This performance is very pleasing for a number of reasons. Following five years of outperformance, the group continues to show good growth in earnings off a very high base, so given all the economic and regulatory headwinds we face, 8% growth in earnings per share and a 24% ROE is a very good outcome.

Harry Kellan

cfo's report

Ordinary dividend per share

– UP –

8%

Diluted normalised earnings per share

– UP –

8%

FirstRand's portfolio produced a very resilient performance, growing normalised earnings per share 8% and producing an ROE of 24%. Normalised net asset value per share increased 10%.

INTRODUCTION

The impact of Brexit to global financial markets, coupled with the heightened risk aversion it has brought about, has resulted in ever tighter financial conditions globally. This allied with increased economic uncertainty has pushed global growth even lower than had been initially anticipated.

At the same time, South Africa's economy remains fragile due to continuing low domestic growth, which is forecast to prevail over the next few years. This has been further exacerbated by rising unemployment, still high double deficits and the significant foreign ownership of South Africa's bond and equity markets. Low growth combined with weaker balance sheets of some state-owned enterprises (SOEs) has added fiscal risk which is likely to result in a sovereign downgrade by the end of 2016.

The South African consumers' disposable income in certain segments of the market, particularly those exposed to high inflation, remained under pressure.

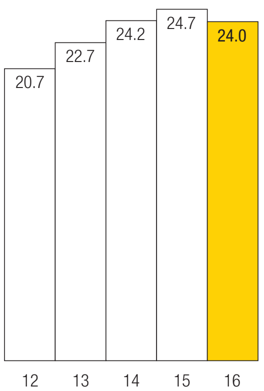
Across the broader region, certain African countries still face significant growth headwinds as the commodity cycle unwinds.

The group has delivered five years of superior growth and returns, as reflected below.

KEY PERFORMANCE INDICATORS

ROE

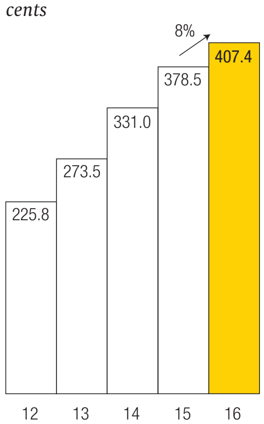
%



When the group analyses ROE, it also takes into account the relationship between ROA and gearing levels. The group's long-term ROE target range is 18% to 22% for normal economic cycles.

DILUTED NORMALISED EPS

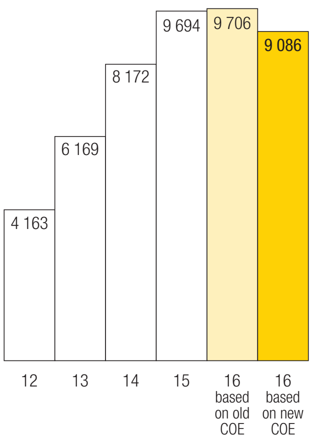
cents



The group targets long-term earnings growth of 3% to 5% in excess of nominal GDP growth, as this may vary in the short term, dependent on economic cycles.

NIACC

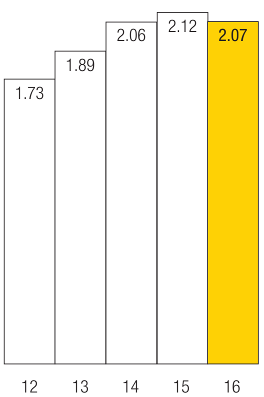
R million



Growth in NIACC is the group's internal benchmark for assessing performance. The current year performance was negatively impacted by an increase in cost of equity driven by elevated market rates. Based on the old COE, NIACC remained flat.

ROA

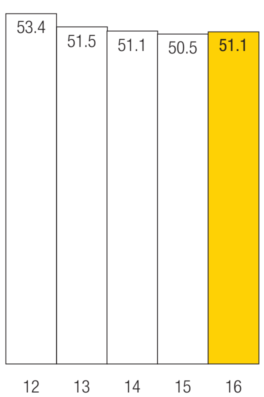
%



Maximising ROA is a key objective in creating shareholder returns. The group has stated previously that ROA was at a cyclical high.

COST-TO-INCOME RATIO

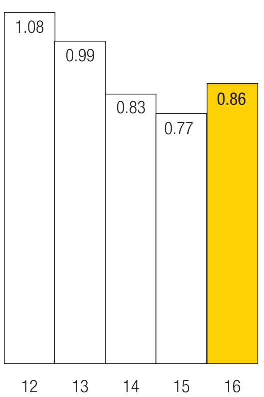
%



The group monitors efficiency through the cost-to-income measure. Whilst the group views the cost-to-income ratio as an outcome rather than a target, it recognises that balancing revenue growth and cost growth are key to value creation.

CREDIT LOSS RATIO

%



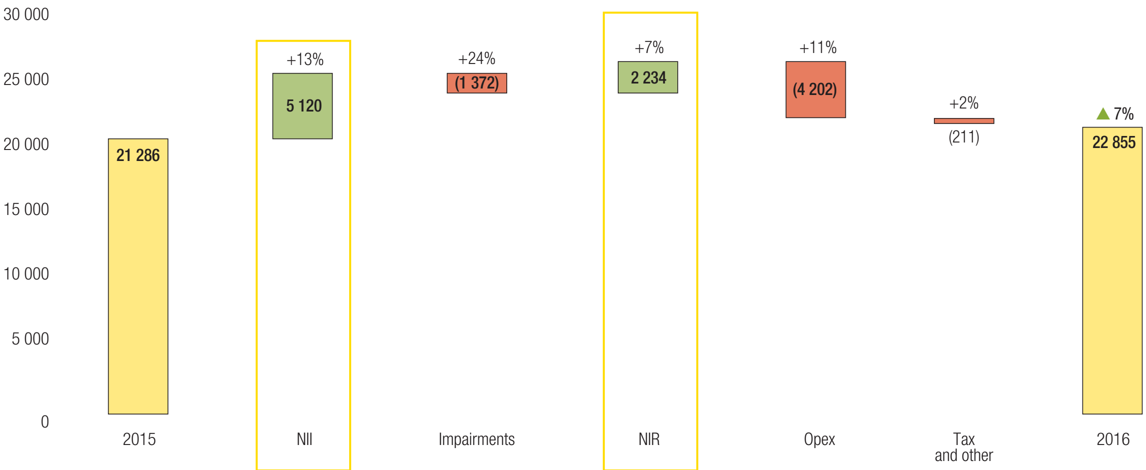
The group believes that pricing appropriately for credit risk is a key requirement for sustainable returns and targets a through-the-cycle charge range of 100 to 110 bps.

RESILIENT TOPLINE GROWTH

The graph below unpacks the major income statement components of the group's performance which was underpinned by resilient topline growth of 10%. Net interest income (NII) was the largest contributor, growing 13% on the back of good growth in deposits and advances combined with further margin expansion driven by positive endowment.

