ANNUAL REPORT 2016

OWNER-MANAGER CULTURE

INNOVATION

ENTREPRENEURSHIP

FRANCHISE VALUE

FIRSTRAND BANK

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 the financial results.

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FIRSTRAND BANK

1929/001225/06

This analysis is available on the group's website: www.firstrand.co.za

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

INTRODUCTION

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), the retail and commercial bank, Rand Merchant Bank (RMB), the corporate and investment bank, and WesBank, the instalment finance business. The FCC franchise represents group-wide functions. FRB has branches in London, India and Guernsey, and representative offices in Kenya, Angola, Dubai and Shanghai.

STRATEGIC OVERVIEW

In the year under review, the group adjusted its stated strategic framework to accommodate a broader set of growth opportunities, from a product, market, segment and geographic perspective. The group believes this approach will ensure sustainable and superior returns for shareholders.

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.

Execution on this new framework has resulted in a fundamental shift in the way the group utilises its operating platforms. Through the adoption of a "franchise-neutral" business model, the customer-facing operating franchises have started to 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 NIR growth for FNB.

In the rest of Africa, the bank's balance sheet is utilised in RMB's cross-border lending activities. The group's subsidiaries in the rest of Africa form part of FirstRand EMA (Pty) Ltd (FREMA) (refer to the simplified group structure on page A 03) and thus fall outside of the bank.

In addition, the MotoNovo Finance business in the UK offers a platform for further growth in developed markets.

For more information on the group's strategy, please refer to the group's 2016 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.

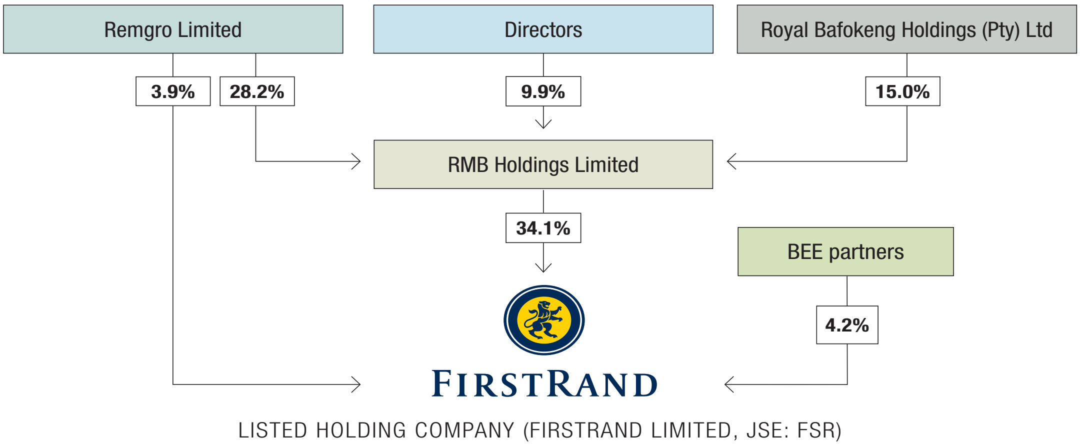
FRB remains the only South African bank with a branch in India. The branch provides an investment banking offering to Indian clients active in the Indo-African corridor. The services offered range from advisory, financing, trade, debt capital markets and a global markets offering with a strong focus 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. FNB recently launched a greenfields strategy in India, focusing on retail and commercial banking products.

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 STRUCTURE



100% FirstRand Bank Limited
Bond code: FRII
Banking

- First National Bank[1]
- Rand Merchant Bank[1]
- WesBank[1]
- FirstRand Bank India[2]
- FirstRand Bank London[2,*]
- FirstRand Bank Guernsey[2,**]
- FirstRand Bank Kenya[3]
- FirstRand Bank Angola[3]
- FirstRand Bank Dubai[3]
- FirstRand Bank Shanghai[3]

100% FirstRand EMA (Pty) Ltd (FREMA)
Africa and emerging markets

- **58%** FNB Namibia
- **69%** FNB Botswana
- **100%** FNB Swaziland
- **90%** FNB Mozambique
- **100%** FNB Zambia
- **100%** FNB Lesotho
- **100%** FNB Tanzania
- **100%** First National Bank Ghana
- **100%** RMB Nigeria
- **100%** FirstRand International – Mauritius

100% FirstRand Investment Holdings (Pty) Ltd (FRIHL)
Other activities

- **96%** RMB Private Equity Holdings
- **93%** RMB Private Equity
- **100%** RMB Securities
- **50%** RMB Morgan Stanley
- **100%** FNB Securities
- **100%** RentWorks
- **100%** Direct Axis
- **81%** MotoVantage
- **100%** FirstRand International – Guernsey
- **100%** RMB Australia Holdings
- **100%** FirstRand Insurance Services Company (FRISCOL)
- **100%** FirstRand Securities

100% FirstRand Investment Management Holdings Limited
Investment management

- **100%** Ashburton Fund Managers
- **100%** Ashburton Investor Services
- **100%** Ashburton Management Company (RF)
- **100%** Ashburton Private Equity GP 1
- **100%** Ashburton Equity Hedge Fund GP 1
- **100%** Ashburton Investments International Holdings
- **100%** FNB CIS Management Company (RF)
- **100%** Atlantic Asset Management

100% FirstRand Insurance Holdings (Pty) Ltd
Insurance

- **100%** FirstRand Life Assurance

1. Division
2. Branch
3. Representative office
** MotoNovo Finance is a business segment of FirstRand Bank Limited (London Branch).*
*** Trading as FNB Channel Islands.*

Structure shows effective consolidated shareholding
The group's securitisations and conduits are in FRIHL.

BOARD OF DIRECTORS

LL DIPPENAAR (67)
Non-executive chairman
MCom, CA(SA)
Chairman of FirstRand and Director of RMB Holdings

JP BURGER (57)
Chief executive officer
BCom (Hons), CA(SA)
Director of FirstRand and RMB Holdings

AP PULLINGER (50)
Deputy chief executive officer
MCom, CA(SA), CFA
Director of FirstRand

HS KELLAN (44)
Financial director
BCom, BCom(Hons), CA(SA)
Director of FirstRand

VW BARTLETT (73)
Independent non-executive
AMP (Harvard), FIBSA
Director of FirstRand

MS BOMELA (43)
Non-executive
BCom (Hons), CA(SA), MBA
Director of FirstRand

P COOPER (60)
Alternate non-executive
BCom (Hons), HDip Tax, CA(SA)
Director of FirstRand and RMB Holdings

JJ DURAND (49)
Non-executive
BAcc (Hons), MPhil (Oxon), CA(SA)
Director of FirstRand and RMB Holdings (alternate)

GG GELINK (66)
Independent non-executive
BCompt (Hons), BCom (Hons), CA(SA)
Director of FirstRand

PM GOSS (68)
Independent non-executive
BEcon (Hons), BAccSc (Hons), CA(SA)
Director of FirstRand and RMB Holdings

NN GWAGWA (57)
Independent non-executive
BA (Fort Hare), MTRP (Natal), MSc (cum laude) (London), PhD (London)
Director of FirstRand

PK HARRIS (66)
Non-executive
MCom
Director of FirstRand and RMB Holdings

WR JARDINE (50)
Independent non-executive
BSc (Physics), MSc (Radiological Physics)
Director of FirstRand

F KNOETZE (53)
Non-executive
BCom (Hons), Fellow of the Actuarial Society of South Africa
Director of FirstRand and RMB Holdings

RM LOUBSER (66)
Non-executive
MCom (Statistics), BCom (Hons) (Accounting), CA(SA)
Director of FirstRand

PJ MAKOSHOLO (37)
Non-executive
MCom (South African and International Taxation), International Executive Development Programme (Wits Business School), CA(SA)
Director of FirstRand

EG MATENGE-SEBESHO (61)
Independent non-executive
MBA (Brunel), CAIB (SA)
Director of FirstRand

AT NZIMANDE (46)
Non-executive
BCom, CTA (UCT), CA(SA), HDip Co Law (Wits)
Director of FirstRand

D PREMNARAYEN (70)
Independent non-executive
BA Economics (Hons) India
Director of FirstRand

BJ VAN DER ROSS (69)
Independent non-executive
Dip Law (UCT)
Director of FirstRand

JH VAN GREUNING (63)
Independent non-executive
DCom (Economics), DCompt (Accounting Science), CA(SA), CFA
Director of FirstRand

CORPORATE GOVERNANCE

COMPLIANCE STATEMENT

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

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

BOARD CHANGES

The following changes to the board of directors have taken place.

Appointments		Effective date
JP Burger	Chief executive officer	1 October 2015
AP Pullinger	Deputy chief executive officer and executive director	1 October 2015
PJ Makosholo	Non-executive director	1 October 2015
F Knoetze	Non-executive director	1 April 2016

Resignations/retirements		Effective date
SE Nxasana	Chief executive officer and executive director	30 September 2015
KB Schoeman	Non-executive director	30 September 2015
L Crouse	Non-executive director	31 March 2016

Responsibilities of directors

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

Composition and frequency of meetings

A common board serves FirstRand and FirstRand Bank Limited. FirstRand Bank Limited has a unitary board. The chairperson, Mr Dippenaar, is non-executive, but not independent. The board members believe that it is appropriate for Mr Dippenaar to chair the bank's board, notwithstanding the fact that he does not fulfil the strict criteria of independence as set out in King III. It is also the view of the directors that a strong independent element of non-executive directors exists on the board and that this provides the necessary objectivity essential for its effective functioning. The roles of chairman and CEO are separate with segregated duties. FirstRand's audit committee is constituted in accordance with the South African banking regulations.

The board comprises 21 directors of whom three serve in an executive capacity. The directors of the bank are listed on page A 04. Non-executive directors comprise individuals of high calibre with diverse backgrounds and expertise. This ensures that their views carry significant weight in the board's deliberations and decisions.

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

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

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

Limitation to appointment period

There is a formal transparent board nomination process. Non-executive directors are appointed, subject to re-election and Companies Act provisions relating to removal, and retire by rotation every three years. Re-appointment of non-executive directors is not automatic. The retirement age of directors is set at age 70 and such directors are compelled to resign annually at the annual general meeting after turning 70, and may be considered for re-election, should their specialised skills be required and the board unanimously 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 C 08.

analysis of financial results – normalised

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(A) FIRSTRAND BANK LIMITED

OVERVIEW OF BANK RESULTS

INCOME STATEMENT ANALYSIS

BALANCE SHEET ANALYSIS AND FINANCIAL RESOURCE MANAGEMENT

PRESENTATION AND RECONCILIATIONS

This section provides an analysis of the normalised financial results of FirstRand Bank Limited, which are derived from the audited financial results based on International Financial Reporting Standards (IFRS) for the year ended 30 June 2016. **The primary results and accompanying commentary are presented on a normalised basis as the bank believes this most accurately reflects its economic performance.** The normalised results have been derived from the IFRS financial results.

Normalised results include a summarised income statement, statement of comprehensive income and statement of financial position. A detailed description of the difference between normalised and IFRS results is provided on pages A 78 to A 79. Detailed reconciliations of normalised to IFRS results are provided on pages A 82 to A 87. Commentary is based on normalised results, unless indicated otherwise.

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

Normalised earnings
+14%

ROE
23%

ROA
1.75%

Credit loss ratio
0.84%

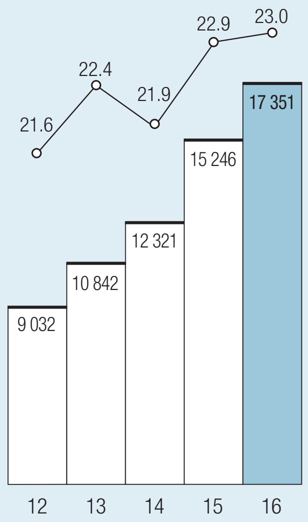
NPLs % of advances
2.4%

CET1
13.9%

The bank's portfolio has produced five years of superior performance

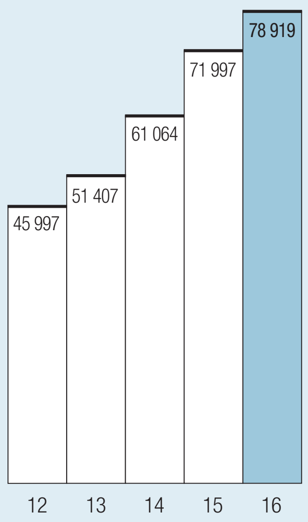
NORMALISED EARNINGS (R million) AND ROE (%)

CAGR 18%



NORMALISED NAV (R million)

CAGR 14%



KEY FINANCIAL RESULTS, RATIOS AND STATISTICS – NORMALISED

R million	2016	2015	% change
Earnings performance			
Normalised earnings	**17 351**	15 246	14
Attributable earnings – IFRS (refer page C 39)	**16 931**	15 394	10
Headline earnings	**16 959**	15 387	10
Normalised net asset value	**78 919**	71 997	10
Tangible normalised net asset value	**78 813**	71 926	10
Average normalised net asset value	**75 458**	66 531	13
Capital adequacy* – IFRS			
Capital adequacy ratio (%)	**17.1**	16.9	
Tier 1 ratio (%)	**14.2**	14.6	
Common Equity Tier 1 (CET1) ratio (%)	**13.9**	14.2	
Balance sheet			
Normalised total assets	**1 031 579**	949 959	9
Loans and advances (net of credit impairment)	**764 088**	705 257	8
Ratios and key statistics			
ROE (%)	**23.0**	22.9	
ROA (%)	**1.75**	1.69	
Average gross loan-to-deposit ratio (%)	**93.2**	92.7	
Diversity ratio (%)	**41.6**	42.5	
Credit impairment charge	**6 255**	4 993	25
NPLs as % of advances	**2.43**	2.17	
Credit loss ratio (%)	**0.84**	0.73	
Specific coverage ratio (%)	**38.6**	41.0	
Total impairment coverage ratio (%)	**78.2**	86.6	
Performing book coverage ratio (%)	**0.99**	1.01	
Cost-to-income ratio (%)	**54.0**	55.3	
Effective tax rate (%)	**24.2**	25.1	
Number of employees	**36 310**	35 877	1

* *Ratios include unappropriated profits.*

SUMMARISED INCOME STATEMENT – NORMALISED

for the year ended 30 June

R million	2016	2015	% change
Net interest income before impairment of advances	**38 333**	33 913	13
Impairment of advances	**(6 255)**	(4 993)	25
Net interest income after impairment of advances	**32 078**	28 920	11
Non-interest revenue	**27 261**	25 057	9
Income from operations	**59 339**	53 977	10
Operating expenses	**(35 392)**	(32 591)	9
Income before tax	**23 947**	21 386	12
Indirect tax	**(763)**	(751)	2
Profit before tax	**23 184**	20 635	12
Income tax expense	**(5 614)**	(5 182)	8
Profit for the year	**17 570**	15 453	14
NCNR preference shareholders	**(219)**	(207)	6
Normalised earnings attributable to ordinary equityholders of the bank	**17 351**	15 246	14

SUMMARISED STATEMENT OF COMPREHENSIVE INCOME – NORMALISED

for the year ended 30 June

R million	**2016**	2015	% change
Profit for the year	**17 570**	15 453	14
Items that may subsequently be reclassified to profit or loss			
Cash flow hedges	**118**	(271)	(>100)
Gains/(losses) arising during the year	**144**	(569)	(>100)
Reclassification adjustments for amounts included in profit or loss	**20**	193	(90)
Deferred income tax	**(46)**	105	(>100)
Available-for-sale financial assets	**(495)**	(35)	>100
Losses arising during the year	**(679)**	(40)	>100
Reclassification adjustments for amounts included in profit or loss	**7**	(20)	(>100)
Deferred income tax	**177**	25	>100
Exchange differences on translating foreign operations	**482**	290	66
Gains arising during the year	**482**	290	66
Items that may not subsequently be reclassified to profit or loss			
Remeasurements on defined benefit post-employment plans	**(31)**	108	(>100)
(Losses)/gains arising during the year	**(43)**	151	(>100)
Deferred income tax	**12**	(43)	(>100)
Other comprehensive income for the year	**74**	92	(20)
Total comprehensive income for the year	**17 644**	15 545	14
Attributable to			
Ordinary equityholders	**17 425**	15 338	14
NCNR preference shareholders	**219**	207	6
Total comprehensive income for the year	**17 644**	15 545	14

SUMMARISED STATEMENT OF FINANCIAL POSITION – NORMALISED

as at 30 June

R million	**2016**	2015
ASSETS		
Cash and cash equivalents	**50 997**	53 725
Derivative financial instruments	**39 923**	34 112
Commodities	**12 514**	7 354
Investment securities	**111 430**	103 673
Advances	**764 088**	705 257
Accounts receivable	**4 561**	4 301
Non-current assets and disposal groups held for sale	**–**	125
Current tax asset	**166**	–
Amounts due by holding company and fellow subsidiaries	**32 793**	27 318
Property and equipment	**13 632**	12 821
Intangible assets	**106**	71
Deferred income tax asset	**1 369**	1 202
Total assets	**1 031 579**	949 959
EQUITY AND LIABILITIES		
Liabilities		
Short trading positions	**14 221**	5 270
Derivative financial instruments	**50 624**	40 811
Creditors, accruals and provisions*	**12 644**	12 465
Current tax liability	**75**	69
Deposits	**826 473**	779 703
Employee liabilities	**8 772**	8 848
Other liabilities	**5 386**	3 977
Amounts due to holding company and fellow subsidiaries	**13 997**	11 836
Tier 2 liabilities	**17 468**	11 983
Total liabilities	**949 660**	874 962
Equity		
Ordinary shares	**4**	4
Share premium	**16 804**	16 804
Reserves	**62 111**	55 189
Capital and reserves attributable to ordinary equityholders	**78 919**	71 997
NCNR preference shares	**3 000**	3 000
Total equity	**81 919**	74 997
Total equity and liabilities	**1 031 579**	949 959

* *In the prior year, provisions were presented in a separate line on the statement of financial position. The prior year has been restated accordingly.*

FLOW OF FUNDS ANALYSIS – NORMALISED

R million	June 2016 vs June 2015 12-month movement	June 2015 vs June 2014 12-month movement
Sources of funds		
Capital account movement (including profit and reserves)	**6 922**	10 933
Working capital movement	**(2 264)**	(674)
Short trading positions and derivative financial instruments	**12 953**	3 576
Investments	**(6 006)**	(889)
Deposits and long-term liabilities	**52 255**	87 026
Total	**63 860**	99 972
Application of funds		
Advances	**(58 831)**	(83 145)
Cash and cash equivalents	**2 728**	(1 937)
Investment securities	**(7 757)**	(14 890)
Total	**(63 860)**	(99 972)

OVERVIEW OF RESULTS

INTRODUCTION

The impact of Brexit on 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 will push global growth even lower than 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.

OVERVIEW OF RESULTS

Despite this challenging economic backdrop, for the year to June 2016 FirstRand Bank's portfolio produced a good performance, growing normalised earnings 14% and producing an ROE of 23.0%.

The table below shows a breakdown of sources of normalised earnings from the operating franchises.

SOURCES OF NORMALISED EARNINGS

R million	**2016**	**% composition**	2015	% composition	% change
FNB	**10 644**	**61**	9 440	61	13
RMB	**3 692**	**21**	3 754	25	(2)
WesBank	**2 574**	**15**	1 978	13	30
FCC (including Group Treasury) and other*	**660**	**4**	281	2	>100
NCNR preference dividend	**(219)**	**(1)**	(207)	(1)	6
Normalised earnings	**17 351**	**100**	15 246	100	14

* *Includes year-on-year negative accounting mismatches primarily reflected in the nominal NII growth of the bank.*

The bank's NII increased 13% driven by ongoing growth in advances (8%) and deposits (6%). Whilst margins in many of the asset generating businesses continued to come under pressure from higher term funding and liquidity costs, earnings benefited from the positive endowment effect of an average 68 bps increase in the repo rate for the year.

Total NIR growth of 9% was robust, and especially impressive at FNB given the regulatory impact of interchange. NIR also benefited from RMB's knowledge-based fees.

Total operating expenses increased 9% and continue to trend above inflation as the bank remains committed to investing in its future growth strategies. Cost growth was impacted by lower variable costs as well as lower share-based payment expenses given the negative movement in the group's share price during the year.

The cost-to-income ratio decreased to 54.0% (2015: 55.3%).

As predicted, given the current cycle, the credit impairment ratio increased from 73 bps to 84 bps, which remains below the bank's through-the-cycle charge of 100 bps to 110 bps.

This was driven by:

- the anticipated normalisation of credit experience in the retail portfolios, i.e. mortgages, card and VAF; and
- new business strain as a result of strong book growth in unsecured retail portfolios in FNB, linked to cross-sell and up-sell strategies, and in FNB Commercial.

As a result, NPLs have increased, however, 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.

The bank consistently adjusted credit appetite in the high risk segments of the retail market from as early as 2011, but has seen robust growth on the back of FNB's strategy to focus on lending to its core transactional customer base.

