront cash deposit of ten percent for their predetermined fixed amount of participation awards, with the balance being funded through a facilitated mechanism by the group. The fixed amount for each participant was converted into a number of participation awards, determined by the share price of R53.33, being the three-day volume weighted average price of the FirstRand share price at the date of award, being 15 December 2016.*

   The scheme and the funding mechanism, ensures that participants have full risk and potential reward of their participation awards (downside risk and upside potential). Continued employment is a condition for vesting of the cash settled scheme. Early termination before the expiry of three full years of service carry the full cost of early termination, including a full forfeit of any potential benefit, with a sliding scale of forfeiture being applied in years four and five. There is no cost to the group associated with the LTEMRS as the scheme is economically hedged.

3 OPERATING EXPENSES continued

Prescribed officers' outstanding long-term incentives

	Outstanding long-term incentives			
	2017 (CIP allocation made in September 2016)		2016 (CIP allocation made in September 2015)	
	CIP	**Bonus deferral CIP**	CIP	Bonus deferral CIP
Executive directors				
JP Burger				
Opening balance (number of shares)	**-**	**-**	295 776	194 345
Granted/taken up this year (number of shares)	**387 914**	**236 025**	-	-
Closing balance (number of shares)	**387 914**	**236 025**	295 776	194 345
Vesting date	**21/09/2019**	**21/09/2018**	21/09/2018	21/09/2017
AP Pullinger				
Opening balance (number of shares)	**-**	**-**	189 236	193 967
Granted/taken up this year (number of shares)	**309 274**	**190 258**	-	-
Closing balance (number of shares)	**309 274**	**190 258**	189 236	193 967
Vesting date	**21/09/2019**	**21/09/2018**	21/09/2018	21/09/2017
HS Kellan				
Opening balance (number of shares)	**-**	**-**	132 465	56 770
Granted/taken up this year (number of shares)	**181 802**	**62 908**	-	-
Closing balance (number of shares)	**181 802**	**62 908**	132 465	56 770
Vesting date	**21/09/2019**	**21/09/2018**	21/09/2018	21/09/2017

	Outstanding long-term incentives				
	2015 (CIP allocation made in September 2014)			2014 (CIP allocation made in September 2013)	
	CIP	Special three-year bonus deferral CIP	Bonus deferral CIP	CIP	Special CIP
	260 728	15 025	220 956	349 563	87 895
	-	-	(220 956)	(349 563)	(87 895)
	260 728	15 025	-	-	-
	12/09/2017	12/09/2017	13/09/2016	15/09/2016	01/10/2016
	204 384	-	198 860	242 752	-
	-	-	(198 860)	(242 752)	-
	204 384	-	-	-	-
	12/09/2017	-	13/09/2016	15/09/2016	-
	121 526	-	42 954	161 835	-
	-	-	(42 954)	(161 835)	-
	121 526	-	-	-	-
	12/09/2017	-	13/09/2016	15/09/2016	-

3 OPERATING EXPENSES continued

Prescribed officers' outstanding long-term incentives

	Outstanding long-term incentives			
	2017 (CIP allocation made in September 2016)		2016 (CIP allocation made in September 2015)	
	CIP	**Bonus deferral CIP**	CIP	Bonus deferral CIP
Prescribed officers				
J Celliers				
Opening balance (number of shares)	**-**	**-**	189 236	84 210
Granted/taken up this year (number of shares)	**252 472**	**97 772**	-	-
Closing balance (number of shares)	**252 472**	**97 772**	189 236	84 210
Vesting date	**21/09/2019**	**21/09/2018**	21/09/2018	21/09/2017
C De Kock				
Opening balance (number of shares)	**-**	**-**	141 927	52 039
Granted/taken up this year (number of shares)	**194 486**	**63 420**	-	-
Closing balance (number of shares)	**194 486**	**63 420**	141 927	52 039
Vesting date	**21/09/2019**	**21/09/2018**	21/09/2018	21/09/2017
J Formby				
Opening balance (number of shares)	**-**	**-**	94 618	158 485
Granted/taken up this year (number of shares)	**158 548**	**182 330**	-	-
Closing balance (number of shares)	**158 548**	**182 330**	94 618	158 485
Vesting date	**21/09/2019**	**21/09/2018**	21/09/2018	21/09/2017
SE Nxasana (retired 30 September 2015)				
Opening balance (number of shares)	**-**	**-**	-	-
Granted/taken up this year (number of shares)	**-**	**-**	-	216 013
Closing balance (number of shares)	**-**	**-**	-	216 013
Vesting date	**-**	**-**	-	21/09/2017

	Outstanding long-term incentives				
	2015 (CIP allocation made in September 2014)			2014 (CIP allocation made in September 2013)	
	CIP	Special three-year bonus deferral CIP	Bonus deferral CIP	CIP	Special CIP
	181 184	-	57 449	226 569	-
	-	-	(57 449)	(226 569)	-
	181 184	-	-	-	-
	12/09/2017	-	13/09/2016	15/09/2016	-
	154 669	-	39 772	145 651	57 481
	-	-	(39 772)	(145 651)	(57 481)
	154 669	-	-	-	-
	12/09/2017	-	13/09/2016	15/09/2016	04/04/2017
	64 078	-	141 412	92 732	-
	-	-	(141 412)	(92 732)	-
	64 078	-		-	-
	12/09/2017	-	13/09/2016	15/09/2016	-
	324 363	15 909	243 051	435 820	-
	-	-	(243 051)	(435 820)	-
	324 363	15 909		-	-
	12/09/2017	12/09/2017	13/09/2016	15/09/2016	-

4 INDIRECT TAX AND INCOME TAX EXPENSE

R million	2017	2016
4.1 Indirect tax		
Value added tax (net)	**(874)**	(763)
Securities transfer tax	**(2)**	-
Total indirect tax	**(876)**	(763)
4.2 Income tax expense		
South African income tax		
Current	**(5 687)**	(5 436)
- Current year	**(5 713)**	(5 397)
- Prior year adjustment	**26**	(39)
Deferred income tax	**158**	(16)
- Current year	**51**	(118)
- Prior year adjustment	**107**	102
Total South African income tax	**(5 529)**	(5 452)
Capital gains tax		
- Deferred capital gains tax	**-**	(14)
- Tax rate adjustment	**-**	14
Total capital gains tax	**-**	-
Customer tax adjustment account	**(3)**	(7)
Withholding tax on dividends in specie	**-**	(1)
Total income tax expense	**(5 532)**	(5 460)

4 INDIRECT TAX AND INCOME TAX EXPENSE continued

Tax rate reconciliation

%	**2017**	2016
Standard rate of income tax	**28.0**	28.0
Total tax has been affected by:		
Dividend income	**(4.5)**	(4.2)
Prior year adjustments	**(0.6)**	(0.3)
Disallowed expenditure	**0.1**	0.3
Other non-deductible items	**-**	0.3
Effective rate of tax	**23.0**	24.1

5 ANALYSIS OF ASSETS AND LIABILITIES

5.1 Analysis of assets

The following table analyses the assets in the statement of financial position per category of financial instrument and, therefore, by measurement basis and according to when the assets are expected to be realised.

	2017			
R million	**Held for trading**	**Designated at fair value through profit or loss**	**Held-to-maturity**	
ASSETS				
Cash and cash equivalents	**-**	**-**	**-**	
Derivative financial instruments	**33 523**	**-**	**-**	
Investment securities	**44 078**	**10 304**	**27 759**	
Advances	**-**	**211 540**	**9**	
Accounts receivable	**-**	**-**	**-**	
Amounts due by holding company and fellow subsidiaries	**302**	**-**	**-**	
Non-financial assets	**-**	**-**	**-**	
Total assets	**77 903**	**221 844**	**27 768**	

	2016			
R million	Held for trading	Designated at fair value through profit or loss	Held-to-maturity	
Cash and cash equivalents	-	-	-	
Derivative financial instruments	38 737	-	-	
Investment securities	37 648	20 203	12 093	
Advances	-	228 315	14	
Accounts receivable	-	-	-	
Amounts due by holding company and fellow subsidiaries	383	-	-	
Non-financial assets	-	-	-	
Total assets	76 768	248 518	12 107	

2017							
	Loans and receivables	**Available-for-sale financial assets**	**Derivatives designated as hedging instruments**	**Non-financial instruments**	**Total carrying value**	**Current**	**Non-current**
	53 924	**-**	**-**	**-**	**53 924**	**53 924**	**-**
	-	**-**	**1 575**	**-**	**35 098**	**33 520**	**1 578**
	2	**45 829**	**-**	**-**	**127 972**	**63 039**	**64 933**
	570 902	**16 968**	**-**	**-**	**799 419**	**284 683**	**514 736**
	3 929	**-**	**-**	**1 722**	**5 651**	**3 487**	**2 164**
	28 567	**-**	**-**	**-**	**28 869**	**17 317**	**11 552**
	-	**-**	**-**	**31 218**	**31 218**	**14 381**	**16 837**
	657 324	**62 797**	**1 575**	**32 940**	**1 082 151**	**470 351**	**611 800**

2016							
	Loans and receivables	Available-for-sale financial assets	Derivatives designated as hedging instruments	Non-financial instruments	Total carrying value	Current	Non-current
	50 997	-	-	-	50 997	50 997	-
	-	-	1 186	-	39 923	38 640	1 283
	3	41 483	-	-	111 430	29 747	81 683
	521 118	14 641	-	-	764 088	299 953	464 135
	2 605	-	-	1 956	4 561	2 860	1 701
	32 410	-	-	-	32 793	17 285	15 508
	-	-	-	27 787	27 787	12 680	15 107
	607 133	56 124	1 186	29 743	1 031 579	452 162	579 417

5 ANALYSIS OF ASSETS AND LIABILITIES

5.2 Analysis of liabilities

The following table analyses the liabilities in the statement of financial position per category of financial instrument and, therefore, by measurement basis and according to when the liabilities are expected to be settled:

	2017			
R million	**Held for trading**	**Designated at fair value through profit or loss**	**Financial liabilities at amortised cost**	
LIABILITIES				
Short trading positions	**15 211**	**-**	**-**	
Derivative financial instruments	**42 400**	**-**	**-**	
Creditors, accruals and provisions	**-**	**-**	**6 894**	
Deposits	**-**	**77 185**	**799 505**	
Other liabilities	**-**	**3 745**	**467**	
Amounts due to holding company and fellow subsidiaries	**330**	**-**	**14 250**	
Tier 2 liabilities	**-**	**-**	**18 370**	
Non-financial liabilities	**-**	**-**	**-**	
Total liabilities	**57 941**	**80 930**	**839 486**	

	2016			
R million	Held for trading	Designated at fair value through profit or loss	Financial liabilities at amortised cost	
Short trading positions	14 221	-	-	
Derivative financial instruments	49 812	-	-	
Creditors, accruals and provisions	-	-	7 396	
Deposits	-	101 320	725 297	
Other liabilities	-	4 827	532	
Amounts due to holding company and fellow subsidiaries	319	-	13 678	
Tier 2 liabilities	-	-	17 468	
Non-financial liabilities	-	-	-	
Total liabilities	64 352	106 147	764 371	

2017					
	Derivatives designated as hedging instruments	**Non-financial instruments**	**Total carrying value**	**Current**	**Non-current**
	-	**-**	**15 211**	**15 211**	**-**
	1 260	**-**	**43 660**	**41 463**	**2 197**
	-	**6 185**	**13 079**	**9 803**	**3 276**
	-	**-**	**876 690**	**755 771**	**120 919**
	-	**13**	**4 225**	**1 037**	**3 188**
	-	**-**	**14 580**	**14 415**	**165**
	-	**-**	**18 370**	**1 508**	**16 862**
	-	**8 963**	**8 963**	**5 705**	**3 258**
	1 260	**15 161**	**994 778**	**844 913**	**149 865**

2016					
	Derivatives designated as hedging instruments	Non-financial instruments	Total carrying value	Current	Non-current
	-	-	14 221	14 221	-
	812	-	50 624	47 537	3 087
	-	5 104	12 500	9 981	2 519
	-	-	826 617	683 759	142 858
	-	27	5 386	3 817	1 569
	-	-	13 997	13 578	419
	-	-	17 468	1 117	16 351
	-	8 847	8 847	5 035	3 812
	812	13 978	949 660	779 045	170 615

6 CASH AND CASH EQUIVALENTS

R million	2017	2016
Coins and bank notes	**6 788**	6 989
Money at call and short notice	**25 684**	24 823
Balances with central banks	**21 452**	19 185
Total cash and cash equivalents	**53 924**	50 997
Mandatory reserve balances included above	**21 403**	19 267

Banks are required to deposit a minimum average balance, calculated monthly, with the central banks, which is not available for use in the bank's day-to-day operations. These deposits bear little or no interest.

7 DERIVATIVE FINANCIAL INSTRUMENTS

Use of derivatives

The bank transacts in derivatives for two purposes: to create risk management solutions for clients and to manage and economically hedge the bank's own risk. Derivatives that are classified as hedging instruments are formally designated as hedging instruments as defined in IAS 39.

All other derivatives are classified as held for trading. The held for trading classification includes two types of derivative instruments: those used in sales activities and those that are economic hedges but do not meet the criteria to qualify for hedge accounting.

The bank's derivative activities give rise to open positions in portfolios of derivatives. These positions are managed constantly to ensure that they remain within acceptable risk levels, with offsetting deals being utilised to achieve this where necessary.

For further details on the valuation of derivatives refer to note 26.

Held for trading derivatives

Most of the bank's derivative transactions relate to sales activities. Sales activities include the structuring and marketing of derivative products to customers to enable them to take on, transfer, modify or reduce current or expected risks.

Hedging instruments

Fair value hedges

The bank's fair value hedges consist principally interest rate swaps used to hedge the fair value risk associated with changes in interest rates. The following amounts were recognised in profit or loss for the year:

R million	2017	2016
Gains/(losses) for the year arising from the change in fair value of fair value hedges		
On hedging instruments	**111**	226
On hedged items attributable to the hedged risk	**(139)**	(152)
Total	**(28)**	74

7 DERIVATIVE FINANCIAL INSTRUMENTS continued

Cash flow hedges

The bank raises funding and holds assets that bear interest at variable and fixed rates. This mix of interest rates in the bank's assets and liabilities exposes the bank to interest rate risk. Changes in the market interest rates have an impact on the bank's profit or loss. The bank is also exposed to changes in the FirstRand share price associated with the bank's long-term incentive scheme. The bank has hedges in place to manage this risk. These hedges are accounted for as cash flow hedges.

The bank hedges this risk using separate portfolios. These portfolios are managed under separate mandates, which take into account the underlying risk inherent in each portfolio.

The bank uses the following derivatives as hedging instruments:

- forward rate agreements are negotiated interest rate futures that call for cash settlement at a future date for the difference between the contractual and market rates of interest, based on a notional principal amount;
- interest rate swaps are commitments to exchange one set of cash flows for another, resulting in the economic exchange of interest rates (for example fixed rate for floating rate). No exchange of principal takes place; and
- a total return swap with external counterparties to hedge itself against the exposure to changes in the FirstRand share price associated with the bank's long-term incentive scheme.

During the year the hedging relationships were highly effective and the bank deferred the lesser of changes in fair value on the hedging instruments and changes in fair value on the hedged items. As the changes on the hedging instruments were more than the changes on the hedged items, there was ineffectiveness recognised in profit or loss.

R million	**2017**	2016
Hedge ineffectiveness recognised in profit or loss (net of tax)	**(10)**	(4)

The cash flows (gross of tax) on the underlying hedged items are expected to impact profit or loss as follows:

	2017		2016	
R million	**Assets**	**Liabilities**	Assets	Liabilities
0 - 3 months	**32**	**(40)**	24	(40)
4 - 12 months	**285**	**(344)**	147	(269)
1 - 5 years	**597**	**(1 029)**	282	(543)
Over 5 years	**(18)**	**(89)**	8	(76)
Total	**896**	**(1 502)**	461	(928)

The cash flows (gross of tax) on the hedging instruments are expected to be released to profit or loss as follows:

	2017		2016	
R million	**Assets**	**Liabilities**	Assets	Liabilities
0 - 3 months	**(52)**	**35**	(53)	26
4 - 12 months	**(323)**	**297**	(273)	158
1 - 5 years	**(746)**	**564**	(514)	292
Over 5 years	**(80)**	**(17)**	(69)	5
Total	**(1 201)**	**879**	(909)	481

7 DERIVATIVE FINANCIAL INSTRUMENTS continued

Derivative financial instruments - Assets

R million	2017 Notional	2017 Fair value	2016 Notional	2016 Fair value
Qualifying for hedge accounting				
Cash flow hedges	**99 154**	**1 134**	80 923	852
- Interest rate derivatives	**99 154**	**1 134**	80 923	852
Fair value hedges	**35 404**	**441**	25 691	334
- Interest rate derivatives	**35 404**	**441**	23 991	334
- Commodity derivatives	**-**	**-**	1 700	-
Held for trading	**8 547 102**	**33 523**	7 784 190	38 737
- Currency derivatives	**309 787**	**8 919**	277 181	12 223
- Interest rate derivatives	**8 086 229**	**22 390**	7 370 161	23 349
- Equity derivatives	**96 308**	**1 371**	84 964	2 290
- Commodity derivatives	**32 635**	**526**	29 923	602
- Energy derivatives	**6 267**	**245**	3 898	162
- Credit derivatives	**15 876**	**72**	18 063	111
Total derivative assets	**8 681 660**	**35 098**	7 890 804	39 923
Exchange traded	**57 808**	**240**	43 935	62
Over the counter	**8 623 852**	**34 858**	7 846 869	39 861
Total derivative assets	**8 681 660**	**35 098**	7 890 804	39 923

Derivative financial instruments - Liabilities

R million	2017 Notional	2017 Fair value	2016 Notional	2016 Fair value
Qualifying for hedge accounting				
Cash flow hedges	**106 560**	**1 013**	56 105	469
- Interest rate derivatives	**105 083**	**931**	56 105	469
- Equity derivatives	**1 477**	**82**	-	-
Fair value hedges	**38 149**	**247**	41 432	343
- Interest rate derivatives	**38 149**	**247**	41 432	343
Held for trading	**8 606 686**	**42 400**	7 873 617	49 812
- Currency derivatives	**319 424**	**15 606**	243 395	20 613
- Interest rate derivatives	**8 213 325**	**22 886**	7 530 297	22 892
- Equity derivatives	**42 954**	**3 206**	55 418	5 052
- Commodity derivatives	**21 852**	**478**	36 521	893
- Energy derivatives	**6 267**	**203**	3 451	134
- Credit derivatives	**2 864**	**21**	4 535	228
Total derivative liabilities	**8 751 395**	**43 660**	7 971 154	50 624
Exchange traded	**42 104**	**281**	45 447	66
Over the counter	**8 709 291**	**43 379**	7 925 707	50 558
Total derivative liabilities	**8 751 395**	**43 660**	7 971 154	50 624

Refer to note 28 for information on related party derivatives.

8 COMMODITIES

R million	**2017**	2016
Agricultural commodities	**2 570**	1 518
Gold	**11 222**	10 996
Palladium	**588**	-
Total commodities	**14 380**	12 514

9 INVESTMENT SECURITIES

R million	**2017**	2016
Negotiable certificates of deposit	**3 684**	367
Treasury bills	**8 952**	20 703
Other government and government guaranteed stock	**94 440**	62 694
Other dated securities	**10 016**	13 710
Other undated securities	**469**	10
Equities	**10 306**	13 841
Other	**105**	105
Total investment securities	**127 972**	111 430
Analysis of investment securities		
- Equities	**10 306**	13 841
- Debt	**117 666**	97 589
Total investment securities	**127 972**	111 430

R47 654 million (2016: R44 076 million) of the financial instruments form part of the bank's liquid asset portfolio in terms of the South African Reserve Bank (SARB) and other foreign banking regulators' requirements. Information regarding other investments is kept at the bank's registered offices.

Repurchase agreements

The table below sets out the details of investment securities that have been transferred in terms of repurchase agreements:

	Investment securities and other investments		**Associated liabilities recognised in deposits**	
R million	**2017**	2016	**2017**	2016
Repurchase agreements	**25 880**	21 108	**24 175**	20 048

10 ADVANCES

R million	Notes	2017	2016
Notional value of advances		**815 679**	780 093
Contractual interest suspended		**(1 682)**	(1 468)
Gross value of advances		**813 997**	778 625
Category analysis			
Overdrafts and cash management accounts		**70 652**	61 696
Term loans		**39 958**	35 375
Card loans		**25 361**	23 307
Instalment sales and hire purchase agreements		**145 222**	146 311
Lease payments receivable		**3 341**	4 979
Property finance		**210 832**	203 688
Personal loans		**36 630**	33 274
Preference share agreements		**39 747**	36 376
Assets under agreement to resell		**30 885**	42 451
Investment bank term loans		**136 270**	120 471
Long-term loans to associates		**302**	285
Other		**27 857**	26 017
Total customer advances		**767 057**	734 230
Marketable advances		**46 940**	44 395
Gross value of advances		**813 997**	778 625
Impairment of advances	11	**(14 578)**	(14 537)
Net advances		**799 419**	764 088

10 ADVANCES continued

Analysis of instalment sale, hire purchase and lease payments receivable

	2017			2016		
	Instalment sale, hire purchase and lease payments receivable	**Less: unearned finance charges**	**Net**	Instalment sale, hire purchase and lease payments receivable	Less: unearned finance charges	Net
Within 1 year	**45 178**	**(8 343)**	**36 835**	53 580	(10 733)	42 847
Between 1 and 5 years	**127 650**	**(23 950)**	**103 700**	128 880	(28 200)	100 680
More than 5 years	**10 520**	**(2 443)**	**8 077**	10 478	(2 666)	7 812
Sub-total	**183 348**	**(34 736)**	**148 612**	192 938	(41 599)	151 339
Less: interest in suspense			**(49)**			(49)
Total net instalment sales, hire purchase and lease payments receivable			**148 563**			151 290

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 R73 million (2016: R67 million).