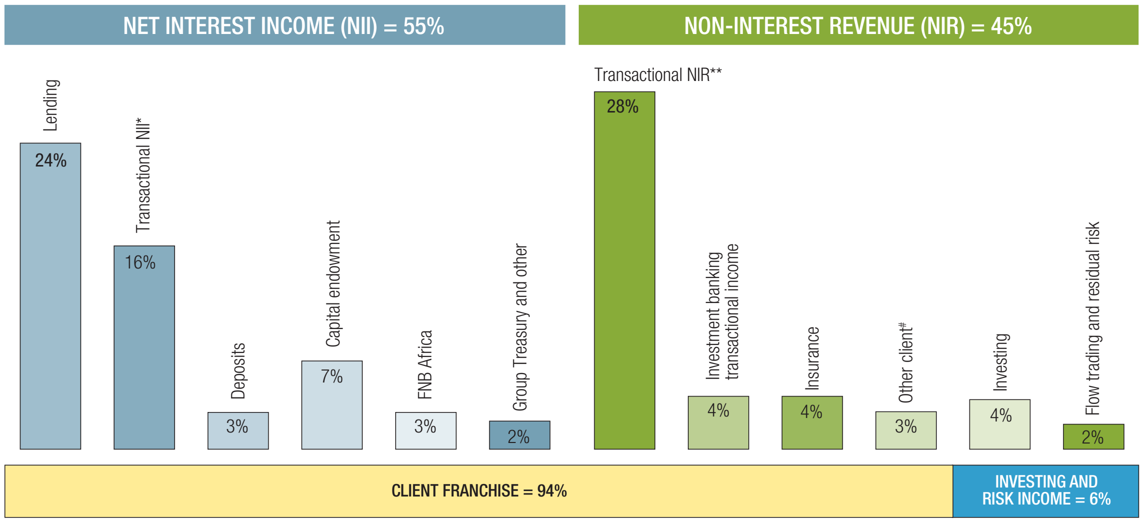
NORMALISED EARNINGS

R million



The quality and sustainability of the group's revenue base is demonstrated below. Client franchises account for 94% of revenues, with the transactional franchise representing 44% of total revenue.

GROSS REVENUE ANALYSIS



* Includes transactional accounts and related deposit endowment, overdrafts and credit card.

** From retail, commercial and corporate banking.

\# Includes WesBank associates.

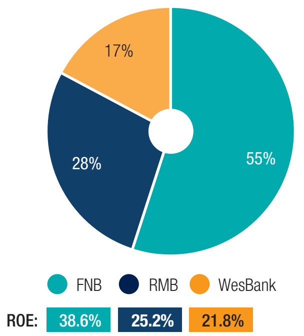
DIVERSIFICATION OF EARNINGS

The group also benefits from the level of diversification of revenues and earnings, and constantly evaluates the inherent value within its business model and portfolio as a whole within the context of its strategy, performance targets and the macroeconomic environment. Key diversification measures are the relative contribution to earnings from each franchise, market segment, product and geographic footprint, ultimately providing the appropriate mix of business activities, at both a franchise and segment level. Franchise and segment diversification are illustrated below.

FRANCHISE DIVERSIFICATION

Normalised earnings *R million*	**2016**	2015	% change
FNB	**12 282**	11 385	8
RMB	**6 287**	5 758	9
WesBank	**3 941**	3 221	22

*FRANCHISE SPLIT OF NORMALISED EARNINGS**

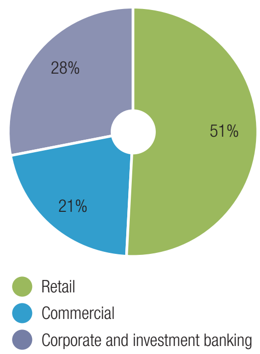


* Excludes FCC (incl. Group Treasury), FirstRand company, consolidation adjustments and NCNR preference dividend.

SEGMENT DIVERSIFICATION

Normalised earnings *R million*	**2016**	2015	% change
Retail	**11 574**	10 661	9
Commercial	**4 649**	3 945	18
Corporate and investment banking	**6 287**	5 758	9

*SEGMENT SPLIT OF NORMALISED EARNINGS**



* Excludes FCC (incl. Group Treasury), FirstRand company, consolidation adjustments and NCNR preference dividend.

NET INTEREST INCOME

NII showed strong growth of 13% on the back of both advances and deposit growth.

As can be seen from the table below, lending NII grew 9%, driven mainly by advances growth. Transactional NII grew 26%, reflecting deposit growth in transactional accounts and the endowment benefit from higher interest rates. Deposit NII growth was driven by sales of innovative savings and investment products.

ACTIVITY BREAKDOWN OF NII

Net interest income* *R million*	**2016**	2015	% change
Lending	**19 002**	17 461	9
Transactional NII**	**12 745**	10 082	26
Deposits	**2 794**	2 441	14
Capital endowment	**5 104**	3 893	31
Group Treasury	**730**	1 594	(54)
Rest of Africa	**2 730**	2 465	11
Other (non-interest earning assets, e.g. fixed assets)	**625**	674	(7)
Total net interest income	**43 730**	38 610	13

* *After taking funds transfer pricing into account.*
** *Includes NII relating to transactional deposit products and related deposit endowment, overdrafts and credit cards.*

Capital endowment benefited from the increased levels of capital and higher rates. The decline in Group Treasury NII was driven by certain accounting asymmetries related to economic hedges and the outcome of certain financial resource management actions, i.e. the increased liquidity costs recovered from the franchises in the prior year which have now been incurred in rollover and new funding at higher market rates.

RETAIL ADVANCES GROWTH

The table below provides insight into the group's risk appetite and origination strategies, highlighting above or below trend growth rates in the current year.

RETAIL ADVANCES			
Mortgages	**Affordable housing**	**SA VAF**	**UK VAF (MotoNovo)**
→ Continued focus on low-risk FNB customers.	→ Credit demand and performance remains strong.	→ Volumes declining with vehicle sales and appetite reduced for higher-risk customers.	↗ Market position and performance remains strong.
Card	**Personal loans**	**Rest of Africa**	**Transactional facilities**
→ Growth following FNB customers cross-sell strategy and transactional spend growth, but appetite reduced.	→ Automated processes and customer cross-sell driving growth, but appetite reduced.	→ Moderating growth and appetite with focus on FNB-banked customers.	→ Ongoing cross-sell and lending activation, but growth moderating and appetite reduced.

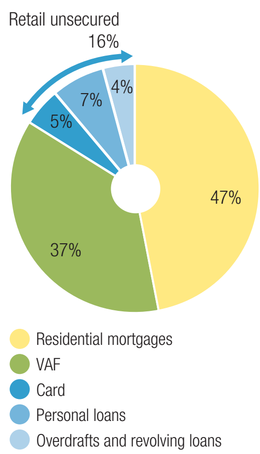
The composition and growth in the retail portfolios illustrated below.

R million	**2016**	2015	% change
Residential mortgages	**187 806**	180 208	4
VAF	**149 925**	132 743	13
– SA	**99 702**	98 131	2
– MotoNovo (UK)*	**50 223**	34 612	45
Card	**21 968**	19 488	13
Personal loans	**27 960**	24 333	15
– FNB	**16 090**	13 856	16
– WesBank	**11 870**	10 477	13
Transactional account-linked overdrafts and revolving term loans	**14 344**	12 314	16
Retail advances	**402 003**	369 086	9
Retail VAF securitisation notes	**14 641**	7 301	>100
FNB and WesBank rest of Africa advances**	**51 901**	43 728	19

* *41% advances growth in GBP terms.*

** *Includes in-country advances of FNB and WesBank as well as FNB's activities in India.*

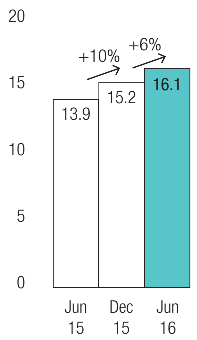
RETAIL ADVANCES BREAKDOWN (%)



A detailed breakdown of FNB's unsecured advances is provided below.