The performing book coverage ratio of 99 bps reduced marginally from the prior year's 101 bps. This was largely as a result of the partial central overlay release given the previously identified risk manifesting with NPL formation increasing in some of the underlying franchises and products resulting in higher specific impairments.

FRANCHISE PERFORMANCE REVIEW

Below is a brief overview of the financial and operational performance of the bank's major operating franchises.

FNB

FNB represents the bank's activities in the retail and commercial segments in South Africa and India. It is growing its franchise strongly in both existing and new markets on the back of a compelling customer offering that provides a broad range of innovative financial services products. This offering is delivered through efficient and cost effective delivery channels, particularly electronic and digital platforms.

FNB FINANCIAL HIGHLIGHTS

R million	2016	2015	% change
Normalised earnings	**10 644**	9 440	13
Normalised profit before tax	**14 785**	13 112	13
Total assets	**333 320**	308 245	8
Total liabilities	**318 635**	295 140	8
NPLs (%)	**2.93**	2.63	
Credit loss ratio (%)	**1.04**	0.76	

SEGMENT RESULTS

R million	2016	2015	% change
Normalised PBT			
Retail	**9 102**	8 280	10
FNB Africa*	**(357)**	(323)	11
Commercial	**6 040**	5 155	17
Total FNB	**14 785**	13 112	13

* *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 grew pre-tax profits 13%, which is a solid performance given the increasing economic and regulatory headwinds the business is currently facing and is testament to the quality of its transactional, lending and liabilities franchises.

This performance was again driven by FNB's ongoing strategy to grow and retain core transactional accounts, use its customer relationships and data analytics to effectively cross-sell and up-sell into that customer base whilst applying disciplined origination strategies and providing innovative transactional and savings products. FNB's cross-sell ratio improved from 2.55 to 2.65.

FNB's overall NII increased 17% driven by growth in both advances (8%) and deposits (12%) and the positive endowment effect from higher interest rates.

The domestic retail lending businesses continued to show good growth on the back of the transactional cross-sell strategy. Despite some new business strain, particularly in unsecured, credit quality remains in line with expectations and credit appetite was tightened in the second half of the year.

Retail deposits again grew above market on the back of ongoing acquisition of core transactional accounts, and further strong momentum in sales of new products. The commercial segment also showed good new customer acquisition supporting advances and deposits growth.

SEGMENT ANALYSIS OF ADVANCES AND DEPOSIT GROWTH

	Deposit growth		Advances growth	
Segments	%	R billion	%	R billion
Retail	**14**	**21.9**	**6**	**14.3**
Commercial	**9**	**14.5**	**15**	**10.1**

The table below shows that FNB's deliberate focus on acquiring and cross-selling to a "sweet spot" transactional retail and commercial customer has continued to generate high quality NII growth.

	Year-on-year growth		
Customer segment	Customer numbers %	Unsecured advances %	Deposits %
Consumer	**4**	**2**	**8**
Premium	**10**	**27**	**18**
Commercial	**14**	**–**	**9**

As expected, bad debts and NPLs are starting to trend up following strong book growth in previous periods and the worsening economic cycle. NPLs in FNB's domestic unsecured books which have seen the strongest growth in new business, are trending in line with expectations and reflect the quality of new business written, appropriate pricing for risk and the effectiveness of FNB's customer segment and sub-segment origination strategies. NPLs were impacted by the adoption of a reclassification of distressed loans in the year under review. When the impact of this reclassification is excluded, total NPLs increased 8% year-on-year.

Overall provisioning levels have remained conservative with some of the overlays being incorporated into the models, in line with expectations. Utilisation of certain overlays will continue into the next financial year as modelled portfolio impairments continue to increase.

FNB's NIR growth of 6% was robust particularly given the impact of the reduction in interchange fees, which became effective March 2015. Fee and commission income benefited from strong volume growth of 12% with ongoing momentum across the electronic channels, again demonstrating the success of FNB's electronic migration strategy. There was some negative impact from a reduction in cash-related NIR and the cost of rewards (+14%) linked to e-migration and cross-sell strategy.

Cost growth was well contained at 8%. The cost-to-income ratio decreased to 55.0% from 56.9%.

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 is anchored around its corporate and institutional clients and leverages a market-leading origination franchise to deliver an integrated corporate and investment banking value proposition. This, combined with an expanding market making and distribution product offering, contributes to a well diversified and sustainable earnings base. This strategy is underpinned by sound risk management, designed to effectively balance the interplay between profit growth, returns and earnings volatility.

RMB FINANCIAL HIGHLIGHTS

R million	2016	2015	% change
Normalised earnings	**3 692**	3 754	(2)
Normalised profit before tax	**5 128**	5 218	(2)
Total assets	**375 527**	352 714	6
Total liabilities	**371 143**	348 145	7
Credit loss ratio (%)	**0.27**	0.33	
Cost-to-income ratio (%)	**52.9**	49.9	

RMB produced satisfactory results for the year, which was achieved against a challenging macroeconomic environment and highlights the resilience and diversification of RMB's portfolio of businesses. RMB's balance sheet remains robust, with high quality earnings and solid operational leverage despite platform investments and increasing regulatory and compliance spend.

RMB's organisational structure continues to be based on its four separate divisions, namely Investment Banking Division (IBD), Global Markets, Private Equity and Corporate Banking, however, the business is managed on a core activity basis.

In addition, during the year, the business model was further refined to more closely reflect the core activity view. All activities relating to the corporate and transactional banking pillar have been grouped in the Corporate Banking business unit. These include the transactional banking, trade and working capital, and global foreign exchange activities, some of which were previously reported in Global Markets. As a consequence of these refinements, the business unit view has been amended and is outlined in the table below.

BREAKDOWN OF PROFIT CONTRIBUTION

R million	2016	2015	% change
Normalised PBT			
Investment Banking	**4 028**	4 194	(4)
IBD	**3 729**	3 108	20
Global Markets	**1 100**	1 175	(6)
Private Equity*	**(128)**	(79)	62
Other RMB	**(673)**	(10)	>100
Corporate Banking	**1 100**	1 024	7
Total RMB	**5 128**	5 218	(2)

* *The majority of private equity activities are in FRIHL.*

IBD delivered an excellent performance, underpinned by strong fee income on the back of key advisory and underwriting mandates secured. It was achieved despite muted balance sheet growth and margin compression resulting from disciplined financial resource allocation designed to achieve return profile preservation. Additional proactive provisioning, particularly in the mining, and oil and gas portfolios, has strengthened the portfolio coverage ratio as the corporate sector enters a weaker credit cycle.

Corporate Banking produced strong profit growth on the back of greater leveraging of platforms and client bases. Liability-raising initiatives yielded positive results with higher deposit balances and an enhanced liquidity profile. Earnings benefited from increased demand for structured and traditional trade products, whilst the global foreign exchange business profited from currency volatility and increased client flows.

Global Markets delivered satisfactory results, with standout performance in foreign currency and commodities, benefiting from heightened volatility levels, which drove spreads wider and contributed to increased deal flow. In addition, the negative impact of the December events on fixed income reversed in the second half, producing a good result given the levels of liquidity and flow in interest rate markets. Earnings were, however, constrained by a specific credit event related to a client impacted by the foreign exchange volatility, a reduction in structuring activity year-on-year and a decline in liquidity in corporate credit trading activities post December.

Unallocated franchise costs, central portfolio overlays, endowment on allocated capital, legacy portfolios and RMB Resources are reflected in Other RMB. The legacy portfolio curtailed losses to R16 million in the current year, whilst central credit overlays of R300 million were raised against the oil and gas portfolios. The RMB Resources business reported a loss of R266 million, on the back of impairments taken against the high yield debt portfolio, which remains under pressure as a result of the downturn in the commodity cycle. As previously indicated, RMB is exiting these activities and is undertaking an orderly unwind of the portfolio with no new investments.

WesBank

WesBank represents the bank's activities in asset-based finance and related products in the retail, commercial and corporate segments of South Africa, and asset-based motor finance through MotoNovo Finance in the UK. Through the Direct Axis brand, WesBank also operates in the personal loans market in South Africa. WesBank's leading position in its chosen markets is due to its long-standing alliances with leading motor manufacturers, suppliers and dealer groups, and strong point-of-sale presence.

WESBANK FINANCIAL HIGHLIGHTS

R million	2016	2015	% change
Normalised earnings	**2 574**	1 978	30
Normalised profit before tax	**3 564**	2 705	32
Total assets	**169 050**	157 554	7
Total liabilities	**165 582**	154 915	7
NPLs (%)	**3.81**	3.55	
Credit loss ratio (%)	**1.65**	1.54	
Cost-to-income ratio (%)	**44.6**	47.7	
Net interest margin (%)	**4.86**	4.69	

WesBank delivered a very strong performance off a high base and in a very tough economic operating environment, producing a 32% increase in pre-tax profits to R3.6 billion. The increasing level of diversification in WesBank's portfolio of businesses has positioned the franchise well to weather the domestic credit cycle, and deliver more sustainable, less volatile earnings.

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

*BREAKDOWN OF PROFIT CONTRIBUTION BY ACTIVITY**

R million	2016	2015	% change
Normalised PBT			
VAF			
– Retail SA	**1 731**	1 480	17
– MotoNovo (UK)**	**950**	455	>100
– Corporate and commercial	**385**	265	45
Personal loans	**498**	505	(1)
Total WesBank	**3 564**	2 705	32

* *Refer to additional segmental disclosure on page A 26.*

** *Normalised PBT for MotoNovo (UK) up 74% to GBP 44 million.*

MotoNovo's prior year profits were negatively impacted by R550 million from a prospective change in accounting treatment for incentive commissions on securitisation transactions. On a like-for-like basis, normalised profits would have declined slightly as a result of the quantum and timing of the securitisations.

Advances showed solid growth of 7% for the year mainly driven by resilient new business volumes in MotoNovo (UK) and the local VAF portfolios. Year-on-year growth in production in personal loans, however, was impacted by the NCA amendments. Overall new business production was up 18% with VAF and MotoNovo origination volumes up 2% and 36% (in GBP terms), respectively. All new business volumes continue to reflect good quality and overall risk profile remains in line with current credit appetite.

Interest margins have held up well despite higher funding and liquidity costs and the continued shift in mix from fixed to floating rate business.

As anticipated, bad debts in the local VAF portfolio are trending upwards but remain within through-the-cycle thresholds and WesBank continues to be conservatively provided. NPLs as a percentage of advances are up and remain 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 they entered debt review. Vintage performance continues to be closely monitored.

WesBank's NIR growth of 11% was driven by satisfactory new business volumes in the domestic portfolios and a strong performance from MotoNovo.

Operating expenses grew 8%, mainly driven by investment in growth initiatives in MotoNovo, which continues to expand its footprint and product offering in the UK.

The relative contribution to the bank's normalised earnings mix and growth rates from types of income and business units are shown in the table below.

SEGMENT ANALYSIS OF NORMALISED EARNINGS

R million	2016	% composition	2015	% composition	% change
Retail	**8 585**	49	7 487	49	15
FNB	**6 295**		5 729		
WesBank	**2 290**		1 758		
Commercial	**4 633**	27	3 931	25	18
FNB	**4 349**		3 711		
WesBank	**284**		220		
Corporate and investment banking	**3 692**	21	3 754	25	(2)
RMB	**3 692**		3 754		
Other	**441**	3	74	1	>100
Dividends paid on NCNR preference shares	**(219)**		(207)		
FCC (including Group Treasury) and elimination adjustments	**660**		281		
Normalised earnings	**17 351**	100	15 246	100	14

MANAGEMENT OF FINANCIAL RESOURCES

The management of the group's financial resources which it defines as capital, funding and liquidity, and risk appetite (in all currencies), 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 both earnings and balance sheet risk weighted assets is based upon the macroeconomic outlook and then evaluated against the financial resources available with the requirements of the providers of capital and regulators also taken into account. The expected outcomes and constraints are then stress tested and the group sets financial and prudential targets through different business cycles and scenarios, thus enabling it to deliver on its commitments to stakeholders at a defined confidence level.

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.

Given the high levels of uncertainty and volatility in funding markets, the group is exploring strategic options to protect its counterparty status to maintain access to financial markets and hard-currency funding in the event of a sovereign ratings downgrade. Since the year end, the group (through its wholly-owned subsidiary FirstRand Securities Limited) has become a member of the interest rate derivatives clearing service, SwapClear, one of the clearing platforms provided by multi-national clearing house, LCH. This will be key to execution of the rest of Africa strategy and growing MotoNovo.

Balance sheet strength

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**	**14.2**	**17.1**

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

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

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 unit 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 future outlook.

The bank continues to actively manage capital composition and, to this end, issued approximately R4.9 billion Basel III-compliant Tier 2 instruments in the domestic market during the past 12 months. This resulted in a more efficient capital composition which is closely aligned with the group's internal targets. It remains the group's intention to continue optimising its capital stack by frequently issuing Tier 2 instruments, either in the domestic and/or international markets. This ensures sustainable support for ongoing growth initiatives and also compensates for the haircut applied to Tier 2 instruments which are not compliant with Basel III.

Liquidity position

Taking into account the liquidity risk introduced by its business activities across various currencies, 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 bank exceeds the 70% (2015: 60%) minimum liquidity coverage ratio as set out by the Basel Committee for Banking Supervision (BCBS) with a Liquidity Coverage Ratio (LCR) for the bank of 102% (2015: 84%). At 30 June 2016, the bank's available HQLA sources of liquidity per the LCR was R141 billion, with an additional R11 billion of management liquidity available.

Regulatory changes

On 18 November 2015, the SARB released a proposed directive related to the Net Stable Funding Ratio (NSFR). The SARB believes that the BCBS calibration does not reflect the actual stability of institutional funding in the SA context, given the significant barriers preventing liquidity from leaving the domestic financial system. It has, therefore, proposed a 35% available stable funding factor for institutional funding less than six months in tenor, compared to 0% under the BCBS framework. It is expected that this change will significantly assist the SA banking sector in meeting the NSFR requirements without severely impacting the economy. FirstRand expects to be fully compliant with NSFR requirements on the new calibration.

PROSPECTS

Domestic GDP growth is expected to remain low throughout the 2017 financial year. Ongoing political and policy uncertainty, combined with an even more constrained global growth scenario, will continue to pose further downside risk.

Inflation will remain above the top end of the target band for the rest of 2016 year and into 2017 with some further increases in administered pricing anticipated whilst the SARB is moving towards the peak of the tightening cycle, event risk remains high.

The rand is expected to remain weak against the USD for the foreseeable future and could weaken further if domestic socio-economic uncertainty intensifies, the Fed hikes US rates aggressively and rating agencies downgrade the foreign currency sovereign rating by more than one notch.

Rest of Africa GDP is expected to average around 2.5% – 4% over the near term. Downside risks include the impact of Brexit, slowing Chinese trend growth along with a rebalancing of its growth dynamic away from resource intensive investment towards consumption. This will continue to weigh on the outlook for commodity prices. Dollar strength poses a challenge to countries that have high levels of foreign debt.

Against these short- to medium-term challenges, both domestic and regional, the bank expects credit growth to remain subdued, particularly as the origination businesses also continue to cut appetite in higher risk segments. Volumes in the transactional activities are expected to remain resilient despite lower economic activity mainly on the back of the leading market positions the franchises enjoy. Ongoing innovation in product and channel rollout will support this, as will the acquisition of new customers and cross-sell.

The group remains committed to growing economic profits on a sustainable basis and will continue to only allocate capital to growth initiative's that maximise returns. It remains confident that the quality of its portfolio of businesses, the strength of its balance sheet, ongoing discipline in resource allocation and the strategies it is currently investing in will ensure ongoing growth and superior returns to its shareholders.

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	3 722	2 305	2 583	5 911	**14 521**	7 646	8	**22 175**
Impairment of advances	(387)	(565)	(1 078)	(755)	**(2 785)**	(397)	2	**(3 180)**
Net interest income after impairment of advances	3 335	1 740	1 505	5 156	**11 736**	7 249	10	**18 995**
Non-interest revenue	331	1 591	829	8 736	**11 487**	6 496	621	**18 604**
Income from operations	3 666	3 331	2 334	13 892	**23 223**	13 745	631	**37 599**
Operating expenses	(1 705)	(1 966)	(1 046)	(9 041)	**(13 758)**	(7 669)	(986)	**(22 413)**
Income before tax	1 961	1 365	1 288	4 851	**9 465**	6 076	(355)	**15 186**
Indirect tax	(13)	(49)	(18)	(283)	**(363)**	(36)	(2)	**(401)**
Profit for the year before tax	1 948	1 316	1 270	4 568	**9 102**	6 040	(357)	**14 785**
Income tax expense	(545)	(368)	(356)	(1 281)	**(2 550)**	(1 691)	100	**(4 141)**
Profit for the year	1 403	948	914	3 287	**6 552**	4 349	(257)	**10 644**
Attributable to								
Ordinary equityholders	1 403	948	914	3 287	**6 552**	4 349	(257)	**10 644**
NCNR preference shareholders	–	–	–	–	**–**	–	–	**–**
Profit for the year	1 403	948	914	3 287	**6 552**	4 349	(257)	**10 644**
Attributable earnings to ordinary shareholders	1 403	948	914	3 287	**6 552**	4 349	(257)	**10 644**
Headline earnings adjustments	–	–	–	–	**–**	–	–	**–**
Headline earnings	1 403	948	914	3 287	**6 552**	4 349	(257)	**10 644**
IAS 19 adjustment	–	–	–	–	**–**	–	–	**–**
TRS adjustment	–	–	–	–	**–**	–	–	**–**
Normalised earnings	1 403	948	914	3 287	**6 552**	4 349	(257)	**10 644**
Cost-to-income ratio (%)	42.1	50.5	30.7	61.7	**52.9**	54.2	>100	**55.0**
Diversity ratio (%)	8.2	40.8	24.3	59.6	**44.2**	45.9	98.7	**45.6**
Credit loss ratio (%)	0.21	2.73	7.20	5.66	**1.20**	0.55	(0.33)	**1.04**
NPLs as a percentage of advances (%)	2.46	3.46	6.81	5.48	**3.03**	2.49	18.66	**2.93**
Income statement includes								
Depreciation	(6)	(5)	(5)	(1 342)	**(1 358)**	(33)	(4)	**(1 395)**
Amortisation	–	–	–	(12)	**(12)**	–	(1)	**(13)**
Net impairment charges	–	–	–	5	**5**	–	–	**5**
Statement of financial position includes								
Advances (after ISP – before impairments)	187 806	21 968	16 090	14 343	**240 207**	77 224	761	**318 192**
– Normal advances	187 806	21 968	16 090	14 343	**240 207**	77 224	761	**318 192**
– Credit-related assets	–	–	–	–	**–**	–	–	**–**
NPLs net of ISP	4 628	759	1 095	786	**7 268**	1 922	142	**9 332**
Total deposits	131	1 557	2	178 459	**180 149**	167 399	758	**348 306**
Total assets	186 396	21 229	14 774	32 983	**255 382**	76 790	1 148	**333 320**
Total liabilities	186 017	20 575	14 207	23 093	**243 892**	73 236	1 507	**318 635**
Capital expenditure	–	3	7	2 636	**2 646**	33	–	**2 679**

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 A 03) and are not reported in bank.*

** *Refer to additional segmental disclosure on page A 26.*

RMB							
Investment banking	Corporate banking	Total RMB	WesBank**	FCC (including Group Treasury) and other	FRB – normalised	Normalised adjustments	FRB – IFRS
4 019	1 557	5 576	9 081	1 501	38 333	(2 790)	35 543
(514)	(162)	(676)	(2 694)	295	(6 255)	257	(5 998)
3 505	1 395	4 900	6 387	1 796	32 078	(2 533)	29 545
5 337	1 593	6 930	2 635	(908)	27 261	1 602	28 863
8 842	2 988	11 830	9 022	888	59 339	(931)	58 408
(4 731)	(1 881)	(6 612)	(5 226)	(1 141)	(35 392)	357	(35 035)
4 111	1 107	5 218	3 796	(253)	23 947	(574)	23 373
(83)	(7)	(90)	(232)	(40)	(763)	–	(763)
4 028	1 100	5 128	3 564	(293)	23 184	(574)	22 610
(1 128)	(308)	(1 436)	(990)	953	(5 614)	154	(5 460)
2 900	792	3 692	2 574	660	17 570	(420)	17 150
2 900	792	3 692	2 574	441	17 351	(420)	16 931
–	–	–	–	219	219	–	219
2 900	792	3 692	2 574	660	17 570	(420)	17 150
2 900	792	3 692	2 574	441	17 351	(420)	16 931
–	–	–	–	–	–	28	28
2 900	792	3 692	2 574	441	17 351	(392)	16 959
–	–	–	–	–	–	(102)	(102)
–	–	–	–	–	–	494	494
2 900	792	3 692	2 574	441	17 351	–	17 351
50.6	59.7	52.9	44.6	>100	54.0	–	54.4
57.0	50.6	55.4	22.5	(>100)	41.6	–	44.8
0.24	0.48	0.27	1.65	(0.04)	0.84	–	0.85
1.42	0.34	1.27	3.81	–	2.43	–	2.59
(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	168 992	40 897	778 906	(47 814)	731 092
208 615	34 442	243 057	168 992	4 270	734 511	(3 419)	731 092
7 768	–	7 768	–	36 627	44 395	(44 395)	–
3 073	116	3 189	6 432	–	18 953	–	18 953
98 168	105 222	203 390	62	274 715	826 473	–	826 473
339 258	36 269	375 527	169 050	153 682	1 031 579	–	1 031 579
336 224	34 919	371 143	165 582	94 300	949 660	–	949 660
73	2	75	1 306	10	4 070	–	4 070