Transfers and derecognition of advances in structured transactions

Transfers without derecognition

Structured transactions

Advances with the carrying amount of R5 136 million (2016: R5 841 million) have been transferred in terms of structured transactions. Associated liabilities of Rnil (2016: Rnil) have been recognised for cash received and included in deposits. During the prior year, the bank acquired all the relevant notes related to the transferred assets in this structure and as a result all associated liabilities, which comprised an intercompany liability between bank and FirstRand Investment Holdings Proprietary Limited (FRIHL), were settled.

Other transfers

Advances of the bank with the carrying amount of R951 million have been transferred in exchange for government bonds to the value of R758 million which is held as collateral in terms of a call swap transaction. No associated liabilities have been recognised.

Transfers with derecognition

Securitisation transactions

Bankruptcy remote structured entities were created to facilitate traditional securitisation transactions for WesBank retail instalment sale advances (Nitro 5 and Fast) and MotoNovo finance lease receivables (Turbo Finance 4, 5, 6, 7 and MotoHouse).

10 ADVANCES continued

The following bankruptcy remote structured entities were created in the current and prior financial years to facilitate traditional securitisation transactions for WesBank retail instalment sale advances: Nitro 5 and Fast, and in MotoNovo (Turbo Finance 4, 5, 6 and MotoHouse) finance lease receivables.

Name of securitisation	Established	Initial transaction value	Carrying value of assets		Carrying value of liabilities	
			2017	2016	**2017**	2016
Nitro 5	June 2015	R2.4 billion	**749**	1 475	**749**	1 475
Turbo Finance 4	November 2013	GBP374 million	**692**	2 499	**680**	2 496
Turbo Finance 5	September 2014	GBP420 million	**2 233**	5 980	**2 203**	6 014
Turbo Finance 6	February 2016	GBP392 million	**6 264**	8 729	**6 170**	8 695
Turbo Finance 7	November 2016	GBP568 million	**11 256**	-	**11 009**	-
MotoHouse	August 2015	GBP295 million	**5 820**	6 675	**5 745**	6 645
Fast	July 2016	R6.8 billion	**7 142**	-	**7 062**	-

As a result of its continuing involvement in the derecognised assets, the bank is exposed to the following risks:

- indirect credit risk as a result of any notes held by the bank;
- liquidity and funding risk on any potential repurchase of the transferred assets in terms of a clean-up call or SARB approved asset repurchase;
- operational risk related to the servicing of the transferred assets; and
- interest rate or other risk through derivatives held with the structured entities.

The bank manages these risks as follows:

- appropriate capitalisation;
- ensuring adequate liquidity facilities are available to fund these transactions;
- strict internal controls and continued monitoring; and
- application of hedging measures where appropriate/required.

Triggers associated with the bank’s obligation to provide financial support or to repurchase the transferred financial assets include:

- any breach of the contractual representations and warranties relating to the derecognised assets;
- special permission obtained from the SARB to repurchase the transferred assets (if relevant); and
- in the case of clean-up calls, once the value of the transferred assets falls below a certain point (such as 10% of the value at issue) the bank has the option, but not the obligation, to repurchase the remaining assets.

10 ADVANCES continued

Other structured transactions

The bank also has other structured transactions which, depending on the individual arrangement, may result in derecognition of financial assets.

As a result of its continuing involvement in the derecognised assets and dependant on the type of continuing risk arising from the specific transaction, the bank may be exposed to any of the following risks:

- operational risk related to the servicing of the transferred asset for any servicing agreements in place between the bank and the transferee;
- interest rate, currency risk or any other risk arising from derivatives held with the transferee where the value of the derivative is linked to the value of the transferred financial asset; and
- investment risk related to any investments held by the bank where the value of the investment references or is linked to the value of the transferred financial asset.

Where the bank is required to bear losses in terms of these transactions, these losses will be subordinated to all other parties as a result of the investment position of the bank's retained exposure.

Where the bank does have a contractual obligation to provide financial support or to repurchase the transferred financial asset in terms of these transactions, the triggers associated with this obligation are specific to the terms of the relevant transaction and can include contractual breach or a decline in the value of the transferred financial asset.

10 ADVANCES continued

The table below sets out the financial information of the continuing involvement in transferred financial assets which have been derecognised in their entirety.

Type of continuing involvement R million	2017 Carrying amount of continuing involvement recognised in the statement of financial position Assets	Liabilities	Fair value of continuing involvement Assets	Liabilities	Maximum exposure to loss
Traditional securitisation transactions					
Derivative financial instruments	**717**	**95**	**717**	**95**	**5 020**
Investment securities and other investments	**2 885**	**-**	**2 885**	**-**	**2 885**
Other structured transactions					
Investment securities and other investments	**1 108**	**-**	**1 108**	**-**	**1 108**
Total	**4 710**	**95**	**4 710**	**95**	**9 013**

Type of continuing involvement R million	2016 Carrying amount of continuing involvement recognised in the statement of financial position Assets	Liabilities	Fair value of continuing involvement Assets	Liabilities	Maximum exposure to loss
Traditional securitisation transactions					
Derivative financial instruments	163	3	163	3	3 315
Investment securities and other investments	3 762	-	3 762	-	3 762
Other structured transactions					
Investment securities and other investments	1 837	-	1 837	-	1 837
Total	5 762	3	5 762	3	8 914

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 may need to pay to repurchase a financial asset that has no value. Although the bank is not obliged to, it may decide to exercise the clean-up options even if the remaining assets are worth less than the exercise price of the options. 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. In the case of clean up calls, maximum exposure to loss would be 10% of the value at issue.

The maximum exposure to loss from continuing involvement through notes issued by the structured entity and held by the bank is determined as the value of the notes recognised as marketable advances by the bank.

10 ADVANCES continued

The table below sets out the profit or loss impact of transfers of financial assets which are derecognised in their entirety.

R million	2017 Type of continuing involvement Traditional securitisation transactions	2017 Other structured transactions	2017 Total	2016 Type of continuing involvement Traditional securitisation transactions	2016 Other structured transactions	2016 Total
Gain at date of transfer	**2 063**	**-**	**2 063**	1 387	-	1 387
Income recognised from continuing involvement	**2 335**	**93**	**2 428**	761	62	823
- for the current period	**930**	**30**	**960**	287	29	316
- cumulative	**1 405**	**63**	**1 468**	474	33	507

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. It also sets out the maturity analysis of these undiscounted cash flows.

R million	2017 Type of continuing involvement Traditional securitisation transactions	2017 Other structured transactions	2017 Total	2016 Type of continuing involvement Traditional securitisation transactions	2016 Other structured transactions	2016 Total
Total undiscounted cash outflows	**28 753**	**-**	**28 753**	21 499	-	21 499
- Call	**22**	**-**	**22**	10	-	10
- 1 to 3 months	**50**	**-**	**50**	39	-	39
- 4 to 12 months	**822**	**-**	**822**	710	-	710
- 1 to 5 years	**27 776**	**-**	**27 776**	20 735	-	20 735
- Over 5 years	**83**	**-**	**83**	5	-	5

11 IMPAIRMENT AND FAIR VALUE OF CREDIT OF ADVANCES

	FNB		RMB		
R million	Retail	Commercial	Investment banking	Corporate banking	
Analysis of movement in impairment of advances per class of advance					
Balance as at 1 July 2015	3 957	1 256	3 084	657	
Amounts written off	(3 243)	(274)	(497)	(6)	
Acquisitions of business	-	-	29	-	
Transfers (to)/from other divisions	(2)	26	64	(2)	
Reclassifications	-	-	-	-	
Exchange rate difference	9	-	114	-	
Unwinding of discounted present value on NPLs	(59)	(2)	-	-	
Net new impairments created/(released)	4 018	430	514	162	
Balance as at 30 June 2016	4 680	1 436	3 308	811	
(Increase)/decrease in impairment	(4 018)	(430)	(514)	(162)	
Recoveries of bad debts previously written off	1 235	40	-	-	
Impairment loss recognised in profit or loss	(2 783)	(390)	(514)	(162)	
Opening balance as at 1 July 2016	**4 680**	**1 436**	**3 308**	**811**	
Amounts written off	**(4 147)**	**(460)**	**(973)**	**-**	
Acquisitions of business	**-**	**-**	**-**	**-**	
Transfers from/(to) other divisions	**-**	**-**	**(4)**	**4**	
Reclassifications	**-**	**-**	**-**	**-**	
Exchange rate difference	**(7)**	**-**	**(80)**	**-**	
Unwinding of discounted present value on NPLs	**(79)**	**(3)**	**-**	**-**	
Net new impairments created	**4 564**	**585**	**544**	**76**	
Balance as at 30 June 2017	**5 011**	**1 558**	**2 795**	**891**	
(Increase)/decrease in impairment	**(4 564)**	**(585)**	**(544)**	**(76)**	
Recoveries of bad debts previously written off	**1 431**	**55**	**-**	**1**	
Impairment loss recognised in profit or loss	**(3 133)**	**(530)**	**(544)**	**(75)**	

	WesBank	FCC and other	Total impairment	Specific impairment	Portfolio impairment
	3 168	1 111	13 233	6 405	6 828
	(2 835)	(1)	(6 856)	(6 856)	-
	(23)	-	6	6	-
	(25)	(61)	-	-	-
	-	-	-	178	(178)
	(3)	-	120	106	14
	(16)	-	(77)	(77)	-
	3 282	(295)	8 111	7 546	565
	3 548	754	14 537	7 308	7 229
	(3 282)	295	(8 111)	(7 546)	(565)
	581	-	1 856	1 856	-
	(2 701)	295	(6 255)	(5 690)	(565)
	3 548	**754**	**14 537**	**7 308**	**7 229**
	(3 292)	**-**	**(8 872)**	**(8 872)**	**-**
	26	**-**	**26**	**16**	**10**
	-	**-**	**-**	**-**	**-**
	-	**-**	**-**	**223**	**(223)**
	(25)	**1**	**(111)**	**(71)**	**(40)**
	3	**-**	**(79)**	**(79)**	**-**
	3 658	**(350)**	**9 077**	**8 623**	**454**
	3 918	**405**	**14 578**	**7 148**	**7 430**
	(3 658)	**350**	**(9 077)**	**(8 623)**	**(454)**
	606	**-**	**2 093**	**2 093**	**-**
	(3 052)	**350**	**(6 984)**	**(6 530)**	**(454)**

12 ACCOUNTS RECEIVABLE

R million	**2017**	2016
Items in transit	**1 752**	1 454
Interest and commission accrued	**66**	165
Prepayments	**1 259**	1 149
Sundry debtors	**830**	748
Fair value hedge interest rate component	**56**	186
Other accounts receivable	**1 688**	859
Total accounts receivable	**5 651**	4 561

13 AMOUNTS DUE (TO)/BY HOLDING COMPANY AND FELLOW SUBSIDIARIES

R million	2017	2016
Amounts due by holding company	-	-
Amounts due by fellow subsidiaries	28 869	32 793
Total amounts due by holding company and fellow subsidiaries	**28 869**	32 793
Amounts due to holding company	(232)	(255)
Amounts due to fellow subsidiaries	(14 348)	(13 742)
Total amounts due to holding company and fellow subsidiaries	**(14 580)**	(13 997)
Net amounts due by holding company and fellow subsidiaries	**14 289**	18 796

These loans have no fixed terms of repayment and carry varying rates of interest. Loans to fellow subsidiaries amounting to R155 million (2016: R352 million) are subject to subordination agreements until such time that their assets, fairly valued, exceed their liabilities.

Included in the above amounts are the following:

	Amounts due by fellow subsidiaries		Amounts due to fellow subsidiaries	
R million	Notional	Fair value	Notional	Fair value
2017				
Derivative financial instruments	**15 565**	**302**	**(24 806)**	**(330)**
2016				
Derivative financial instruments	19 540	383	(23 285)	(319)

14 PROPERTY AND EQUIPMENT

R million	Property				
	Freehold property	Leasehold premises	Computer equipment	Other equipment	Total
Net book value as at 1 July 2015	5 384	2 018	2 635	2 784	12 821
- Cost	6 457	3 315	6 025	4 945	20 742
- Accumulated depreciation	(1 073)	(1 297)	(3 390)	(2 161)	(7 921)
Movement for the year	284	(141)	146	522	811
- Acquisitions	455	154	1 044	1 590	3 243
- Disposals	(18)	(10)	(41)	(378)	(447)
- Exchange rate difference	-	1	(1)	4	4
- Depreciation charge for the year	(153)	(286)	(856)	(694)	(1 989)
- Impairments reversed	-	-	-	-	-
Other	-	-	-	-	-
Net book value as at 30 June 2016	**5 668**	**1 877**	**2 781**	**3 306**	**13 632**
- Cost	**6 881**	**3 428**	**6 706**	**5 817**	**22 832**
- Accumulated depreciation	**(1 213)**	**(1 551)**	**(3 925)**	**(2 511)**	**(9 200)**
Movement for the year	**1 224**	**(31)**	**(351)**	**454**	**1 296**
- Acquisitions	**1 459**	**356**	**663**	**1 616**	**4 094**
- Disposals	**(21)**	**(91)**	**(55)**	**(307)**	**(474)**
- Exchange rate difference	**-**	**(4)**	**(7)**	**(2)**	**(13)**
- Depreciation charge for the year	**(214)**	**(292)**	**(952)**	**(853)**	**(2 311)**
- Impairments reversed	**-**	**-**	**-**	**4**	**4**
Other	**-**	**-**	**-**	**(4)**	**(4)**
Net book value as at 30 June 2017	**6 892**	**1 846**	**2 430**	**3 760**	**14 928**
- Cost	**8 281**	**3 422**	**6 621**	**6 687**	**25 011**
- Accumulated depreciation	**(1 389)**	**(1 576)**	**(4 191)**	**(2 927)**	**(10 083)**

15 INTANGIBLE ASSETS

	Goodwill	Software development cost	Trademarks	Other	Total
Carrying amount as at 1 July 2015	-	71	-	-	71
- Cost	104	962	74	97	1 237
- Accumulated amortisation	(104)	(891)	(74)	(97)	(1 166)
Movements for the year	-	35	-	-	35
- Acquisitions	-	104	-	-	104
- Amortisation for the year	-	(46)	-	-	(46)
- Impairments recognised	-	(23)	-	-	(23)
Carrying amount as at 30 June 2016	**-**	**106**	**-**	-	**106**
- Cost	**104**	**1 067**	**76**	**98**	**1 345**
- Accumulated amortisation	**(104)**	**(961)**	**(76)**	**(98)**	**(1 239)**
Movements for the year	**-**	**127**	**-**	**-**	**127**
- Acquisitions	**-**	**221**	**-**	**-**	**221**
- Amortisation for the year	**-**	**(94)**	**-**	**-**	**(94)**
- Impairments recognised	**-**	**-**	**-**	**-**	**-**
Carrying amount as at 30 June 2017	**-**	**233**	**-**	**-**	**233**
- Cost	**104**	**1 018**	**66**	**94**	**1 282**
- Accumulated amortisation	**(104)**	**(785)**	**(66)**	**(94)**	**(1 049)**

16 DEFERRED INCOME TAX

Movement on the deferred income tax account is shown below.

R million	2017	2016
Deferred income tax asset		
Opening balance	**1 369**	1 202
Recognised in profit or loss	**158**	(16)
Deferred income tax on amounts charged directly to other comprehensive income	**149**	183
Total deferred income tax asset	**1 676**	1 369

The deferred income tax asset and deferred income tax charged/released to profit or loss are attributable to the items below.

	As at 30 June		**Recognised in income statement**	
R million	**2017**	**2016**	**2017**	**2016**
Deferred income tax asset				
Tax losses	**-**	102	**(102)**	(31)
Provision for loan impairment	**772**	725	**47**	(51)
Provision for post-employment benefits	**299**	328	**37**	29
Other provisions	**520**	638	**(118)**	(284)
Cash flow hedges	**(61)**	(120)	**-**	-
Instalment credit assets	**(119)**	(138)	**19**	331
Accruals	**20**	(63)	**83**	30
Available-for-sale securities	**224**	67	**-**	-
Capital gains tax	**124**	70	**54**	-
Other	**(103)**	(240)	**138**	(40)
Total deferred income tax asset	**1 676**	1 369	**158**	(16)

The bank has not recognised a deferred tax asset amounting to R148 million (2016: R117 million) relating to capital gains tax losses.

17 SHORT TRADING POSITIONS

R million	2017	2016
Government and government guaranteed	**15 162**	14 177
Other dated securities	**49**	44
Total short trading positions	**15 211**	14 221

18 CREDITORS, ACCRUALS AND PROVISIONS

R million	2017	2016
Sundry creditors	**4 619**	4 061
Net unclaimed balances	**170**	141
Fair value hedge interest rate component	**275**	220
Other accounts payable	**3 828**	4 393
Withholding tax for employees	**448**	427
Deferred income	**1 556**	1 380
Operating lease liability arising from straight lining of lease payments	**98**	92
Payments received in advance	**229**	254
Accrued interest	**16**	13
Accrued expenses	**1 620**	1 310
Audit fees accrued	**89**	78
Provisions (including litigation and claims)	**131**	131
Total creditors, accruals and provisions	**13 079**	12 500

Reconciliation of provisions

R million	2017	2016
Opening balance	**131**	249
Exchange rate differences	**(2)**	-
Charge to profit or loss	**29**	26
- Additional provisions created	**78**	91
- Unused provisions reversed	**(49)**	(65)
Utilised	**(27)**	(144)
Closing balance	**131**	131

19 DEPOSITS

R million	2017	2016
Category analysis		
Deposits from customers	**653 260**	612 507
- Current accounts	**185 183**	174 213
- Call deposits	**178 902**	161 841
- Savings accounts	**9 214**	8 397
- Fixed and notice deposits	**254 527**	246 881
- Other deposits from customers	**25 434**	21 175
Debt securities	**170 594**	146 280
- Negotiable certificates of deposit	**54 042**	57 638
- Fixed and floating rate notes	**114 589**	86 160
- Exchange traded notes	**1 963**	2 482
Other	**52 836**	67 830
- Repurchase agreement	**28 139**	35 868
- Securities lending	**4 098**	4 758
- Cash collateral and credit linked notes	**20 599**	27 204
Total deposits	**876 690**	826 617

20 EMPLOYEE LIABILITIES AND RELATED ASSETS

R million	Notes	**2017**	2016
Liability for short-term employee benefits		**5 596**	5 355
Share-based payment liability		**2 150**	2 230
Defined benefit post-employment liability	20.1	**1 067**	1 172
Other long-term employee liabilities		**27**	15
Defined contribution post-employment liability	20.2	**-**	-
Total employee liabilities		**8 840**	8 772

20 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

20.1 Defined benefit post-employment liability

The bank operates two defined benefit plans in South Africa, a plan that provides post-employment medical benefits and a pension plan. 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 plans are reflected as a net asset or liability in the statement of financial position.

Nature of benefits	
Pension	**Medical**
The pension plan provides retired employees with annuity income after service. A separate account (the fund) has been established. The account holds assets that are used solely to pay pension benefits. For current pensioners the fund pays a pension to the members and a dependants' pension to the spouse and eligible children on death of the pensioner. There are also a small number of active members whose benefit entitlement will be determined on a defined benefit basis as prescribed in the rules of the fund. For the small number of defined benefit contributing members in the pension plan, the group is liable for any deficit in the value of accrued benefits exceeding the assets in the fund earmarked for these liabilities. The liability in respect of retiring defined contribution members is equal to the member's share of the fund, which is determined as the accumulation of the member's contributions and employer's contributions (net of deduction for fund expenses and cost of death benefits) as well as any amounts transferred into the fund by the member, increased with the net investment returns earned (positive or negative) on the member's assets. In terms of the existing pensioners in the pension plan, the trustees are responsible for setting the pension increase policy and granting of pension increases subject to the assets of the fund supporting such increases.	The medical scheme provides retired employees with medical benefits after service. The employer's post-employment health care liability consists of a commitment to pay a portion of the members' post-employment medical scheme contributions. This liability is also generated in respect of dependants who are offered continued membership of the medical scheme on the death of the primary member. Members employed on or after 1 December 1998 do not qualify for a post-employment medical subsidy.

20 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

Nature of benefits	
Pension	**Medical**
Should the pension account in the fund be in a deficit to the extent that current pensions in payment cannot be maintained, the bank is liable to maintain the nominal value of pensions in payment. The fund also provides death, retrenchment and withdrawal benefits. The fund provides a pension that can be purchased with the member's fund credit (equal to member and employer contributions of 7.5% of pensionable salary each year, plus net investment returns).	