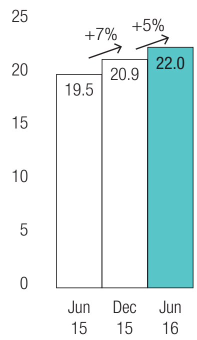
FNB PERSONAL LOANS

R billion



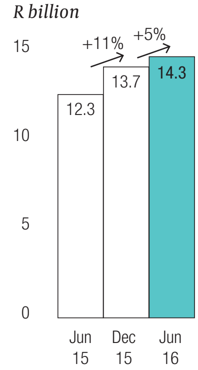
FNB CARD

R billion



*OTHER RETAIL**

R billion

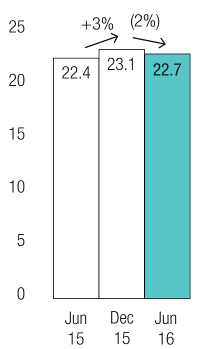


* *Transactional account-linked overdrafts and revolving term loans.*

The year-on-year growth in this portfolio was driven by FNB's strategy to cross-sell and up-sell to primary-banked customers with 96% of new FNB loans and 76% of new card limits to main transactional-banked FNB customers. As can be seen above, however, growth in these books moderated in the second half of the financial year as a result of risk appetite cutbacks.

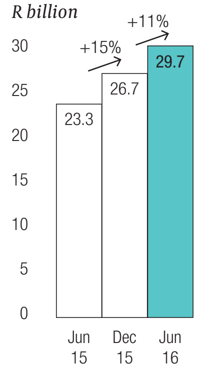
CONSUMER UNSECURED

R billion



PREMIUM UNSECURED

R billion

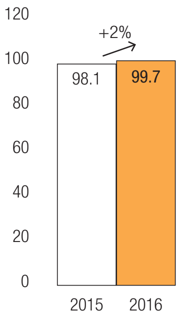


The segment split of FNB's unsecured retail advances above shows that the bulk of the growth occurred in FNB's premium segment as these customers have greater capacity to withstand the cycle. In the consumer segment, risk appetite was more constrained particularly in the second half of the financial year given that this customer base is far more sensitive to high inflation and increased levels of administered pricing.

A detailed breakdown of WesBank's retail advances portfolio is provided below.

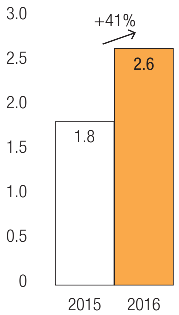
SA RETAIL VAF ADVANCES

R billion



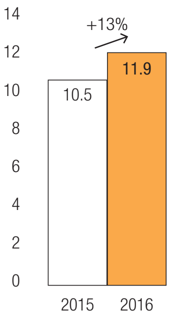
MOTONOVO (UK) ADVANCES

GBP billion



PERSONAL LOANS ADVANCES

R billion



WesBank's retail advances growth reflects the geographic diversification of this book. The SA VAF book growth of 2% illustrates WesBank's consistent risk appetite in a slowing vehicle sales market. As expected with new car inflation, there has been a marginal shift towards used vehicle sales.

MotoNovo in the UK grew advances on the back of new products and footprint expansion, with an increase of almost 40% in the number of dealers being serviced.

WesBank loans growth moderated in the second half of the financial year given risk cutbacks together with the impact of the NCA interest rate caps.

CORPORATE AND COMMERCIAL ADVANCES GROWTH

The table below provides insight on origination strategies, risk appetite and certain actions taken in the corporate and commercial portfolios.

COMMERCIAL ADVANCES					
Working capital	**Commercial property finance**	**Agri finance**	**Asset-backed finance**	**Small business (SMEs)**	**Rest of Africa and India**
→	→	→	→	↗	↗
Organic growth to existing clients with increasing utilisation levels. Selective acquisition of new clients.	Remain focused on banked owner-occupied. Selective acquisition of multi-tenanted deals.	Continue to diversify exposure across commodities and geographically. Proactive drought impact management.	Growth focus on customers across targeted industries. Cross-sell to banked clients.	Continue to cross-sell to relationship base with some tightening on new-to-bank and higher risk business.	Continue to target Africa-India corridor clients and introduce specialised product offerings.

CORPORATE ADVANCES			
Domestic working capital and term lending	**Domestic and rest of Africa infrastructure finance**	**Cross-border rest of Africa (excl. ZAR depreciation impact)**	**Acquisition finance to strategic SA corporates**
→	→	→	↗
Tracking nominal SA GDP.	Projects drawing down.	Moderated appetite and activity.	Lead arranger to a number of larger foreign acquisitions by SA corporates.

Commercial includes all advances to commercial clients across FNB and WesBank. Corporate includes advances to corporate and public sector customers across RMB, FNB and WesBank.

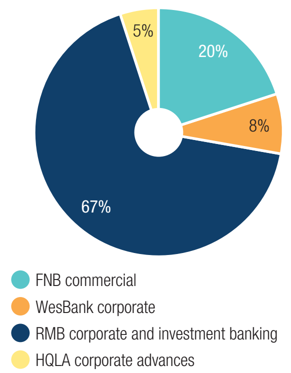
Similar to the retail portfolio, the relative book growth reflects macros and, as such, RMB's (corporate and investment banking) domestic advances, including HQLA, showed relatively subdued growth of 3%.

The composition of and growth in the corporate portfolios are shown below.

R million	2016	2015	% change
RMB IB core South Africa	**162 098**	166 260	(3)
HQLA corporate advances	**20 297**	9 494	>100
Investment banking-related corporate advances	**182 395**	175 754	4
RMB cross-border	**32 556**	24 319	34*
RMB CB core South Africa	**24 189**	23 924	1
WesBank corporate	**29 928**	30 881	(3)
FNB commercial	**77 239**	67 166	15
RMB repurchase agreements	**40 818**	35 600	15
Total corporate and commercial advances	**387 125**	357 644	8
RMB rest of Africa in-country advances	**5 742**	5 537	4

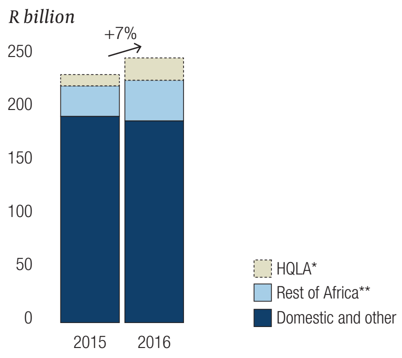
* *Cross-border advances increased 11% in USD terms.*

CORPORATE ADVANCES BREAKDOWN

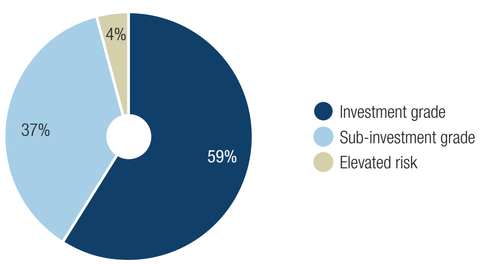


The following graphs provide a detailed breakdown of the operating franchises' corporate and commercial books.