SEGMENT REPORT
for the year ended 30 June 2015

	FNB							
	Retail							
R million	Residential mortgages	Card	Personal loans	Retail other	Retail	Commercial	FNB Africa*	Total FNB
Net interest income before impairment of advances	3 548	1 856	2 232	4 794	**12 430**	6 454	4	**18 888**
Impairment of advances	(111)	(191)	(715)	(743)	**(1 760)**	(365)	(3)	**(2 128)**
Net interest income after impairment of advances	3 437	1 665	1 517	4 051	**10 670**	6 089	1	**16 760**
Non-interest revenue	305	1 436	757	8 511	**11 009**	6 006	501	**17 516**
Income from operations	3 742	3 101	2 274	12 562	**21 679**	12 095	502	**34 276**
Operating expenses	(1 689)	(1 772)	(916)	(8 625)	**(13 002)**	(6 901)	(824)	**(20 727)**
Income before tax	2 053	1 329	1 358	3 937	**8 677**	5 194	(322)	**13 549**
Indirect tax	(35)	(44)	(18)	(300)	**(397)**	(39)	(1)	**(437)**
Profit for the year before tax	2 018	1 285	1 340	3 637	**8 280**	5 155	(323)	**13 112**
Income tax expense	(565)	(360)	(375)	(1 018)	**(2 318)**	(1 444)	90	**(3 672)**
Profit for the year	1 453	925	965	2 619	**5 962**	3 711	(233)	**9 440**
Attributable to								
Ordinary equityholders	1 453	925	965	2 619	**5 962**	3 711	(233)	**9 440**
NCNR preference shareholders	–	–	–	–	**–**	–	–	**–**
Profit for the year	1 453	925	965	2 619	**5 962**	3 711	(233)	**9 440**
Attributable earnings to ordinary shareholders	1 453	925	965	2 619	**5 962**	3 711	(233)	**9 440**
Headline earnings adjustments	–	–	–	–	**–**	–	–	**–**
Headline earnings	1 453	925	965	2 619	**5 962**	3 711	(233)	**9 440**
IAS 19 adjustment	–	–	–	–	**–**	–	–	**–**
TRS adjustment	–	–	–	–	**–**	–	–	**–**
Normalised earnings	1 453	925	965	2 619	**5 962**	3 711	(233)	**9 440**
Cost-to-income ratio (%)	43.8	53.8	30.6	64.8	**55.5**	55.4	>100	**56.9**
Diversity ratio (%)	7.9	43.6	25.3	64.0	**47.0**	48.2	99.2	**48.1**
Credit loss ratio (%)	0.06	1.08	5.42	6.82	**0.91**	0.58	0.88	**0.76**
NPLs as a percentage of advances (%)	2.54	2.09	4.91	4.10	**2.73**	2.18	18.06	**2.63**
Income statement includes								
Depreciation	(6)	(5)	(1)	(1 170)	**(1 182)**	(24)	(3)	**(1 209)**
Amortisation	–	–	–	(3)	**(3)**	–	–	**(3)**
Net impairment charges	–	–	–	(3)	**(3)**	–	–	**(3)**
Statement of financial position includes								
Advances (after ISP – before impairments)	180 208	19 488	13 856	12 315	**225 867**	67 147	443	**293 457**
– Normal advances	180 208	19 488	13 856	12 315	**225 867**	67 147	443	**293 457**
– Credit-related assets	–	–	–	–	**–**	–	–	**–**
NPLs net of ISP	4 585	407	680	505	**6 177**	1 466	80	**7 723**
Total deposits	155	1 467	1	156 676	**158 299**	152 912	409	**311 620**
Total assets	178 987	18 895	12 787	30 417	**241 086**	66 580	579	**308 245**
Total liabilities	178 390	18 171	12 118	22 080	**230 759**	63 478	903	**295 140**
Capital expenditure	–	3	7	2 639	**2 649**	33	23	**2 705**

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 A 03) and are not reported in bank.*

** *Refer to additional segmental disclosure on page A 26.*

RMB							
Investment banking	Corporate banking	Total RMB	WesBank**	FCC (including Group Treasury) and other	FRB – normalised	Normalised adjustments	FRB – IFRS
3 939	1 286	5 225	7 755	2 045	33 913	(3 684)	30 229
(596)	(177)	(773)	(2 358)	266	(4 993)	637	(4 356)
3 343	1 109	4 452	5 397	2 311	28 920	(3 047)	25 873
5 336	1 510	6 846	2 376	(1 681)	25 057	4 159	29 216
8 679	2 619	11 298	7 773	630	53 977	1 112	55 089
(4 412)	(1 611)	(6 023)	(4 830)	(1 011)	(32 591)	(907)	(33 498)
4 267	1 008	5 275	2 943	(381)	21 386	205	21 591
(73)	16	(57)	(238)	(19)	(751)	–	(751)
4 194	1 024	5 218	2 705	(400)	20 635	205	20 840
(1 176)	(288)	(1 464)	(727)	681	(5 182)	(57)	(5 239)
3 018	736	3 754	1 978	281	15 453	148	15 601
3 018	736	3 754	1 978	74	15 246	148	15 394
–	–	–	–	207	207	–	207
3 018	736	3 754	1 978	281	15 453	148	15 601
3 018	736	3 754	1 978	74	15 246	148	15 394
–	–	–	–	–	–	(7)	(7)
3 018	736	3 754	1 978	74	15 246	141	15 387
–	–	–	–	–	–	(107)	(107)
–	–	–	–	–	–	(34)	(34)
3 018	736	3 754	1 978	74	15 246	–	15 246
47.6	57.6	49.9	47.7	>100	55.3	–	56.4
57.5	54.0	56.7	23.5	(>100)	42.5	–	49.1
0.29	0.56	0.33	1.54	(0.04)	0.73	–	0.66
0.92	1.06	0.94	3.55	–	2.17	–	2.27
(66)	(3)	(69)	(411)	(28)	(1 717)	–	(1 717)
(8)	–	(8)	(36)	(3)	(50)	–	(50)
–	–	–	–	2	(1)	–	(1)
208 624	33 192	241 816	157 982	25 516	718 771	(33 294)	685 477
197 468	33 192	230 660	157 982	6 594	688 693	(3 216)	685 477
11 156	–	11 156	–	18 922	30 078	(30 078)	–
1 925	352	2 277	5 603	–	15 603	(50)	15 553
94 076	98 083	192 159	53	275 871	779 703	–	779 703
316 633	36 081	352 714	157 554	131 446	949 959	–	949 959
313 381	34 764	348 145	154 915	76 762	874 962	–	874 962
172	3	175	826	6	3 712	–	3 712

ADDITIONAL SEGMENTAL DISCLOSURE – WESBANK

	Year ended 30 June 2016				
	VAF				
	Retail				
R million	South Africa	MotoNovo (UK)	Corporate and commercial	Personal loans	Total WesBank
NII before impairment of advances	**4 344**	**1 808**	**670**	**2 259**	**9 081**
Impairment of advances	**(1 366)**	**(338)**	**(15)**	**(975)**	**(2 694)**
Normalised profit before tax	**1 731**	**950**	**385**	**498**	**3 564**
Normalised earnings	**1 247**	**684**	**284**	**359**	**2 574**
Advances	**98 377**	**28 866**	**29 879**	**11 870**	**168 992**
NPLs	**4 857**	**126**	**321**	**1 128**	**6 432**
Advances margin (%)	**3.76**	**5.65**	**2.40**	**19.52**	**4.86**
NPLs (%)	**4.94**	**0.44**	**1.07**	**9.50**	**3.81**
Credit loss ratio (%)	**1.41**	**1.36**	**0.05**	**8.73**	**1.65**

	Year ended 30 June 2015				
	VAF				
	Retail				
R million	South Africa	MotoNovo (UK)	Corporate and commercial	Personal loans	Total WesBank
NII before impairment of advances	4 082	933	702	2 038	7 755
Impairment of advances	(1 217)	(163)	(149)	(829)	(2 358)
Normalised profit before tax	1 480	455	265	505	2 705
Normalised earnings	1 066	328	220	364	1 978
Advances	95 759	20 923	30 828	10 472	157 982
NPLs	4 163	75	462	903	5 603
Advances margin (%)	3.71	5.69	2.56	19.60	4.69
NPLs (%)	4.35	0.36	1.50	8.62	3.55
Credit loss ratio (%)	1.27	0.96	0.49	8.45	1.54

income statement analysis

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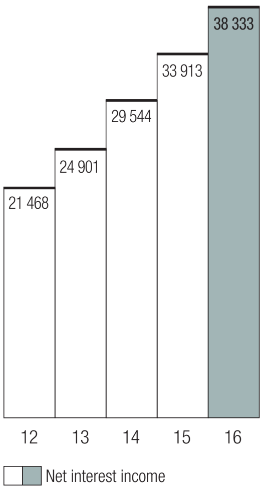
NET INTEREST INCOME (BEFORE IMPAIRMENT OF ADVANCES) – UP 13%

NET INTEREST INCOME

R million

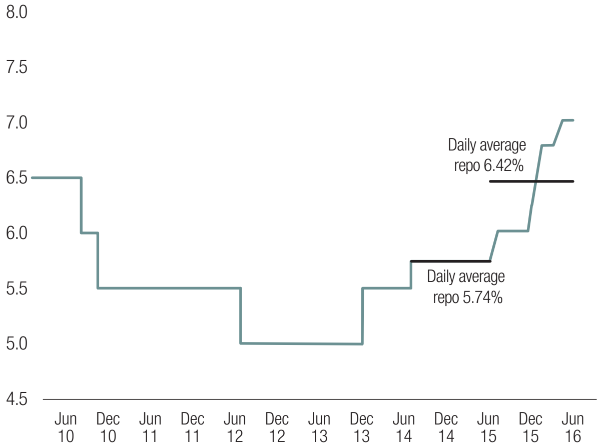
CAGR 16%



Note: 2013 to 2016 figures have been prepared in terms of IFRS 10 and 11, and the revised IAS 19.

REPO RATE

%



Note: R154 billion = average endowment book for the year. Rates were higher by 68 bps on average in the current year, which translates into a positive endowment impact of approximately R1 049 million.

MARGIN CASCADE TABLE

Percentage of average interest-earning banking assets	%
June 2015 normalised margin	**5.02**
Capital and endowment benefit	**0.19**
Advances	**0.10**
– Change in balance sheet mix	**0.03**
– Asset pricing	**0.07**
Liabilities	**(0.08)**
– Change in balance sheet mix (deposits)	**0.04**
– Term funding cost	**(0.08)**
– Deposit pricing	**(0.04)**
Group Treasury and other movements	**(0.06)**
– MTM vs accrual on term issuance in professional funding	**(0.04)**
– Increase in HQLA	**(0.05)**
– Other accounting mismatches and interest rate risk hedges	**0.03**
June 2016 normalised margin	**5.17**

ACTIVITY ANALYSIS OF NET INTEREST INCOME BEFORE IMPAIRMENT OF ADVANCES

	Year ended 30 June		
R million	2016	2015	% change
Net interest income			
Lending	**17 640**	16 414	7
Transactional*	**12 498**	10 061	24
Deposits	**2 690**	2 434	11
Capital endowment	**4 280**	3 340	28
Group Treasury	**598**	1 307	(54)
Other (negative endowment, e.g. fixed assets)	**627**	357	76
Total net interest income	**38 333**	33 913	13

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

KEY DRIVERS

- Positive endowment effect from the 25 bps increases in the repo rate in July and November 2015 and March 2016, and 50 bps in January 2016 (an average increase of 68 bps in the repo rate for the year).
- Higher capital levels further underpinned NII growth.
- Strong advances and deposit growth of 8% and 6%, respectively, boosted NII.
- An increase in FNB margins mainly due to endowment on increased deposit base. Advances growth and repricing benefits in card, retail overdrafts and FNB loans, were, to some extent, offset by higher funding and liquidity costs.
- WesBank's margins increased as a result of the change in mix of the advances portfolio and strong book growth in MotoNovo (UK), offset by an increase in funding and liquidity costs, and increased market pricing competitiveness.
- Investment banking advances margins were negatively impacted by higher term funding and liquidity costs as well as competitive pricing pressure locally and internationally, resulting in constrained long-term asset and margin growth.
- A decrease of R74 million (2015: R77 million increase) in the dollar funding carry costs relating to excess dollar liquidity, impacted by the deployment of a portion of the funding of assets during the current year.
- R319 million (2015: R196 million) positive mark-to-market movement in the non-hedge accounted interest rate risk management hedge positions. These will pull to par in future periods.
- A reduction of R282 million in the mark-to-market movements (2015: positive R347 million) on fair value term funding instruments due to movements in the domestic yield curve. These movements will reverse over the duration of the underlying instruments. These are long-dated instruments.
- With the liquidity coverage ratio (LCR) becoming a prudential regulatory requirement from 1 January 2015, higher holdings of HQLA resulted in lower interest margins in the bank.

AVERAGE BALANCE SHEET

		June 2016			June 2015		
R million	Notes	Average balance[#,†]	Interest income/ (expense)	Average rate %	Average balance	Interest income/ (expense)	Average rate %
INTEREST-EARNING ASSETS							
Average prime rate				**9.92**			9.24
Balances with central banks		**18 506**	**–**	**–**	17 225	–	–
Cash and cash equivalents		**13 457**	**341**	**2.53**	14 756	369	2.50
Liquid assets portfolio		**89 339**	**6 513**	**7.29**	61 382	4 334	7.06
Loans and advances to customers	1	**620 413**	**66 210**	**10.67**	582 194	57 827	9.93
Interest-earning assets		**741 715**	**73 064**	**9.85**	675 557	62 530	9.26
INTEREST-BEARING LIABILITIES							
Average JIBAR				**6.59**			6.05
Deposits due to customers	2	**(439 698)**	**(19 291)**	**4.39**	(393 539)	(15 123)	3.84
Group Treasury funding		**(266 855)**	**(16 785)**	**6.29**	(249 744)	(14 735)	5.90
Interest-bearing liabilities		**(706 553)**	**(36 076)**	**5.11**	(643 283)	(29 858)	4.64
ENDOWMENT AND TRADING BOOK							
Other assets*		**190 890**	**–**	**–**	134 616	–	–
Other liabilities**		**(145 697)**	**–**	**–**	(98 098)	–	–
NCNR preference shareholders		**(3 000)**	**–**	**–**	(3 000)	–	–
Equity		**(77 355)**	**–**	**–**	(65 792)	–	–
Endowment and trading book		**(35 162)**	**1 345**	**(3.83)**	(32 274)	1 241	(3.85)
Total interest-bearing liabilities, endowment and trading book		**(741 715)**	**(34 731)**	**4.68**	(675 557)	(28 617)	4.24
Net interest margin on average interest-earning assets		**741 715**	**38 333**	**5.17**	675 557	33 913	5.02

Interest income is the gross interest received on assets and interest expense is the gross interest paid on liabilities.
* *Includes preference share advances, trading assets and securitisation notes.*
** *Includes trading liabilities.*
\# *Includes level 1 HQLA.*
† *Includes level 2 HQLA and corporate bonds not qualifying as HQLA.*

NOTE 1 – MARGIN ANALYSIS ON LOANS AND ADVANCES TO CUSTOMERS

	June 2016		June 2015**	
R million	Average balance	Average margin %	Average balance	Average margin %
Average prime rate (RSA)		**9.92**		9.24
ADVANCES				
Retail – secured	**308 452**	**2.70**	290 538	2.65
Residential mortgages	**185 354**	**1.73**	175 750	1.77
VAF	**123 098**	**4.15**	114 788	3.98
Retail – unsecured	**61 469**	**12.56**	52 094	12.42
Card	**21 194**	**9.63**	17 732	9.10
Personal loans	**26 237**	**17.07**	22 947	17.08
– FNB loans	**15 204**	**15.29**	13 233	15.24
– WesBank loans	**11 033**	**19.52**	9 714	19.60
Overdrafts	**14 038**	**8.55**	11 415	8.21
Corporate and commercial	**250 492**	**2.39**	239 562	2.42
FNB commercial	**70 804**	**3.53**	60 918	3.70
– Mortgages	**16 776**	**2.49**	14 580	2.62
– Overdrafts	**25 808**	**4.53**	21 840	4.87
– Term loans	**28 220**	**3.24**	24 498	3.30
WesBank corporate	**30 143**	**2.40**	29 598	2.56
RMB investment banking*	**119 932**	**1.82**	123 014	1.92
RMB corporate banking	**29 613**	**1.90**	26 032	1.62
Total advances	**620 413**	**3.55**	582 194	3.43

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 agreements to resell and preference share advances are excluded from loans and advances to customers.*

*** 2015 margins have been restated due to segmentation.*

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 group 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 group 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

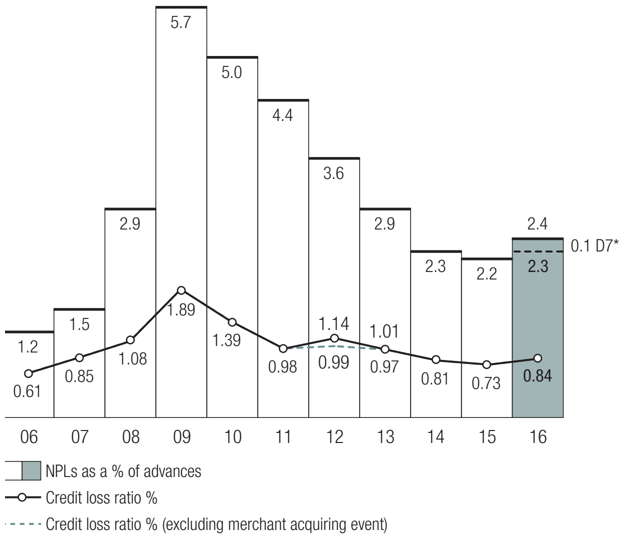
R million	June 2016 Average balance	June 2016 Average margin %	June 2015* Average balance	June 2015* Average margin %
Average prime rate (RSA)		**9.92**		9.24
DEPOSITS				
Retail	**153 868**	**3.00**	134 941	2.86
Current and savings	**52 016**	**6.37**	47 393	5.59
Call	**2 633**	**3.01**	2 928	2.84
Money market	**35 457**	**1.51**	29 164	1.65
Term	**63 762**	**1.07**	55 456	1.15
Commercial	**159 720**	**2.80**	141 837	2.57
Current and savings	**59 722**	**5.56**	53 758	4.94
Call	**39 072**	**1.35**	35 235	1.29
Money market	**21 164**	**2.10**	19 381	2.01
Term	**39 762**	**0.45**	33 463	0.46
Corporate and investment banking	**126 110**	**0.78**	116 761	0.69
Current and savings	**56 832**	**1.33**	48 946	1.31
Call	**28 890**	**0.48**	36 857	0.22
Term	**40 388**	**0.23**	30 958	0.28
Total deposits	**439 698**	**2.29**	393 539	2.11

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

* *2015 margins have been restated due to segmentation.*

CREDIT HIGHLIGHTS

NPLs AND IMPAIRMENT HISTORY



* *Further information is on pages A 34 to A 35.*

R million	Year ended 30 June 2016	2015	% change
Total gross advances – including credit-related assets*	**778 906**	718 771	8
NPLs – including credit-related assets	**18 953**	15 603	21
NPLs as a % of advances – including credit-related assets	**2.43**	2.17	
Impairment charge – including credit-related assets	**6 255**	4 993	25
Impairment charge as a % of average advances – including credit-related assets	**0.84**	0.73	
Total impairments*	**14 818**	13 514	10
– Portfolio impairments	**7 510**	7 109	6
– Specific impairments	**7 308**	6 405	14
Implied loss given default (coverage)**	**38.6**	41.0	
Total impairments coverage ratio#	**78.2**	86.6	
Performing book coverage ratio†	**0.99**	1.01	

* *Includes cumulative credit fair value adjustments.*

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

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

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

The credit loss ratio increased from 73 bps in June 2015 to 84 bps, reflecting the deteriorating macroeconomic environment, resulting in increased specific impairments and the creation of additional portfolio impairments during the year. This represents a 25% increase.