Governance	
Pension	**Medical**
The pension plan is regulated by the Financial Services Board in South Africa. Responsibility for governance of the plans, including investment decisions and contribution schedules, lies jointly with the bank and the board of trustees. The board of trustees must be composed of representatives of the bank and plan participants in accordance with the plans' regulations. The board consists of four representatives of the bank and four representatives of the plan participants in accordance with the plans' regulations. The trustees serve the board for five years and may be re-elected a number of times. An external auditor performs an audit of the fund on an annual basis and such annual financial statements are submitted to the Regulator of Pension Funds (i.e. to the Financial Services Board). A full actuarial valuation of the pension fund submission to the Financial Services Board is performed every three years, with the last valuation in 2014. Annual interim actuarial valuations are performed for the trustees for IAS 19 purposes. At the last valuation date the fund was financially sound.	The medical plan is regulated by the Registrar of Council for Medical Schemes in South Africa. Governance of the post-employment medical aid subsidy policy lies with the bank. The bank has established a committee that meets regularly to discuss and review the management and the subsidy. The committee also considers administration and data management issues and analyses demographic and economic risks inherent in the subsidy policy.

20 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

Asset-liability matching strategies

The bank ensures that the investment positions are managed within an asset-liability matching (ALM) framework that has been developed to achieve long-term investments that are in line with the obligations under the schemes. Within this framework, the bank's ALM objective is to match assets to the pension obligations by investing in long-term fixed interest securities with maturities that match the benefit payments as they fall due. The bank actively monitors how the duration and the expected yield of the investments match the expected cash outflows arising from the pension obligations. Investments are well diversified so that the failure of any single investment would not have a material impact on the overall level of assets.

The trustees of the fund have adopted an investment strategy in respect of the pensioner liabilities that largely follows a 70% exposure in fixed interest instruments to immunise the interest rate and inflation risk, and 30% exposure to local growth assets.

The fixed interest instruments consist mainly of long dated South African government issued inflation linked bonds, while the growth assets are allocated to selected local asset managers. The trustees receive monthly reports on the funding level of the pensioner liabilities and an in-depth attribution analysis in respect of changes in the pensioner funding level.

The trustees of the fund aim to apportion an appropriate level of balanced portfolio, conservative portfolio, inflation linked, and money market assets to match the maturing defined benefit active member liabilities. It should be noted that this is an approximate matching strategy as elements such as salary inflation and decrement rates cannot be matched. This is however an insignificant liability compared to the liability of the pension fund.

Risks associated with the plans

Through its defined benefit pension plans and post-employment medical plans, the bank is exposed to a number of risks, the most significant of which are detailed below:

Asset volatility - Assets are held in order to provide a return to back the plans' obligations, therefore any volatility in the value of these assets would create a deficit.

Inflation risk - The plans' benefit obligations are linked to inflation and higher inflation will lead to higher liabilities. Consumer price inflation and health care cost inflation forms part of the financial assumptions used in the valuation.

Life expectancy - The plans' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plans' liabilities.

Demographic movements - The plans' liabilities are determined based on a number of best estimate assumptions on demographic movements of participants, including withdrawal and early retirement rates. This is especially relevant to the post-employment medical aid subsidy liabilities. Should less eligible employees withdraw and/or should more eligible employees retire earlier than assumed, the liabilities could be understated.

20 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

Details of the defined benefit plan assets and fund liability are below.

		2017			2016		
R million	Notes	Pension	Medical	Total	Pension	Medical	Total
Post-employment benefit fund liability							
Present value of funded obligation		**8 959**	**3 091**	**12 050**	9 424	3 363	12 787
Fair value of plan assets		**(9 311)**	**(2 024)**	**(11 335)**	(9 586)	(2 191)	(11 777)
- Listed equity instruments		**(2 404)**	**-**	**(2 404)**	(2 460)	-	(2 460)
- Cash and cash equivalents		**(398)**	**-**	**(398)**	(400)	-	(400)
- Debt instruments		**(3 556)**	**-**	**(3 556)**	(3 656)	-	(3 656)
- Derivatives		**(42)**	**-**	**(42)**	(6)	-	(6)
- Qualifying Insurance policy		**-**	**(2 024)**	**(2 024)**	-	(2 191)	(2 191)
- Other		**(2 911)**	**-**	**(2 911)**	(3 064)	-	(3 064)
Total employee (asset)/liability*		**(352)**	**1 067**	**715**	(162)	1 172	1 010
Limitation imposed by IAS 19 asset ceiling		**352**	**-**	**352**	162	-	162
Total net post-employment liability		**-**	**1 067**	**1 067**	-	1 172	1 172
Total amount recognised in the income statement (included in staff costs)	3	**(11)**	**145**	**134**	(12)	118	106
Movement in post-employment benefit fund liability							
Present value opening balance		**-**	**1 172**	**1 172**	-	885	885
Current service cost		**4**	**49**	**53**	5	49	54
Net interest		**(15)**	**96**	**81**	(17)	68	51
Remeasurements recognised in OCI		**13**	**(250)**	**(237)**	15	170	185
Employer contributions		**(1)**	**-**	**(1)**	(2)	-	(2)
Employee contributions		**(1)**	**-**	**(1)**	(1)	-	(1)
Closing balance		**-**	**1 067**	**1 067**	-	1 172	1 172

* *The plan asset is an insurance policy with a limit of indemnity. The insurance policy is backed by assets held through in insurance cell captive. The excess assets of the cell captive belong to a fellow subsidiary of the bank and is recognised as an account receivable. The FirstRand group's liability is therefore sufficiently funded.*

20 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

	2017			2016		
R million	Pension	Medical	Total	Pension	Medical	Total
Movement in the fair value of plan assets:						
Opening balance	**9 586**	**2 191**	**11 777**	9 645	2 286	11 931
Interest income	**869**	**228**	**1 097**	824	217	1 041
Remeasurements recognised in OCI	**(480)**	**(237)**	**(717)**	(264)	(168)	(432)
Employer contributions	**1**	**-**	**1**	2	-	2
Employee contributions	**1**	**-**	**1**	1	-	1
Benefits paid and settlements	**(666)**	**(158)**	**(824)**	(622)	(144)	(766)
Closing balance	**9 311**	**2 024**	**11 335**	9 586	2 191	11 777
Reconciliation of limitation imposed by IAS 19 asset ceiling:						
Opening balance	**162**	**-**	**162**	196	-	196
Interest income	**15**	**-**	**15**	17	-	17
Change in the asset ceiling, excluding amounts included in interest	**175**	**-**	**175**	(51)	-	(51)
Closing balance	**352**	**-**	**352**	162	-	162
The actual return on plan assets was	**9%**	**-**		9%	-	
Included in plan assets were the following:						
FirstRand Limited ordinary shares with fair value of	**42**	**-**	**42**	31	-	31
Total exposure to FirstRand	**42**	**-**	**42**	31	-	31

20 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

Each sensitivity analysis is based on changing one assumption while keeping all other remaining assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. The sensitivity analysis has been calculated in terms of the projected unit credit method and illustrates how the value of the liability would change in response to certain changes in actuarial assumptions.

	2017		2016	
%	**Pension**	**Medical**	Pension	Medical
The principal actuarial assumptions used for accounting purposes were:				
Expected rates of salary increases %	**8.2**	**-**	8.8	-
Long term increase in health cost %	**-**	**8.4**	-	8.8
The effects of a 1% movement in the assumed health cost rate (medical) and the expected rates of salary (pension) were:				
Increase of 1%				
- Effect on the aggregate of the current service cost and interest cost (R million)	**0.7**	**52.4**	1.0	60.5
- Effect on the defined benefit obligation (R million)	**6.5**	**419.5**	7.7	499.9
Decrease of 1%				
- Effect on the aggregate of the current service cost and interest cost (R million)	**(0.8)**	**(43.1)**	(0.9)	(49.1)
- Effect on the defined benefit obligation (R million)	**(5.9)**	**(347.8)**	(7.0)	(409.2)
The effects of a change in the average life expectancy of a pensioner retiring at age 65:				
Increase in life expectancy by 1 year				
- Effect on the defined benefit obligation (R million)	**325.0**	**105.6**	353.2	122.4
- Effect on the aggregate of the current service cost and interest cost (R million)	**30.5**	**12.1**	33.1	13.5
Decrease in life expectancy by 1 year				
- Effect on the defined benefit obligation (R million)	**(321.4)**	**(104.7)**	(348.4)	(120.8)
- Effect on the aggregate of the current service cost and interest cost (R million)	**(30.3)**	**(12.0)**	(32.7)	(13.4)
Estimated contributions expected to be paid to the plan in the next annual period (R million)	**4**	**-**	4	-
Net increase in rate used to value pensions, allowing for pension increases (%)	**2.4**	**1.9**	1.8	1.0
The weighted average duration of the defined benefit obligation is (years)	**9.7**	**13.5**	10.1	14.8

20 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

The expected maturity analysis of undiscounted pension and post-employment medical benefits is below.

R million	Within 1 year	Between 1-5 years	More than 5 years	Total
Pension benefits	738	3 092	35 759	39 589
Post-employment medical benefits	156	772	26 025	26 953
Total as 30 June 2017	**894**	**3 864**	**61 784**	**66 542**

The interest income is determined using a discount rate with reference to high quality corporate bonds.

Mortality rates

The normal retirement age for active members of the pension fund and post-employment medical benefits is 60.

The mortality rate table used for active members and pensioners of the pension fund and pensioners of the post-employment medical benefits is PA (90)-2. 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.

The mortality rate table used for the active members of the post-employment medical benefits is SA 85-90. 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.

The average life expectancy, in years, of a pensioner retiring at age 65 on the reporting date for pension and medical is 17 for males and 21 for females. The average life expectancy of a pensioner retiring at age 65, 20 years after the reporting date for males is 17 for pension benefits and 18 for medical aid benefits and for females it is 22 for both the pension and medical benefits.

20 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

	2017	2016
Pension		
The number of employees covered by the scheme:		
Active members	**30**	33
Pensioners	**6 048**	6 225
Deferred plan participants	**261**	261
Total	**6 339**	6 519
Defined benefit obligation amounts due to:		
Benefits vested at the end of the reporting period (R million)	**8 959**	9 424
- Amounts attributable to future salary increases (R million)	**96**	123
- Other benefits (R million)	**8 863**	9 301
Medical		
The number of employees covered by the scheme:		
Active members	**4 038**	4 433
Pensioners	**5 247**	5 298
Total employees	**9 285**	9 731
Defined benefit obligation amounts due to:		
Benefits vested at the end of the reporting period (R million)	**2 062**	2 162
Benefits accrued but not vested at the end of the reporting period (R million)	**1 029**	1 201
Conditional benefits (R million)	**1 029**	1 201
Other benefits (R million)	**2 062**	2 162

20 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

20.2 Defined contribution post-employment liability

R million	2017	2016
Post-employment defined contribution plan		
Present value of obligation	**17 166**	17 281
Present value of assets	**(17 166)**	(17 281)
Net defined contribution liability	**-**	-

The defined contribution scheme allows active qualifying members to purchase a pension from the defined benefit plan on retirement. The purchase price for the pension is determined based on the purchasing member's demographic details, the pension structure and economic assumptions at time of purchase. Should a member elect to purchase a pension, the bank becomes exposed to longevity and other actuarial risks. However, because of the way that the purchase is priced the employer is not exposed to any asset return risk prior to the election of this option. On the date of the purchase the defined benefit liability and the plan assets will increase for the purchase amount and thereafter the accounting treatment applicable to defined benefit plans will be applied to the purchased pension.

21 OTHER LIABILITIES

R million	2017	2016
Finance lease liabilities	**13**	27
Funding liabilities	**4 212**	5 359
- Preference shares	**4 183**	5 349
- Other	**29**	10
Total other liabilities	**4 225**	5 386

22 TIER 2 LIABILITIES

Subordinated bonds issued on or after 1 January 2013 can, at the discretion of the Registrar, either be written down or converted into the most subordinated form of equity upon the occurrence of a trigger event, being the point at which the issuing bank is considered to be non-viable. The debt components of such bonds have been included in Tier 2 liabilities.

R million	Maturity dates	Interest rate	2017	2016
Fixed rate bonds				
- ZAR denominated	21 December 2018 to 2 June 2021	8.5%-12.3%	**3 353**	3 336
Floating rate bonds			**15 017**	14 132
- ZAR denominated	11 December 2017 to 8 December 2022	Three month JIBAR + 225bps - 400 bps	**12 729**	11 576
- USD denominated	9 April 2019	LIBOR + 415 bps	**2 288**	2 556
Total Tier 2 liabilities			**18 370**	17 468

22 TIER 2 LIABILITIES continued

As required by Basel III and the SARB Regulations relating to banks, qualifying Tier 2 instruments require a loss absorbency feature in the form of either a write-off or conversion to ordinary shareholders equity at the point of non-viability. As at 30 June, the instruments compliant with Basel III amounted to.

R million	2017	2016
With conversion feature	**2 288**	2 556
With write-off feature	**11 417**	9 147

23 SHARE CAPITAL AND SHARE PREMIUM

23.1 Share capital and share premium classified as equity

R million	2017	2016
Ordinary shares		
Authorised		
2 000 000 shares with a par value of R2 per share	**4**	4
Issued		
1 866 836 (2016: 1 866 836) ordinary shares with a par value of R2 per share.	**4**	4
All issued share capital is fully paid up.		
Ordinary share premium	**16 804**	16 804
Total issued ordinary share capital and share premium	**16 808**	16 808
NCNR preference shares		
Authorised		
100 000 000 NCNR preference shares with a par value of R0.01 per share	**1**	1
Issued		
3 000 000 (2016: 3 000 000) NCNR preference shares with par value of R0.01 per share to FirstRand Limited.	**-**	-
The NCNR preference shares were issued at varying interest rates which are linked to the prime lending rate as determined by the bank.		
NCNR preference share premium	**3 000**	3 000
Total issued NCNR preference share capital and share premium	**3 000**	3 000
Total issued share capital and share premium	**19 808**	19 808

24 REMUNERATION SCHEMES

R million	Notes	2017	2016
The charge to profit or loss for share-based payments is as follows:			
Conditional share plan		**1 455**	1 034
Amount included in profit or loss	**3**	**1 455**	1 034

The purpose of this scheme is to appropriately attract, incentivise and retain managers and employees within the bank.

24 REMUNERATION SCHEMES continued

Description of schemes and vesting conditions:

Conditional share scheme	
IFRS 2 treatment	Cash settled
Description	The conditional award comprises a number of full shares with no strike price.
Vesting conditions	These awards vest after three years. The number of shares that vest is determined by the extent to which the performance conditions are met. Conditional awards are made annually and vesting is subject to specified financial and non-financial performance targets set annually by the group's remuneration committee. These corporate performance targets (CPTs) are set out below.
Valuation methodology	The conditional share plan (CSP) is valued using the Black Scholes option pricing model with a zero strike price. The scheme is cash settled and is therefore repriced at each reporting date.
Valuation assumptions	
Dividend data	Management's estimates of future discrete dividends.
Market related	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.
Employee related	The weighted average forfeiture rate used is based on historical forfeiture data over all schemes and takes cognisance of whether the shares are in or out the money and the vesting date.

The group also has a bonus conditional incentive. These incentives are the same as those described above except that they are subject to vesting conditions that are either based on continuous employment over the performance period or continuous employment over the performance period and the fulfilment of certain performance conditions. These awards vest over two years.

Corporate performance targets

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

In terms of the scheme rules, participants are not entitled to any dividends on their conditional share schemes during the performance period, nor do these accrue to them during the performance period.

24 REMUNERATION SCHEMES continued

The criteria for the expired and currently open schemes are as follows:

Expired schemes

2012 (vested in September 2015) – FirstRand Limited must achieve growth in normalised EPS which equals or exceeds South African nominal GDP plus 3% growth on a cumulative basis over the life of the conditional award, from base year end 30 June 2012 to the financial year end immediately preceding the vesting period. In addition, NIACC must be positive over the three-year performance period.

2013 (vested in September 2016) - FirstRand Limited must achieve growth in normalised EPS which equals or exceeds South African nominal GDP plus 1.5% growth on a cumulative basis over the life of the conditional award, from base year end 30 June 2013 to the financial year end immediately preceding the vesting date. In addition, NIACC must be positive over the three-year performance period.

Currently open

2014 (vests in 2017) - FirstRand Limited must achieve growth in normalised EPS which equals or exceeds South African nominal GDP plus 2% growth on a cumulative basis over the life of the conditional award, from base year end 30 June 2014 to the financial year end immediately preceding the vesting date. In addition, NIACC must be positive over the three-year performance period.

2015 (vests in 2018) - FirstRand Limited must achieve growth in normalised EPS which equals or exceeds South African nominal GDP plus 1% growth on a cumulative basis over a three-year period, from base year ended 30 June 2015 to the financial year end immediately preceding the vesting date. In addition, ROE must be equal to or greater than cost of equity plus 5% over the three-year performance period. Should nominal GDP plus 1% not be achieved, the remuneration committee may sanction a partial vesting of conditional shares, which is calculated pro rata to the performance which exceeds nominal GDP.

2016 (vests in 2019) - FirstRand Limited must achieve growth in normalised EPS which equals or exceeds South African nominal GDP growth, on a cumulative basis, over the performance period from the base year-end immediately preceding the vesting period date. Nominal GDP is advised by the FirstRand group treasury, macro strategy unit; and the company delivers ROE of 18-22% over the performance period.

24 REMUNERATION SCHEMES continued

The significant weighted average assumptions used to estimate the fair value of options and share transactions granted are detailed below.

	Conditional share plan	
	2017	2016
Option life (years)	**2 - 3**	2 - 3
Risk free rate (%)	**6.92 - 7.46**	7.36 - 8.06

	Conditional share plan (FSR shares)	
Options and share awards outstanding	**2017**	2016
Number of options and share awards in force at the beginning of the year (millions)	**80.7**	90.7
Number of options and share awards granted during the year (millions)	**35.4**	28.2
Number of options and share awards transferred (within the group) during the year (millions)	**(0.7)**	(1.3)
Number of options and share awards exercised/released during the year (millions)	**(31.9)**	(33.4)
- Market value range at date of exercise/release (cents)*	**2 022 - 5 317**	1 851 - 5 631
- Weighted average (cents)	**4 811**	5 056
Number of options and share awards cancelled/lapsed during the year (millions)	**(3.4)**	(3.5)
Number of options and share awards in force at the end of the year (millions)	**80.1**	80.7

	Conditional share plan (FSR shares)			
	2017		2016	
Options and share awards outstanding**	**Weighted average remaining life (years)**	**Out-standing options (millions)**	Weighted average remaining life (years)	Out-standing options (millions)
Vesting during 2017	**0.29**	**26.4**	0.29	31.8
Vesting during 2018	**1.31**	**26.4**	1.29	27.9
Vesting during 2019	**2.32**	**27.3**	2.31	21.0
Total options and share awards	**-**	**80.7**	-	80.7
Number of participants		**3 135**		2 794

* *Market values indicated above include those instances where a probability of vesting is applied to accelerated share option vesting prices due to a no-fault termination, as per the rules of the scheme.*

***Years referenced in the rows relate to calendar years and not financial years.*

25 CONTINGENCIES AND COMMITMENTS

R million	2017	2016
Guarantees	**31 875**	32 659
Letters of credit	**6 358**	6 485
Total contingencies	**38 233**	39 144
Irrevocable commitments	**112 698**	95 630
Committed capital expenditure	**3 560**	3 702
Operating lease commitments	**2 853**	2 545
Other	**3**	153
Total contingencies and commitments	**157 347**	141 174
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.	**108**	75
Commitments		
Commitments in respect of capital expenditure and long-term investments approved by directors	**3 560**	3 702
Guarantees		
Guarantees consist predominantly of endorsements and performance guarantees. Guarantees granted to other FirstRand group companies amount to:	**2 069**	1 420

25.1 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 5% 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.

25 CONTINGENCIES AND COMMITMENTS continued

R million	2017 Within 1 year	2017 Between 1 and 5 years	2017 More than 5 years	2017 Total
Office premises	**831**	**1 673**	**103**	**2 607**
Equipment and motor vehicles	**158**	**88**	**-**	**246**
Total operating lease commitments	**989**	**1 761**	**103**	**2 853**

R million	2016 Within 1 year	2016 Between 1 and 5 years	2016 More than 5 years	2016 Total
Office premises	918	1 393	13	2 324
Equipment and motor vehicles	99	122	-	221
Total operating lease commitments	1 017	1 515	13	2 545

25.2 Future minimum lease payments receivable under operating leases where the bank is the lessor

The bank owns various assets that are leased to third parties under non-cancellable operating leases as part of the bank's revenue generating operations. The operating leases have various lease terms ranging from two to fifteen years.

The minimum future lease payments under non-cancellable operating leases on assets where the bank is the lessor are detailed below.

R million	2017 Within 1 year	2017 Between 1 and 5 years	2017 More than 5 years	2017 Total
Property	**32**	**42**	**-**	**74**
Motor vehicles	**875**	**1 476**	**-**	**2 351**
Total receivable under non-cancellable operating leases	**907**	**1 518**	**-**	**2 425**

R million	2016 Within 1 year	2016 Between 1 and 5 years	2016 More than 5 years	2016 Total
Property	20	60	-	80
Motor vehicles	743	1 182	-	1 925
Total receivable under non-cancellable operating leases	763	1 242	-	2 005

26 FAIR VALUE MEASUREMENTS

26.1 Valuation methodology

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

Fair value measurements are determined by the bank on both a recurring and non-recurring basis.