RMB CORE ADVANCES



RMB PERFORMING BOOK#



* *HQLA included in Group Treasury, but originated in RMB. Included for illustrative purposes.*

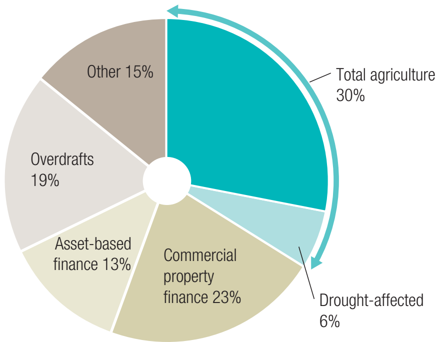
** *Includes cross-border and in-country.*

\# *International scale EAD.*

The above graphs show that the majority of RMB's advances are to investment-grade counters, however, given pricing pressures in this market, RMB chose to protect ROE at the expense of uneconomic growth. Overall advances including the rest of Africa and the cross-border book grew 7% overall, including the benefit of currency depreciation. The strategy of originating corporate loans in appropriate HQLA format gained further traction, which also benefited the group's LCR.

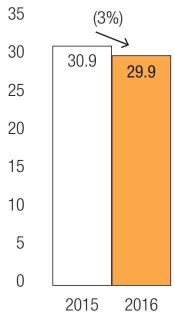
Total exposure across elevated risk sectors and jurisdictions have remained below 2% of the total corporate book, however, given the continued weaker credit environment, RMB took the opportunity to further increase portfolio provisions.

FNB COMMERCIAL ADVANCES BREAKDOWN



FNB Commercial grew advances 15%, reflecting its continued strategy of customer acquisition and appropriate credit cross-sell. The chart above shows that the overall book is well diversified with total agricultural exposures representing 30% of the commercial book. The agricultural book itself is also well diversified across both regions and underlying commodities, however, given previously identified concerns regarding drought impacted exposures, FNB has largely maintained the proactive provisioning against this portfolio.

WESBANK CORPORATE AND COMMERCIAL ADVANCES
R billion



WesBank's corporate and commercial book reflects limited corporate activity with regards to infrastructure spend as well as WesBank's deliberate strategy to focus on ROE preservation.

DEPOSIT FRANCHISE GROWTH

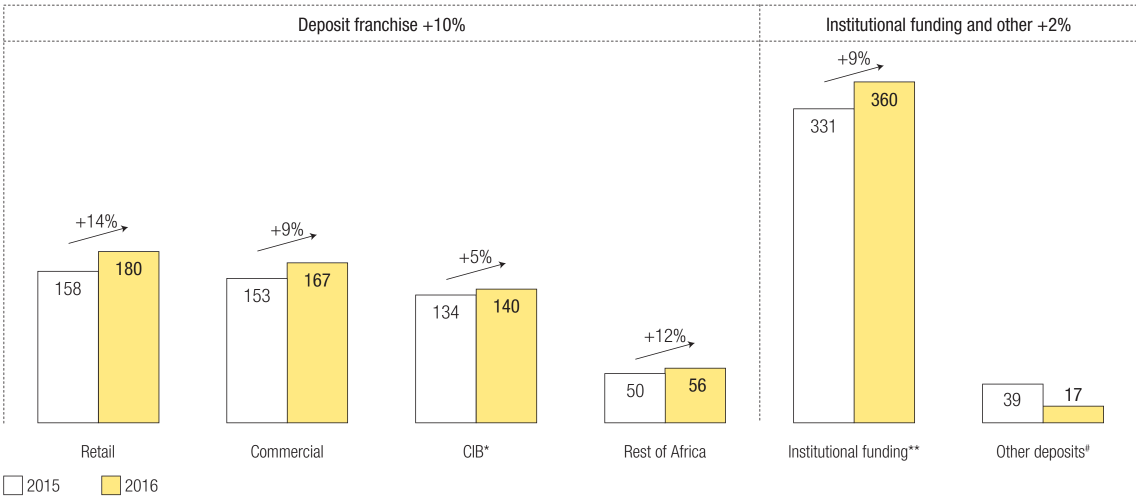
The deposit franchise delivered an excellent performance across all segments with overall deposits up 10%, driven by innovative products and enhanced pricing to customers.

Institutional and other funding increased only 2% domestically, with the 9% increase in total institutional funding driven by MotoNovo's securitisation funding and rand depreciation.

The following chart provides a breakdown of the group's funding by segment.

LIABILITIES

R billion



* Includes an adjustment for operational deposits from institutional clients in line with treatment for LCR purposes.

** Excludes operational deposits from financial institutions, but includes London branch and Turbo securitisations.

\# Includes deposits in FRIHL and group adjustments.

MARGINS

Net interest margin improved from a restated 5.16% for the prior year to 5.28% with increased funding and HQLA holding costs were offset by the benefit of endowment from capital and deposits.

Asset pricing and mix change in favour of higher-margin advances further benefited margins this year, supported by the ROE discipline in resource allocation by RMB and WesBank. A level of margin compression, however, resulted from pricing up to attract deposits and remain competitive.

A breakdown of the drivers impacting margin is depicted in the chart below.

MARGIN

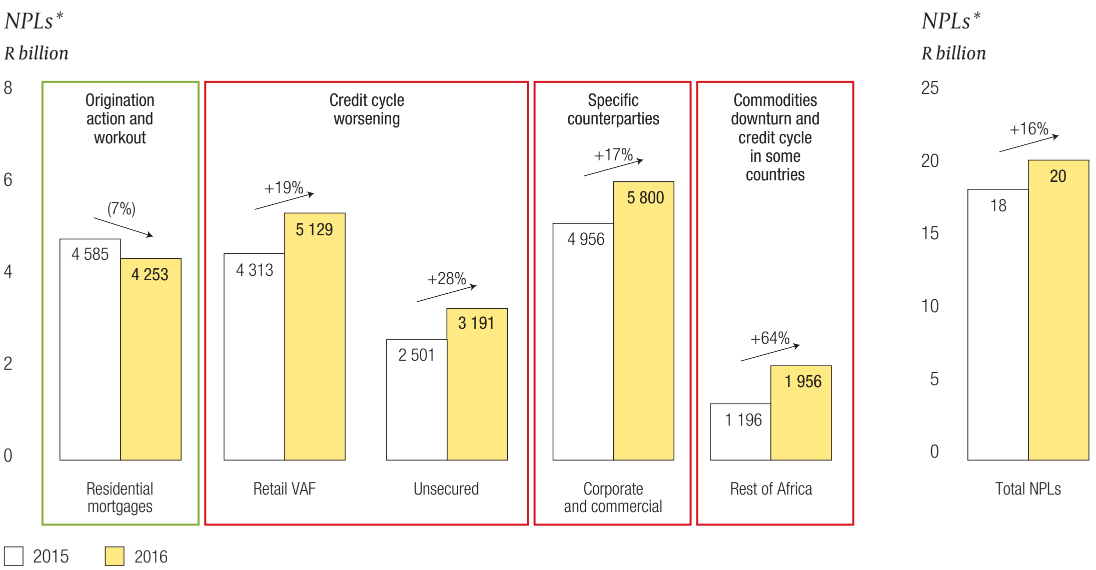
* *Restated.*

NPLs AND BAD DEBTS

As expected, NPLs started to trend up, largely driven by the retail portfolios. The bad debt charge moved from 77 bps to 86 bps in the current year.