Operational NPLs increased 15% excluding the impact of the distressed debt reclassification, as detailed below.

This has, in part been driven by strong book growth in card, FNB loans and other retail, although advances growth rates have moderated from the comparative period.

Prior to the year under review, FNB and WesBank adopted different approaches to the treatment of unsecured loans customers currently 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 bank took the opportunity to align FNB to WesBank's classification (D7), which is even more stringent than the SARB requirements. 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 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 6% increase to bank NPLs (up 21%) and 0.3% to the ratio of retail NPLs as a % of advances.

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

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

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	660	126	786	56	31
Total NPLs	18 000	953	18 953	21	15

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.

The bank 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 bank will take cognisance of IFRS 9 principles.

	Debt review coverage		Non-debt review coverage		Total NPL coverage		
Coverage ratio (%)	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**	77.4	↓
FNB loans	**66.7**	–*	**70.1**	74.3	**69.3**	74.3	↓
WesBank loans**	**32.6**	46.6	**70.2**	67.7	**41.2**	52.8	↓
VAF**	**18.3**	25.2	**40.5**	38.4	**29.5**	31.9	↓

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

** *The debt review coverage reduced year-on-year due to the increasing proportions of older paying debt review accounts, consistent with prior year trends.*

The total impairment coverage ratio reduced to 78.2% from 86.6% at June 2015 given the change in NPL mix and the impact 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, and FNB retail other. Additional portfolio impairments of >R300 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 101 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.

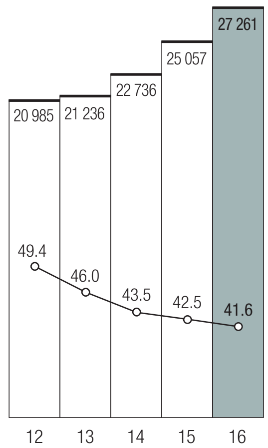
KEY DRIVERS

- Retail NPLs as a % of advances increased 18% to 3.53% (2015: 3.21%), impacted by a marginal increase of R43 million in residential mortgage NPLs largely due to the D7 definition change. The turn of the cycle, resulting in lower cure rates and an increase in new NPL formation across the portfolio, is expected to continue.
- A 61% increase in FNB loans and 86% increase in card NPLs, reflecting the worsening macro environment, new book strain and the impact of implementation of D7. D7 amounted to 61% and 57%, respectively, of the increase in NPLs in these portfolios.
- SA retail VAF and WesBank personal loans NPLs increased 17% and 25% respectively. Restructured debt review accounts, a large proportion of which are performing, as well as the worsening cycle impacted NPL formation.
- Corporate and commercial NPLs increased 29%. Specific impairments, however, increased only 1% due to significant collateral held on the related NPLs. This resulted in the coverage ratio lowering to 44.1% from 56.5% in June 2015.
- Post write-off recoveries remained robust at R1.86 billion (2015: R1.83 billion) driven by card, the unsecured retail lending portfolios and VAF.

NON-INTEREST REVENUE – UP 9%

NON-INTEREST REVENUE AND DIVERSITY RATIO

NIR CAGR 7%



Note: 2013 to 2016 figures have been prepared in terms of IFRS 10 and 11, and the revised IAS 19.

ANALYSIS OF NON-INTEREST REVENUE

		Year ended 30 June		
R million	Notes	2016	2015	% change
Fee and commission income	1	**21 297**	20 009	6
Markets, client and other fair value income	2	**2 807**	2 522	11
Investment income		**91**	74	23
Other non-interest revenue	3	**3 066**	2 452	25
Total non-interest revenue		**27 261**	25 057	9

NIR growth was satisfactory given the negative regulatory impact of the reduction in interchange fees which became effective on 16 March 2015, resulting in a negative "drag" of c.R300 million, as well as the difficult macro environment. The overall negative impact was cushioned by increased transaction volumes during the year, assisted by the change in eBucks rewards.

Fee and commission income growth was pleasing given these factors, benefiting from robust volume growth specifically in the electronic channels, in line with FNB's strategy. Fee and commission income represents 78% (2015: 80%) of total NIR.

The downward trend in the diversity ratio, despite very strong growth in NIR over the past five years, results from strong deposit growth together with endowment impacts, specific credit strategies, including strong corporate advances growth, change in mix in retail and repricing strategies. NIR was also impacted by lower absolute transactional fees as a result of e-migration and regulatory pressures, as mentioned above.

NOTE 1 – FEE AND COMMISSION INCOME – UP 6%

	Year ended 30 June		
R million	2016	2015	% change
Bank commissions and fee income	**21 342**	20 292	5
– Card commissions	**3 062**	3 342	(8)
– Cash deposit fees	**1 752**	1 724	2
– Commissions on bills, drafts and cheques	**1 963**	1 727	14
– Bank charges*	**14 565**	13 499	8
Knowledge-based fees	**1 337**	976	37
Management and fiduciary fees	**683**	577	18
Insurance income	**1 210**	1 045	16
Other non-bank commissions	**638**	513	24
Gross fee and commission income	**25 210**	23 403	8
Fee and commission expenditure	**(3 913)**	(3 394)	15
Total fee and commission income	**21 297**	20 009	6

* *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%, negatively affected by the year-on-year reduction of c.R300 million (8%) in interchange fees (decreasing card commissions) and an increase of 14% (R176 million) in allocated rewards, in line with strategy to migrate clients to electronic transaction channels.
- Financial transaction volume growth remained robust at 12%, benefiting from increased product cross-sell and up-sell, and an increase of 4% in the active customer base, with growth of 10% in Premium. Insurance revenues grew 16%. Absolute growth in fee income was curtailed by the continued strategy to migrate customers to electronic channels.
- Electronic volumes increased 13%, while manual volumes grew marginally above 2%.

	Increase in transaction volumes %
Mobile (excluding prepaid)	**21**
Internet banking	**4**
Cheque card	**11**
Banking app	**76**
ADT/ATM cash deposits	**24**

- WesBank's NIR growth of 11% was underpinned by satisfactory new business volumes of 18%, and a strong performance from MotoNovo (UK).
- Knowledge-based fees remained robust, underpinned by solid levels of M&A advisory income as well as high levels of structuring fees due to strong deal flow, specifically relating to developed market cross-border activity with some notable deals concluded during the year.

NOTE 2 – MARKETS, CLIENT AND OTHER FAIR VALUE INCOME – UP 11%

	Year ended 30 June		
R million	2016	2015	% change
Client*	**1 201**	1 623	(26)
Markets	**1 532**	769	99
Other	**74**	130	(43)
Total	**2 807**	2 522	11

** The review of RMB's organisational business model has led to further refinement of disclosures.*

KEY DRIVERS

- Client revenues remained resilient, specifically in currency-facilitation, albeit at lower levels than the comparative period. Trading conditions in SA remained under pressure on the back of increased competition and compressed margins.
- The results from the structuring business was more muted in the current financial year, negatively impacted by a specific credit event related to a client impacted by the foreign exchange volatility and a reduction in structuring activity year-on-year.
- The markets business was positively impacted by soft and hard commodity prices, coupled with increased gold demand from the Indian market. Flow trading and residual risk activities remained robust, benefiting from increased volatility and volumes, specifically in the foreign exchange and inflation desks, with a resilient performance from the fixed income business post the significant rate volatility experienced in December 2015.
- The decrease in other fair value is primarily due to movement in the net TRS fair value income impacted by the R8.48 reduction in the group's share price in comparison to the R12.57 increase in the share price in the prior year.

NOTE 3 – OTHER NON-INTEREST REVENUE – UP 25%

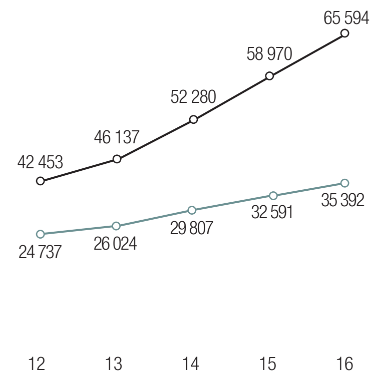
Other NIR includes rental income, with the most significant rental income being the WesBank fixed maintenance rental income, and smart box and speedpoint rental.

The bank provides various services to other entities in the group, for which it earns income. This income is included in other NIR and has shown strong growth.

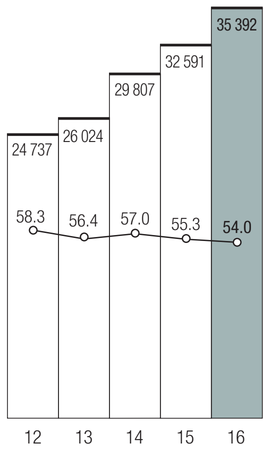
OPERATING EXPENSES – UP 9%

OPERATING JAWS

R million



OPERATING EFFICIENCY



Note: 2013 to 2016 figures have been prepared in terms of IFRS 10 and 11, and the revised IAS 19.

OPERATING EXPENSES

	Year ended 30 June		
R million	**2016**	2015	% change
Staff expenditure	**20 724**	19 169	8
– Direct staff expenditure	**13 257**	11 558	15
– Other staff-related expenditure	**7 467**	7 611	(2)
Depreciation	**1 989**	1 717	16
Amortisation of other intangible assets	**46**	50	(8)
Advertising and marketing	**1 025**	1 044	(2)
Insurance	**225**	209	8
Lease charges	**1 189**	1 093	9
Professional fees	**1 521**	1 259	21
Audit fees	**288**	244	18
Computer expenses	**1 577**	1 388	14
Maintenance	**1 070**	871	23
Telecommunications	**251**	264	(5)
Cooperation agreements and joint ventures	**579**	871	(34)
Property	**767**	763	1
Business travel	**350**	319	10
Other operating expenditure	**3 791**	3 330	14
Total operating expenses	**35 392**	32 591	9

KEY DRIVERS

- Cost growth was 9% with core costs, excluding new investment and “build the business” system and platform costs, growing 7%.
- This was primarily driven by lower variable costs resulting from moderation in the level of income generation and a relative change in income mix in the current year.
- Overall cost growth reflects ongoing investment in capacity and expansion initiatives, and was also negatively impacted by the rand depreciating against international currencies year-on-year.

	% change	Reasons
Direct staff costs	**15**	Unionised increases in excess of 9% in August 2015 and a reallocation of >R200 million between other staff costs to direct staff cost relating to Pension Fund contributions and currency depreciation in foreign branches.
Other staff-related expenditure	**(2)**	The moderation from 12% in the year to June 2015 is directly related to lower levels of profitability and NIACC growth in the current year, and lower IFRS 2 share-based payment expenses given the negative move in the group’s share price during the year.

- The increase of 16% in depreciation was impacted by increased investment in infrastructure, e.g. ATMs/ADTs over the last few years, ongoing investment in electronic platforms and the commissioning of new premises over the previous two financial years.
- The 21% growth in professional fees and 14% growth in computer expenses reflect increased spend on development, implementation and improvement projects related to various electronic platforms, additional compliance-related projects, as well as the impact of the rand depreciation during the year.
- The increase in audit fees are partly driven by additional audit costs of new businesses and additional non-audit service spend relating to IFRS 9 implementation as well as other group projects.

DIRECT TAXATION – UP 8%

The bank’s effective tax rate reduced marginally from 25.1% to 24.2%, impacted by slower growth in standard rated NII and NIR, e.g. fee and commission income during the year.

balance sheet analysis and financial resource management

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ECONOMIC VIEW OF THE BALANCE SHEET

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 bank'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 (41%), retail unsecured (8%) and corporate and commercial (49%) with 92% of advances rated B or better. Total NPLs were R18 953 million (2.43% as a percentage of advances) with a credit loss ratio of 0.84%.

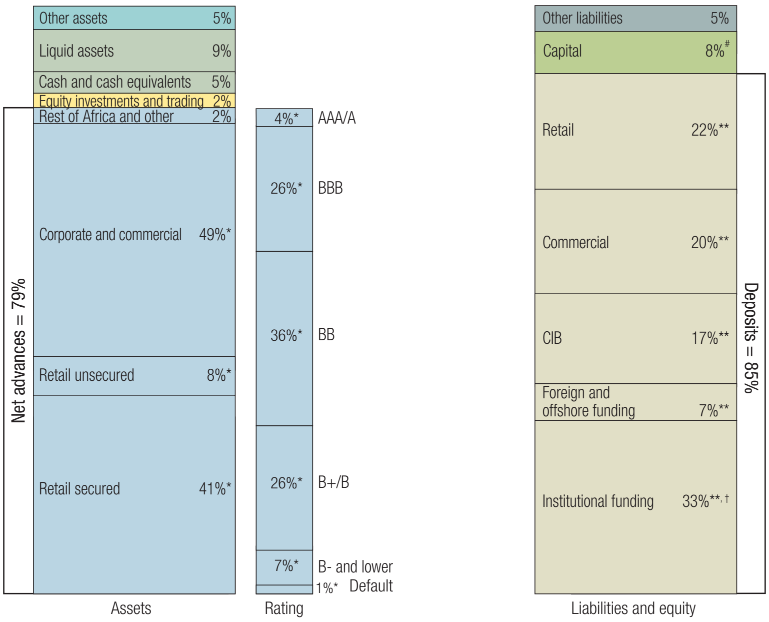
Cash and cash equivalents, and liquid assets represent 5% and 9%, respectively, of total assets. Only a small portion of assets relates to the investment and trading businesses. Market risk arising from trading activities has remained low.

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

The bank's capital ratios remained strong with the CET1 ratio 13.9%, Tier 1 ratio 14.2% and total capital adequacy ratio 17.1%. Gearing decreased to 13.1 times (2015: 13.5 times).

ECONOMIC VIEW OF THE BALANCE SHEET

%



* *As a proportion of loans and advances.*

** *As a proportion of deposit franchise.*

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

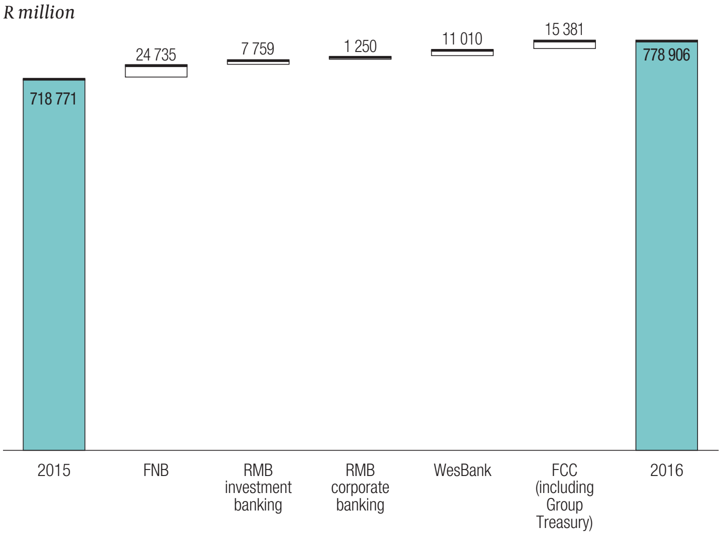
† *Includes RMB institutional funding and foreign branch platform.*

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

ADVANCES – UP 8%

GROSS ADVANCES GROWTH BY FRANCHISE

R million



ADVANCES

	As at 30 June		
R million	2016	2015	% change
Normalised gross advances	**778 906**	718 771	8
Normalised impairment of advances	**(14 818)**	(13 514)	10
Normalised net advances	**764 088**	705 257	8

Advances growth moderated from 11% for the interim reporting period ended December 2015 to 8% for the financial year.

Growth rates moderated across most retail portfolios compared to the prior year as well as compared to the first half of the financial year, reflecting the impact of the continued deterioration in the macro environment, the rising interest rate cycle and the bank's resultant reduced risk appetite.

The SA macro environment, adverse commodity cycle and higher funding costs contributed to a dampening in the corporate portfolio growth rates over the last 12 to 18 months. This coupled with disciplined financial resource allocation, margin compression and continued proactive provisioning contributed to muted balance sheet growth in the corporate portfolio. Satisfactory growth continued in the commercial portfolio, although moderating in the second half of the financial year.

PORTFOLIO/ PRODUCT	% CHANGE	KEY DRIVERS
FNB retail	**6**	
Residential mortgages	4	➲ Continued strong growth of 13% in secured affordable housing, on the back of client demand. ➲ 3% growth in FNB HomeLoans, with growth marginally below nominal house price inflation.
Card	13	➲ Underpinned by targeted client acquisition, increased client migration as well as increased limits and utilisation, primarily in the Premium segment. Growth in Consumer card was flat given reduced risk appetite.
Personal loans	16	➲ Growth slowed down from 19% recorded in the six month period to December 2015 reflecting a more conservative origination appetite since November 2015.
Retail other	16	➲ Growth driven by increases in transactional banking accounts (primarily overdrafts), although moderating from the prior year, reflecting lower risk appetite, slowing customer acquisition and more competitive pressures.
FNB commercial	**15**	➲ Reflects targeted new client acquisition in the business segment, resulting in growth of 19% in Agric, 15% commercial property finance and 13% in specialised finance advances.
RMB*	**2**	➲ Growth in the SA advances book slowed from the 7% recorded in the prior year, reflecting the constrained macro environment and competitive pressures. Cross-border growth was up 11% in USD terms. The introduction of the LCR with effect from 1 January 2015 and the resultant creation of HQLA, in addition to the macro environment, resulted in growth of 4% in RMB's core advances book, down from 7% in the prior year.
WesBank	**7**	➲ Strong growth of 36% in GBP terms in new business volumes in MotoNovo, driven by increased volumes, new products and increased footprint. ➲ Overall growth in advances was negatively impacted by new business volumes of 2% in SA Retail VAF, impacted by the 12% negative year-on-year new passenger vehicle sales in South Africa and an increase of 10% in new business volumes in WesBank loans, reflecting a reduction in risk appetite in light of the macro environment. ➲ Corporate new business volumes reflected 4% growth, reflecting the difficult macro environment.

* *Excludes assets under agreements to resell.*

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	**2016**	2015	% change
Total gross advances – including credit-related assets*	1	**778 906**	718 771	8
NPLs – including credit-related assets	2	**18 953**	15 603	21
NPLs as a % of advances – including credit-related assets	2	**2.43**	2.17	
Impairment charge – including credit-related assets	3	**6 255**	4 993	25
Impairment charge as a % of average advances – including credit-related assets	3	**0.84**	0.73	
Total impairments*	4	**14 818**	13 514	10
– Portfolio impairments		**7 510**	7 109	6
– Specific impairments		**7 308**	6 405	14
Implied loss given default (coverage)**	4	**38.6**	41.0	
Total impairments coverage ratio#		**78.2**	86.6	
Performing book coverage ratio†		**0.99**	1.01	

* *Includes cumulative credit fair value adjustments.*

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

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

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

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

The credit information in this section is presented on a normalised basis. The normalised basis differs from IFRS, firstly, in that the credit fair value adjustments on fair value advances are reversed to reflect the advances and impairments as if accounted for on an accrual basis. Secondly, certain investment securities designated as HQLA and certain corporate bonds have been reclassified as loans and advances. The adjustments had the following impact:

- advances were increased with HQLA and corporate bonds of R47 814 million (2015: R33 294 million) inclusive of statement of financial position credit fair value adjustments of R3 419 million (2015: R3 424 million); and
- IFRS credit impairments in the statement of comprehensive income were adjusted to include the credit fair value adjustment impact of R257 million (2015: R637 million). Under IFRS, these are accounted for under NIR.

NOTE 1: ANALYSIS OF ADVANCES

SEGMENTAL ANALYSIS OF ADVANCES

	Advances			
	As at 30 June			
R million	2016	2015	% change	2016 % composition
Retail	**379 320**	353 021	7	**50**
Retail – secured	**315 049**	296 890	6	**42**
Residential mortgages	**187 806**	180 208	4	**25**
VAF	**127 243**	116 682	9	**17**
– SA	**98 377**	95 759	3	**13**
– MotoNovo (UK)*	**28 866**	20 923	38	**4**
Retail – unsecured	**64 271**	56 131	15	**8**
Card	**21 968**	19 488	13	**3**
Personal loans	**27 960**	24 328	15	**4**
– FNB	**16 090**	13 856	16	**2**
– WesBank	**11 870**	10 472	13	**2**
Retail other	**14 343**	12 315	16	**1**
Corporate and commercial	**378 225**	349 285	8	**47**
FNB commercial	**77 224**	67 147	15	**10**
WesBank corporate	**29 879**	30 828	(3)	**4**
RMB investment banking	**216 383**	208 624	4	**28**
RMB corporate banking	**34 442**	33 192	4	**4**
HQLA corporate advances**	**20 297**	9 494	>100	**1**
FNB Africa#	**761**	443	72	**–**
FCC (including Group Treasury)	**20 600**	16 022	29	**3**
Securitisation notes	**14 641**	7 301	>100	**2**
Other	**5 959**	8 721	(32)	**1**
Total advances	**778 906**	718 771	8	**100**
Of which:				
Accrual book	**532 530**	491 021	8	**68**
Fair value book†	**246 376**	227 750	8	**32**

* *MotoNovo (UK) book GBP 1.47 billion (+34%).*

** *Managed by the Group Treasurer.*

Includes activities in FNB 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.