Non-recurring fair value measurements

Non-recurring fair value measurements are those triggered by particular circumstances and include:

- the classification of assets and liabilities as non-current assets or disposal groups held for sale under IFRS 5 where the recoverable amount is based on the fair value less costs to sell;
- IFRS 3 where assets and liabilities are measured at fair value at acquisition date; and
- IAS 36 where the recoverable amount is based on the fair value less costs to sell.

These fair value measurements are determined on a case by case basis as they occur within each reporting period.

Financial instruments

When determining the fair value of a financial instrument, where the financial instrument has a bid or ask price (e.g. in a dealer market), the bank uses the price within the bid-ask spread that is most representative of fair value in the circumstances.

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

Financial instruments not measured at fair value

This category includes assets and liabilities not measured at fair value but for which fair value disclosures are required under another IFRS, e.g. financial instruments at amortised cost. Except for the amounts included under section 26.4, for all other financial instruments at amortised cost the carrying value is equal to or a reasonable approximation of the fair value.

26 FAIR VALUE MEASUREMENTS continued

26.2 Fair value hierarchy and measurements

The bank classifies assets and liabilities measured at fair value using a fair value hierarchy that reflects whether observable or unobservable inputs are used in determining the fair value of the item. Fair value may be determined using unadjusted quoted prices in active markets for identical assets or liabilities where this is readily available and the price represents actual and regularly occurring market transactions. If this information is not available, fair value is measured using another valuation technique that maximises the use of relevant observable inputs and minimises the use of unobservable inputs.

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

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

26 FAIR VALUE MEASUREMENTS continued

The table below sets out the valuation techniques applied by the bank for recurring fair value measurements of assets and liabilities categorised as level 2.

Instrument	Valuation technique	Description of valuation technique and main assumptions	Observable inputs
Derivative financial instruments			
Forward rate agreements	Discounted cash flows	Future cash flows are projected using a forward curve and then discounted using a market-related discount curve over the contractual period. The reset date is determined in terms of legal documents.	Market interest rates, curves and credit spreads
Swaps	Discounted cash flows	Future cash flows are projected using a forward curve and then discounted using a market-related discount curve over the contractual period. The reset date of each swaplet is determined in terms of legal documents.	Market interest rates and curves
Options	Option pricing model	The Black Scholes model is used.	Strike price of the option; market-related discount rate; forward rate and cap, and floor volatility
Forwards	Discounted cash flows	Future cash flows are projected using a forward curve and then discounted using a market-related discount curve over the contractual period. Projected cash flows are obtained by subtracting the strike price of the forward contract from the market projected forward value.	Market interest rates and curves
Equity derivatives	Industry standard models	The models calculate fair value based on input parameters such as share prices, dividends, volatilities, interest rates, equity repo curves and, for multi-asset products, correlations. Unobservable model inputs are determined by reference to liquid market instruments and applying extrapolation techniques to match the appropriate risk profile.	Market interest rates, curves, volatilities, dividends and share prices

26 FAIR VALUE MEASUREMENTS continued

Instrument	Valuation technique	Description of valuation technique and main assumptions	Observable inputs
Loans and advances to customers			
Other loans and advances	Discounted cash flows	Future cash flows are discounted using market-related interest rates adjusted for credit inputs over the contractual period. Although the fair value of credit is not significant year-on-year it may become significant in future. In the event that credit spreads are observable for a counterparty, loans and advances to customers are classified as level 2 of the fair value hierarchy.	Market interest rates, curves and credit spreads
Investment securities			
Equities listed in an inactive market	Discounted cash flows	For listed equities, the listed price is used where the market is active (i.e. level 1). However, if the market is not active and the listed price is not representative of fair value, a valuation technique is used to determine the fair value. The valuation technique will be based on risk parameters of comparable securities and the potential pricing difference in spread and/or price terms with the traded comparable is considered. Future cash flows are discounted using market-related interest rates. Where the valuation technique incorporates observable inputs, level 2 of the fair value hierarchy is deemed appropriate.	Market interest rates and curves
Unlisted bonds or bonds listed in an inactive market	Discounted cash flows	Unlisted bonds or bonds listed in an inactive market are valued similarly to advances measured at fair value. Future cash flows are discounted using market-related interest rates adjusted for credit inputs over the contractual period. Where the valuation technique incorporates observable inputs for credit risk, level 2 of the fair value hierarchy is deemed appropriate.	Market interest rates and curves

26 FAIR VALUE MEASUREMENTS continued

Instrument	Valuation technique	Description of valuation technique and main assumptions	Observable inputs
Investment securities continued			
Unlisted equities	Price earnings (P/E) model and discounted cash flows	For unlisted equities, the earnings included in the model are derived from a combination of historical and budgeted earnings depending on the specific circumstances of the entity whose equity is being valued. The P/E multiple is derived from current market observations taking into account an appropriate discount for unlisted companies. The valuation of these instruments may be corroborated by a discounted cash flow valuation or by the observation of other market transactions that have taken place in which case level 2 classifications are used.	Market transactions
Negotiable certificates of deposit	Discounted cash flows	Future cash flows are discounted using market-related interest rates. Inputs to these models include information that is consistent with similar market quoted instruments, where available.	Market interest rates and curves
Treasury bills	JSE Debt Market bond pricing model	The JSE Debt Market bond pricing model uses the JSE Debt Market mark-to-market bond yield.	Market interest rates and curves
Investments in funds and unit trusts	Third party valuations	For certain investments in funds (such as hedge funds) or unit trusts, where an internal valuation technique is not applied, the bank places reliance on valuations from third parties such as broker quotes or valuations from asset managers. Where considered necessary, the bank applies minority and marketability or liquidity discount adjustments to these third-party valuations. Third party valuations are reviewed by the relevant franchise's investment committee on a regular basis. Where these underlying investments are listed, these third-party valuations can be corroborated with reference to listed share prices and other market data and are thus classified in level 2 of the fair value hierarchy.	Market transactions (listed)

26 FAIR VALUE MEASUREMENTS continued

Instrument	Valuation technique	Description of valuation technique and main assumptions	Observable inputs
Deposits			
Call and non-term deposits	None - the undiscounted amount is used	The undiscounted amount of the deposit is the fair value due to the short-term nature of the instruments. These deposits are financial liabilities with a demand feature and the fair value is not less than the amount payable on demand, i.e. the undiscounted amount of the deposit.	None – the undiscounted amount approximates fair value and no valuation is performed
Other deposits	Discounted cash flows	The forward curve adjusted for liquidity premiums and business unit margins. The valuation methodology does not take early withdrawals and other behavioural aspects into account.	Market interest rates and curves
Other liabilities	Discounted cash flows	Future cash flows are discounted using market-related interest rates. Where the value of a liability is linked to the performance of an underlying and the underlying is observable, these liabilities are classified at level 2.	Market interest rates and performance of underlying
Financial assets and liabilities not measured at fair value but for which fair value is disclosed	Discounted cash flows	Future cash flows are discounted using market-related interest rates and curves adjusted for credit inputs.	Market interest rates and curves

26 FAIR VALUE MEASUREMENTS continued

The table below sets out the valuation techniques applied by the bank for recurring fair value measurements of assets and liabilities categorised as level 3.

Instrument	Valuation technique	Description of valuation technique and main assumptions	Significant unobservable inputs
Derivative financial instruments			
Option	Option pricing model	The Black Scholes model is used.	Volatilities
Equity derivatives	Industry standard models	The models calculate fair value based on input parameters such as share prices, dividends, volatilities, interest rates, equity repo curves and, for multi-asset products, correlations. Unobservable model inputs are determined by reference to liquid market instruments and applying extrapolation techniques to match the appropriate risk profile.	Volatilities and unlisted share prices
Loans and advances to customers			
Investment banking book	Discounted cash flows	The bank has elected to designate the investment banking book advances at fair value through profit or loss. Credit risk is not observable and could have a significant impact on the fair value measurement of these advances and as such, these advances are classified as level 3 on the fair value hierarchy. Future cash flows are discounted using market-related interest rates. To calculate the fair value of credit the bank uses a valuation methodology based on the credit spread matrix, which considers loss given default, tenor and the internal credit committee rating criteria. The fair value measurement includes the original credit spread and is repriced when there is a change in rating of the counterparty. A decline in credit rating would result in an increase in the spread above the base rate for discounting purposes and consequently a reduction of the fair value of the advance. Similarly, an increase in credit rating would result in a decrease in the spread below the base rate and an increase of the fair value of the advance.	Credit inputs

26 FAIR VALUE MEASUREMENTS continued

Instrument	Valuation technique	Description of valuation technique and main assumptions	Significant unobservable inputs
Loans and advances to customers continued			
Other loans and advances	Discounted cash flows	Future cash flows are discounted using market-related interest rates adjusted for credit inputs over the contractual period. Although the fair value of credit is not significant year-on-year it may become significant in future. For this reason, together with the fact that the majority of South African counterparties do not have actively traded or observable credit spreads, the bank has classified other loans and advances to customers at level 3 of the fair value hierarchy.	Credit inputs
Investment securities			
Equities listed in an inactive market	Discounted cash flows	For listed equities, the listed price is used where the market is active (i.e. level 1). However, if the market is not active and the listed price is not representative of fair value, a valuation technique is used to determine the fair value. The valuation technique will be based on risk parameters of comparable securities and the potential pricing difference in spread and/or price terms with the traded comparable is considered. Future cash flows are discounted using market-related interest rates. Where the valuation technique incorporates unobservable inputs for equities e.g. P/E ratios, level 3 of the fair value hierarchy is deemed appropriate.	Unobservable P/E ratios
Unlisted bonds or bonds listed in an inactive market	Discounted cash flows	Unlisted bonds or bonds in an inactive market are valued similarly to advances measured at fair value. The future cash flows are discounted using market-related interest rates adjusted for credit inputs over the contractual period. Where the valuation technique incorporates unobservable inputs for credit risk, level 3 of the fair value hierarchy is deemed appropriate.	Credit inputs

26 FAIR VALUE MEASUREMENTS continued

Instrument	Valuation technique	Description of valuation technique and main assumptions	Significant unobservable inputs
Investment securities continued			
Unlisted equities	P/E model and discounted cash flows	For unlisted equities, the earnings included in the model are derived from a combination of historical and budgeted earnings depending on the specific circumstances of the entity whose equity is being valued. The P/E multiple is derived from current market observations taking into account an appropriate discount rate 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.	Growth rates and P/E ratios
Investments in funds and unit trusts	Third party valuations	For certain investments in funds (such as hedge funds) or unit trusts, where an internal valuation technique is not applied, the bank places reliance on valuations from third parties such as broker quotes or valuations from asset managers. Where considered necessary, the bank applies minority and marketability or liquidity discount adjustments to these third party valuations. Third party valuations are reviewed by the relevant franchise's investment committee on a regular basis. Where these underlying investments are unlisted, the bank has classified these in level 3 of the fair value hierarchy, as there is no observable market data to which to compare the third party valuations.	None (unlisted) - third party valuations used, minority and marketability adjustments
Deposits			
Deposits that represent collateral on credit-linked notes	Discounted cash flows	These deposits represent the collateral leg of credit-linked notes. The forward curve adjusted for liquidity premiums and business unit margins is used. The valuation methodology does not take early withdrawals and other behavioural aspects into account.	Credit inputs on related advances

26 FAIR VALUE MEASUREMENTS continued

Instrument	Valuation technique	Description of valuation technique and main assumptions	Significant unobservable inputs
Deposits continued			
Other deposits	Discounted cash flows	The forward curve adjusted for liquidity premiums and business unit margins. The valuation methodology does not take early withdrawals and other behavioural aspects into account.	Credit inputs
Other liabilities	Discounted cash flows	For preference shares which require the bank to share a portion of profits of underlying contracts with a third party, the value of the liability is linked to the performance of the underlying. Where the underlying is not observable, these liabilities are therefore classified as level 3. Future cash flows are discounted using market-related interest rates, adjusted for the performance of the underlying contracts.	Performance of underlying contracts
Financial assets and liabilities not measured at fair value but for which fair value is disclosed	Discounted cash flows	Future cash flows are discounted using market-related interest rates and curves adjusted for credit inputs.	Credit inputs

26 FAIR VALUE MEASUREMENTS continued

Non-recurring fair value measurements

For non-recurring fair value measurements the fair value hierarchy classification and valuation technique applied in determining fair value will depend on the underlying asset or liability being measured. Where the underlying assets or liabilities are those for which recurring fair value measurements are required as listed in the table above, the technique applied and the inputs into the models would be in line with those as set out in the table. Where the underlying assets or liabilities are not items for which recurring fair value measurements are required, for example property and equipment or intangible assets, the carrying value is considered to be equal to a reasonable approximation of the fair value. This will be assessed per transaction and details will be provided in the relevant notes of the annual financial statements when applicable. There were no assets or liabilities measured at fair value on a non-recurring basis in the current and prior years.

26.2.1 Fair value hierarchy

The following table presents the fair value measurements and fair value hierarchy of assets and liabilities of the bank which are recognised at fair value.

	2017			
R million	Level 1	Level 2	Level 3	Total fair value
Assets				
Recurring fair value measurements				
Derivative financial instruments	**268**	**34 822**	**8**	**35 098**
Investment securities	**79 501**	**18 721**	**1 989**	**100 211**
Advances	**-**	**33 132**	**195 376**	**228 508**
Commodities	**14 380**	**-**	**-**	**14 380**
Amounts due by holding company and fellow subsidiaries	**-**	**302**	**-**	**302**
Total assets measured at fair value	**94 149**	**86 977**	**197 373**	**378 499**
Liabilities				
Recurring fair value measurements				
Short trading positions	**15 211**	**-**	**-**	**15 211**
Derivative financial instruments	**307**	**43 120**	**233**	**43 660**
Deposits	**1 963**	**74 836**	**386**	**77 185**
Other liabilities	**-**	**2 226**	**1 519**	**3 745**
Amounts due to holding company and fellow subsidiaries	**-**	**330**	**-**	**330**
Total liabilities measured at fair value	**17 481**	**120 512**	**2 138**	**140 131**

26 FAIR VALUE MEASUREMENTS continued

	2016			
R million	Level 1	Level 2	Level 3	Total fair value
Assets				
Recurring fair value measurements				
Derivative financial instruments	241	39 682	-	39 923
Investment securities	75 561	21 927	1 846	99 334
Advances	148	43 533	199 275	242 956
Commodities	12 514	-	-	12 514
Amounts due by holding company and fellow subsidiaries	-	383	-	383
Total assets measured at fair value	88 464	105 525	201 121	395 110
Liabilities				
Recurring fair value measurements				
Short trading positions	14 221	-	-	14 221
Derivative financial instruments	121	50 375	128	50 624
Deposits	2 482	98 310	528	101 320
Other liabilities	-	3 370	1 457	4 827
Amounts due to holding company and fellow subsidiaries	-	319	-	319
Total liabilities measured at fair value	16 824	152 374	2 113	171 311

26 FAIR VALUE MEASUREMENTS continued

26.2.2 Transfers between fair value hierarchy levels

The following represents the significant transfers into level 1, 2 and 3 and the reasons for the transfers. Transfers between levels of the fair value hierarchy are deemed to occur at the beginning of the reporting period.

	2017		
R million	**Transfers in**	**Transfers out**	**Reasons for significant transfer in**
Level 1	**-**	**-**	There were no transfers into level 1.
Level 2	**-**	**(38)**	There were no transfers into level 2.
Level 3	**38**	**-**	The JSE publishes volatilities of strike prices of options between 70% and 130%. Any volatility above or below this range results in inputs becoming unobservable. During the current year the observability of volatilities used in determining the fair value of certain over the counter options became unobservable and resulted in the transfer of R38 million out of level 2 into level 3 of the fair value hierarchy.
Total transfers	**38**	**(38)**	

	2016		
R million	**Transfers in**	**Transfers out**	**Reasons for significant transfer in**
Level 1	-	(2 821)	There were no transfers into level 1.
Level 2	-	(107)	There were no transfers into level 2.
Level 3	2 928	-	The market for certain bonds listed in South Africa became inactive because of stresses in the macro environment. The market price is, therefore, not representative of fair value and a valuation technique was applied. Because of credit valuation being unobservable the bonds were classified from level 1 into level 3 of the hierarchy. An evaluation of the observability of volatilities used in determining the fair value of certain over-the-counter options has resulted in a transfer of R107 million out of level 2 of the fair value hierarchy and into level 3.
Total transfers	2 928	(2 928)	

26 FAIR VALUE MEASUREMENTS continued

26.3 Additional disclosures for level 3 financial instruments

26.3.1 Changes in level 3 instruments with recurring fair value measurements

The following table shows a reconciliation of the opening and closing balances for assets and liabilities measured at fair value on a recurring basis classified as level 3 in terms of the fair value hierarchy.

R million	Derivative financial assets	Advances	Investment securities	Derivative financial liabilities	Deposits	Other liabilities
Balance as at 30 June 2015	5	180 921	1 533	5	1 182	-
Gains/(losses) recognised in profit or loss	(6)	13 125	647	13	15	35
Gains/(losses) recognised in other comprehensive income	-	-	29	-	-	-
Purchases, sales, issues and settlements	-	435	(363)	3	(669)	1 422
Transfers into level 3	-	2 821	-	107	-	-
Exchange rate differences	1	1 973	-	-	-	-
Balance as at 30 June 2016	-	199 275	1 846	128	528	1 457
Gains/(losses) recognised in profit or loss	**8**	**14 848**	**22**	**71**	**(39)**	**174**
Gains/(losses) recognised in other comprehensive income	**-**	**(2)**	**50**	**-**	**-**	**-**
Purchases, sales, issues and settlements	**-**	**(17 847)**	**71**	**(4)**	**(103)**	**(112)**
Transfers into level 3	**-**	**-**	**-**	**38**	**-**	**-**
Exchange rate differences	**-**	**(898)**	**-**	**-**	**-**	**-**
Balance as at 30 June 2017	**8**	**195 376**	**1 989**	**233**	**386**	**1 519**

Decreases in level 3 assets and liabilities are included in brackets. Decreases in the value of assets may be as a result of losses, sales and settlements or the disposal of subsidiaries. Decreases in the value of liabilities may be as a result of gains, settlements or the acquisition of subsidiaries.

Gains/(losses) on advances classified in level 3 of the hierarchy comprise gross interest income on advances and fair value of credit adjustments. These instruments are funded by liabilities and the risk inherent is hedged by interest rate swaps. The corresponding gross interest expense is not disclosed in the fair value note as these items are typically measured at amortised cost.

26 FAIR VALUE MEASUREMENTS continued

26.3.2 Unrealised gains or losses on level 3 instruments with recurring fair value measurements

The valuation model for level 3 assets or liabilities typically relies on a number of inputs that are readily observable either directly or indirectly. Thus, the gains and losses presented below include changes in the fair value related to both observable and unobservable inputs.

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

	2017		2016	
R million	**Gains/(losses) recognised in the income statement**	**Gains/(losses) recognised in other comprehensive income**	Gains/(losses) recognised in the income statement	Gains/(losses) recognised in other comprehensive income
Assets				
Derivative financial instruments	**8**	**-**	-	-
Advances*	**11 697**	**-**	12 358	-
Investment securities	**23**	**50**	533	29
Total	**11 728**	**50**	12 891	29
Liabilities				
Derivative financial instruments	**(72)**	**-**	19	-
Deposits	**(26)**	**-**	(14)	-
Other liabilities	**97**	**-**	-	-
Total	**(1)**	**-**	5	-

* *Amount is mainly accrued interest on fair value loans and advances and movements due to changes in interest rates that have been economically hedged. This relates to the portion of RMB's advances that are classified as fair value to effectively manage the interest rate and foreign exchange risks on these portfolios. These are classified as level 3 primarily as credit spreads could be a significant input and are not observable for loans and advances in the most of RMB's key markets. Refer to page C135 where the income statement impact of the credit fair value adjustments are disclosed. Inputs relating to interest rates and foreign currencies are regarded as observable.*

Decreases in level 3 assets and liabilities are included in brackets. Decreases in the value of assets may be as a result of losses, sales and settlements or the disposal of subsidiaries. Decreases in the value of liabilities may be as a result of gains, settlements or the acquisition of subsidiaries.

26 FAIR VALUE MEASUREMENTS continued

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

The tables below illustrate the sensitivity of the significant inputs when changed to reasonable possible alternative inputs:

Asset/liability	Significant unobservable	Unobservable input to which reasonably possible changes are applied	Reasonably possible changes applied
Derivative financial instruments	Volatilities	Volatilities	Increased and decreased by 10%.
Advances	Credit	Scenario analysis	A range of scenarios are run as part of the group's credit risk management process for advances measured at fair value throug profit or loss to determine credit losses and change in credit spreads in various economic conditions. The probability of default is adjusted either upwards or downwards versus the base case.
Investment securities	Credit, growth rates and P/E ratios of unlisted investments	Credit, growth rates or P/E ratios of unlisted investments	Increased and decreased by 10%.
Deposits	Credit risk of the cash collateral leg of credit linked notes	Credit migration matrix	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.
Other liabilities	Performance of underlying contracts	Profits on the underlying contracts	Increased and decreased by 1%.