The graph below reflects the true underlying credit trends in NPL formation:

- whilst the net reduction trend continued in residential mortgages, the absolute levels of reduction are slowing and are expected to turn going forward;
- retail VAF and unsecured lending NPL growth was driven by macros and acquisition strain;
- corporate NPL growth was driven by strong book growth in commercial lending as well as certain large corporate counterparties being relegated to NPLs; and
- the increase in the rest of Africa NPLs was expected given the pressure faced by the region, including some normalisation in the books of FNB's established subsidiaries.



* *Operational NPLs – excludes the impact of the distressed debt reclassification in FNB (R953 million – this increased NPLs by 5%).*

The above graph does not include the impact of FNB's reclassification of paying debt review customers to NPLs. In prior years, FNB and WesBank adopted different approaches to the treatment of unsecured loans customers in debt review. FNB did not specifically reference debt review as a default event, i.e. classified as NPLs, whereas WesBank classified all unsecured and VAF debt review customers as NPLs, whether in arrears or not. Following an assessment in the current year of the SARB Directive 7, the group took the opportunity to align FNB to WesBank's classification, which is even more stringent than the SARB requirements (D7). As a result, in the current year, FNB migrated all unsecured loans debt review customers from performing or arrears to NPLs.

For residential mortgages (secured loans), the treatment now is to reflect all debt review customers which are currently performing (i.e. no instalment in arrears under the original contract), to the next arrears bucket. Accounts that were two months in arrears were relegated to NPLs.

The consequence of this reclassification was minimal on the actual impairment charge, however, NPLs across all FNB retail portfolios increased R953 million in the current year, contributing a 5% increase to group NPLs (up 21%) and 0.3% to the ratio of retail NPLs as a % of advances.

The table below details the impact to NPLs in the current year across the affected FNB portfolios and for the group in total.

R million	Operational NPLs	Reclassified NPLs	Total NPLs	Total NPLs % increase	Operational NPLs % change
Residential mortgages	4 253	375	4 628	1	(7)
Card	559	200	759	86	37
Personal loans	843	252	1 095	61	24
Retail other	661	126	787	56	31
Total group NPLs	20 329	953	21 282	21	16

Operational NPLs include distressed debt review that migrated into NPLs through the normal ageing process (≥3 instalments past due) prior to the reclassification in the current year

Given that paying distressed debt customers have a lower LGD (loss given default) experience, the overall coverage per product reduces.

Coverage ratios	**Debt review coverage**		**Non-debt review**		**Total NPL coverage**	
%	**2016**	2015*	**2016**	2015	**2016**	2015
FNB credit card	**43.0**	–	**76.0**	72.7	**67.3**	72.7
FNB retail other	**43.0**	–	**75.6**	77.6	**70.4**	77.6
FNB loans	**66.7**	–	**70.1**	74.3	**69.3**	74.3
WesBank loans	**32.6**	46.6	**70.2**	67.7	**41.2**	53.0
SA retail VAF	**18.3**	25.2	**40.5**	38.4	**29.5**	32.0

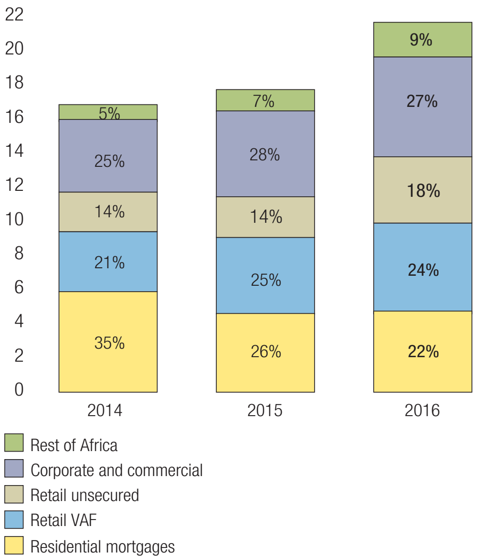
* *2015 not restated for FNB and coverage not calculated.*

The group continues to adopt the policy of not rescheduling paying debt review customers to performing status irrespective of payment behaviour under debt review requirements. This is more conservative than the allowed treatment under D7 rehabilitation/curing requirements which allow the customers to be reclassified as "performing" once at least six consecutive payments are received. The next phase of the alignment project will agree the write off policies across the unsecured products and the group will take cognisance of IFRS 9 principles.

Impairment coverage

The total impairment coverage ratio reduced to 77.9% from 84.3% at June 2015, given the change in NPL mix and the impact of increased levels of paying debt review customers. The increase in portfolio impairments was driven by strong book growth in the unsecured lending portfolios, specifically personal loans and card, FNB retail other and FNB Africa.

NPLs
R billion



Coverage ratios

%	**2016**	2015
Retail – secured	**26.7**	26.3
Residential mortgages	**21.9**	20.1
VAF	**31.0**	32.9
– SA	**29.5**	32.0
– MotoNovo (UK)	**60.7**	60.3
Retail unsecured	**60.7**	67.0
– Credit card	**67.3**	72.7
– Personal loans*	**55.1**	62.1
– Retail – other	**70.4**	77.6
Corporate and commercial	**45.1**	52.3
Rest of Africa	**36.1**	35.5
Specific impairments	**38.6**	40.1
Portfolio impairments**	**39.3**	44.2
Total coverage ratio	**77.9**	84.3

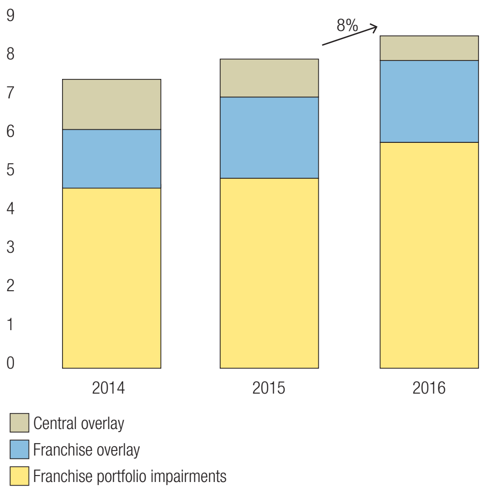
* *Includes FNB and WesBank loans.*

** *Includes portfolio overlays.*

HomeLoans coverage increased as expected, given the slower reduction in workouts. Corporate coverage decreased driven by higher security held across newer NPLs. Portfolio impairments increased 8% for the year, similar to overall advances growth.

Additional portfolio impairments of >R400 million were created in RMB against the broader resources portfolios. The performing book coverage ratio of 99 bps reduced marginally from the prior year of 100 bps. This was largely as a result of the partial central overlay release, given the previously identified risk manifesting with the NPL formation increasing in some of the underlying franchises and products over the last 12 months, resulting in higher specific impairments.