R million	Advances – As at 30 June 2016	Advances – As at 30 June 2015	% change	2016 % composition
Corporate and investment banking advances	**250 825**	241 816	4	**100**
Less: assets under agreements to resell	**(40 818)**	(35 600)	15	**(16)**
RMB advances net of assets under agreements to resell	**210 007**	206 216	2	**84**

SECTOR AND GEOGRAPHICAL ANALYSIS OF ADVANCES

R million	Advances – As at 30 June 2016	Advances – As at 30 June 2015	% change	2016 % composition
Gross advances	**780 374**	720 142	8	**100**
Less: interest in suspense	**(1 468)**	(1 371)	7	**–**
Advances net of interest in suspense	**778 906**	718 771	8	**100**
Sector analysis				
Agriculture	**28 032**	25 216	11	**4**
Banks	**10 674**	16 651	(36)	**1**
Financial institutions	**101 303**	83 746	21	**13**
Building and property development	**39 315**	33 012	19	**5**
Government, Land Bank and public authorities	**19 524**	17 610	11	**3**
Individuals	**366 556**	341 998	7	**47**
Manufacturing and commerce	**86 185**	87 451	(1)	**11**
Mining	**16 426**	23 715	(31)	**2**
Transport and communication	**19 320**	16 806	15	**2**
Other services	**91 571**	72 566	26	**12**
Total advances	**778 906**	718 771	8	**100**
Geographic analysis				
South Africa	**708 002**	647 514	9	**91**
Other Africa	**25 740**	29 801	(14)	**3**
UK	**32 255**	29 553	9	**4**
Other Europe	**6 155**	5 153	19	**1**
North America	**798**	308	>100	**–**
South America	**952**	718	33	**–**
Australasia	**409**	2	>100	**–**
Asia	**4 595**	5 722	(20)	**1**
Total advances	**778 906**	718 771	8	**100**

NOTE 2: ANALYSIS OF NPLs

SEGMENTAL VIEW OF NPLs

	NPLs				NPLs as a % of advances	
	As at 30 June			2016	As at 30 June	
R million	2016	2015	% change	% composition	2016	2015
Retail	**13 379**	11 318	18	**70**	**3.53**	3.21
Retail – secured	**9 611**	8 823	9	**50**	**3.05**	2.97
Residential mortgages	**4 628**	4 585	1	**24**	**2.46**	2.54
VAF	**4 983**	4 238	18	**26**	**3.92**	3.63
– SA	**4 857**	4 163	17	**25**	**4.94**	4.35
– MotoNovo (UK)	**126**	75	68	**1**	**0.44**	0.36
Retail – unsecured	**3 768**	2 495	51	**20**	**5.86**	4.44
Card	**759**	407	86#	**4**	**3.46**	2.09
Personal loans	**2 223**	1 583	40	**12**	**7.95**	6.51
– FNB	**1 095**	680	61#	**6**	**6.81**	4.91
– WesBank	**1 128**	903	25	**6**	**9.50**	8.62
Retail other	**786**	505	56#	**4**	**5.48**	4.10
Corporate and commercial	**5 432**	4 205	29	**29**	**1.44**	1.20
FNB commercial	**1 922**	1 466	31	**10**	**2.49**	2.18
WesBank corporate	**321**	462	(31)	**2**	**1.07**	1.50
RMB investment banking	**3 073**	1 925	60	**16**	**1.42**	0.92
RMB corporate banking	**116**	352	(67)	**1**	**0.34**	1.06
HQLA corporate advances*	**–**	–	–	**–**	**–**	–
FNB Africa**	**142**	80	78	**1**	**18.66**	18.06
FCC (including Group Treasury)	**–**	–	–	**–**	**–**	–
Securitisation notes	**–**	–	–	**–**	**–**	–
Other	**–**	–	–	**–**	**–**	–
Total NPLs	**18 953**	15 603	21	**100**	**2.43**	2.17
Of which:						
Accrual book	**16 321**	13 726	19	**86**	**3.06**	2.80
Fair value book	**2 632**	1 877	40	**14**	**1.07**	0.82

* *Managed by the Group Treasurer.*

** *Includes activities in FNB India.*

\# *Including the impact of debt review reclassification. Refer to pages A 34 to A 35 for additional information.*

SECTOR AND GEOGRAPHIC ANALYSIS OF NPLs

	NPLs				NPLs as a % of advances	
	As at 30 June			2016	As at 30 June	
R million	2016	2015	% change	% composition	2016	2015
Sector analysis						
Agriculture	**394**	220	79	**2**	**1.41**	0.87
Banks	**41**	–	>100	**–**	**0.38**	–
Financial institutions	**91**	97	(6)	**–**	**0.09**	0.12
Building and property development	**1 237**	1 391	(11)	**7**	**3.15**	4.21
Government, Land Bank and public authorities	**12**	9	33	**–**	**0.06**	0.05
Individuals	**13 027**	10 992	19	**69**	**3.55**	3.21
Manufacturing and commerce	**765**	1 021	(25)	**4**	**0.89**	1.17
Mining	**2 013**	811	>100	**11**	**12.25**	3.42
Transport and communication	**195**	125	56	**1**	**1.01**	0.74
Other services	**1 178**	937	26	**6**	**1.29**	1.29
Total NPLs	**18 953**	15 603	21	**100**	**2.43**	2.17
Geographic analysis						
South Africa	**16 675**	14 726	13	**88**	**2.36**	2.27
Other Africa	**1 569**	674	>100	**8**	**6.10**	2.26
UK	**126**	75	68	**1**	**0.39**	0.25
Other Europe	**62**	48	29	**–**	**1.01**	0.93
North America	**379**	–	>100	**2**	**47.49**	–
South America	**–**	–	–	**–**	**–**	–
Australasia	**–**	–	–	**–**	**–**	–
Asia	**142**	80	78	**1**	**3.09**	1.40
Total NPLs	**18 953**	15 603	21	**100**	**2.43**	2.17

SECURITY AND RECOVERABLE AMOUNTS BY PORTFOLIO

	2016			2015		
R million	NPLs	Security held and expected recoveries	Specific impairment#	NPLs	Security held and expected recoveries	Specific impairment#
Retail	**13 379**	**8 564**	**4 815**	11 318	7 349	3 969
Retail – secured	**9 611**	**7 085**	**2 526**	8 823	6 523	2 300
Residential mortgages	**4 628**	**3 614**	**1 014**	4 585	3 662	923
VAF	**4 983**	**3 471**	**1 512**	4 238	2 861	1 377
– SA	**4 857**	**3 422**	**1 435**	4 163	2 833	1 330
– MotoNovo (UK)	**126**	**49**	**77**	75	28	47
Retail – unsecured	**3 768**	**1 479**	**2 289**	2 495	826	1 669
Card	**759**	**248**	**511**	407	111	296
Personal loans	**2 223**	**999**	**1 224**	1 583	601	982
– FNB	**1 095**	**336**	**759**	680	175	505
– WesBank	**1 128**	**663**	**465**	903	426	477
Retail other	**786**	**232**	**554**	505	114	391
Corporate and commercial	**5 432**	**3 035**	**2 397**	4 205	1 831	2 374
FNB commercial	**1 922**	**988**	**934**	1 466	623	843
WesBank corporate	**321**	**134**	**187**	462	180	282
RMB investment banking	**3 073**	**1 842**	**1 231**	1 925	759	1 166
RMB corporate banking	**116**	**71**	**45**	352	269	83
HQLA corporate advances*	**–**	**–**	**–**	–	–	–
FNB Africa**	**142**	**46**	**96**	80	18	62
FCC (including Group Treasury)	**–**	**–**	**–**	–	–	–
Securitisation notes	**–**	**–**	**–**	–	–	–
Other	**–**	**–**	**–**	–	–	–
Total	**18 953**	**11 645**	**7 308**	15 603	9 198	6 405

* *Managed by the Group Treasurer.*

** *Includes activities in FNB India.*

Specific impairment includes cumulative credit fair value adjustments on NPLs.

NOTE 3: INCOME STATEMENT CREDIT IMPAIRMENTS

INCOME STATEMENT IMPAIRMENTS

	Total impairment charge			As a % of average advances	
	As at 30 June			As at 30 June	
R million	2016	2015	% change	2016	2015
Retail	**5 464**	3 969	38	**1.49**	1.17
Retail – secured	**2 091**	1 491	40	**0.68**	0.52
Residential mortgages	**387**	111	>100	**0.21**	0.06
VAF	**1 704**	1 380	23	**1.40**	1.22
– SA	**1 366**	1 217	12	**1.41**	1.27
– MotoNovo (UK)	**338**	163	>100	**1.36**	0.96
Retail – unsecured	**3 373**	2 478	36	**5.60**	4.81
Card	**565**	191	>100	**2.73**	1.08
Personal loans	**2 053**	1 544	33	**7.85**	6.71
– FNB	**1 078**	715	51	**7.20**	5.42
– WesBank	**975**	829	18	**8.73**	8.45
Retail other	**755**	743	2	**5.66**	6.82
Corporate and commercial	**1 088**	1 287	(15)	**0.30**	0.39
FNB commercial	**397**	365	9	**0.55**	0.58
WesBank corporate	**15**	149	(90)	**0.05**	0.49
RMB investment banking	**514**	596	(14)	**0.24**	0.29
RMB corporate banking	**162**	177	(8)	**0.48**	0.56
HQLA corporate advances*	**–**	–	–	**–**	–
FNB Africa**	**(2)**	3	(>100)	**(0.33)**	0.88
FCC (including Group Treasury)#	**(295)**	(266)	11	**(0.04)**	(0.04)
Securitisation notes	**–**	–	–	**–**	–
Other	**(295)**	(266)	11	**(0.04)**	(0.04)
Total impairment charge	**6 255**	4 993	25	**0.84**	0.73
Of which:					
Portfolio impairment charge	**564**	318	77	**0.08**	0.05
Specific impairment charge	**5 691**	4 675	22	**0.76**	0.68

* *Managed by the Group Treasurer.*

** *Includes activities in FNB India.*

\# *Percentages calculated on total average advances.*

NOTE 4: 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	2016	2015	% change	2016	2015
Specific impairments*					
Retail	**4 815**	3 969	21	**36.0**	35.1
Retail – secured	**2 526**	2 300	10	**26.3**	26.1
Residential mortgages	**1 014**	923	10	**21.9**	20.1
VAF**	**1 512**	1 377	10	**30.3**	32.5
– SA	**1 435**	1 330	8	**29.5**	31.9
– MotoNovo (UK)	**77**	47	64	**61.1**	62.7
Retail – unsecured	**2 289**	1 669	37	**60.7**	66.9
Card**	**511**	296	73	**67.3**	72.7
Personal loans**	**1 224**	982	25	**55.1**	62.0
– FNB	**759**	505	50	**69.3**	74.3
– WesBank	**465**	477	(3)	**41.2**	52.8
Retail other**	**554**	391	42	**70.4**	77.4
Corporate and commercial	**2 397**	2 374	1	**44.1**	56.5
FNB commercial	**934**	843	11	**48.6**	57.5
WesBank corporate	**187**	282	(34)	**50.4**	61.0
RMB investment banking	**1 231**	1 166	6	**40.1**	60.6
RMB corporate banking	**45**	83	(46)	**38.8**	23.6
HQLA corporate advances#	**–**	–	–	**–**	–
FNB Africa†	**96**	62	55	**67.6**	77.5
FCC (including Group Treasury)	**–**	–	–	**–**	–
Securitisation notes	**–**	–	–	**–**	–
Other	**–**	–	–	**–**	–
Total specific impairments/implied loss given default^	**7 308**	6 405	14	**38.6**	41.0
Portfolio impairments‡	**7 510**	7 109	6	**39.6**	45.6
Total impairments/total impairment coverage ratio~	**14 818**	13 514	10	**78.2**	86.6

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

** *The coverage ratio has reduced due to restructured debt review accounts. These accounts are reported in NPLs even though the clients may be fully performing in terms of the revised repayment terms, subject to monitoring under the group framework.*

Managed by the Group Treasurer.

† *Includes FNB's activities in India.*

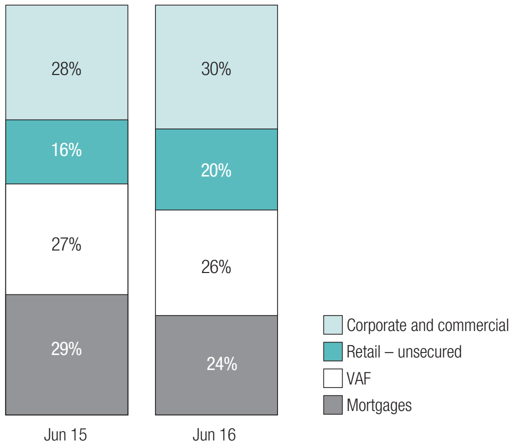
‡ *Amortised cost portfolio impairments and credit fair value adjustments relating to the performing book as a percentage of NPLs.*

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

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

The graph below provides the NPL distribution across all portfolios, showing decreases in the proportion of residential mortgages and an increase in unsecured lending since June 2015.

NPL DISTRIBUTION



RECONCILIATION OF IMPAIRMENTS

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

BALANCE SHEET IMPAIRMENTS AND CREDIT FAIR VALUE ADJUSTMENTS

	As at 30 June					
	Amortised cost book		Fair value book		Total book	
R million	2016	2015	2016	2015	2016	2015
Non-performing book	**6 243**	5 239	**1 065**	1 166	**7 308**	6 405
Performing book	**5 156**	4 851	**2 354**	2 258	**7 510**	7 109
Total impairments	**11 399**	10 090	**3 419**	3 424	**14 818**	13 514

The following table provides a reconciliation of amortised cost specific impairments.

BALANCE SHEET SPECIFIC IMPAIRMENTS – AMORTISED COST

	As at 30 June		
R million	2016	2015	% change
Opening balance	**5 239**	4 995	5
Reclassifications and transfers	**86**	50	78
(Disposals)/acquisitions	**(23)**	12	(>100)
Exchange rate difference	**7**	7	–
Unwinding and discounted present value on NPLs	**(77)**	(80)	(4)
Bad debts written off	**(6 451)**	(5 586)	15
Net new impairments created	**7 462**	5 841	28
Closing balance	**6 243**	5 239	19

The bank's income statement charge continues to benefit from increased post write-off recoveries in the retail book. The bank incorporates adjustments to loans that are held at fair value through profit or loss in the calculation of the total impairment charge.

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

INCOME STATEMENT IMPAIRMENTS

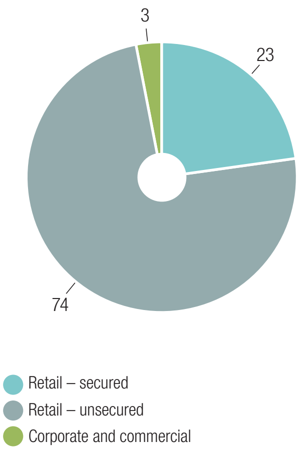
	As at 30 June		
R million	2016	2015	% change
Specific impairment charge (amortised cost)	**7 462**	5 841	28
Recoveries of bad debts written off (amortised cost)	**(1 856)**	(1 825)	2
Net specific impairment charge (amortised cost)	**5 606**	4 016	40
Portfolio impairment charge (amortised cost)	**392**	340	15
Credit fair value adjustments	**257**	637	(60)
– Non-performing book	**85**	659	(87)
– Performing book	**172**	(22)	(>100)
Total impairments	**6 255**	4 993	25

IMPACT OF POST WRITE-OFF RECOVERIES

Post write-off recoveries amounted to R1 856 million (2015: R1 825 million), primarily emanating from the unsecured retail lending portfolio.

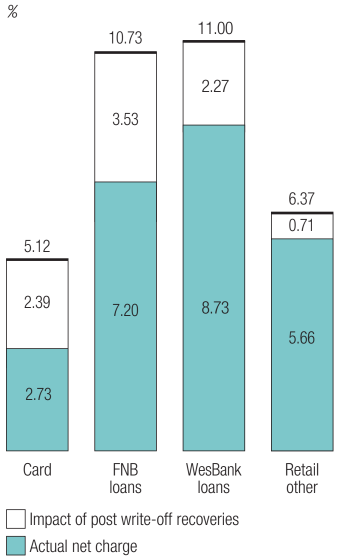
POST WRITE-OFF RECOVERIES SPLIT

%



RETAIL CREDIT LOSS RATIOS AND RECOVERIES

%

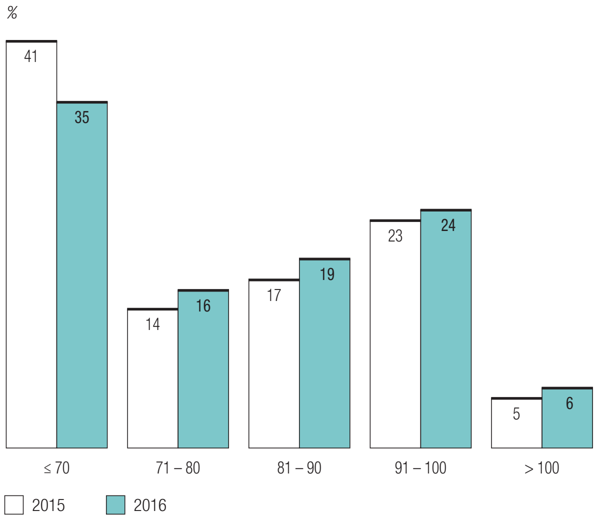


RISK ANALYSES

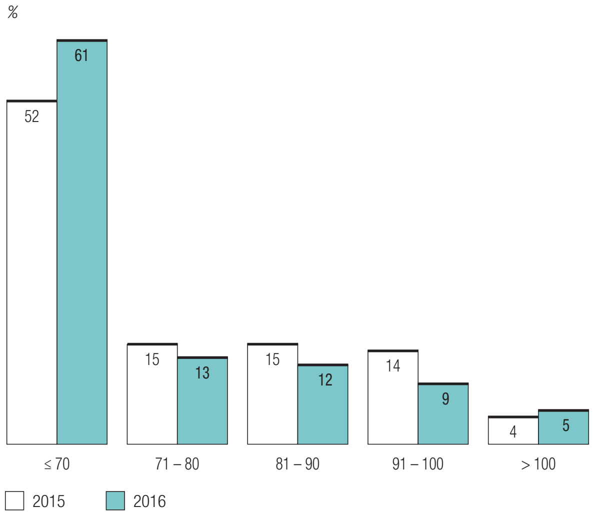
The graphs below provide loan balance-to-value ratios and age distributions of residential mortgages.

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 apposed to relying only on the underlying security.

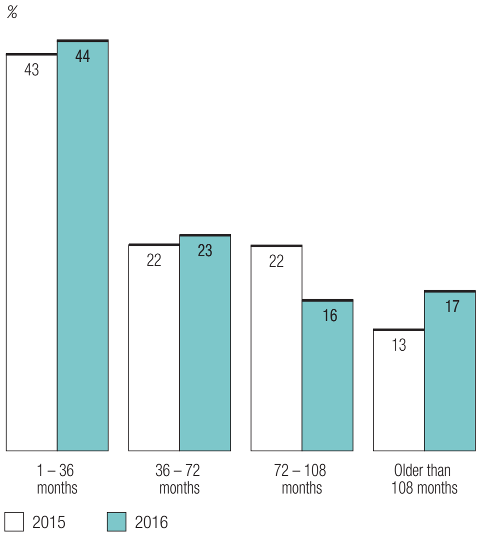
RESIDENTIAL MORTGAGES BALANCE-TO-ORIGINAL VALUE



RESIDENTIAL MORTGAGES BALANCE-TO-MARKET VALUE

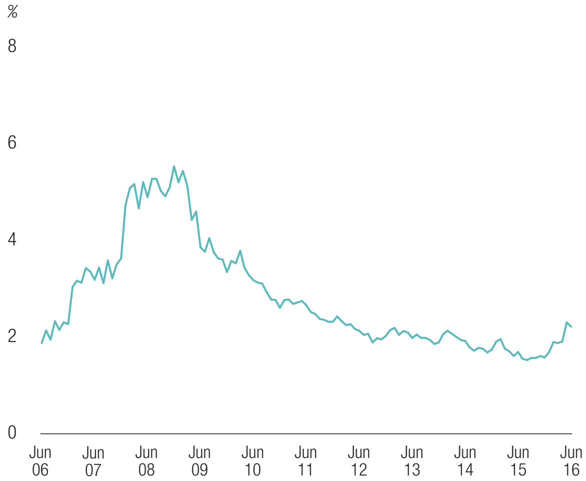


RESIDENTIAL MORTGAGES AGE DISTRIBUTION



The following graph shows arrears in the FNB HomeLoans portfolio. It includes arrears where more than one full payment is in arrears expressed as a percentage of total advances. The increase in the last quarter reflects the reclassification of distressed debt as explained on pages A 34 to A 35.