26 FAIR VALUE MEASUREMENTS continued

R million	2017			2016		
	Reasonably possible alternative fair value			Reasonably possible alternative fair value		
	Fair value	Using more positive assumptions	Using more negative assumptions	Fair value	Using more positive assumptions	Using more negative assumptions
Assets						
Derivative financial instruments	**8**	**11**	**4**	-	-	-
Advances	**195 376**	**195 979**	**195 041**	199 275	200 104	198 186
Investment securities	**1 989**	**2 179**	**1 833**	1 846	2 154	1 568
Total financial assets measured at fair value in level 3	**197 373**	**198 169**	**196 878**	201 121	202 258	199 754
Liabilities						
Derivative financial instruments	**233**	**227**	**246**	128	124	129
Deposits	**386**	**386**	**387**	528	478	618
Other liabilities	**1 519**	**1 504**	**1 534**	1 457	1 443	1 602
Total financial liabilities measured at fair value in level 3	**2 138**	**2 117**	**2 167**	2 113	2 045	2 349

26 FAIR VALUE MEASUREMENTS continued

26.4 Financial instruments not measured at fair value

The following represents the fair values of financial instruments not carried at fair value on the statement of financial position but for which fair value is required to be disclosed. For all other financial instruments the carrying value is equal to or a reasonable approximation of the fair value.

	2017				
R million	**Carrying value**	**Total fair value**	**Level 1**	**Level 2**	**Level 3**
Assets					
Advances	**570 911**	**576 355**	**-**	**96 037**	**480 318**
Investment securities	**27 761**	**27 816**	**20 832**	**6 984**	**-**
Total assets at amortised cost	**598 672**	**604 171**	**20 832**	**103 021**	**480 318**
Liabilities					
Deposits	**799 505**	**801 710**	**41**	**800 788**	**881**
Other liabilities	**467**	**467**	**-**	**467**	**-**
Tier 2 liabilities	**18 370**	**18 635**	**-**	**18 635**	**-**
Total liabilities at amortised cost	**818 342**	**820 812**	**41**	**819 890**	**881**

	2016				
R million	Carrying value	Total fair value	Level 1	Level 2	Level 3
Assets					
Advances	521 132	525 651	-	86 363	439 288
Investment securities	12 096	12 083	-	12 083	-
Total assets at amortised cost	533 228	537 734	-	98 446	439 288
Liabilities					
Deposits	725 297	724 819	7 897	716 692	230
Other liabilities	532	531	-	531	-
Tier 2 liabilities	17 468	17 682	-	17 682	-
Total liabilities at amortised cost	743 297	743 032	7 897	734 905	230

26 FAIR VALUE MEASUREMENTS continued

26.5 Day 1 profit or loss

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	**2017**	2016
Opening balance	**38**	6
Day 1 profits or losses not recognised on financial instruments initially recognised in the current year	**17**	37
Amount recognised in profit or loss as a result of changes which would be observable by market participants	**(4)**	(5)
Closing balance	**51**	38

26.6 Financial instruments designated as at fair value through profit or loss

Financial instruments designated at fair value through profit or loss	
Different methods are used to determine the current period and cumulative changes in fair value attributable to credit risk due to the differing inherent credit risk of these instruments. The methods used are:	
Financial assets	**Advances** The change in credit risk is the difference between the fair value of advances based on the original credit spreads (as determined using the group's credit spread pricing matrix) and the fair value of advances based on the most recent credit spreads where there has been a change in the credit risk of the counterparty. The group uses its own annual credit review process to determine if there has been a change in the credit rating or PD of the counterparty. **Investment securities and other investments** The change in fair value due to credit risk 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.
Financial liabilities	Determined with reference to changes in the mark-to-market yields of own issued bonds. The change in fair value of financial liabilities due to changes in credit risk is R nil.

26 FAIR VALUE MEASUREMENTS continued

26.6.1 Loans and receivables designated as at fair value through profit or loss

Certain financial assets designated at fair value also meet the definition of loans and receivables in terms of IAS 39. The table below contains details on the change in credit risk attributable to these financial assets.

	2017			
			Change in fair value	
			Due to credit risk	
R million	**Carrying value**	**Mitigated credit risk**	**Current period**	**Cumulative**
Advances	**211 540**	**4 460**	**(63)**	**(2 137)**
Investment securities	**-**	**-**	**-**	**-**
Total	**211 540**	**4 460**	**(63)**	**(2 137)**

	2016			
			Change in fair value	
			Due to credit risk	
R million	Carrying value	Mitigated credit risk	Current period	Cumulative
Advances	228 315	3 452	(362)	(3 657)
Investment securities	7 841	-	(20)	(20)
Total	236 156	3 452	(382)	(3 677)

Losses are indicated with brackets.

26.6.2 Financial liabilities designated as at fair value through profit or loss

	2017		2016	
R million	**Fair value**	**Contractually payable at maturity**	Fair value	Contractually payable at maturity
Deposits	**77 185**	**77 238**	101 320	114 460
Other liabilities	**3 745**	**3 683**	4 827	4 763
Total	**80 930**	**80 921**	106 147	119 223

The changes in the fair value of these liabilities due to own credit risk is not material.

26.6.3 Total fair value income included in profit or loss for the year

R million	**2017**	2016
Total fair value income for the year has been disclosed as:		
Fair value gains and losses included in non-interest revenue	**5 302**	3 272
Fair value of credit of advances included in the impairment of advances	**(274)**	(257)

27 SEGMENT INFORMATION

27.1 Reportable segments

Segment reporting	
Bank's chief operating decision maker	Chief executive officer (CEO).
Identification and measurement of operating segments	Aligned with internal reporting provided to the CEO and reflects the risks and rewards related to the segments' specific products and services offered in their specific markets. Operating segments whose total revenue, absolute profit or loss for the period or total assets are 10% or more of all the segments' revenue, profit or loss or total assets, are reported separately.
Major customers	FirstRand bank has no major customer as defined (i.e. revenue from the customer exceeds 10% of total revenue) and is, therefore, not reliant on the revenue from one or more major customers.
Reportable segments	
	Products and services
FNB *Retail and commercial*	FNB offers a diverse set of financial products and services to market segments including consumer, small business, agricultural, medium corporate, parastatals and government entities. FNB's products cover the entire spectrum of financial services – transactional, lending, insurance, investment and savings – and include mortgage loans, credit and debit cards, personal loans, funeral and credit life policies, and savings and investment products. Services include transactional and deposit-taking, card acquiring, credit facilities and FNB distribution channels (branch network, ATMs, call centres, cellphone and online).
FNB AFRICA *Support division*	Comprises a support division acting as strategic enabler, facilitator and coordinator for African expansion and FNB's activities in India.
	Products and services
RMB *Corporate and investment banking*	RMB offers advisory, financing, trading, corporate banking and principal investing solutions. RMB's business units include global markets, investment banking, private equity and corporate banking.

27 SEGMENT INFORMATION continued

Reportable segments	
	Products and services
WesBank *Instalment finance*	WesBank offers asset-based finance in the retail, commercial and corporate segments operating primarily through alliances and JVs with leading motor manufacturers, suppliers and dealer groups where it has built up a strong point-of-sale presence. Through MotoNovo Finance, it operates in the asset-based motor finance sector in the UK.
FCC and other	
Key group-wide functions	Group-wide functions include Group Treasury (capital, liquidity and financial resource management), group finance, group tax, enterprise risk management, regulatory risk management and group internal audit. FCC has a custodianship mandate which includes managing relationships on behalf of the group with key external stakeholders (e.g. shareholders, debt holders, regulators) and the ownership of key group strategic frameworks (e.g. performance measurement, risk/reward). Its objective is to ensure the group delivers on its commitments to stakeholders. This reportable segment includes management accounting.

27.2 Description of normalised adjustments

Normalised adjustments
The bank believes that normalised earnings more accurately reflect its economic performance. Headline earnings are adjusted to take into account non-operational items and accounting anomalies. IFRS earnings are, therefore, adjusted to take into account headline earnings adjustments, non-operational items and accounting anomalies. This is, therefore, the measurement basis used by the chief operating decision maker to manage the bank on a daily basis. These adjustments include reallocation entries where amounts are moved between income statement lines and lines of the statement of financial position, without having an impact on the IFRS profit or loss for the year and total assets and total liabilities reported in terms of IFRS. Other normalised adjustments have an impact on the profit or loss reported for the period. In the past these normalised adjustments were processed at a total profit for the year level. Based on a change in the internal method of management reporting, these entries are now processed above the profit line on a line-by-line level at a franchise level. In order to facilitate comparability, the segment report for 30 June 2016 has been presented in line with the updated internal method of management reporting.

27 SEGMENT INFORMATION continued

Normalised adjustments	
Margin-related items included in fair value income	In terms of IFRS, the bank is required to or has elected to measure certain financial assets and liabilities at fair value through profit or loss. In terms of the group's IFRS accounting policies, the gains or losses on these assets and liabilities are included in fair value income within non-interest revenue (NIR). This results in NIR including gains or losses that are related to lending, borrowing and economic interest rate hedges. In order to reflect the economic substance of these amounts, the amount of fair value income that relates to margin is presented in net- interest income (NII) in the normalised results. The amount reclassified from NIR to NII includes the following items: • net interest income on the wholesale advances book in RMB; • fair value gains on derivatives that are used as interest rate hedges but which do not qualify for hedge accounting; and • current translations and associated costs inherent to the USD funding and liquidity pool.
Classification of impairment on restructured advance	Included in gross advances and impairment of advances is an amount in respect of an advance that was restructured to an equity investment. Post the restructure the group has significant influence over the counterparty and an investment in associate was recognised. The group believes that the circumstances that led to the impairment arose prior to the restructure while the advance relates to credit events rather than equity performance of the associate. Therefore, for normalised reporting the group retained the gross advance and impairment. These amounts are classified within advances rather than investments in associates as this more accurately reflects the nature of the balance.
IAS 19 Remeasurement of plan assets	In terms of IAS 19, interest income is recognised on the plan assets and set off against staff costs in the income statement. All other remeasurements of plan assets are recognised in other comprehensive income. In instances where the plan asset is a qualifying insurance policy, which has a limit of indemnity, the fair value of the plan asset is limited to that limit of indemnity. The limit of indemnity continually reduces as payments are made in terms of the insurance policy. After the recognition of interest income on the plan asset, any further adjustment required to revalue the plan asset to the limit of indemnity is recognised in other comprehensive income. To the extent, therefore, that interest income on plan assets results in an increase in the fair value of the plan asset above the limit of indemnity, a downward fair value measurement is recognised in other comprehensive income. Economically, the value of the plan asset has simply reduced with claims paid. Normalised results are adjusted to reflect this by increasing staff costs for the value of the interest on the plan assets and increasing other comprehensive income.

27 SEGMENT INFORMATION continued

Normalised adjustments	
Cash settled share-based payments and the economic hedge	The bank entered into a total return swap (TRS) with external parties in order to economically hedge itself against the exposure to changes in the FirstRand share price associated with the bank's long-term incentive schemes. In terms of IAS 39 the TRS is accounted for as a derivative instrument at fair value with the full fair value change recognised in NIR. In accordance with IFRS 2, the expense resulting from these option schemes is recognised over the vesting period of the schemes. This leads to a mismatch in the recognition of the profit or loss of the hedge and the share-based payment expense. When calculating normalised results, the bank defers the recognition of the fair value gain or loss on the hedging instrument to the specific reporting period in which the IFRS 2 impact will manifest in the bank's results. This reflects the economic substance of the hedge and associated IFRS 2 impact for the bank. In addition, the portion of the share-based payment expense which relates to the remeasurement of the liability arising from changes in the share price is reclassified from operating expenses into NIR in accordance with the economics of the transaction. The share-based payment expense included in operating expenses is equal to the grant date fair value of the awards given.
Headline earnings adjustments	All adjustments that are required by Circular 2/2015 Headline Earnings in calculating headline earnings are included in normalised earnings on a line-by-line basis based on the nature of the adjustment. The description and amount of these adjustments are provided in the reconciliation between headline earnings and IFRS profit. These adjustments include the write back of impairment losses recognised on intangible assets and goodwill.

27 SEGMENT INFORMATION continued

27.3 Reportable segments

R million	2017 FNB	FNB Africa*	
Net interest income before impairment of advances	**24 036**	**3**	
Impairment and fair value of credit of advances	**(3 648)**	**(15)**	
Net interest income after impairment of advances	**20 388**	**(12)**	
Non-interest revenue	**19 089**	**816**	
Net income from operations	**39 477**	**804**	
Operating expenses	**(22 690)**	**(1 242)**	
Income before indirect tax	**16 787**	**(438)**	
Indirect tax	**(491)**	**(3)**	
Profit before income tax	**16 296**	**(441)**	
Income tax expense	**(4 563)**	**123**	
Profit for the year	**11 733**	**(318)**	
The income statement includes:			
Depreciation	**(1 601)**	**(11)**	
Amortisation	**(37)**	**(7)**	
Net impairment charge	**(7)**	**-**	
The statement of financial position includes:			
Total assets	**346 892**	**719**	
Total liabilities	**330 727**	**1 158**	

* *Relates to head office costs and FNB's activities in India. Earnings from subsidiaries in the rest of Africa form part of FREMA and are not reported in bank (see simplified group structure in section A).*

Geographical segments

R million	2017 South Africa	United Kingdom	Asia	Other	Total
Net interest income after impairment of advances	**29 952**	**1 636**	**77**	**-**	**31 665**
Non-interest revenue	**30 251**	**576**	**122**	**-**	**30 949**
Non-current assets*	**14 939**	**218**	**4**	**-**	**15 161**

* *Excludes financial instruments, accounts receivable, deferred income tax assets, current tax assets and post-employment benefit assets.*

	2017						
	RMB						
	Investment banking	Corporate banking	WesBank	FCC (including Group Treasury)	FirstRand Bank-normalised	Normalised adjustments	FirstRand Bank-IFRS
	3 985	1 484	9 205	1 136	39 849	(1 200)	38 649
	(544)	(75)	(3 052)	350	(6 984)	-	(6 984)
	3 441	1 409	6 153	1 486	32 865	(1 200)	31 665
	6 339	1 671	2 781	(1 190)	29 506	1 443	30 949
	9 780	3 080	8 934	296	62 371	243	62 614
	(5 129)	(1 860)	(5 488)	(1 312)	(37 721)	52	(37 669)
	4 651	1 220	3 446	(1 016)	24 650	295	24 945
	(109)	(5)	(232)	(36)	(876)	-	(876)
	4 542	1 215	3 214	(1 052)	23 774	295	24 069
	(1 277)	(340)	(901)	1 510	(5 448)	(84)	(5 532)
	3 265	875	2 313	458	18 326	211	18 537
	(129)	(3)	(552)	(15)	(2 311)	-	(2 311)
	(42)	-	(5)	(3)	(94)	-	(94)
	-	(1)	3	-	(5)	4	(1)
	348 935	42 159	170 523	172 923	1 082 151	-	1 082 151
	345 614	40 586	167 327	109 366	994 778	-	994 778

27 SEGMENT INFORMATION continued

R million	2016		
	FNB	FNB Africa*	
Net interest income before impairment of advances	22 201	8	
Impairment and fair value of credit of advances	(3 175)	2	
Net interest income after impairment of advances	19 026	10	
Non-interest revenue	18 129	621	
Net income from operations	37 155	631	
Operating expenses	(21 593)	(986)	
Income before indirect tax	15 562	(355)	
Indirect tax	(401)	(2)	
Profit before income tax	15 161	(357)	
Income tax expense	(4 246)	100	
Profit for the year	10 915	(257)	
The income statement includes:			
Depreciation	(1 391)	(4)	
Amortisation	(12)	(1)	
Net impairment charge	5	-	
The statement of financial position includes:			
Total assets	332 856	1 148	
Total liabilities	317 798	1 507	

* *Relates to head office costs and FNB's activities in India. Earnings from subsidiaries in the rest of Africa form part of FREMA and are not reported in bank (see simplified group structure in section A).*

Geographical segments

R million	2016				
	South Africa	United Kingdom	Asia	Other	Total
Net interest income after impairment of advances	30 043	421	58	-	30 522
Non-interest revenue	26 022	1 768	96	-	27 886
Non-current assets*	13 634	73	31	-	13 738

* *Excludes financial instruments, accounts receivable, deferred income tax assets, current tax assets and post-employment benefit assets.*

	2016						
	RMB			FCC (including Group Treasury)	FirstRand Bank-normalised	Normalised adjustments	FirstRand Bank-IFRS
	Investment banking	Corporate banking	WesBank				
	4 110	1 466	9 047	1 501	38 333	(1 556)	36 777
	(514)	(162)	(2 701)	295	(6 255)	-	(6 255)
	3 596	1 304	6 346	1 796	32 078	(1 556)	30 522
	5 337	1 593	2 497	(916)	27 261	625	27 886
	8 933	2 897	8 843	880	59 339	(931)	58 408
	(4 768)	(1 844)	(5 068)	(1 133)	(35 392)	357	(35 035)
	4 165	1 053	3 775	(253)	23 947	(574)	23 373
	(83)	(7)	(230)	(40)	(763)	-	(763)
	4 082	1 046	3 545	(293)	23 184	(574)	22 610
	(1 143)	(293)	(985)	953	(5 614)	154	(5 460)
	2 939	753	2 560	660	17 570	(420)	17 150
	(103)	(3)	(461)	(27)	(1 989)	-	(1 989)
	(6)	-	(22)	(5)	(46)	-	(46)
	(44)	2	(77)	-	(114)	-	(114)
	339 258	36 269	168 366	153 682	1 031 579	-	1 031 579
	336 224	34 919	164 912	94 300	949 660	-	949 660

28 RELATED PARTIES

28.1 Balances with related parties

R million	2017	2016
Advances		
Entities that have significant influence over the parent and its subsidiaries	**5 577**	5 235
Associates of parent and fellow subsidiaries*	**12 430**	9 169
Joint ventures of parent and fellow subsidiaries	**11 743**	8 892
Key management personnel	**29**	49
Accounts receivable		
Associates of parent and fellow subsidiaries*	**398**	286
Joint ventures of parent and fellow subsidiaries	**26**	24
Amounts due by holding company and fellow subsidiaries		
Fellow subsidiaries	**28 869**	32 793
Derivative assets		
Entities that have significant influence over the parent and its subsidiaries		
- Notional amount	**-**	80
- Fair value	**-**	2
Associates of parent and fellow subsidiaries		
- Notional amount	**400**	435
- Fair value	**4**	13
Joint ventures of parent and fellow subsidiaries		
-Notional amount	**36 002**	27 073
- Fair value	**9**	359
Investments under co-investment scheme		
Key management personnel	**66**	65
Deposits		
Entities that have significant influence over the parent and its subsidiaries	**45**	4
Associates of parent and fellow subsidiaries	**935**	175
Joint ventures of parent and fellow subsidiaries	**3 310**	2 602
Key management personnel	**109**	266
Accounts payable		
Entities that have significant influence over the parent and its subsidiaries	**2**	2
Associates of parent and fellow subsidiaries	**48**	66
Joint ventures of parent and fellow subsidiaries	**42**	28
Amounts due to holding company and fellow subsidiaries		
Parent	**232**	255
Fellow subsidiaries	**14 348**	13 742
Derivative liabilities		
Entities that have significant influence over the parent and its subsidiaries	**-**	5
- Notional amount	**-**	5
Commitments		
Associates of parent and fellow subsidiaries*	**1 060**	3 352
Joint ventures of parent and fellow subsidiaries	**1**	-

** Prior year amounts have been restated.*

The amounts advanced to key management personnel consist of mortgages, instalment finance agreements, credit cards and other loans. The amounts deposited by key management personnel are held in cheque and current accounts, savings accounts and other term accounts and are at market related rates, terms and conditions.

28 RELATED PARTIES continued

28.2 Transactions with related parties

R million	2017	2016
Interest received		
Fellow subsidiaries	**1 357**	1 221
Associates of parent and fellow subsidiaries*	**557**	548
Joint ventures of parent and fellow subsidiaries	**465**	420
Key management personnel	**3**	3
Interest paid		
Fellow subsidiaries	**(628)**	(650)
Associates of parent and fellow subsidiaries	**(14)**	(32)
Joint ventures of parent and fellow subsidiaries	**(220)**	(161)
Key management personnel	**(7)**	(13)
Non-interest revenue		
Entities that have significant influence over the parent and their subsidiaries	**111**	216
Fellow subsidiaries	**1 111**	1 356
Associates of parent and fellow subsidiaries*	**697**	606
Joint ventures of parent and fellow subsidiaries	**495**	939
Operating expenses		
Fellow subsidiaries (note 3)	**(986)**	(1 084)
Associates of parent and fellow subsidiaries	**(812)**	(803)
Joint ventures of parent and fellow subsidiaries	**(118)**	4
Dividends (paid)/received		
Parent	**(11 963)**	(9 981)
Net interest return credited in respect of investments under the co-investment scheme		
Key management personnel	**12**	9
Financial consulting fees and other		
Key management personnel	**4**	8
Salaries and other employee benefits		
Key management personnel**	**144**	272
- Salaries and other short-term benefits	**94**	128
- Share based payments	**50**	144

** Prior year amounts have been restated.*

***The current year benefits are down on the prior year includes shares issued under the BEE schemes and the definition of key management was amended to reflect changes to governance structures.*

Deferred compensation of R48 million (2016: R48 million) is due to key management personnel and is payable in FirstRand Limited shares. A list of the board of directors of the bank is in section A of the annual report.