PORTFOLIO IMPAIRMENTS
R billion



	Jun 2016	Dec 2015	Jun 2015
Portfolio impairments as % of performing book	**0.99**	0.97	1.00
Credit loss ratio (%)	**0.86**	0.77	0.77
Portfolio impairments (R million)	**8 359**	7 988	7 760

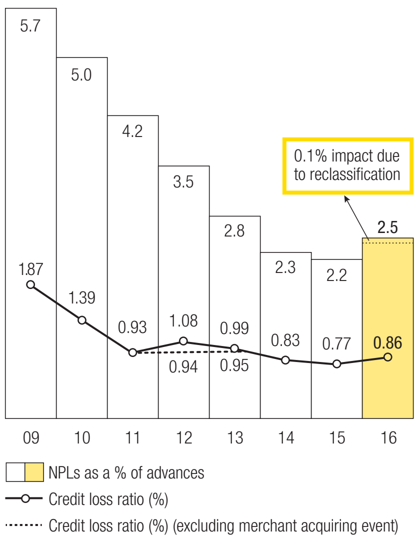
The expected deterioration in the underlying credit models given the emergence of the cycle resulted in franchise portfolio provisions increasing whilst the central overlay decreased R295 million. The central overlay still amounts to R630 million.

The franchise overlays have been maintained which still reflect the conservative positioning of the group, with the overall performing book coverage ratio of 99 bps still significantly above the group's overall annual credit charge.

Product impairment charges are detailed in the next table.

TOTAL NPLs AND IMPAIRMENTS

%



Credit loss ratio

%	2016	2015
Retail – secured	**0.72**	0.53
Residential mortgages	**0.21**	0.06
VAF	**1.38**	1.19
– SA	**1.39**	1.25
– MotoNovo (UK)	**1.35**	0.97
Retail – unsecured	**5.60**	4.82
Credit card	**2.73**	1.08
Personal loans	**7.85**	6.73
– FNB	**7.20**	5.42
– WesBank	**8.73**	8.49
Retail – other	**5.66**	6.81
Total retail	**1.48**	1.16
Corporate and commercial	**0.30**	0.45
Rest of Africa	**1.17**	0.90
FCC (including Group Treasury)	**(0.04)**	(0.04)
Total credit loss ratio	**0.86**	0.77

As illustrated in the graph above, the credit cycle is now reflected in the group's credit performance with residential mortgages and credit card increases beginning to normalise to through-the-cycle (TTC) rates. The rest of the portfolios are already in line with TTC levels.

In conclusion, the overall credit picture remains in line with expectations and reflects both the respective franchise growth strategies and specific origination actions taken in the different segments of the bank's customer base throughout the current credit cycle and are conservatively struck.

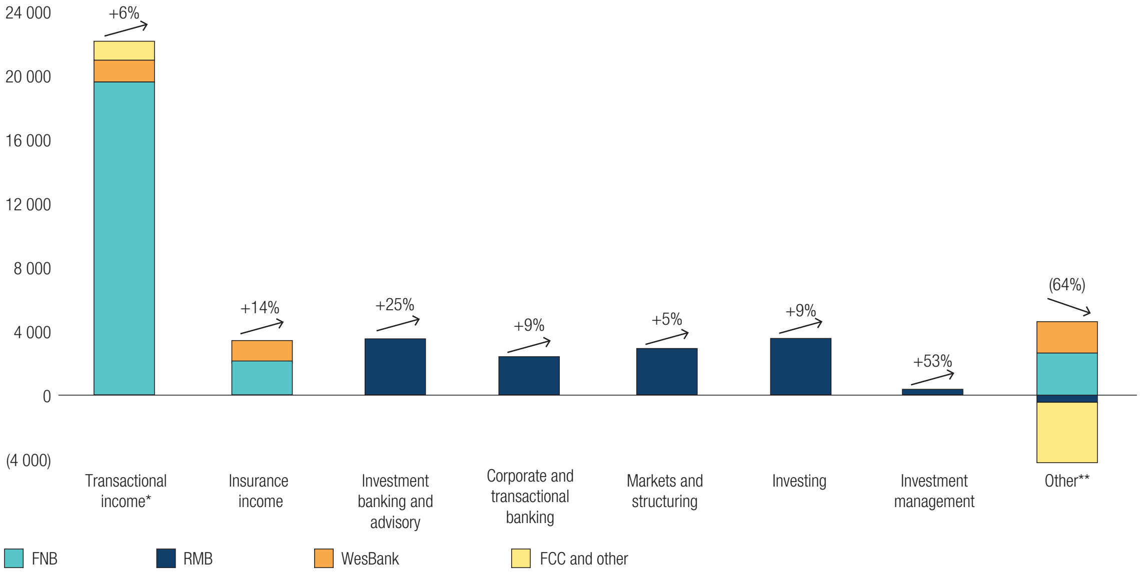
PORTFOLIO IMPAIRMENTS	**+8% to R8.4 billion**	Still prudent
SPECIFIC IMPAIRMENTS	**+17% to R8.2 billion**	Appropriate
INCOME STATEMENT CHARGE	**86 bps (still below TTC)**	In line with expectations

NON-INTEREST REVENUE

Total NIR (including income from associates) showed robust growth of 7% with a strong contribution from transactional NIR which grew 6% despite the negative interchange impact and the increased cost of rewards.

NON-INTEREST REVENUE

R million



* *Excludes RMB transactional income.*

** *Other includes FCC (including Group Treasury) and other.*

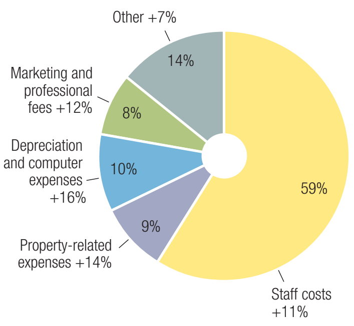
FNB grew NIR 7%, benefiting from transactional volume growth of 12%, in spite of the negative drag of c.R300 million from a reduction in interchange fees and an increase of 14% in allocated loyalty awards linked to the e-migration and cross sell strategy, The ongoing success in the e-migration of transactions is reflected in electronic volumes increasing 13%, with strong growth in mobile (+21%) and banking app (+76%). The success of the group's strategy to grow insurance revenues by providing appropriate products to meet customer needs is reflected in the growth of 14%.

WesBank's NIR increased 12%, including the growth from the MotoVantage insurance business. RMB's NIR grew 8%, benefiting from strong fee generation driven by growing fee and ancillary income business lines on the back of underwriting and distribution strategies. In addition, RMB delivered resilient equity-accounted income from private equity related activities, augmented by realisations in excess of R1.4 billion.

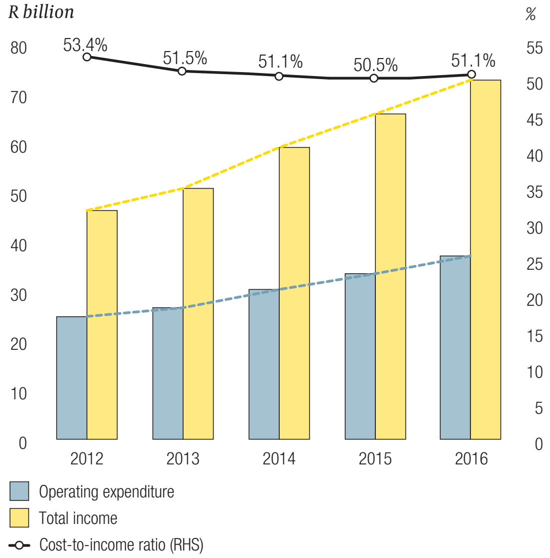
OPERATING EXPENSES

Overall growth in operating expenses was 11% driven by the 11% increase in staff costs, which remains the biggest contributor to costs (as shown in the chart below). Core costs grew only 8%, which indicates that other fixed costs were well managed and also reflects proper alignment of variable staff costs with performance. The increase in operating expenses is also reflective of continued investment in platforms, the group's operating footprint in the rest of Africa and regulatory requirements.