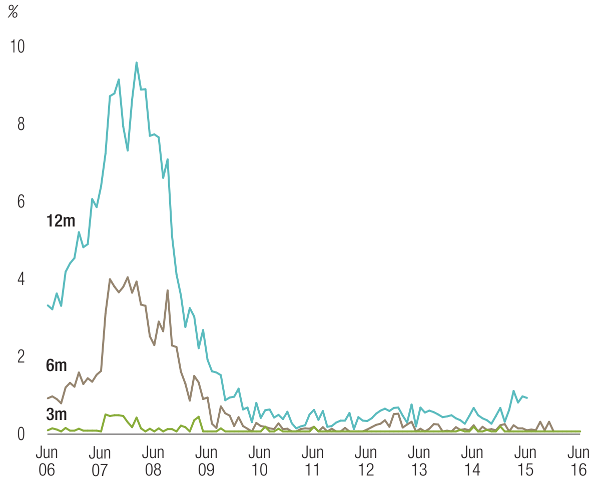
FNB HOMELOANS ARREARS



The following graphs provide the vintage analyses for FNB HomeLoans, WesBank retail VAF, FNB card, FNB loans and WesBank 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 home loans have increased marginally from previous record low levels. The increase is attributed to the rate hiking cycle with consumers under pressure as a result of the most recent series of 125 bps interest rate increases over the 12-month performance period. Coupled with job losses and other challenges in the macroeconomic environment, this has caused a slight increase in the vintages.

FNB HOMELOANS VINTAGE ANALYSIS

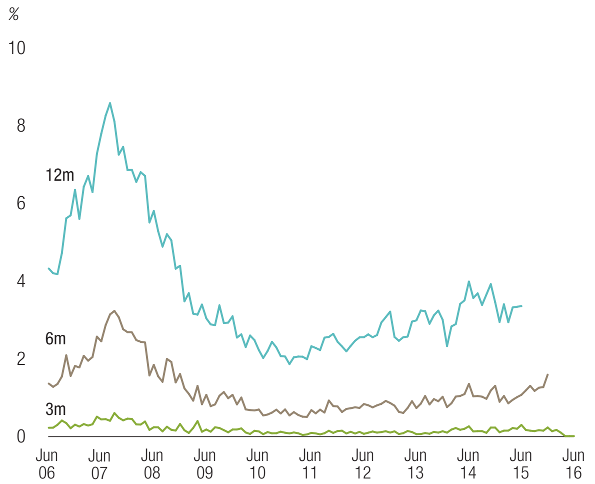


The WesBank retail VAF cumulative vintage analysis continues to show a noticeable improvement in the quality of business written since mid-2007. This is due to improved customer profiles and enhanced collection strategies.

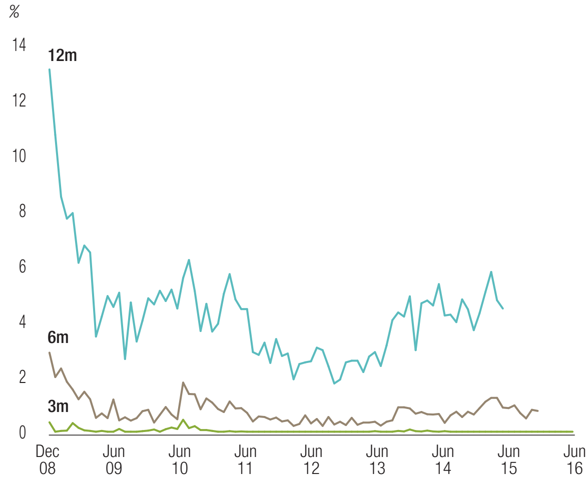
Since then, vintages are reflecting increases, this is expected given the challenging macroeconomic environment. Risk appetite has been adjusted, with a continued focus on originating a portfolio weighted towards quality low risk business. Vintage deterioration is closely monitored and credit parameters adjusted to ensure that performance remains in line with expectations when considering the credit cycle.

FNB card default rates remain at low levels, even on a through-the-cycle basis. There was a minor increase in risk appetite from October 2013, which resulted in more business written in the lower-end consumer segment at slightly higher default rates. This was subsequently reviewed and adjusted downwards again. In the group's view, default rates have bottomed and moderate increases are expected from this level.

WESBANK RETAIL VAF VINTAGE ANALYSIS



FNB CARD VINTAGE ANALYSIS



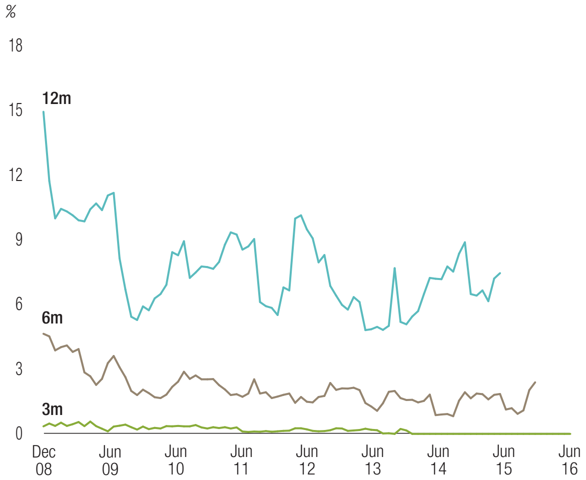
The default experience of the FNB and WesBank personal loans portfolios is within risk appetite. There is continued action to ensure these portfolios remain within risk appetite.

Defaults in FNB personal loans have trended upwards of late, from historical low levels, as a result of the macroeconomic conditions.

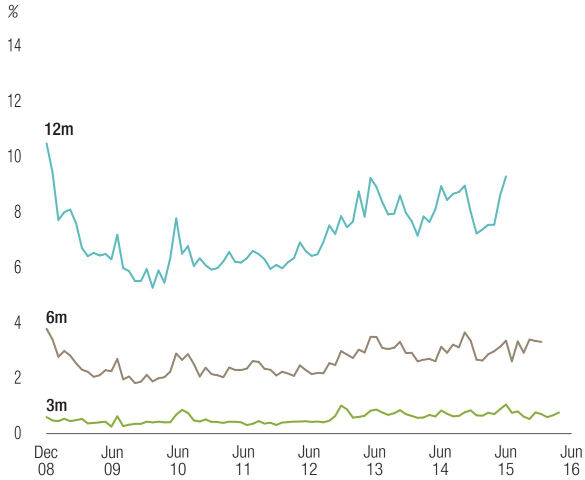
As expected, WesBank personal loans vintages show a marginal deterioration from 2010 levels. This is expected given the challenging macroeconomic conditions and increased debt review applications.

To counter this, credit parameters are continuously adjusted to ensure performance is in line with expectations. Recent adjustments to credit appetite are proving effective and have assisted in countering macroeconomic conditions.

FNB PERSONAL LOANS VINTAGE ANALYSIS

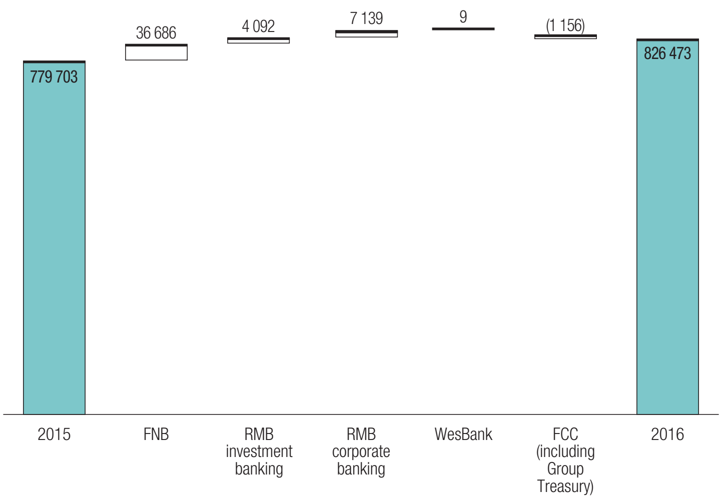


WESBANK PERSONAL LOANS VINTAGE ANALYSIS



DEPOSITS – UP 6%

GROSS DEPOSIT GROWTH BY FRANCHISE
R million



Client deposits grew 9% with institutional funding, including term and structured issuances, increasing 2%.

KEY DRIVERS

- FNB's deposits increased 12%.
  - Retail deposit growth of 14% was supported by ongoing product innovation, with particularly strong growth of 18% from the Premium segment.
  - Commercial deposit growth of 9% was driven by new client acquisition and cross-sell.

  GROWTH IN DEPOSIT BALANCES

Product	%
Current accounts	**9**
Savings and transmission accounts	**8**
Fixed deposits	**20**
Notice deposits	**11**

- RMB corporate banking grew deposits 7%, although average daily operational deposits increased 16%, driven by client acquisition and growth in existing client base, which led to an increase in both transactional and operational deposit balances, as well as new product innovation, which resulted in strong gains in certain products.
- Group Treasury deposits remained flat, impacted by foreign currency funding and structured issuances in the domestic market. Absolute growth was affected by rand depreciation 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 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 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 in line with risk appetite for the year. The bank utilised new market structures, platforms and the SARB committed liquidity facility to efficiently increase the available liquidity holdings.

At 30 June 2016, the bank exceeded the 70% (2015: 60%) minimum LCR requirement with a LCR measurement of 102% (2015: 84%).

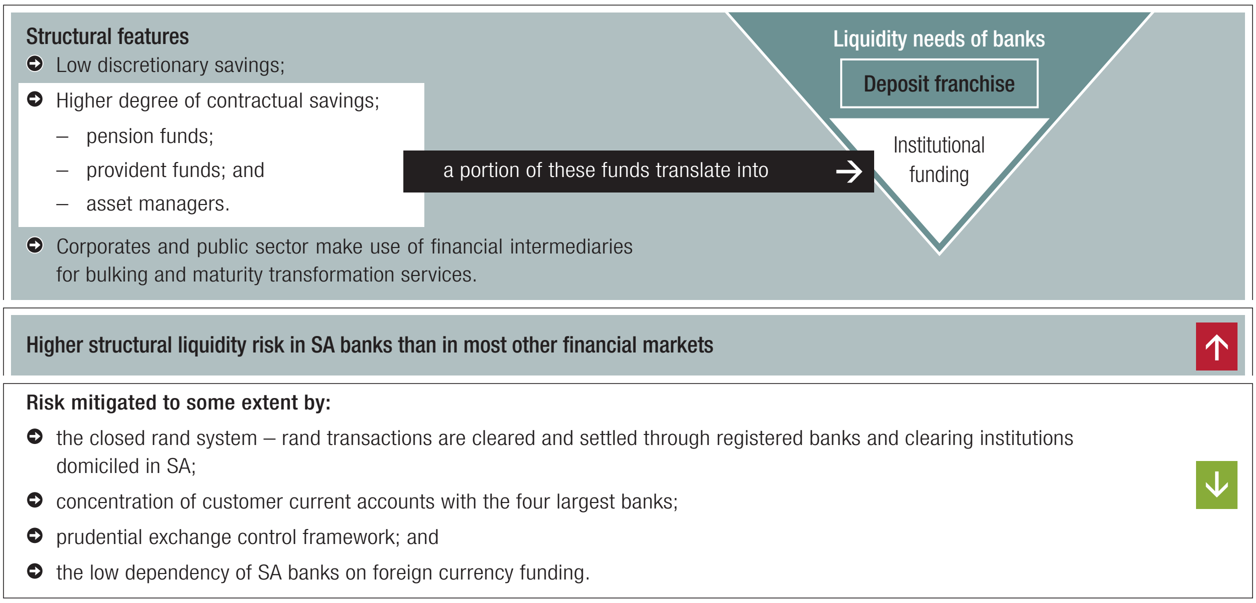
The BCBS *liquidity coverage ratio disclosure standards* propose consistent and transparent disclosure of banks' liquidity positions as measured by the Basel III regulations. *Directives 6/2014 and 11/2014* require the group to provide its LCR disclosure in a standardised template. The standard disclosure template will be included in the Basel Pillar III disclosure going forward.

Refer to www.firstrand.co.za/investorcentre/pages/commondisclosures.aspx for further detail.

At 30 June 2016, the bank's available HQLA sources of liquidity per the LCR was R141 billion, with an additional R11 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.



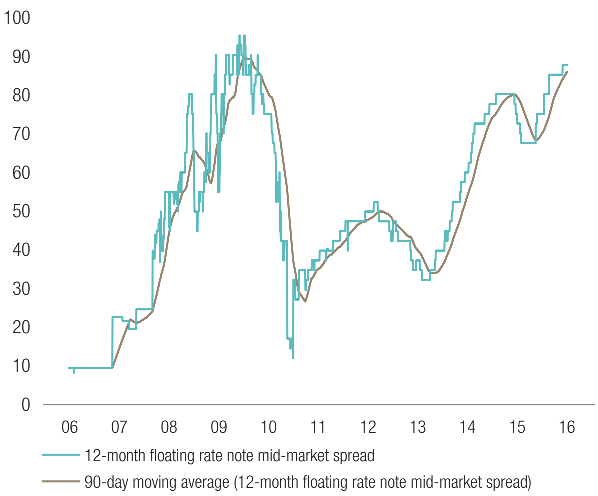
During the year, liquidity demanded by banks as a consequence of the money supply constraints introduced by the LCR and the central bank's open market operations without a commensurate increase in savings flows resulted in continued increased liquidity costs. In light of the structural features discussed above, focus remains on achieving a better risk-adjusted diversified funding profile which also supports the 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 issuance is to create actively-traded benchmarks, which facilitate secondary market liquidity in both domestic and offshore markets. The value of this strategy is that it assists in identifying cost-effective funding opportunities 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 by banks, namely 12-month NCDs.

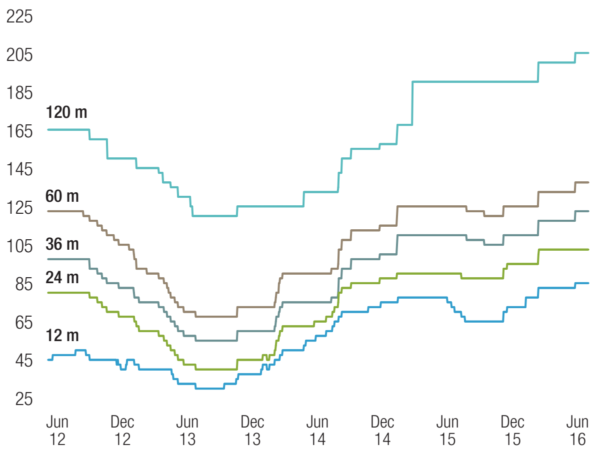
12-MONTH FLOATING RATE NOTE MID-MARKET SPREAD



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. Liquidity spreads for instruments with maturities of less than 12 months in particular are extremely high, at levels last seen during the 2008 financial crises.

LONG-TERM FUNDING SPREADS



Source: Bloomberg (RMBP screen) and Reuters.

Funding measurement and activity

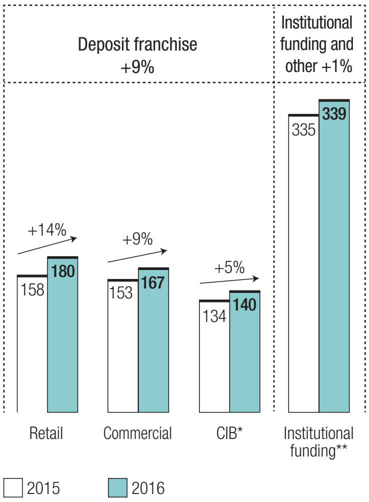
FirstRand Bank, FirstRand's wholly-owned subsidiary and debt issuer, generates a larger proportion of its funding from deposits compared to the South African aggregate, however, its funding profile also reflects the structural features described earlier.

The bank manages its funding structure by source, counterparty type, product, currency and market. The deposit franchise represents the most efficient source of funding and represented 63% of total FirstRand Bank SA funding liabilities at 30 June 2016 (2015: 64%). 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 by source and behaviour. To fund operations, the bank accesses the domestic money markets daily and capital markets from time to time. The bank has frequently issued various capital and funding instruments in the capital markets on an auction and reverse-enquiry basis. Given elevated domestic funding spreads, the bank has not actively sought to issue senior securities in benchmark size.

The following graph provides a segmental analysis of the bank's funding base and illustrates the success of its deposit franchise focus.

BANK FUNDING BY SEGMENT

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.*

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 following table provides an analysis of the bank's funding sources.

FUNDING SOURCES OF FIRSTRAND BANK (EXCLUDING FOREIGN BRANCHES)

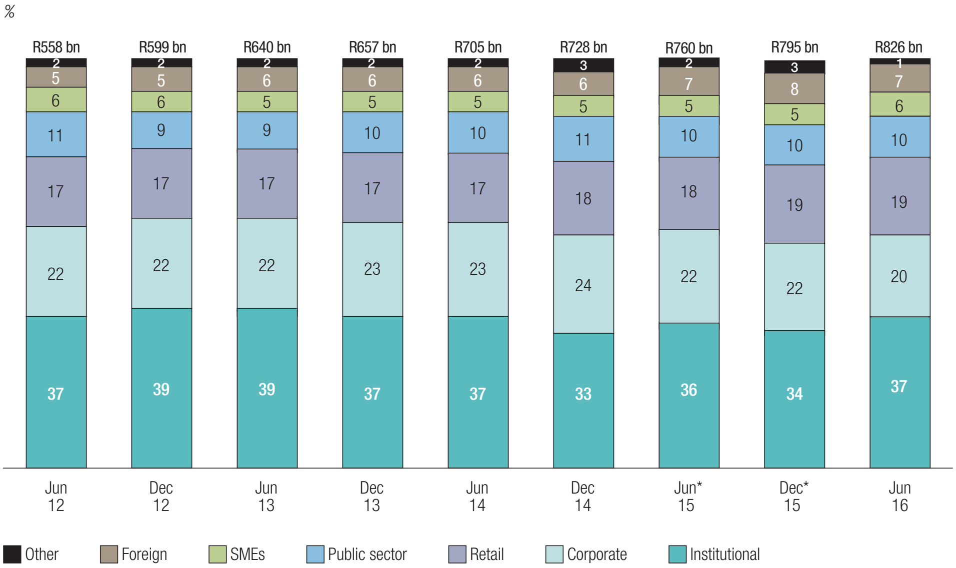
	As at 30 June 2016				As at 30 June 2015*
% of funding liabilities	Total	Short term	Medium term	Long term	Total
Institutional funding	**37.0**	**13.6**	**3.6**	**19.8**	35.9
Deposit franchise	**63.0**	**47.3**	**8.3**	**7.4**	64.1
Corporate	**20.1**	**17.4**	**2.1**	**0.6**	22.4
Retail	**19.2**	**14.5**	**3.2**	**1.5**	17.6
SMEs	**5.5**	**4.6**	**0.6**	**0.3**	5.4
Governments and parastatals	**10.2**	**7.6**	**1.7**	**0.9**	10.3
Foreign	**6.9**	**3.1**	**0.7**	**3.1**	6.8
Other	**1.1**	**0.1**	**–**	**1.0**	1.6
Total	**100.0**	**60.9**	**11.9**	**27.2**	100

Source: BA900 for FirstRand Bank South Africa.

* *Restated to account for adjustments made to BA900 reporting in the current year.*

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

FUNDING ANALYSIS BY SOURCE OF THE BANK EXCLUDING FOREIGN BRANCHES



	Jun 12	Dec 12	Jun 13	Dec 13	Jun 14	Dec 14	Jun* 15	Dec* 15	Jun 16
Total	R558 bn	R599 bn	R640 bn	R657 bn	R705 bn	R728 bn	R760 bn	R795 bn	R826 bn
Other	2	2	2	2	2	3	2	3	1
Foreign	5	5	6	6	6	6	7	8	7
SMEs	6	6	5	5	5	5	5	5	6
Public sector	11	9	9	10	10	11	10	10	10
Retail	17	17	17	17	17	18	18	19	19
Corporate	22	22	22	23	23	24	22	22	20
Institutional	37	39	39	37	37	33	36	34	37

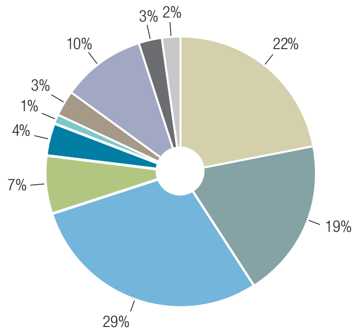
Source: SARB BA900 returns.