During the financial year, no contracts were entered into in which directors or officers of the company had an interest and which significantly affected the business of the bank. The directors had no interest in any third party or company responsible for managing any of the business activities of the bank except to the extent that they are shareholders in RMB Holdings Limited, which together with Remgro, has significant influence over FirstRand.

28 RELATED PARTIES continued

28.3 Post-retirement benefit fund

Details of transactions between the bank and the bank's post-retirement benefit plan are listed below:

R million	**2017**	2016
Dividend income	**10**	5
Deposits and current accounts held with the bank	**450**	766
Interest income	**36**	33

29 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The following new and revised standards and interpretations are applicable to the business of the bank. The bank will comply with these from the stated effective date.

Standard	Impact assessment	Effective date
IAS 7 (amended)	**Amendments to IAS 7 under the Disclosure Initiative** The amendments to IAS 7 require additional disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. These amendments are applicable prospectively and will have no impact on the amounts reported by the bank but will introduce additional disclosures.	Annual periods commencing on or after 1 January 2017
IAS 12 (amended)	**Amendments to IAS 12 for the Recognition of Deferred Tax Assets for Unrealised Losses** The amendments clarify that unrealised losses on debt instruments that are measured at fair value for accounting purposes but at cost for tax purposes, can give rise to deductible temporary differences and consequently a deferred tax asset may need to be recognised. The carrying amount of the asset does not limit the estimation of probable future taxable profits. These amendments are to be applied retrospectively in the 2018 financial year. The bank is in the process of assessing the impact of this amendment on the annual financial statements; however, a significant impact is not anticipated as a result of South African tax laws.	Annual periods commencing on or after 1 January 2017
IAS 28 (amended) and IFRS 10	**Sale or Contribution of Assets between an Investor and its Associate or Joint Venture** The amendment clarifies the treatment of the sale or contribution of assets from an investor to its associate or joint venture. The amendment requires: ➢ full recognition in the investor's financial statements of the gains or losses arising on the sale or contribution of assets that constitute a business (as defined in IFRS 3); and ➢ the partial recognition of gains or losses where the assets do not constitute a business, i.e. a gain or loss is recognised only to the extent of the unrelated investors' share in that associate or joint venture. These requirements apply regardless of the legal form of the transaction, e.g. whether the sale or contribution of assets occurs by an investor transferring shares in a subsidiary that holds the assets (resulting in loss of control of the subsidiary), or by the direct sale of the assets themselves. The amendments will not impact the bank, as there are no investments in associates or joint ventures.	The effective date is currently being reviewed by the IASB and will most likely be deferred indefinitely until the completion of a research project on the equity method of accounting conducted by the IAS

29 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE continued

Standard	Impact assessment	Effective date
IFRS 2 (amended)	**Classification and Measurement of Share-Based Payment Transactions** As a result of work by the IFRS Interpretations Committee, several amendments have been made to IFRS 2 to clarify how to account for certain share-based payment transactions. The amendments to IFRS 2 are related to the following areas: ➢ Accounting for the effects of vesting and non-vesting conditions on the measurement of the liability of cash-settled share-based payment transactions; ➢ The classification of share-based payment transactions with net settlement features for withholding tax obligations; and ➢ Accounting for a modification to the terms and conditions of a share-based payment that changes the transaction from cash-settled to equity-settled. The bank currently only has cash-settled share-based payment schemes. The bank is currently in line with the first two amendments as the bank is accounting for these items in line with the clarifications. The third amendment will be considered when such transactions take place and will be applied prospectively to any modifications made on or after the adoption date.	Annual periods commencing on or after 1 January 2018
IFRS 4 (amended)	**Applying IFRS 9 with IFRS 4** The amendment addresses concerns around temporary volatility in reported results arising from implementing IFRS 9 before implementing the insurance contracts standard that is being developed and that will replace IFRS 4. The amendment introduces two approaches: ➢ The overlay approach - an option for all issuers of insurance contracts to remove from profit or loss the effects of some mismatches that may occur before adoption of IFRS 4, and recognise those impacts in OCI (OCI) temporarily. The adjustment only applies to financial assets that are designated as relating to contracts in scope of IFRS 4 and measured at FVTPL in accordance with IFRS 9, but would have been measured in their entirety as at FVTPL under IAS 39. ➢ Temporary exemption - reporting entities whose activities are predominantly connected with insurance are temporarily exempt from applying IFRS 9 and will continue to apply IAS 39 until the new insurance contracts standard is issued. The group's insurance operations that are subject to the requirements of IFRS 4 are conducted by entities outside the bank and these amendments will not impact the bank.	Annual periods commencing on or after 1 January 2018

29 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE continued

Standard	Impact assessment	Effective date
IFRS 9	**Financial Instruments**	Annual periods commencing on or after 1 January 2018
	IFRS 9 incorporates amendments to the classification and measurement guidance as well as accounting requirements for impairment of financial assets measured at amortised cost and the general hedge accounting model. The significant amendments are: ➢ The classification and measurement of financial assets under IFRS 9 is based on both the business model and the rationale for holding the instruments as well as the contractual characteristics of the instruments; ➢ Impairments in terms of IFRS 9 will be determined based on an expected loss model that considers the significant changes to the asset's credit risk and the expected loss that will arise in the event of default; ➢ The classification and measurement of financial liabilities is effectively the same as under IAS 39 i.e. IFRS 9 allows financial liabilities not held for trading to be measured at either amortised cost or fair value. If, however, fair value is elected then changes in the fair value as a result of changes in own credit risk should be recognised in other comprehensive income; and ➢ The general hedge accounting requirements under IFRS 9 are closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures. Hedge effectiveness will now be proved based on management's risk management objectives rather than the 80%-125% band that was previously stipulated. IFRS 9 also allows for rebalancing of the hedge and the deferral of costs of hedging. IFRS 9 does not include requirements that address the accounting treatment of macro hedges. The bank is well positioned to implement IFRS 9 for the financial year ending 30 June 2019. In order to prepare for the implementation the bank has constituted a steering committee which is supported by a number of working groups. The working groups have made sound progress in setting, *inter alia*, the accounting policies, determining the classification of instruments under IFRS 9, developing pilot models for credit modelling, and designing reporting templates. The impact is expected to be significant however the development of models is ongoing and still subject to independent internal and external validation, it is therefore not possible to provide an accurate indication of what the amount will be.	

29 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE continued

Standard	Impact assessment	Effective date
IAS 28	**Investments in Associates and Joint Ventures** The amendments introduce clarifications that a venture capital organisation, or a mutual fund, unit trust and similar entities may elect, at initial recognition, to measure investments in an associate or joint venture at fair value through profit or loss separately for each associate or joint venture. The amendments will not impact the bank as the bank has no subsidiaries.	Annual periods commencing on or after 1 January 2018
IFRS 15	**Revenue from Contracts from Customers** IFRS 15 provides a single, principle based model to be applied to all contracts with customers. The core principle of IFRS 15 is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard also provides guidance for transactions that were not previously comprehensively addressed and improves guidance for multiple-element arrangements. The standard also introduces enhanced disclosures about revenue. The impact of IFRS 15 is being assessed as part of the IFRS 9 project. The bank is well positioned to implement IFRS 15 for the financial year ending 30 June 2019. The bank has made progress with regards to the impact of IFRS 15.	Annual periods commencing on or after 1 January 2018
IFRS 16	**Leases** IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions. The bank is in the process of assessing the impact that IFRS 16 will have on the annual financial statements. Until the process has been completed, the bank is unable to determine the significance of the impact.	Annual periods commencing on or after 1 January 2019

29 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE continued

Standard	Impact assessment	Effective date
IFRS 17	**Insurance Contracts** IFRS 17 is the new standard that deals with the accounting for insurance contracts and will replace IFRS 4. IFRS 4 currently contains no requirements to account for insurance contracts in a specific way. The accounting treatment differs between different jurisdictions, which make it very difficult to compare one insurance company to another. IFRS 17 contains specific requirements and aims to provide more transparency and comparability between insurance companies and other industries. IFRS 17 provides a prescriptive approach on determining policyholder liabilities as well as the release of profit in these contracts to the income statement. The recognition of insurance revenue will be consistent with that of IFRS 15. Insurance revenue is derived by the movement in the liability for remaining insurance coverage. The insurance contract liability is initially made up of : ➢ the fulfilment cash flows, which represents the risk-adjusted present value of the entity's rights and obligations to the policyholders; and ➢ the contractual service margin (CSM), which represents the unearned profit the entity will recognise as it provides services over the coverage period. Subsequently, the liability comprises the liability for remaining coverage (fulfilment cash flows and the CSM) and the liability for incurred claims (fulfilment cash flows for claims and expenses already incurred but not yet paid). The group's insurance operations that will be accounted for in terms of this standard are conducted by entities outside the bank and the adoption of this standard will not impact the bank.	Annual periods commencing on or after 1 January 2021
IAS 40	**Transfers of Investment Property (Amendments to IAS 40)** The amendments introduce clarification of the requirements on transfers to, or from investment properties when there has been a change in use of the property The bank has no investment properties and the amendment will have no impact on the bank.	Annual periods commencing on or after 1 January 2018

29 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE continued

Standard	Impact assessment	Effective date
IFRIC 22	**Foreign Currency Transaction and Advance Consideration** This interpretation clarifies the accounting treatment for transactions that involves the advance receipt or payment of consideration in a foreign currency. The group is in the process of assessing the impact on the annual financial statements but it is not expected to have a significant impact.	Annual periods commencing on or after 1 January 2018
IFRIC 23	**Uncertainty over Income Tax Treatments** This interpretation is to be applied to the determination of taxable profit or loss(, tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. This interpretation clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency. When considering that the filing deadlines for tax returns and financial statement may be months apart, IFRIC 23 may require more rigour when finalising the judgements about the amounts to be included in the tax return before the financial statements are finalised. The bank is in the process of assessing the impact on the annual financial statements but it is not expected to have a significant impact.	Annual periods commencing on or after 1 January 2019
Annual Improvements	**Improvements to IFRS** The IASB issued the *Annual Improvements to IFRS Standards 2014-2016 Cycle*. These annual improvements include amendments to IFRS 1, IFRS 12 and IAS 28. The annual improvement project's aim is to clarify and improve accounting standards. The amendments have been assessed and are not expected to have a significant impact on the group.	Annual periods commencing on or after 1 January 2017 (IFRS 12) and 1 January 2018 (IAS 12 and IAS 28)

30 INTERESTS IN OTHER ENTITIES

In terms of IFRS 12, disclosures about structured entities are only required in the consolidated financial statements, unless separate financial statements are the only annual financial statements prepared by an entity. As the bank does not prepare consolidated financial statements, the following disclosures have been made. Refer to accounting policy 9.2 for additional information about the bank's decision not to prepare consolidated financial statements.

30.1 Structured entities

The bank uses structured entities in the ordinary course of business to support its own and customers' financing and investing needs.

Sponsorships of unconsolidated structured entities

The bank has also provided liquidity facilities and credit enhancement facilities to a non-recourse vehicle. The non-recourse vehicle is consolidated by the bank's fellow subsidiary, FRIHL. During the current year, assets to the value of R334 million were transferred by the bank to this entity. No assets were transferred in the prior year.

The bank has also provided letters of support to several external structured entities. None of these entities are consolidated by the FirstRand group however the bank's fellow subsidiary FRIHL does hold immaterial interests in some of these entities. During the current and prior year no fees were received from these entities and no assets were transferred by the bank to these entities.

30.2 Liquidity facilities

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

R million	Transaction type	2017	2016
Own transaction		**1 531**	988
iVuzi	Conduit	**1 531**	988
Third party transaction	Securitisation	**31**	31
Total facilities provided		**1 562**	1 019

All liquidity facilities granted to the structures/entities' transactions in the table above rank senior in terms of payment priority in the event of the drawdown. Economic capital is allocated to the liquidity facility extended to iVuzi as if the underlying assets were held by the bank.

31 FINANCIAL RISK

Overview of financial risks

The financial instruments recognised on the bank's statement of financial position, expose the bank to various financial risks. The information presented in this note represents the quantitative information required by IFRS 7 and sets out the bank's exposure to these financial risks This section also contains details about the bank's capital management process. A description of how the risks arise and the group's objectives, policies and processes for managing these financial risks and capital, are provided in the summary risk and capital management report in section B.

<table>
<tr><th colspan="3">Overview of financial risks</th></tr>
<tr><td rowspan="2">Credit risk</td><td colspan="2">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.</td></tr>
<tr><td>Credit risk arises primarily from the following instruments:
➢ advances; and
➢ certain investment securities.

Other sources of credit risk arise from:
➢ cash and cash equivalents;
➢ accounts receivable;
➢ derivative balances; and
➢ off-balance sheet exposures.</td><td>The following information is presented for these assets:
➢ summary of all credit assets (31.1.1);
➢ information about the quality of credit assets (31.1.2);
➢ exposure to concentration risk (31.1.3); and
➢ credit risk mitigation and collateral held (31.1.4).</td></tr>
</table>

31 FINANCIAL RISK continued

<table>
<tr><th colspan="3">Overview of financial risks</th></tr>
<tr><td rowspan="2">Liquidity risk</td><td colspan="2">Liquidity risk is the risk that the bank is unable to meet its obligations when these fall due and payable. It is also the risk of not being able to realise assets when to meet repayment obligations in a stress scenario.</td></tr>
<tr><td>Liquidity risk arises from all assets and liabilities with differing maturity profiles.</td><td>The following information is presented for these assets and liabilities:
➢ undiscounted cash flow analysis of financial liabilities (31.2.1);
➢ discounted cash flow analysis of total assets and liabilities (31.2.2);
➢ collateral pledged (31.2.3); and
➢ concentration analysis of deposits (31.2.4).</td></tr>
<tr><td rowspan="4">Market risk</td><td colspan="2">The bank distinguishes between market risk in the trading book and non-traded market risk. For non-traded market risk, the group distinguishes between interest rate risk in the banking book and structural foreign exchange risk.

Market risk in the trading book is the risk of adverse revaluation of any financial instrument as a consequence of changes in the market prices or rates.</td></tr>
<tr><td>Market risk in the trading book (31.3.1) emanates mainly from the provision of hedging solutions for clients, market-making activities and term-lending products, and is taken and managed by RMB.</td><td>The following information is presented for market risk in the trading book:
➢ 1 day 99% Value-at-risk (VaR) analysis; and
➢ 10 day 99% VaR analysis.</td></tr>
<tr><td>Interest rate risk in the banking book (31.4.1) originates from the differing repricing characteristics of balance sheet positions/instruments, yield curve risk, basis risk and client optionality embedded in banking book products.</td><td>The following information is presented for interest rate risk in the banking book:
➢ projected NII sensitivity to interest rate movements; and
➢ banking book NAV sensitivity to interest rate movements as a percentage of total bank capital.</td></tr>
<tr><td>Structural foreign exchange risk (31.4.2) arises from balances denominated in foreign currencies and bank entities with functional currencies other than the South African rand.</td><td>Information about the bank’s net structural foreign exposure and the sensitivity of the exposure is presented.</td></tr>
</table>

31 FINANCIAL RISK continued

<table>
<tr><th colspan="3">Overview of financial risks</th></tr>
<tr><td rowspan="2">Equity investment risk</td><td colspan="2">The risk of an adverse change in the fair value of an investment in a company, fund or listed, unlisted or bespoke financial instruments.</td></tr>
<tr><td>Equity investment risk (31.5) arises primarily from equity exposures from private equity and investment banking activities in RMB, and strategic investments held by WesBank, FNB and FCC.</td><td>For equity investment risk, both the exposure and the sensitivity thereof have been presented.</td></tr>
<tr><td>Capital management</td><td colspan="2">The overall capital management objective is to maintain sound capital ratios and a strong credit rating to ensure confidence in the bank's solvency and quality of capital during calm and turbulent periods in the economy and financial markets. The bank, therefore, maintains capitalisation ratios aligned to its risk appetite and appropriate to safeguard operations and stakeholder interests. The key focus areas and considerations of capital management are to ensure an optimal level and composition of capital, effective allocation of resources including capital and risk capacity, and a sustainable dividend policy.</td></tr>
</table>

31 FINANCIAL RISK continued

31.1 Credit risk

31.1.1 Credit assets

The following assets and off-balance sheet amounts expose the bank to credit risk. For all on-balance sheet exposures, the carrying amount recognised on the statement of financial position represents the maximum exposure to credit risk, before taking into account collateral and other credit enhancements.

R million	**2017**	2016
On-balance sheet exposures		
Cash and short-term funds	**47 136**	44 008
- Money at call and short notice	**25 684**	24 823
- Balances with central banks	**21 452**	19 185
Gross advances	**813 997**	778 625
- FNB	**332 938**	318 910
- Retail	**249 099**	240 208
- Commercial*	**83 566**	77 941
- Rest of Africa**	**273**	761
- WesBank	**170 195**	168 274
- RMB investment banking	**227 764**	216 102
- RMB corporate banking	**39 545**	34 442
- FCC (including Group Treasury)	**43 555**	40 897
Derivatives	**35 098**	39 923
Debt investment securities (excluding non-recourse investments)	**117 666**	97 589
Accounts receivable	**5 651**	4 561
Amounts due by holding company and fellow subsidiaries	**28 869**	32 793
Off-balance sheet exposure	**155 078**	141 233
- Total contingencies	**38 233**	39 144
- Guarantees	**31 875**	32 659
- Letters of credit#	**6 358**	6 485
- Irrevocable commitments	**112 698**	95 630
- Credit derivatives	**4 147**	6 459
Total	**1 203 495**	1 138 732

* *Includes public sector.*

** *Includes FNB's activities in India. FNB's subsidiaries in the rest of Africa form part of FREMA and are not reported in the bank.*

\# *Includes acceptances.*

31 FINANCIAL RISK continued

31.1.2 Quality of credit assets

Age analysis of advances

R million	2017				
		Past due but not impaired			
	Neither past due nor impaired	One full instalment past due	Two full instalments past due	Impaired (NPLs)	Total
FNB	315 849	4 183	3 006	9 900	332 938
- Retail	235 014	4 008	2 506	7 571	249 099
- Commercial*	80 611	175	500	2 280	83 566
- Rest of Africa**	224	-	-	49	273
RMB investment banking	226 587	37	3	1 137	227 764
RMB corporate banking	39 510	-	-	35	39 545
WesBank	156 363	4 193	2 202	7 437	170 195
FCC (including Group Treasury)	43 555	-	-	-	43 555
Total	**781 864**	**8 413**	**5 211**	**18 509**	**813 997**
Percentage of total book (%)	**96.1**	**1.0**	**0.6**	**2.3**	**100.0**

* *Includes public sector.*
** *Includes FNB's activities in India.*

R million	2016				
		Past due but not impaired			
	Neither past due nor impaired	One full instalment past due	Two full instalments past due	Impaired (NPLs)	Total
FNB	303 088	4 077	2 394	9 351	318 910
- Retail	226 658	3 987	2 294	7 269	240 208
- Commercial*	75 810	90	100	1 941	77 941
- Rest of Africa**	620	-	-	141	761
RMB investment banking	212 853	36	140	3 073	216 102
RMB corporate banking	34 325	-	1	116	34 442
WesBank	155 127	4 796	1 938	6 413	168 274
FCC (including Group Treasury)	40 897	-	-	-	40 897
Total	746 290	8 909	4 473	18 953	778 625
Percentage of total book (%)	95.9	1.1	0.6	2.4	100.0

* *Includes public sector.*
** *Includes FNB's activities in India. FNB's subsidiaries in the rest of Africa form part of FREMA and are not reported in the bank.*

Categorisations have been made in order to keep reporting in line with management structures.

31 FINANCIAL RISK continued

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

Credit quality of performing advances (neither past due nor impaired)

	2017							
		FNB						
R million	Total	Retail	Commercial*	Rest of Africa**	WesBank	RMB investment banking	RMB corporate banking	FCC (including Group Treasury)
FR 1 - 25	244 376	39 022	9 234	-	13 609	118 756	21 126	42 629
FR 26 - 90	527 895	189 781	70 200	224	140 731	107 654	18 381	924
Above FR 90	9 593	6 211	1 177	-	2 023	177	3	2
Total	781 864	235 014	80 611	224	156 363	226 587	39 510	43 555

	2016							
		FNB						
R million	Total	Retail	Commercial*	Rest of Africa**	WesBank	RMB investment banking	RMB corporate banking	FCC (including Group Treasury)
FR 1 - 25	225 839	41 126	6 495	3	12 688	108 693	16 290	40 544
FR 26 - 90	508 835	179 380	67 601	617	140 469	102 551	17 869	348
Above FR 90	11 616	6 152	1 714	-	1 970	1 609	166	5
Total	746 290	226 658	75 810	620	155 127	212 853	34 325	40 897

* *Includes public sector.*
** *Includes FNB's activities in India. FNB's subsidiaries in the rest of Africa form part of FREMA and are not reported in the bank.*

For more detail about the FR rating scales and the link to rating agency scales refer to the credit section in the summary risk and capital management report in section B.