BREAKDOWN OF OPERATING EXPENSES

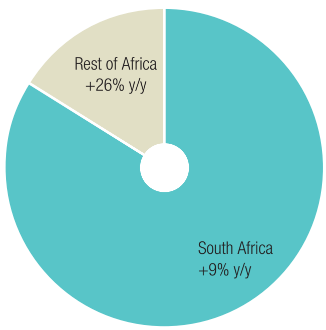


COST-TO-INCOME RATIO



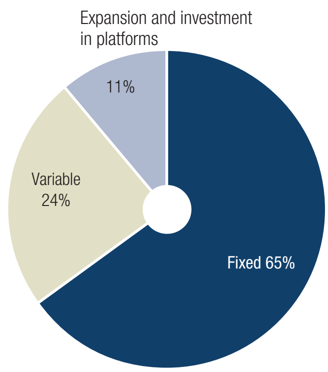
The group's cost-to-income increased to 51.1%, impacted by more muted topline growth, however, it is important to note that the group does not target a specific cost-to-income ratio – it is considered an outcome of strategy and a reflection of the group's ability to leverage its operating platform to deliver returns to shareholders. Despite topline pressure, the group will continue to focus on efficiencies.

FNB COST MIX



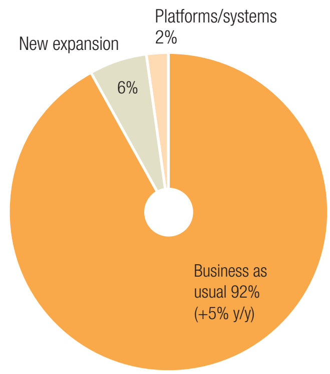
Overall cost growth: 11%

RMB COST MIX



Overall cost growth: 11%

WESBANK COST MIX



Overall cost growth: 10%

FNB cost-to-income ratio:	RMB cost-to-income ratio:	WesBank cost-to-income ratio:
54.0% ▼	45.1% ▲	39.7% ▼

Group cost-to-income ratio:
51.1% ▲

Unpacking costs at a franchise level, FNB's operating expenses reflect ongoing investment for future growth. Similarly, RMB's cost growth was driven largely by the investments in expansion, platforms and systems. WesBank remains a highly efficient business and its cost growth was driven by the expansion activities in both the SA and UK markets, together with rand depreciation, however, the 5% increase in business-as-usual costs reflects a very efficient business model.

MANAGEMENT OF FINANCIAL RESOURCES

The management of financial resources, defined as capital, funding and liquidity, and risk appetite, is critical to the achievement of FirstRand's stated growth and return targets and is driven by the group's overall risk appetite. As such, the group sets financial and prudential targets through different business cycles and scenarios. The group is expected, at a defined confidence level, to deliver on its commitments to the providers of capital.

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, in order to deliver shareholder value.

Balance sheet strength and quality

The structure of the balance sheet reflects the group's strategy since 2009 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 group's asset profile is dominated by a balanced advances portfolio, which constitutes 79% of total assets. The composition of the net advances portfolio consists of retail secured (39%), retail unsecured (7%), corporate and commercial (45%) and rest of Africa and other (9%) with 90% of advances rated B or better. Total NPLs were R21 282 million (2.45% as a percentage of advances) with a credit loss ratio of 0.86%.

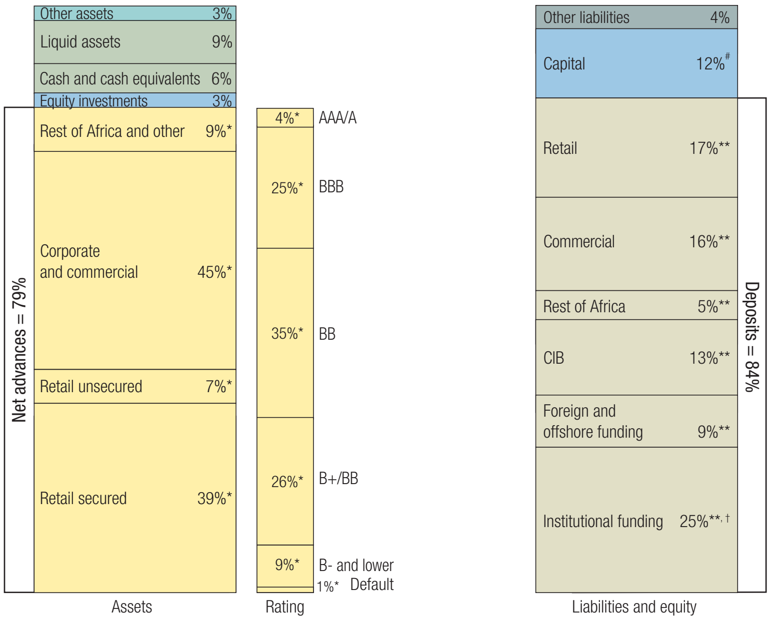
Cash and cash equivalents, and liquid assets represent 6% and 9%, respectively, of total assets. Only a small portion of assets relate to the investment and trading businesses. Market risk arising from trading activities has remained low and the group's equity investments relate primarily to RMB's private equity activities.

FirstRand's funding profile continues to reflect the structural funding issues associated with the South African banking sector, however, the group has continued to reduce its reliance on institutional funding and has further improved the term profile of institutional funding from a weighted average remaining term of 12 months in 2009 to 31 months at 30 June 2016 (2015: 31 months).

The group's capital ratios remained strong with the CET1 ratio 13.9%, Tier 1 ratio 14.6% and total capital adequacy ratio 16.9%. Gearing stayed constant at 11.6 times.