* *Restated to account for adjustments made to BA900 reporting in current year.*

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

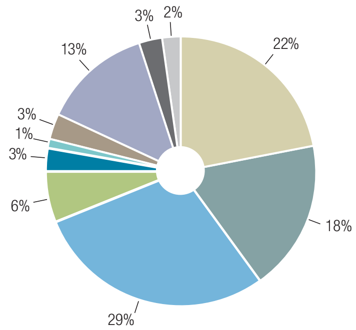
FIRSTRAND BANK'S FUNDING ANALYSIS BY INSTRUMENT TYPE

2016



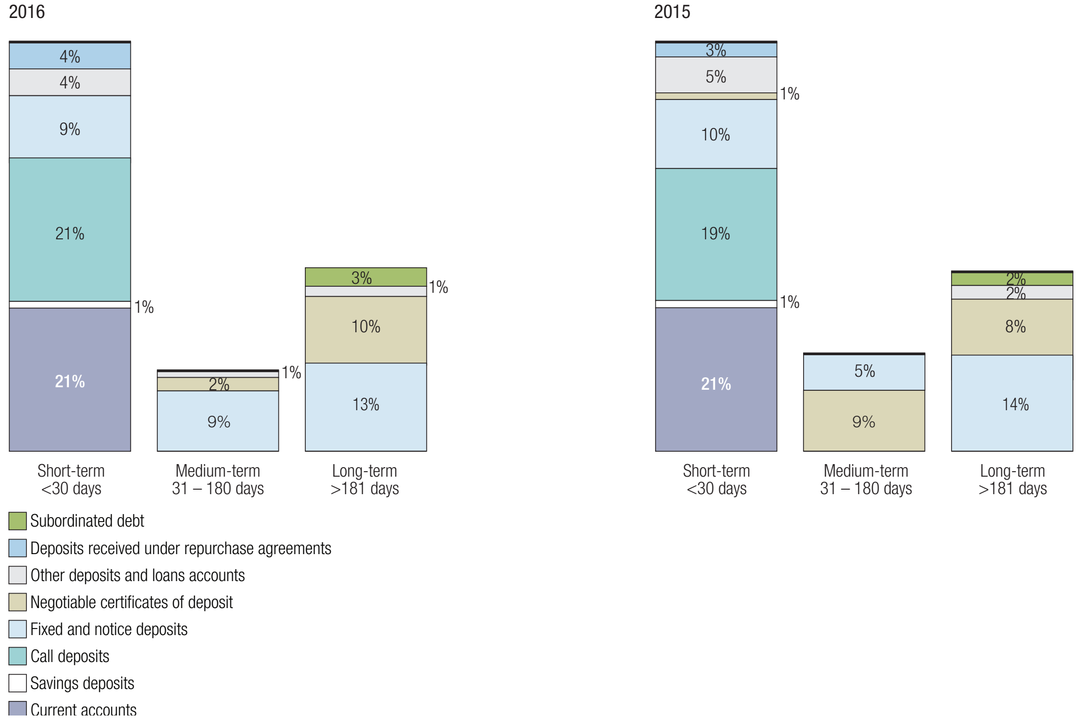
- Current and savings accounts
- Call deposits
- Fixed and notice deposits
- Negotiable certificates of deposit (NCDs)
- Deposits under repurchase agreements
- Securities lending
- Credit-linked notes and cash collateral
- Fixed- and floating-rate notes
- Securitisation issuance
- Other
- Non-recourse deposits
- Tier 2 issuance

2015



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

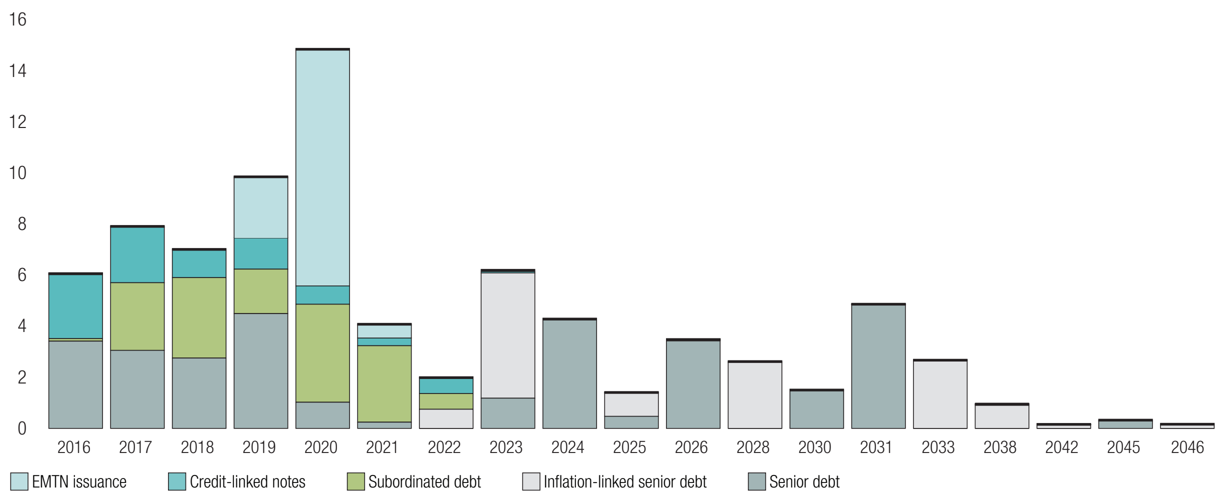
FIRSTRAND BANK'S FUNDING LIABILITIES BY INSTRUMENT TYPE AND TERM



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

R billion



Funds transfer pricing

The group 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

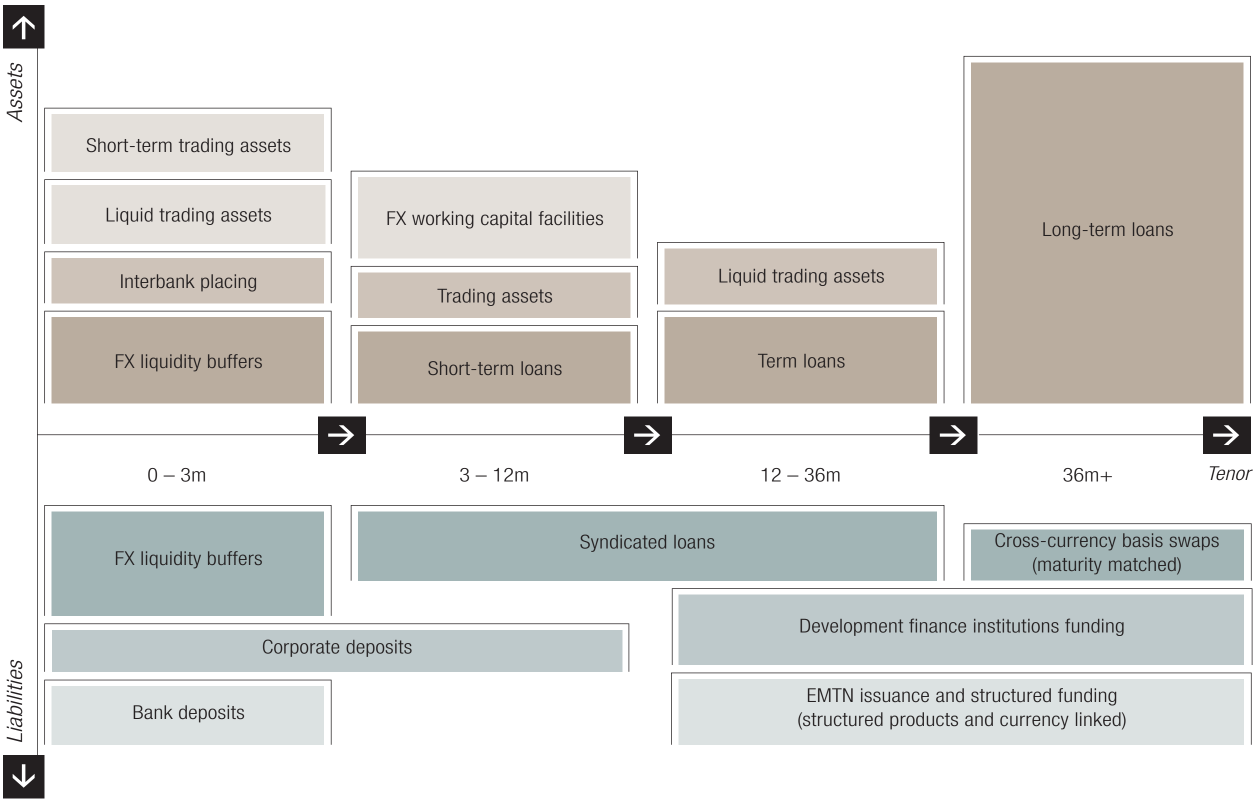
Given that the group continues to grow its businesses in the rest of Africa and India, and the size of MotoNovo in the UK, the active management of foreign currency liquidity risk continues to be a strategic focus. The group seeks to avoid exposing itself to undue liquidity risk and to maintain liquidity 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. This limit includes 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.

GRAPHICAL REPRESENTATION OF THE FOREIGN CURRENCY BALANCE SHEET



REGULATORY UPDATE

BASEL III

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

- LCR – addresses short-term liquidity risk; and
- NSFR – addresses the structural liquidity risk of the balance sheet within the SA market.

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 70%, with 10% incremental step-ups each calendar year to 100% on 1 January 2019.

The SARB issued *Guidance Note 6/2016* significantly increasing the cost for contracting a CLF. There is a continued focus on building a diversified pool of available HQLA. This is, however, limited given availability within the SA market.

NET STABLE FUNDING RATIO

The NSFR is considered a structural balance sheet ratio with the focus being to promote a more resilient banking sector. The ratio calculates the amount of available stable funding relative to the amount of required stable funding.

The provisional directive on the NSFR in November 2015 has subsequently been issued as *Directive 4/2016* in August 2016. Banks will be required to submit a monthly monitoring template to enable the SARB to assess the readiness of banks to comply with the 100% NSFR requirements from 1 January 2018.

The SARB has applied its discretion on the treatment of deposits with maturities of up to six months received from financial institutions. The NSFR framework assigns a 0% ASF factor to these funds whereas the SARB 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.

DISCLOSURE REQUIREMENTS

The BCBS published the liquidity coverage ratio disclosure standards in March 2014, with the objective to reduce market uncertainty around liquidity positions. Key points are:

- effective from 1 January 2015;
- will follow the capital quarterly disclosures; and
- standardised template currently completed semi-annually.

These disclosures reveal industry reporting inconsistencies which are now being addressed via the Banking Association of South Africa, together with SARB and SAICA.

RESOLUTION FRAMEWORK

In September 2015, the SARB and 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.

The paper introduces the concept of total loss-absorbing capacity (TLAC) to explicitly subordinate specified instruments in order to make these loss absorbing at resolution phase. TLAC, in the context of the paper, does not necessarily have the same characteristics as the proposed TLAC requirements applicable to global systemically important banks (G-SIB) and have been identified as:

- ordinary shares;
- preference shares; and
- pre-identified loss-bearing instruments.

LIQUIDITY RISK POSITION

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

BANK LIQUID ASSETS COMPOSITION

	Marketable assets	HQLA Basel III view after haircut				Management view after haircuts	
R billion	Total 2016	Level 1	Level 2	Total 2016	Total 2015*	Total 2016	Total 2015*
Cash and deposits with central banks	**26**	26	–	**26**	26	**26**	26
Government bonds and bills	**74**	74	–	**74**	82	**74**	82
Other liquid assets	**62**	–	41	**41**	12	**52**	24
Total	**162**	100	41	**141**	120	**152**	132

* *June 2015 restated to align to full HQLA for LCR purposes.*

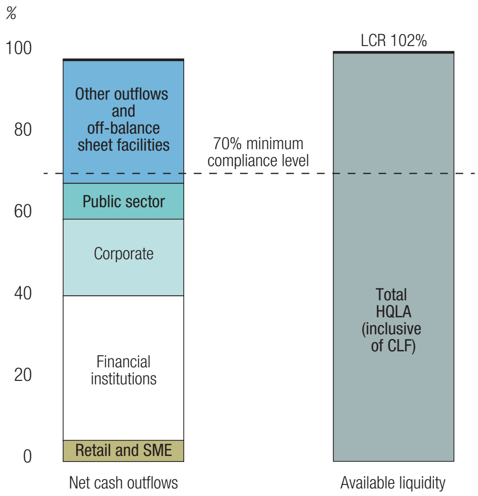
Liquidity buffers are actively managed via high quality, highly liquid assets that are available as protection against unexpected events or market disruptions. The quantum and composition of the available sources of liquidity are defined by the behavioural funding liquidity at risk and the market liquidity 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.

Funding from institutional clients is a significant contributor to the group's net cash outflows as measured under the LCR at nearly 30% of the South African market structure. Other significant contributors to the cash outflows are corporate funding and off-balance sheet facilities. The group has strategies in place to increase funding sourced through its deposit franchise and to reduce reliance on the more inefficient institutional funding sources, as well as to offer facilities more efficiently.

The bank's LCR increased due to an increase in HQLA holdings of R21 billion and a reduction in net cash outflows of R5 billion. This is as a result of targeted strategies to raise more stable funding sources and to 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 the bank to align its methodology with other sector players, resulting in a structural uplift in its LCR.

The graph below gives an indication of the bank's LCR position of 102% (2015: 84%) and demonstrates the bank's compliance with the 70% minimum requirement.

FIRSTRAND BANK LCR



Directive 6/2014 and 11/2014 require the group to provide its LCR disclosure in a standardised template.
Refer to www.firstrand.co.za/investorcentre/pages/commondisclosures.aspx

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

CAPITAL

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

- business units' organic growth plans;
- rating agencies' considerations;
- investor expectations (including debt holders);
- targeted leverage levels;
- future business plans;
- stress testing scenarios;
- economic and regulatory capital requirements;
- issuance of additional capital instruments;
- regulatory and accounting changes; and
- the board's risk appetite.

YEAR UNDER REVIEW

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 ongoing regulatory developments, expansion initiatives and corporate transactions. The bank aims to back all economic risk with loss absorbing capital and remains well capitalised in the current environment.

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

The bank comfortably operated above its capital and leverage targets during the year. The table below summarises the bank's capital and leverage ratios as at 30 June 2016.

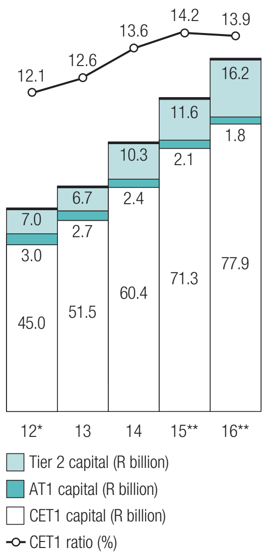
CAPITAL ADEQUACY AND LEVERAGE POSITION

	Capital			Leverage
%	CET1	Tier 1	Total	Total
Regulatory minimum*	6.9	8.1	10.4	4.0
Internal target	10.0 – 11.0	>12.0	>14.0	>5.0
ACTUAL				
FRB including foreign branches				
Including unappropriated profits	**13.9**	**14.2**	**17.1**	**7.2**
Excluding unappropriated profits	12.2	12.5	15.4	6.4
FRB excluding foreign branches				
Including unappropriated profits	**14.0**	**14.4**	**16.9**	**7.0**
Excluding unappropriated profits	12.3	12.7	15.3	6.2

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

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

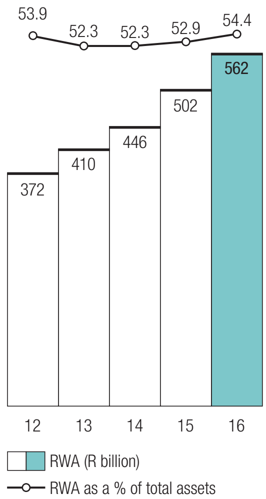
CAPITAL ADEQUACY



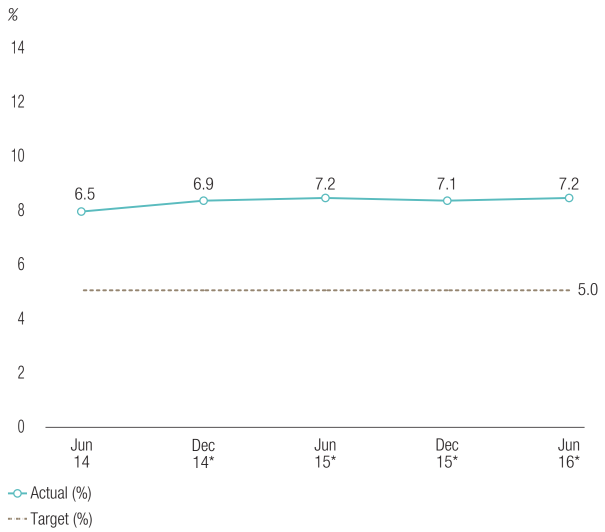
* 2012 is on a Basel II basis, 2013 onwards is on a Basel III basis.

** Includes unappropriated profits.

RWA HISTORY



LEVERAGE



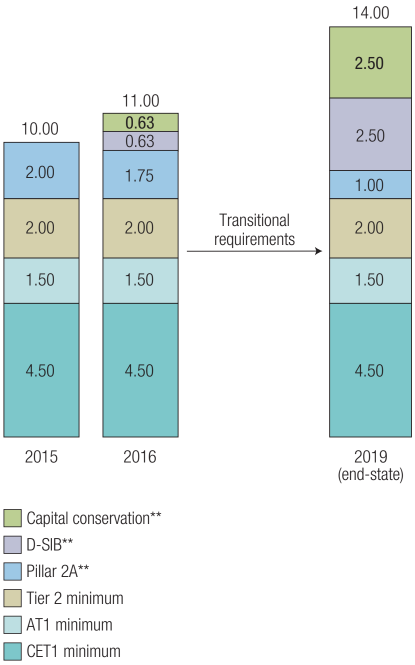
* Includes unappropriated profits.

REGULATORY UPDATE

Effective 1 January 2016, the SARB minimum capital requirement was adjusted for the capital conservation buffer, add-on for domestic systemically important banks (D-SIB) and the countercyclical buffer. Currently the SARB has not implemented any countercyclical buffer requirement for South African exposures. The capital conservation buffer and D-SIB add-on will be phased in over the next four years, as illustrated below.

*TRANSITIONAL MINIMUM REQUIREMENTS**

%



* *Assuming a maximum add-on for D-SIB.*

** *Pillar 2A and D-SIB met with CET1, Tier 1 and total capital. Capital conservation buffer met solely with CET1 capital.*

The bank's internal targets have been aligned to the end-state minimum requirements and are subject to ongoing review and consideration of various stakeholder requirements. No changes have been made to the current targets during the year.

The BCBS issued various consultative documents, including revisions to the RWA framework, capital floors and leverage framework. These papers are at different stages of testing, finalisation and implementation, and the actual impact on banks remains unclear. The group continues to participate in the BCBS quantitative impact studies to assess and incorporate, where relevant, the effect of these standards.

COMPOSITION OF CAPITAL

Supply of capital

The tables below summarise the bank's (including foreign branches) qualifying capital components and related year-on-year movements.

COMPOSITION OF CAPITAL ANALYSIS

	Year ended 30 June	
R million	**2016**	2015
Including unappropriated profits		
CET1	**77 906**	71 289
Tier 1	**79 706**	73 389
Total qualifying capital	**95 933**	85 007
Excluding unappropriated profits		
CET1	**68 536**	65 876
Tier 1	**70 336**	67 976
Total qualifying capital	**86 563**	79 594

Movement		
CET1	AT1	Tier 2
↑	↓	↑
• Internal capital generation through earnings.	• Additional 10% haircut on NCNR preference shares that are not compliant with Basel III.	• Issuance of Basel III-compliant subordinated debt instruments totalling R4.9 billion: – FRB16 and FRB17 in July 2015: R2.3 billion; and – FRB18, FRB19 and FRB20 in April 2016: R2.6 billion. • Redemption of FRB08 (R100 million) in June 2016. • Additional haircut on instruments that are not compliant with Basel III.

DEMAND FOR CAPITAL

The table below shows the breakdown of the bank's (including foreign branches) RWA per risk type as per current regulations.

RWA ANALYSIS

	Year ended 30 June		
R million	2016	2015	KEY DRIVERS
Credit risk	**406 950**	370 561	↑ • organic growth, model recalibrations and regulatory refinement.
Counterparty credit risk	**20 155**	15 591	↑ • volumes and mark-to-market movements.
Operational risk	**85 710**	77 302	↑ • higher risk scenario values for certain portfolios subject to the advanced measurement approach (AMA); and • increase in gross income for entities on basic approaches.
Market risk	**16 639**	11 523	↑ • volumes and mark-to-market movements.
Equity investment risk*	**8 979**	6 179	↑ • investment in African Bank Holdings Limited.
Other assets*	**23 142**	21 222	↑ • increase in deferred tax assets relating to temporary differences; and • increase in property and equipment.
Total RWA	**561 575**	502 378	

* *Equity investment risk comparatives have been restated to include investment in financial, banking and insurance 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 FRB, usually in the form of a return of profits. During the year, no restrictions were experienced on the return of profits to the bank.