31 FINANCIAL RISK continued

Analysis of impaired advances (NPLs)

	2017		
R million	Total net of interest in suspense	Security held and expected recoveries	Specific impairment
NPLs by class			
- Retail	7 571	4 623	2 948
- Commercial	2 280	1 225	1 055
- Rest of Africa	49	29	20
FNB	9 900	5 877	4 023
- Investment banking	1 137	453	684
- Corporate banking	35	21	14
RMB	1 172	474	698
WesBank	7 437	5 010	2 427
Total NPLs	18 509	11 361	7 148
NPLs by category			
Overdrafts and cash management accounts	1 879	785	1 094
Term loans	1 060	574	486
Card loans	972	317	655
Instalment sales and hire purchase agreements	6 167	4 191	1 976
Lease payments receivable	107	68	39
Property finance	4 750	3 713	1 037
Personal loans	2 832	1 370	1 462
Investment bank term loans	721	337	384
Other	21	6	15
Total NPLs	18 509	11 361	7 148

31 FINANCIAL RISK continued

R million	2016 Total net of interest in suspense	Security held and expected recoveries	Specific impairment
NPLs by class			
- Retail	7 269	4 431	2 838
- Commercial	1 941	1 007	934
- Rest of Africa	141	45	96
FNB	9 351	5 483	3 868
- Investment banking	3 073	1 842	1 231
- Corporate banking	116	71	45
RMB	3 189	1 913	1 276
WesBank	6 413	4 249	2 164
Total NPLs	18 953	11 645	7 308
NPLs by category			
Overdraft and cash management accounts	1 784	710	1 074
Term loans	860	529	331
Card loans	805	262	543
Instalment sales and hire purchase agreements	5 318	3 578	1 740
Lease payments receivable	158	101	57
Property finance	4 898	3 839	1 059
Personal loans	2 433	1 024	1 409
Investment bank term loans	2 632	1 567	1 065
Other	65	35	30
Total NPLs	18 953	11 645	7 308

31 FINANCIAL RISK continued

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

R million	Debt investment securities	Derivatives	Cash and short-term funds	Amounts due by fellow subsidiaries	Accounts receivable	Total
	2017					
AAA to BBB-	**105 840**	**29 014**	**46 384**	**28 869**	**1 057**	**211 164**
BB+ to B-	**11 826**	**6 084**	**742**	**-**	**2 701**	**21 353**
CCC	**-**	**-**	**-**	**-**	**-**	**-**
Unrated	**-**	**-**	**10**	**-**	**15**	**25**
Total	**117 666**	**35 098**	**47 136**	**28 869**	**3 773**	**232 542**

R million	Debt investment securities	Derivatives	Cash and short-term funds	Amounts due by fellow subsidiaries	Accounts receivable	Total
	2016					
AAA to BBB-	95 000	33 370	43 864	32 793	445	205 472
BB+ to B-	2 589	6 537	144	-	1 918	11 188
CCC	-	16	-	-	1	17
Unrated	-	-	-	-	150	150
Total	97 589	39 923	44 008	32 793	2 514	216 827

31 FINANCIAL RISK continued

The age analysis of financial instruments included in accounts receivable is provided in the table below.

	2017					
		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	**1 691**	**2**	**-**	**1**	**-**	**1 694**
Interest and commission accrued	**66**	**-**	**-**	**-**	**-**	**66**
Sundry debtors	**817**	**4**	**2**	**1**	**6**	**830**
Other accounts receivable	**1 199**	**61**	**34**	**37**	**7**	**1 338**
Total financial accounts receivable	**3 773**	**67**	**36**	**39**	**13**	**3 928**

	2016					
		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	1 338	-	-	-	-	1 338
Interest and commission accrued	165	-	-	-	-	165
Sundry debtors	731	6	1	9	1	748
Other accounts receivable	280	44	3	27	-	354
Total financial accounts receivable	2 514	50	4	36	1	2 605

31.1.3 Concentration risk

Credit concentration risk is the risk of loss to the bank arising from an excessive concentration of exposure to a single counterparty, industry, market, product, financial instrument or type of security, country or region, or maturity. This concentration typically exists when a number of counterparties are engaged in similar activities and have similar characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

Concentration risk is managed based on the nature of the credit concentration in each portfolio. The bank's credit portfolio is well diversified, achieved through setting maximum exposure guidelines to individual counterparties. The bank constantly reviews its concentration levels and sets maximum exposure guidelines for these.

The bank seeks to establish a balanced portfolio profile and closely monitors credit concentrations.

31 FINANCIAL RISK continued

The following tables provide a breakdown of credit exposure across geographical areas.

Geographic concentration of significant credit asset exposure

	2017							
R million	South Africa	Rest of Africa	United Kingdom	Other Europe	North and South America	Austra-lasia	Asia	Total
On-balance sheet exposures								
Cash and short-term funds	37 341	42	5 794	1 948	1 779	73	159	47 136
Total advances	739 447	26 982	35 810	5 475	2 161	1	4 121	813 997
NPLs	17 761	111	172	58	358	-	49	18 509
Derivatives	20 462	518	11 627	1 682	475	-	334	35 098
Debt investment securities (excluding non-recourse investments)	105 978	1 046	3 209	1 206	1 511	-	4 716	117 666
Accounts receivable	4 402	79	810	31	278	1	50	5 651
Off-balance sheet exposures								
Guarantees, acceptances and letters of credit	31 287	2 702	30	719	263	215	3 017	38 233
Irrevocable commitments	105 561	3 465	636	2 731	176	-	129	112 698

31 FINANCIAL RISK continued

	2016							
R million	South Africa	Rest of Africa	United Kingdom	Other Europe	North and South America	Austra-lasia	Asia	Total
On-balance sheet exposures								
Cash and short-term funds	32 656	117	5 898	2 951	2 086	115	185	44 008
Total advances	707 712	25 740	32 255	6 155	1 750	409	4 604	778 625
NPLs	16 674	1 569	126	62	379	-	143	18 953
Derivatives	20 700	792	14 491	3 281	463	10	186	39 923
Debt investment securities (excluding non-recourse investments)	78 491	579	3 851	1 033	8 824	-	4 811	97 589
Accounts receivable	3 462	33	715	22	209	5	115	4 561
Off-balance sheet exposures								
Guarantees, acceptances and letters of credit	32 969	2 383	560	844	333	613	1 442	39 144
Irrevocable commitments	87 888	4 889	707	1 874	119	-	153	95 630

31 FINANCIAL RISK continued

Sector analysis concentration of advances

Advances expose the bank to concentration risk to the various industry sectors. The tables below set out the bank's exposure to the various industry sectors for total advances and NPLs.

R million	2017			
		NPLs		
	Total advances	Total value net of interest in suspense	Security held and expected recoveries	Specific impairment
Sector analysis				
Agriculture	30 220	620	508	112
Banks	4 951	-	-	-
Financial institutions	132 200	94	50	44
Building and property development	42 637	1 060	505	555
Government, Land Bank and public authorities	22 740	27	8	19
Individuals	372 740	14 084	9 120	4 964
Manufacturing and commerce	92 148	950	436	514
Mining	16 461	485	152	333
Transport and communication	18 354	152	73	79
Other services	81 546	1 037	509	528
Gross value of advances	**813 997**	**18 509**	**11 361**	**7 148**
Impairment and fair value of credit of advances	(14 578)			
Net advances	**799 419**			

31 FINANCIAL RISK continued

	2016			
		NPLs		
R million	Total advances	Total value net of interest in suspense	Security held and expected recoveries	Specific impairment
Sector analysis				
Agriculture	28 032	393	313	80
Banks	10 674	41	31	10
Financial institutions*	115 944	91	49	42
Building and property development*	43 984	1 237	578	659
Government, Land Bank and public authorities	19 524	12	6	6
Individuals	366 556	13 027	8 369	4 658
Manufacturing and commerce	86 185	766	319	447
Mining	16 426	2 013	1 256	757
Transport and communication	19 039	196	61	135
Other services*	72 261	1 177	663	514
Gross value of advances	778 625	18 953	11 645	7 308
Impairment and fair value of credit of advances	(14 537)			
Net advances	764 088			

**An analysis of other services was undertaken and has resulted in an amount of R19 310 million being restated to financial institutions R14 641 million and building and property development R4 669 million in the prior year.*

31.1.4 Credit risk mitigation and collateral held

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

Although, in principle, credit assessment focuses on the counterparty's ability to repay the debt, credit mitigation instruments are used where appropriate to reduce the bank's lending risk, resulting in security against the majority of exposures. These include financial or other collateral, netting agreements, guarantees or credit derivatives. The collateral types are driven by portfolio, product or counterparty type.

Credit risk mitigation instruments

- Mortgage and instalment sale finance portfolios in FNB HomeLoans, FNB Wealth and WesBank are secured by the underlying assets financed.
- FNB commercial credit exposures are secured by the assets of the SME counterparties and commercial property finance deals are secured by the underlying property and associated cash flows.
- Structured facilities in RMB are secured as part of the structure through financial or other collateral, including guarantees, credit derivative instruments and assets.
- Counterparty credit risk in RMB is mitigated through the use of netting agreements and financial collateral. For additional information relating to the use of the netting agreements refer to page C170.
- Personal loans, overdrafts and credit card exposures are generally unsecured or secured by guarantees and sureties.
- Working capital facilities in RMB corporate banking are unsecured.

31 FINANCIAL RISK continued

The bank employs strict policies governing the valuation and management of collateral across all business areas. Collateral is managed internally to ensure that title is retained over collateral taken over the life of the transaction. Collateral is valued at inception of the credit agreement and subsequently where necessary through physical inspection or index valuation methods. For corporate and commercial counterparties, collateral is reassessed during the annual review of the counterparty's creditworthiness to ensure that proper title is retained. For mortgage portfolios, collateral is revalued on an ongoing basis using an index model and physical inspection is performed in the event of default at the beginning of the recovery process.

For asset finance, the total security reflected represents only the realisation value estimates of the vehicles repossessed at the date of repossession. Where the repossession has not yet occurred, the realisation value of the vehicle is estimated using internal models and is included as part of total recoveries.

Concentrations in credit risk mitigation types, such as property, are monitored and managed in the three credit portfolios, FNB home loans, housing finance and wealth monitor exposure to a number of geographical areas, as well as within loan-to-value bands.

Collateral is taken into account for capital calculation purposes through the determination of LGD. Collateral reduces LGD, and LGD levels are determined through statistical modelling techniques based on historical experience of the recovery processes.

The table below sets out the financial effect of collateral per class of advance.

Collateral held per class of advance

R million	**2017**	2016
Retail	**4 695**	4 517
Commercial	**1 119**	743
Rest of Africa	**29**	48
FNB	**5 843**	5 308
Investment banking	**1 291**	1 848
Corporate banking	**283**	412
RMB	**1 574**	2 260
WesBank	**2 181**	2 362
FCC and other	**-**	-
Total	**9 598**	9 930

The financial effect of collateral and other credit enhancements has been calculated separately per class of advance for the performing book (IBNR and portfolio specific impairments) and the non-performing book. The amounts disclosed above represent the difference between the impairment recognised in the statement of financial position using the actual LGD and a proxy LGD for all secured portfolios. The proxy LGD is based on the LGD used to determine the impairment on the statement of financial position for unsecured portfolios.

Where there is no collateral or where collateral is disregarded for provisioning purposes, no financial effect is calculated.

31 FINANCIAL RISK continued

The table below sets out the cash collateral held against the net

Collateral held against derivative positions

R million	2017	2016
Cash collateral held	**3 942**	5 828

The table below sets out the collateral that the bank holds and has the ability to sell or repledge in the absence of default by the owner of the collateral:

Collateral held in structured transactions

	2017		2016	
R million	**Fair Value**	**Fair value of collateral sold or repledged in the absence of default**	Fair Value	Fair value of collateral sold or repledged in the absence of default
Cash and cash equivalents	**5 878**	**-**	7 311	-
Investment securities and other investments - held under reverse repurchase agreements	**30 885**	**19 617**	42 451	30 166
Investment securities and other investments - other*	**4 121**	**3 578**	4 066	4 066
Total collateral pledged	**40 884**	**23 195**	53 828	34 232

* *The amount excludes securities lending transactions where securities are obtained as collateral for securities lent. This is in line with industry practice.*

31 FINANCIAL RISK continued

The table below sets out the reconciliation of collateral taken possession of and recognised on the statement of financial position.

Collateral taken possession of

	Property	
R million	**2017**	2016
Opening balance	**-**	68
Net movement	**-**	(68)

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.

Offsetting of financial assets and financial liabilities

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. In addition, the bank has set up a function to clear OTC derivatives centrally as part of risk mitigation.

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 daily, including daily margin calls based on the approved CSA thresholds.

The table on the following page includes information about financial assets and financial liabilities that are:

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

Structured transactions refer to reverse repurchase, securities borrowing and similar arrangements in the asset section of the table and repurchase securities lending and similar arrangements in the liability section of the table.

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

31 FINANCIAL RISK continued

31.1.4 Credit risk mitigation and collateral held

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

	Derivatives		Structured transactions		Other advances/ (deposits)		Intercompany	
R million	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
Assets								
Offsetting applied								
Gross amount	**43 987**	51 385	**37 490**	49 483	**-**	300	**6 288**	8 586
Amount set-off	**(10 478)**	(13 949)	**(9 305)**	(11 729)	**-**	(300)	**(1 187)**	(929)
Net amount reported on the statement of financial position	**33 509**	37 436	**28 185**	37 754	**-**	-	**5 101**	7 657
Offsetting not applied								
Financial instruments subject to MNA and similar agreements	**(27 480)**	(27 569)	**(44)**	(4 179)	**-**	-	**(33)**	(68)
Financial collateral	**(2 277)**	(3 679)	**(28 141)**	(33 575)	**-**	-	**-**	-
Net amount	**3 752**	6 188	**-**	-	**-**	-	**5 068**	7 589
Financial instruments not subject to set-off or MNA	**1 589**	2 487	**2 700**	4 697	**768 534**	721 637	**23 768**	25 136
Total as per statement of financial position	**35 098**	39 923	**30 885**	42 451	**768 534**	721 637	**28 869**	32 793
Liabilities								
Offsetting applied								
Gross amount	**49 796**	59 320	**37 681**	46 816	**-**	300	**1 262**	1 610
Amount set-off	**(10 478)**	(13 949)	**(9 305)**	(11 729)	**-**	(300)	**(1 187)**	(929)
Net amount reported on the statement of financial position	**39 318**	45 371	**28 376**	35 087	**-**	-	**75**	681
Offsetting not applied								
Financial instruments subject to MNA and similar agreements	**(27 480)**	(27 569)	**(44)**	(4 179)	**-**	-	**(33)**	(68)
Financial collateral	**(929)**	(729)	**(27 660)**	(30 908)	**-**	-	**-**	-
Net amount	**10 909**	17 073	**672**	-	**-**	-	**42**	613
Financial instruments not subject to set-off or MNA	**4 342**	5 253	**3 861**	5 539	**844 453**	785 991	**14 505**	13 316
Total as per statement of financial position	**43 660**	50 624	**32 237**	40 626	**844 453**	785 991	**14 580**	13 997

31 FINANCIAL RISK continued

31.2 Liquidity risk

31.2.1 Undiscounted cash flow

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

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

	2017			
		Term to maturity		
R million	Carrying amount	Call - 3 months	4 - 12 months	> 12 months and non-contractual
On-balance sheet amounts				
Deposits and current accounts	951 487	627 229	143 523	180 735
Short trading positions	15 211	15 211	-	-
Derivative financial instruments	43 907	41 222	708	1 977
Creditors, accruals and provisions	13 081	9 149	658	3 274
Tier 2 liabilities	24 333	338	2 883	21 112
Other liabilities	4 744	729	455	3 560
Amounts due to holding company and fellow subsidiaries	14 631	13 830	615	186
Off-balance sheet amounts				
Financial and other guarantees	35 718	34 547	1 003	168
Operating lease commitments	2 820	272	703	1 845
Other contingencies and commitments	3 563	1 129	1 926	508
Facilities not drawn	112 698	112 698	-	-

31 FINANCIAL RISK continued

R million	2016			
		Term to maturity		
	Carrying amount	Call - 3 months	4 - 12 months	> 12 months and non-contractual
On-balance sheet amounts				
Deposits and current accounts	893 631	571 695	128 119	193 817
Short trading positions	14 221	14 221	-	-
Derivative financial instruments	51 431	46 593	1 139	3 699
Creditors, accruals and provisions	12 521	9 731	319	2 471
Tier 2 liabilities	23 704	298	2 454	20 952
Other liabilities	5 631	663	3 382	1 586
Amounts due to holding company and fellow subsidiaries	14 080	13 232	371	477
Off-balance sheet amounts				
Financial and other guarantees	37 622	33 203	1 911	2 508
Operating lease commitments	2 495	424	565	1 506
Other contingencies and commitments	1 846	1 690	154	2
Facilities not drawn	95 630	95 630	-	-

31 FINANCIAL RISK continued

31.2.2 Discounted cash flow analysis

The following table represents the bank's contractual discounted cash flows of total assets, liabilities and equity for the bank. Relying solely on the 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 gap in the shorter term due to short-term institutional funds which represent a significant proportion of banks' liabilities. These are used to fund long-term assets, e.g. mortgages.

	2017			
		Term to maturity		
R million	**Carrying amount**	**Call - 3 months**	**4 - 12 months**	**> 12 months**
Total assets	**1 082 151**	**353 777**	**116 574**	**611 800**
Total equity and liabilities	**1 082 151**	**708 452**	**136 461**	**237 238**
Net liquidity gap	**-**	**(354 675)**	**(19 887)**	**374 562**
Cumulative liquidity gap	**-**	**(354 675)**	**(374 562)**	**-**

	2016			
		Term to maturity		
R million	Carrying amount	Call - 3 months	4 - 12 months	> 12 months
Total assets	1 031 579	338 218	113 944	579 417
Total equity and liabilities	1 031 579	657 735	121 310	252 534
Net liquidity gap	-	(319 517)	(7 366)	326 883
Cumulative liquidity gap	-	(319 517)	(326 883)	-

As illustrated in the table above, the negative liquidity short-term gap increased in the short end on a cumulative basis. This is aligned to the funding strategy to grow the deposit franchise via transactional deposit accounts. Management continues to align stress funding buffers both locally and offshore, taking into account prevailing economic and market conditions.

31 FINANCIAL RISK continued

31.2.3 Collateral pledged

The bank pledges assets under the following terms and conditions:

- mandatory reserve deposits are held with the central bank in accordance with statutory requirements and 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; and
- 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. Pledged assets are not available in the normal course of business.

The following assets have been pledged to secure the liabilities set out in the table below. These assets are not available in the normal course of business.

R million	2017	2016
Cash and cash equivalents	**2 205**	1 725
Advances	**1 801**	2 541
Investment securities - held under repurchase agreements	**25 880**	18 584
Investment securities - other	**-**	77
Total assets pledged	**29 886**	22 927

The following liabilities have been secured by the bank pledging either its own or borrowed financial assets, except for the short trading positions which are covered by borrowed securities only.

R million	2017	2016
Short trading positions	**15 211**	14 221
Total deposits	**32 300**	40 738
- Deposits under repurchase agreements	**28 140**	35 868
- Deposits in securities lending transactions	**4 098**	4 726
- Other secured deposits	**62**	144
Other	**3 944**	1 598
Total liabilities secured	**51 455**	56 557

Securities lending transactions include only those where cash is placed against the securities borrowed. Transactions where securities are lent and borrowed and other securities placed against the borrowing and lending are excluded.

31 FINANCIAL RISK continued

31.2.4 Concentration analysis of deposits

R million	2017	2016
Sector analysis		
Deposit current accounts and other loans		
Sovereigns, including central banks	**68 358**	61 312
Public sector entities	**33 215**	29 948
Local authorities	**7 907**	8 705
Banks	**59 478**	73 755
Securities firms	**17 453**	20 157
Corporate customers	**428 456**	366 550
Retail customers	**259 598**	263 262
Other	**2 225**	2 928
Total deposits	**876 690**	826 617
Geographical analysis		
South Africa	**811 319**	754 329
Rest of Africa	**20 651**	16 601
UK	**28 123**	31 714
Other	**16 597**	23 973
Total deposits	**876 690**	826 617

31 FINANCIAL RISK continued

31.3 Market risk

The bank distinguishes between market risk in the trading book and non-traded market risk.

31.3.1 Market risk in the trading book

VaR analysis by risk type

The following table reflects the 1-day VaR at the 99% confidence level at 30 June 2017.