ECONOMIC VIEW OF THE BALANCE SHEET

%



* *As a proportion of loans and advances.*

** *As a proportion of deposit franchise.*

\# *Ordinary equity and non-controlling interests (10%) and NCNR preference shares and Tier 2 liabilities (2%).*

† *Includes institutional funding raised by Group Treasury, RMB and the London branch.*

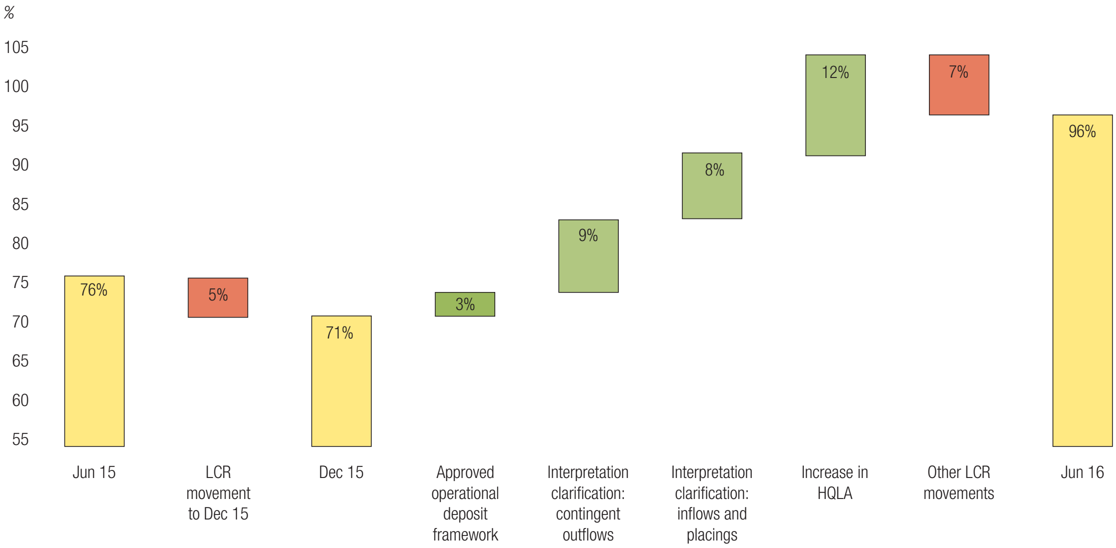
Note: Non-recourse assets have been netted off against deposits.
Derivative-, securities lending- and short trading position assets and liabilities have been netted off.

Liquidity position

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

The group's LCR is at 96%, well above the minimum regulatory level of 70%, and reflects a substantial increase over the year, which is unpacked in the following chart.

*LCR**



* *Includes CLF.*

Note: FirstRand group LCR = 96%, FirstRand Bank LCR = 102%.

The group's LCR increased due to an increase in HQLA holdings of R25 billion and a reduction in net cash outflows of R14 billion. This is as a result of targeted strategies to raise more stable funding sources and increase liquid asset holdings. In addition, certain components of the LCR have now been clarified by the SARB and industry working groups, which has allowed FirstRand to align its methodology with other sector players, resulting in a structural uplift in its LCR. This together with the approval of the operational deposits framework accounted for 20 percentage points of the LCR improvement.

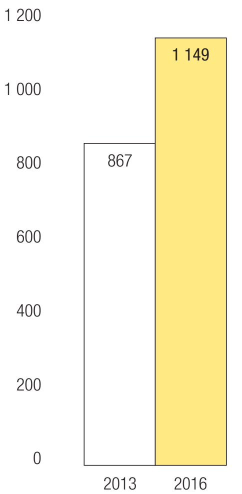
The group has followed a two-pronged strategy to address LCR requirements:

- strengthening the group's deposit franchises and lengthening the term profile of institutional funding; and
- making the asset side of the balance sheet more liquid, as illustrated in the chart below. This was achieved by originating assets into HQLA format, which has also benefited the group's LCR, but at a cost to margin.

TOTAL ASSETS

R billion

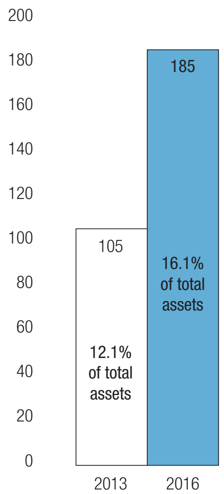
CAGR 10%



*CASH AND AVAILABLE LIQUIDITY**

R billion

CAGR 21%



* *Includes cash and liquid assets, HQLA and central bank eligible collateral.*

Capital position

Current targeted ranges and actual ratios are summarised below.

%	CET1	Tier 1	Total
Regulatory minimum*	6.9	8.1	10.4
Targets	10.0 – 11.0	>12.0	>14.0
Actual**	13.9	14.6	16.9

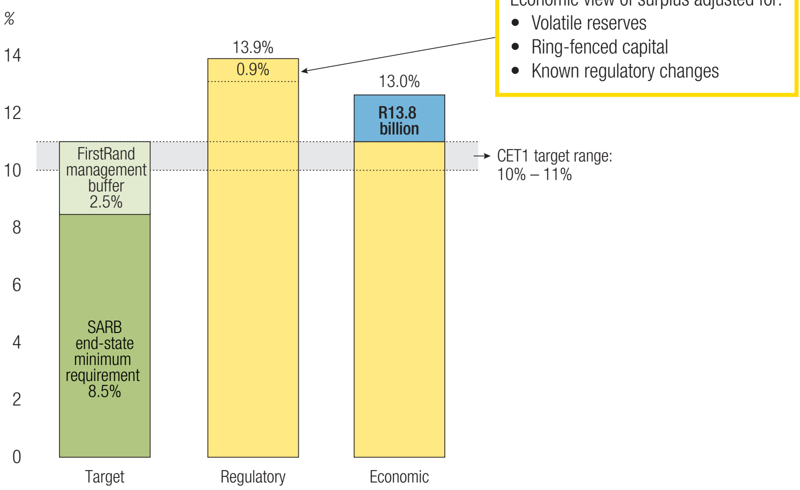
* *Excluding the bank-specific individual capital requirement and add-on for domestic systemically important banks.*

** *Includes unappropriated profits.*

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

The following graph, detailing the group's CET1 capital position, reflects total excess capital of R13.8 billion.

CET1 RATIO



As illustrated below, of the surplus, R4.4 billion is already committed to the group's expansion in South Africa and the rest of Africa. In addition, approximately R7.5 billion has been ring-fenced for acquisitions in priority countries. This amount has increased year-on-year largely due to exchange depreciation. The group considers this level of discretionary capital to be appropriate for deployment in envisaged growth opportunities.

Total R13.8 billion

Committed	**2.0**	**Capture larger share of profits from the broader financial services markets domestically** • FirstRand Insurance, Ashburton Investments, Regent VAPS and other
	2.4	**Existing organic strategy in the rest of Africa**
Management discretion	**7.5**	**Acquisitions in priority countries**
	1.9	**Other**

DIVIDEND STRATEGY

The group continues to seek to protect shareholders from any unnecessary volatility in dividend and annually assesses the appropriate level of payout taking into account:

- actual performance;
- forward-looking macros;
- demand for capital; and
- potential regulatory and accounting changes.

The outlook on the macroeconomic environment has deteriorated since this time last year and this leads the group to believe the level of dividend payout should continue to be considered within the range of 1.8x to 2.2x. With respect to the current level of capital, the group's fundamental philosophy is to return excess capital to shareholders should it not find appropriate growth opportunities for deployment. The group continues to believe a sufficient number of opportunities exist to deploy capital in the domestic market and rest of Africa, and will, therefore, continue to set aside a level of discretionary capital to facilitate this deployment.

In summary, given the increased level of forecast risk and volatility combined with the anticipated impact of accounting and further regulatory changes, the group has maintained its dividend cover for the year to June 2016 at 1.8x, which is the lowest in the peer group.

CONCLUSION

The group believes that the diversification inherent in its portfolio, the quality of its operating franchises and a balance sheet that is well provisioned for the emergence of the credit cycle positions it positively on a relative basis in a tough operating environment. The revised strategic framework (outlined in the CEO's report) and disciplined financial resource management will allow FirstRand to continue to produce superior, sustainable returns to shareholders.

HARRY KELLAN
CFO