	2017				2016
R million	**Min***	**Max***	**Average**	**Period end**	Period end
Risk type#					
Equities	**0.6**	**44.8**	**4.9**	**5.3**	2.3
Interest rates**	**21.8**	**129.3**	**46.1**	**55.5**	95.5
Foreign exchange	**5.7**	**95.9**	**33.7**	**23.6**	48.1
Commodities	**3.6**	**78.0**	**13.8**	**19.2**	16.8
Traded credit	**6.3**	**16.1**	**11.1**	**8.0**	12.7
Diversification effect				**(75.0)**	(108.5)
Diversified total	**18.9**	**104.4**	**49.3**	**36.7**	66.9

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

** *Interest rate risk in the trading book.*

\# *Excludes foreign branches and subsidiaries in the rest of Africa, which are reported on the standardised approach for market risk.*

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

	2017		2016	
	Period end		Period end	
R million	**VaR**	**sVaR**	VaR	sVaR
Risk type*				
Equities	**12.0**	**27.0**	4.9	13.6
Interest rates	**77.3**	**107.2**	248.1	95.3
Foreign exchange	**86.1**	**116.1**	88.5	133.1
Commodities	**38.6**	**35.4**	24.7	32.0
Traded credit	**17.9**	**21.9**	26.7	34.1
Diversification effect	**(152.7)**	**(120.1)**	(245.4)	(161.8)
Diversified total	**79.2**	**187.5**	147.4	146.3

* *Excludes foreign branches and subsidiaries in the rest of Africa, which are reported on the standardised approach for market risk. The sVaR numbers relates to FirstRand Bank SA only.*

31 FINANCIAL RISK continued

31.4 Non-traded market risk

31.4.1 Interest rate risk in the banking book

Earnings sensitivity

Earnings models are run on a monthly basis to provide a measure of the NII sensitivity of the existing banking book to shocks in interest rates. Underlying transactions are modelled on a contractual basis and behavioural adjustments are applied where relevant. The calculation, assumes a constant balance sheet size and product mix over the forecast horizon.. A pass-through assumption is applied in relation to non-maturing deposits, which reprice at the bank’s discretion. This assumption is based on historical product behaviour.

The following tables show the 12-month NII sensitivity for a sustained, instantaneous parallel 200 bps downward and upward shock to interest rates.

Most of NII sensitivity is a result of the endowment book mismatch. The bank's average endowment book was R183 billion for the year (2016: R154 billion).

Projected ZAR NII sensitivity to interest rate movements

	Change in projected 12-month NII	
R million	**2017**	2016
Downward 200 bps	**(1 498)**	(1 821)
Upward 200 bps	**957**	1 475

Assuming no change in the balance sheet and no management action in response to interest rate movements, an instantaneous, sustained parallel 200 bps decrease in interest rates would result in a reduction in projected 12-month NII of R1 498 million (2016: R1 821 million). A similar increase in interest rates would result in an increase in projected 12-month NII of R957 million (2016: R1 475 million).

31 FINANCIAL RISK continued

Economic value of equity (EVE)

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

The EVE shock applied is based on regulatory guidelines and is a sustained, instantaneous parallel 200 bps downward and upward shock to interest rates. This is applied to risk portfolios as managed by Group Treasury which, as a result of the risk transfer through the internal funds transfer pricing process, captures relevant open risk positions in the banking book. This measure does not take into account the unrealised economic benefit embedded as a result of the banking book products which are not recognised at fair value.

The following table:

- highlights the sensitivity of banking book NAV as a percentage of total capital; and
- reflects a point-in-time view which is dynamically managed and can fluctuate over time.

Banking book NAV sensitivity to interest rate movements as a percentage of total bank capital

%	**2017**	**2016**
Downward 200 bps	**2.53**	0.11
Upward 200 bps	**(2.26)**	(0.07)

31 FINANCIAL RISK continued

31.4.2 Structural foreign exchange risk

The table below provides an overview of the bank's exposure to entities with functional currencies other than the South African rand and the pre-tax impact on equity of a 15% change in the exchange rate between the South African rand and the relevant functional foreign currencies. There were no significant structural hedging strategies employed by the bank in the current financial year.

Net structural foreign exposures

	2017		2016	
	Carrying value of net investment	**Pre tax impact on equity from 15% currency translation shock**	Carrying value of net investment	Pre tax impact on equity from 15% currency translation shock
United States dollar	**2 390**	**358**	2 601	390
Sterling	**1 833**	**275**	1 288	193
Indian rupee	**611**	**92**	727	109
Total	**4 834**	**725**	4 616	692

31.5 Equity investment risk

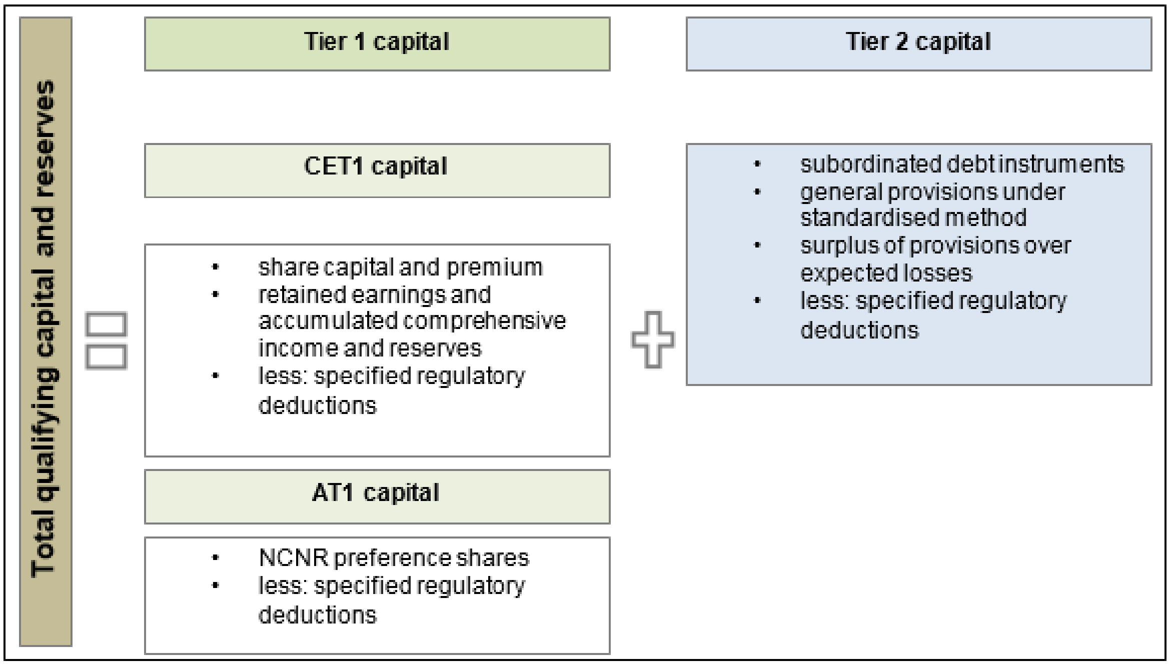
The table below shows the equity investment risk exposure and sensitivity. The 10% sensitivity movement is calculated on the carrying value of investments excluding investments subject to expected tail loss (ETL) process. The impact of the sensitivity movements would be recognised in profit or loss

Investment risk exposure and sensitivity of investment risk exposure

R million	**2017**	2016
Listed investment risk exposure included in the equity investment risk ETL process	**-**	41
ETL on above equity investment risk exposures	**-**	3
Estimated sensitivity of remaining investment balances		
Sensitivity to 10% movement in market value on investment fair value	**221**	222

31 FINANCIAL RISK continued

31.6 Capital management



The capital planning process ensures that the total capital adequacy and CET1 ratios remain within or above targets across economic and business cycles. Capital is managed on a forward-looking basis, and the bank remains appropriately capitalised under a range of normal and severe stress scenarios, which includes expansion initiatives, corporate transactions, as well as ongoing regulatory, accounting and tax developments. The bank aims to back all economic risk with loss absorbing capital and remains well capitalised in the current environment.

The bank continues to focus on maintaining strong capital and leverage levels, with focus on the quality of capital and optimisation of the bank's RWA and capital mix.

FirstRand Bank comfortably operated above its capital and leverage targets during the year. The internal targets set by management are more stringent than the regulatory imposed targets. The table below summarises the bank's capital and leverage targets as at 30 June 2017.

Composition of capital analysis (audited)

	CET1 capital	Tier 1 capital	Total qualifying capital
Internal targets	10% - 11%	> 12%	> 14%

31 FINANCIAL RISK continued

Capital adequacy position for the bank and its foreign branches

The bank's registered foreign branches must comply with SARB regulations and those of the respective in-country regulators, with primary focus placed on Tier 1 capital and total capital adequacy ratios. Based on the outcome of detailed stress testing, each entity targets a capital level in excess of the regulatory minimum. Adequate controls and processes are in place to ensure that each entity is adequately capitalised to meet local and SARB regulatory requirements. Capital generated by branches in excess of targeted levels is returned to FirstRand Bank, usually in the form of a return of profits. During the period, no restrictions were experienced on the repayment of such profits to the bank.

32 SUBSEQUENT EVENTS

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

supplementary information

D 02 – 06

COMPANY INFORMATION

COMPANY SECRETARY AND REGISTERED OFFICE

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

SPONSOR

(in terms of JSE debt listing requirements)
Rand Merchant Bank (a division of FirstRand Bank Limited)
Debt Capital Markets
1 Merchant Place, Corner Fredman Drive and Rivonia Road
Sandton 2196
Tel: +27 11 282 8118
Fax: +27 11 282 4184

AUDITORS

PricewaterhouseCoopers Inc.
2 Eglin Road, Sunninghill
Sandton 2196

Deloitte & Touche
Building 8, Deloitte Place
The Woodlands, Woodlands Drive
Woodmead, Sandton
Docex 10 Johannesburg

LISTED FINANCIAL INSTRUMENTS OF THE BANK

LISTED DEBT INSTRUMENTS

Issuer: FirstRand Bank Limited
Johannesburg Stock Exchange (JSE)
Domestic medium term note programme

BOND CODE	ISIN CODE
Subordinated debt	
FRB05	ZAG000031337
FRB11	ZAG000102054
FRB12	ZAG000116278
FRB13	ZAG000116286
FRB14	ZAG000116294
Senior unsecured	
FRBZ01	ZAG000049255
FRBZ02	ZAG000072711
FRBZ03	ZAG000080029
FRJ18	ZAG000084187
FRJ19	ZAG000104563
FRJ20	ZAG000109596
FRJ21	ZAG000115858
FRJ25	ZAG000124256
FRJ27	ZAG000141912
FRS36	ZAG000077397
FRS37	ZAG000077793
FRS43	ZAG000078643
FRS46	ZAG000079807
FRS49	ZAG000081787
FRS51	ZAG000086117
FRS62	ZAG000090614
FRS64	ZAG000092529
FRS81	ZAG000100892
FRS85	ZAG000104985
FRS86	ZAG000105008
FRS87	ZAG000105420
FRS90	ZAG000106410
FRS94	ZAG000107871
FRS96	ZAG000108390
FRS100	ZAG000111634
FRS101	ZAG000111774
Inflation-linked bonds	
FRBI22	ZAG000079666
FRBI23	ZAG000076498
FRBI25	ZAG000109588

BOND CODE	ISIN CODE
Subordinated debt	
FRB15	ZAG000124199
FRB16	ZAG000127622
FRB17	ZAG000127630
FRB18	ZAG000135229
FRB19	ZAG000135310
Senior unsecured	
FRS103	ZAG000111840
FRS104	ZAG000111857
FRS108	ZAG000113515
FRS109	ZAG000113564
FRS110	ZAG000113663
FRS112	ZAG000115395
FRS113	ZAG000115478
FRS114	ZAG000116070
FRS115	ZAG000116740
FRS119	ZAG000118951
FRS120	ZAG000119298
FRS121	ZAG000120643
FRS122	ZAG000121062
FRS123	ZAG000121328
FRS124	ZAG000122953
FRS126	ZAG000125188
FRS127	ZAG000125394
FRS129	ZAG000125865
FRS130	ZAG000125873
FRS131	ZAG000126186
FRS132	ZAG000126194
FRS133	ZAG000126541
FRS134	ZAG000126574
FRS135	ZAG000126608
FRS136	ZAG000126780
FRS137	ZAG000127549
Inflation-linked bonds	
FRBI28	ZAG000079237
FRBI33	ZAG000079245
FRBI38	ZAG000141862

BOND CODE	ISIN CODE
Subordinated debt	
FRB20	ZAG000135385
FRB21	ZAG000140856
FRB22	ZAG000141219
FRBC21	ZAG000052283
FRBC22	ZAG000052390
Senior unsecured	
FRS138	ZAG000127556
FRS142	ZAG000130782
FRS143	ZAG000130790
FRS145	ZAG000131483
FRS146	ZAG000134636
FRS147	ZAG000135724
FRS148	ZAG000136144
FRS149	ZAG000136573
FRS150	ZAG000136615
FRS151	ZAG000136987
FRS152	ZAG000136995
FRS153	ZAG000137670
FRS157	ZAG000144197
FRS158	ZAG000145012
FRS160	ZAG000145038
FRS161	ZAG000145046
FRX17	ZAG000094376
FRX18	ZAG000076472
FRX19	ZAG000073685
FRX24	ZAG000073693
FRX26	ZAG000112160
FRX27	ZAG000142506
FRX30	ZAG000124264
FRX31	ZAG000084195
FRX32	ZAG000142514
Inflation-linked bonds	
FRBI46	ZAG000135302
FRBI50	ZAG000141649
FRI33	ZAG000141706

LISTED DEBT INSTRUMENTS *continued*

BOND CODE	ISIN CODE
Credit-linked notes	
FRC46	ZAG000082959
FRC61	ZAG000087347
FRC66	ZAG000088485
FRC67	ZAG000088741
FRC69	ZAG000088766
FRC71	ZAG000088923
FRC76	ZAG000089574
FRC107	ZAG000094574
FRC109	ZAG000094889
FRC112	ZAG000095621
FRC113	ZAG000095761
FRC115	ZAG000095852
FRC116	ZAG000095860
FRC124	ZAG000096579
FRC125	ZAG000096678
FRC134	ZAG000097056
FRC144	ZAG000097569
FRC145	ZAG000097627
FRC150	ZAG000099821
FRC151	ZAG000099904
FRC152	ZAG000100330
FRC153	ZAG000100348
FRC154	ZAG000100694
FRC155	ZAG000101643
FRC161	ZAG000102260
FRC163	ZAG000102898
FRC166	ZAG000103573
FRC167	ZAG000104019
FRC168	ZAG000104753
Structured notes	
FRPT01	ZAE000205480

BOND CODE	ISIN CODE
Credit-linked notes	
FRC169	ZAG000104852
FRC170	ZAG000105586
FRC171	ZAG000105719
FRC172	ZAG000105818
FRC173	ZAG000105826
FRC174	ZAG000105891
FRC176	ZAG000107178
FRC177	ZAG000107632
FRC178	ZAG000107897
FRC179	ZAG000108168
FRC181	ZAG000108549
FRC182	ZAG000108713
FRC183	ZAG000109356
FRC185	ZAG000111451
FRC188	ZAG000111873
FRC189	ZAG000112145
FRC192	ZAG000114521
FRC195	ZAG000114745
FRC206	ZAG000116088
FRC207	ZAG000117649
FRC208	ZAG000117656
FRC209	ZAG000118613
FRC210	ZAG000120296
FRC211	ZAG000121013
FRC212	ZAG000121054
FRC213	ZAG000121047
FRC214	ZAG000121039
FRC215	ZAG000121021
FRC216	ZAG000121070
Structured notes	
FKR01	ZAE000193454

BOND CODE	ISIN CODE
Credit-linked notes	
FRC217	ZAG000121088
FRC218	ZAG000121096
FRC219	ZAG000121138
FRC220	ZAG000121146
FRC221	ZAG000121229
FRC225	ZAG000121435
FRC231	ZAG000125030
FRC233	ZAG000128752
FRC234	ZAG000130816
FRC236	ZAG000135211
FRC237	ZAG000135203
FRC238	ZAG000135237
FRC239	ZAG000135245
FRC240	ZAG000135252
FRC241	ZAG000135393
FRC242	ZAG000135401
FRC243	ZAG000135419
FRC244	ZAG000135427
FRC245	ZAG000135468
FRC246	ZAG000135476
FRC247	ZAG000135484
FRC248	ZAG000135450
FRC249	ZAG000135542
FRC250	ZAG000135559
FRC251	ZAG000141813
FRC252	ZAG000142225
FRC254	ZAG000144825
FRD013	ZAG000128695

London Stock Exchange (LSE)

European medium term note programme

ISIN CODE
Senior unsecured
XS0610341967
XS1225512026
XS1178685084

Swiss Stock Exchange (SIX)

ISIN CODE
Senior unsecured
CH0238315680

DEFINITIONS

Additional Tier 1 capital (AT1)	NCNR preference share capital less qualifying capital less specified regulatory deductions.
CAGR	Compound annual growth rate.
Capital adequacy ratio (CAR)	Total qualifying capital and reserves divided by RWA.
Common Equity Tier 1 (CET1) capital	Share capital and premium plus accumulated comprehensive income and reserves less specified regulatory deductions.
Cost-to-income ratio	Operating expenses excluding indirect taxes expressed as a percentage of total income including share of profits from associates and joint ventures.
Credit loss ratio	Total impairment charge per the income statement expressed as a percentage of average advances (average between the opening and closing balance for the year).
Diversity ratio	Non-interest revenue expressed as a percentage of total income including share of profits from associates and joint ventures.
Effective tax rate	Tax per the income statement divided by the profit before tax per the income statement.
EMTN	European medium term note programme.
Impairment charge	Amortised cost impairment charge and credit fair value adjustments.
Loan-to-deposit ratio	Average advances expressed as a percentage of average deposits.
Loss given default (LGD)	Economic loss that will be suffered on an exposure following default of the counterparty, expressed as a percentage of the amount outstanding at the time of default.
Net income after capital charge (NIACC)	Normalised earnings less the cost of equity multiplied by the average ordinary shareholders' equity and reserves.
Normalised earnings	The group believes normalised earnings more accurately reflect its economic performance. Headline earnings are adjusted to take into account non-operational and accounting anomalies.
Normalised net asset value	Normalised equity attributable to ordinary equityholders.
Return on assets (ROA)	Normalised earnings divided by average assets.
Return on equity (ROE)	Normalised earnings divided by average normalised ordinary shareholders equity.
Risk weighted assets (RWA)	Prescribed risk weightings relative to the credit risk of counterparties, operational risk, market risk, equity investment risk and other risk multiplied by on- and off-balance sheet assets.
Tier 1 ratio	Tier 1 capital divided by RWA.
Tier 1 capital	CET1 capital plus AT1 capital.
Tier 2 capital	Qualifying subordinated debt instruments plus general provisions for entities on the standardised approach less specified regulatory deductions.
TLAC	Total loss absorbing capacity.
Total qualifying capital and reserves	Tier 1 capital plus Tier 2 capital.

ABBREVIATIONS

AIRB	Advanced internal ratings based approach
AMA	Advanced measurement approach
AVC	Asset value correlation
BIA	Basic indicator approach
BPRMF	Business performance and risk management framework
CVA	Credit value adjustment
ICR	Individual capital requirement
LCR	Liquidity coverage ratio
NOFP	Net open forward position in foreign exchange
NSFR	Net stable funding ratio
TSA	The standardised approach
VaR	Value-at-Risk

ABBREVIATIONS OF FINANCIAL REPORTING STANDARDS

INTERNATIONAL FINANCIAL REPORTING STANDARDS	
IFRS 1	*IFRS 1 – First-time Adoption of International Financial Reporting Standards*
IFRS 2	*IFRS 2 – Share-based Payment*
IFRS 3	*IFRS 3 – Business Combinations*
IFRS 4	*IFRS 4 – Insurance Contracts*
IFRS 5	*IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations*
IFRS 7	*IFRS 7 – Financial Instruments – Disclosures*
IFRS 8	*IFRS 8 – Operating Segments*
IFRS 9	*IFRS 9 – Financial Instruments*
INTERNATIONAL ACCOUNTING STANDARDS	
IAS 1	*IAS 1 – Presentation of Financial Statements*
IAS 2	*IAS 2 – Inventories*
IAS 7	*IAS 7 – Statement of Cash Flows*
IAS 8	*IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors*
IAS 10	*IAS 10 – Events After the Reporting Period*
IAS 12	*IAS 12 – Income Taxes*
IAS 16	*IAS 16 – Property, Plant and Equipment*
IAS 17	*IAS 17 – Leases*
IAS 18	*IAS 18 – Revenue*
IAS 19	*IAS 19 – Employee Benefits*
IAS 20	*IAS 20 – Accounting for Government Grants and Disclosure of Government Assistance*
IAS 21	*IAS 21 – The Effects of Changes in Foreign Exchange Rates*
IAS 23	*IAS 23 – Borrowing Costs*
IAS 24	*IAS 24 – Related Party Disclosures*
IAS 27	*IAS 27 – Consolidated and Separate Financial Statements*
AS 28	*IAS 28 – Investments in Associates and Joint Ventures*
IAS 29	*IAS 29 – Financial Reporting in Hyperinflationary Economies*
IAS 32	*IAS 32 – Financial Instruments – Presentation*
IAS 33	*IAS 33 – Earnings Per Share*
IAS 34	*IAS 34 – Interim Financial Reporting*
IAS 36	*IAS 36 – Impairment of Assets*
IAS 37	*IAS 37 – Provisions, Contingent Liabilities and Contingent Assets*
IAS 38	*IAS 38 – Intangible Assets*
IAS 39	*IAS 39 – Financial Instruments Financial Instruments – Recognition and Measurement*
IAS 40	*IAS 40 – Investment Property*
IFRS INTERPRETATIONS COMMITTEE INTERPRETATIONS	
IFRIC 17	*IFRIC 17 – Distributions of Non-cash Assets to Owners*

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