The RWA and capital adequacy positions of the bank and its foreign branches are set out below.

RWA AND CAPITAL ADEQUACY POSITIONS OF THE BANK AND ITS FOREIGN BRANCHES

	Year ended 30 June			
	2016			2015
	RWA R million	Tier 1 %	Total capital adequacy %	Total capital adequacy %
Basel III				
FirstRand Bank*,**	**561 575**	**14.2**	**17.1**	16.9
FirstRand Bank South Africa**	**522 211**	**14.4**	**16.9**	16.7
FirstRand Bank London	**36 776**	**10.3**	**17.4**	16.1
FirstRand Bank India	**2 971**	**23.9**	**24.3**	39.5
FirstRand Bank Guernsey#	**58**	**43.9**	**43.9**	–

* *FRB including foreign branches.*

** *Includes unappropriated profits.*

Trading as FNB Channel Islands.

Directive 3/2015 (capital) and *directive 4/2014* (leverage) requires the following additional common disclosure in line with Regulation 43 of the Regulations relating to Banks:

- 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/commondisclosures.aspx.

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

CREDIT RATINGS

FIRSTRAND BANK LIMITED

The credit ratings reflect FirstRand Bank's strong market position as one of the big four banks in South Africa as well as its focused strategy, good core profitability, financial flexibility, robust risk management and sound capitalisation.

CREDIT RATINGS AS AT 8 SEPTEMBER 2016

	South African sovereign rating		FirstRand Bank	
	Moody's	S&P	Moody's	S&P
Outlook	Negative	Negative	Negative	Negative
Foreign currency rating				
Long term	Baa2	BBB-	Baa2	BBB-
Short term	(P)P-2	A-3	P-2	A-3
Local currency rating				
Long term	Baa2	BBB+	Baa2	BBB-
Short term	(P)P-2	A-2	P-2	A-3
National scale rating				
Long term		zaAAA	Aaa.za	zaAA-
Short term		zaA-1	P-1.za	zaA-1
Standalone credit ratings*			baa2	bbb

* *Refers to a rating agency's measure of a bank's intrinsic creditworthiness before considering external factors, e.g. affiliate or government support. The two major rating agencies use different terminology for this concept: Moody's baseline credit assessment and S&P's standalone credit profile.*

South Africa sovereign rating

During the current financial year, Moody's Investor Services (Moody's) and S&P Global Ratings (S&P) changed the outlook on the South African sovereign to negative from stable. These rating actions were primarily driven by South Africa's weakening credit profile, and challenging economic and operating environment. Both rating agencies affirmed the sovereign rating in the last quarter of the 2016 financial year. The impact of these rating actions on FirstRand Bank are outlined below.

Moody's

On 17 December 2015, Moody's changed the outlook on FirstRand Bank's ratings to negative from stable. In May 2016 the long- and short-term foreign and local currency deposit ratings were confirmed, and the national scale ratings were repositioned to Aaa.za from A1.za following the recalibration of the South African national scale rating.

S&P

On 9 December 2015, S&P revised its outlook for FirstRand Bank to negative from stable. At the same time, FirstRand Bank's long-term national scale ratings were lowered to zaAA- from zaAA and the short-term national scale rating was affirmed at zaA-1. The ratings were affirmed in April 2016.

Presentation and reconciliations

A pg 78 – 88

PRESENTATION

BASIS OF PRESENTATION

The summarised financial statements contained in this *Analysis of financial results* booklet are derived from a complete set of the bank's audited financial statements.

FRB prepares its summarised financial results in accordance with:

- the framework concepts and the recognition and measurement requirements of International Financial Reporting Standards (IFRS), including interpretations issued by the IFRS Interpretations Committee;
- Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council;
- SAICA Financial Reporting Guide as issued by the Accounting Practices Committee;
- as a minimum, the information required by *IAS 34 Interim Financial Reporting*; and
- requirements of the Companies Act, no 71 of 2008, applicable to summary financial statements.

The directors take full responsibility and confirm that this information has been correctly extracted from the financial statements from which the summarised financial statements were derived.

ACCOUNTING POLICIES

The accounting policies applied in the preparation of the financial statements from which the summarised financial statements were derived, are in terms of IFRS.

The financial statements, from which these summarised financial statements are extracted are prepared in accordance with the going concern principle under the historical cost basis as modified by the fair value accounting of certain assets and liabilities where required or permitted by IFRS.

The bank has elected to early adopt the amendment to *IAS 1 Presentation of Financial Statements*, which clarified that materiality applies to the complete set of financial statements, including disclosures. In terms of the amendment, the inclusion of immaterial information in the financial statements can negatively affect the usefulness of disclosures. In order to early adopt the amendment the bank reviewed the financial statements to identify areas where disclosures were ineffective, related to immaterial items or considered unnecessary.

As a result of the review, provisions have now been included with creditors and accruals on the face of the statement of financial position.

The revised standard did not have any effect on the bank's reported earnings, financial position, or reserves and had no material impact on the accounting policies.

Other than the change in presentation described above the accounting policies are consistent with those applied for the year ended 30 June 2015. No other new or amended IFRS standards became effective for the year ended 30 June 2016.

NORMALISED RESULTS

The bank believes normalised earnings more accurately reflect its economic performance. Consequently, headline earnings have been adjusted to take into account non-operational and accounting anomalies.

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 therefore can be found below and on page A 79. The *pro forma* information should be read in conjunction with the unmodified Deloitte & Touche and PricewaterhouseCoopers Inc. independent reporting accountant's report, which is available for inspection at the registered office.

AUDITORS' REPORT

The summarised financial statements for the year ended 30 June 2016 contained in this booklet have been audited by PricewaterhouseCoopers Inc. and Deloitte & Touche, who expressed an unmodified opinion thereon. Refer to page C 06.

The auditors also expressed an unmodified opinion on the financial statements from which the summarised financial statements were derived. Unless the financial information is specifically stated as audited, it should be assumed it is unaudited.

A copy of the auditors' report on the audited financial statements are available for inspection at FirstRand Bank's registered office, 4 Merchant Place, corner Fredman Drive and Rivonia Road, Sandton, together with the audited financial statements identified in the respective auditors' report.

The auditors' report does not necessarily report on all of the information contained in these summarised financial statements. Shareholders are therefore, advised that in order to obtain a full understanding of the nature of the auditors' engagement they should review the auditors' report together with the accompanying financial information from the issuer's registered office.

The forward-looking information has not been commented or reported on by the bank's external auditors. FirstRand Bank's board of directors take full responsibility for the preparation of this booklet.

DESCRIPTION OF DIFFERENCE BETWEEN NORMALISED AND IFRS RESULTS

The bank believes normalised earnings more accurately reflect its economic performance. Headline earnings are adjusted to take into account non-operational items and accounting anomalies.

ECONOMIC INTEREST RATE HEDGES

From time to time the bank enters into economic interest rate hedging transactions, which do not qualify for hedge accounting in terms of the requirements of IFRS. When presenting normalised results, the bank reclassifies fair value changes on these hedging instruments from NIR to NII to reflect the economic substance of these hedges.

MARGIN ON SECURITISED ASSETS

From time to time the bank enters into transactions whereby advances are sold to a securitisation vehicle controlled by the FirstRand group. The bank's compensation for the sale comprises a cash component received immediately and a right to receive any future excess spread from the securitisation vehicle, referred to as a deferred purchase price (DPP).

The initial recognition of the DPP results in a profit for the bank on the date of the sale of the advances. The purpose of the DPP is to compensate the bank for the last margin on the disposal of advances.

The net profit resulting from the derecognition of the advances and the initial recognition of DPP is recognised in NIR in terms of IFRS. When calculating normalised results, the DPP profit is reclassified to NII in accordance with its economic substance.

The DPP is immediately sold to a third party and any further gains or losses on the DPP, other than the profit recognised at initial recognition, are not recognised.

FAIR VALUE ANNUITY INCOME – LENDING

The bank accounts for the majority of its wholesale advances book in RMB on a fair value basis in terms of IFRS. As a result, the margin on these advances is reflected as part of NIR.

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

CREDIT-BASED INVESTMENTS INCLUDED IN ADVANCES

Certain corporate bond debt securities qualifying as high quality liquid assets and notes held in securitisation vehicles are classified as investment securities for IFRS purposes. The underlying nature and risk exposure of these assets is credit related and these assets are, therefore, reclassified from investment securities to advances.

USD LIQUIDITY FUNDING

The bank raised additional USD funding and liquidity during the current and previous two financial periods. Following IFRS, certain currency translations and costs associated with these funding actions are reflected against NIR. From an economic perspective, these impacts form part of the inherent cost of the USD funding pool and, as such, have been reflected against NII on a normalised basis.

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. Therefore, to the extent 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 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. 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 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 the amount of these adjustments are provided in the reconciliation between headline earnings and IFRS profit on page A 80.

STATEMENT OF HEADLINE EARNINGS

for the year ended 30 June

R million	2016	2015	% change
Profit for the year (refer page C 39)	**17 150**	15 601	10
NCNR preference shareholders	**(219)**	(207)	6
Earnings attributable to ordinary equityholders	**16 931**	15 394	10
Adjusted for:	**28**	(7)	(>100)
Loss/(gain) on disposal of available-for-sale assets	**8**	(20)	
(Gain)/loss on disposal of property and equipment	**(1)**	14	
Impairment of assets in terms of IAS 36	**23**	–	
Other	**–**	(3)	
Tax effects of adjustments	**(2)**	2	
Headline earnings	**16 959**	15 387	10

RECONCILIATION FROM HEADLINE TO NORMALISED EARNINGS

for the year ended 30 June

R million	2016	2015	% change
Headline earnings	**16 959**	15 387	10
Adjusted for:	**392**	(141)	(>100)
TRS and IFRS 2 liability remeasurement*	**494**	(34)	(>100)
IAS 19 adjustment	**(102)**	(107)	(5)
Normalised earnings	**17 351**	15 246	14

* *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 year, FirstRand's share price declined R8.48 and during the prior year increased R12.57. This resulted in a significant mark-to-market fair value loss in the current period (compared to profit 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 A 79.

RECONCILIATION OF NORMALISED TO IFRS SUMMARISED INCOME STATEMENT

for the year ended 30 June 2016

R million	June 2016 Normalised	IAS 19 adjustment	Margin on securitised assets	Economic hedges	Fair value annuity income (lending)
Net interest income before impairment of advances	**38 333**	–	(1 234)	354	(2 442)
Impairment of advances	**(6 255)**	–	–	–	257
Net interest income after impairment of advances	**32 078**	–	(1 234)	354	(2 185)
Non-interest revenue	**27 261**	–	1 234	(354)	2 185
Income from operations	**59 339**	–	–	–	–
Operating expenses	**(35 392)**	142	–	–	–
Income before tax	**23 947**	142	–	–	–
Indirect tax	**(763)**	–	–	–	–
Profit before tax	**23 184**	142	–	–	–
Income tax expense	**(5 614)**	(40)	–	–	–
Profit for the year	**17 570**	102	–	–	–
Attributable to					
NCNR preference shareholders	**(219)**	–	–	–	–
Ordinary equityholders	**17 351**	102	–	–	–
Headline and normalised earnings adjustments	**–**	(102)	–	–	–
Normalised earnings	**17 351**	–	–	–	–

USD liquidity funding	TRS adjustment	Headline earnings	IFRS
532	–	–	**35 543**
–	–	–	**(5 998)**
532	–	–	**29 545**
(532)	(924)	(7)	**28 863**
–	(924)	(7)	**58 408**
–	238	(23)	**(35 035)**
–	(686)	(30)	**23 373**
–	–	–	**(763)**
–	(686)	(30)	**22 610**
–	192	2	**(5 460)**
–	(494)	(28)	**17 150**
–	–	–	**(219)**
–	(494)	(28)	**16 931**
–	494	28	**420**
–	–	–	**17 351**

RECONCILIATION OF NORMALISED TO IFRS SUMMARISED INCOME STATEMENT

for the year ended 30 June 2015

R million	June 2015 Normalised	IAS 19 adjustment	Margin on securitised assets	Economic hedges	Fair value annuity income (lending)
Net interest income before impairment of advances	33 913	–	(807)	(265)	(2 816)
Impairment of advances	(4 993)	–	–	–	637
Net interest income after impairment of advances	28 920	–	(807)	(265)	(2 179)
Non-interest revenue	25 057	–	807	265	2 179
Income from operations	53 977	–	–	–	–
Operating expenses	(32 591)	149	–	–	–
Income before tax	21 386	149	–	–	–
Indirect tax	(751)	–	–	–	–
Profit before tax	20 635	149	–	–	–
Income tax expense	(5 182)	(42)	–	–	–
Profit for the year	15 453	107	–	–	–
Attributable to					
NCNR preference shareholders	(207)	–	–	–	–
Ordinary equityholders	15 246	107	–	–	–
Headline and normalised earnings adjustments	–	(107)	–	–	–
Normalised earnings	15 246	–	–	–	–

USD liquidity funding	TRS adjustment	Headline earnings	IFRS
204	–	–	30 229
–	–	–	(4 356)
204	–	–	25 873
(204)	1 106	6	29 216
–	1 106	6	55 089
–	(1 059)	3	(33 498)
–	47	9	21 591
–	–	–	(751)
–	47	9	20 840
–	(13)	(2)	(5 239)
–	34	7	15 601
–	–	–	(207)
–	34	7	15 394
–	(34)	(7)	(148)
–	–	–	15 246

RECONCILIATION OF NORMALISED TO IFRS SUMMARISED STATEMENT OF FINANCIAL POSITION

as at 30 June 2016

R million	Normalised	Reallocation of credit investments	IFRS
ASSETS			
Cash and cash equivalents	**50 997**	–	**50 997**
Derivative financial instruments	**39 923**	–	**39 923**
Commodities	**12 514**	–	**12 514**
Investment securities	**111 430**	44 395	**155 825**
Advances	**764 088**	(44 395)	**719 693**
Accounts receivable	**4 561**	–	**4 561**
Non-current assets and disposal groups held for sale	**–**	–	**–**
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**	–	**12 644**
Current tax liability	**75**	–	**75**
Deposits	**826 473**	–	**826 473**
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**

* *In the prior year provisions were presented in a separate line on the statement of financial position. The prior year has been restated accordingly.*

RECONCILIATION OF NORMALISED TO IFRS SUMMARISED STATEMENT OF FINANCIAL POSITION

as at 30 June 2015

R million	Normalised	Reallocation of credit investments	IFRS
ASSETS			
Cash and cash equivalents	53 725	–	53 725
Derivative financial instruments	34 112	–	34 112
Commodities	7 354	–	7 354
Investment securities	103 673	29 870	133 543
Advances	705 257	(29 870)	675 387
Accounts receivable	4 301	–	4 301
Non-current assets and disposal groups held for sale	125	–	125
Current tax asset	–	–	–
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	–	12 465
Current tax liability	69	–	69
Deposits	779 703	–	779 703
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

* *In the prior year provisions were presented in a separate line on the statement of financial position. This amount has been restated.*

summary risk and capital management report

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contents

B SUMMARY RISK AND CAPITAL MANAGEMENT REPORT

RISK MANAGEMENT APPROACH

This summary risk and capital management report covers the operations of FirstRand Bank Limited (FRB or the bank). Risk is managed on a group basis and therefore, this report also covers FirstRand Limited's (FirstRand or the group) risk philosophy and management practices (which also apply to the bank). The information in this report is provided on an IFRS basis, except where otherwise indicated.

FirstRand believes that effective risk, performance and financial resource management are of primary importance to its success and is a key component of 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 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
• assesses the impact of the cycle on the group's portfolio; • understands and price appropriately for risk; and • originates within cycle-appropriate risk appetite and volatility parameters.	• allocates capital appropriately; • ensures an efficient capital structure with appropriate/conservative gearing; and • requires earnings to exceed cost of capital, i.e. positive net income after cost of capital (NIACC).	• executes sustainable funding and liquidity strategies; • protects credit ratings; and • preserves a "fortress" balance sheet that can sustain shocks through the cycle.

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.

Effective risk management is key to the successful execution of strategy and is based on:

- a **risk-focused culture** with multiple points of control applied consistently throughout the organisation;
- a **combined assurance** process to integrate, coordinate and align the risk management and assurance processes within the group to optimise the level of risk, governance and control oversight; and
- **strong risk governance** through the application of financial and risk management disciplines through frameworks set at the centre.

Risk taking is an essential part of the group's business and the group explicitly recognises core 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, performance, achievement of desired objectives, and avoidance of adverse outcomes and reputational damage.

A business profits from taking risks, but will only generate an acceptable profit commensurate with the risk from its activities if the 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 its 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 inherent in its operations. The group's core competencies are applied by 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 risks, definitions and the 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).

FIRSTRAND BANK RISK PROFILE

The following table provides a high-level overview of the bank's risk profile.

Normalised ROE
23.0%
2015: 22.9%

Normalised earnings growth
+14%
2015: +24%

Capital adequacy
17.1%
2015: 16.9%
Target **>14%**

Tier 1
14.2%
2015: 14.6%
Target **>12%**

CET1
13.9%
2015: 14.2%
Target **10% – 11%**

Leverage ratio
7.2%
2015: 7.0%
Target **>5%**

Liquidity coverage ratio
102%
2015: 84%
Minimum requirement **70%**

Normalised NPLs
2.43%
2015: 2.17%

Normalised credit loss ratio
0.84%
2015: 0.73%
Long-run average **100 – 110 bps**

Market risk 10-day ETL
R233 million
2015: R340 million

Equity investment risk exposure as % of Tier 1
2%
2015: 2%

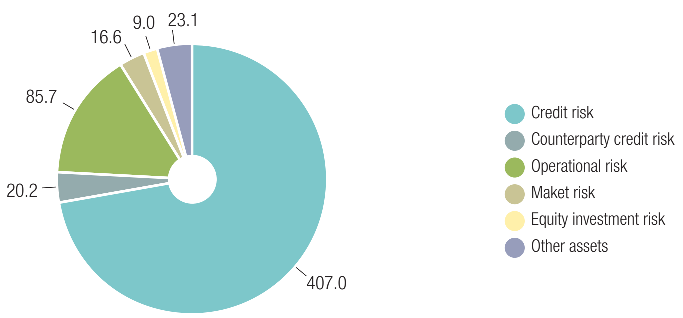
NII sensitivity downward 200 bps
-R1.8 billion
2015: -R2.5 billion

upward 200 bps
R1.5 billion
2015: R2.3 billion

Note: Capital and leverage ratios include unappropriated profits.

RISK WEIGHTED ASSETS

R billion



RISK PROFILE ANALYSIS

Capital adequacy

- FirstRand Bank has maintained its strong capital position. The bank continues to actively manage its capital composition and, to this end, issued R4.9 billion Basel III-compliant Tier 2 instruments in the domestic market during the past 12 months. 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 leverage.

Funding and liquidity

- Liquidity buffers are actively managed via high quality highly liquid assets that are available as protection against unexpected events or market disruptions. The group exceeds the 70% minimum liquidity coverage ratio (LCR) as set out by the BCBS, with an LCR measurement of 102%. The bank's high quality liquid asset (HQLA) holdings amounted to R157 billion at 30 June 2016.

Credit risk

- Bank credit loss rates increased as expected, impacted by a more challenging macroeconomic environment. Credit origination strategies are aligned to the group's macroeconomic outlook. Performance is acceptable and within risk appetite in line with expectations.
- The bank continues to exercise prudence with overall portfolio provisions being maintained, despite some deterioration in the underlying portfolios, including increasing NPLs, which was expected.

Market risk in the trading book

- The interest rate risk asset class represents the most significant market risk in the trading book exposure at June 2016. The group's market risk profile remained within risk appetite.

Equity investment risk

- The year was marked with significant realisations with robust realisation profits. The quality of the investment portfolio remains acceptable and within risk appetite.

For a detailed analysis of risk and capital management refer to the group's Pillar 3 disclosure on www.firstrand.co.za.

TOP AND EMERGING RISKS

Identifying and monitoring potential and emerging risks is an integral part of the group's approach to risk management. These risks are continuously identified, potential impacts determined, reported to and debated by appropriate risk committees and management. Current top and emerging risks are outlined below.

TOP AND EMERGING RISKS

<table>
<tr><th>Risk</th><th>Description</th><th>Mitigant</th></tr>
<tr><td colspan="3">Global macroeconomic environment</td></tr>
<tr><td>Global economic outlook</td><td>The macroeconomic environment remains challenging and significant downside risk remains. Weak growth, low inflation and persistent macroeconomic shocks continue to necessitate more global monetary policy stimulus.

While there are growing concerns about the negative long-term consequences of these policies, very low global interest rates have provided another boost to high-yielding assets across the globe.

Continued expected increases in dollar funding costs pose a challenge to indebted governments, corporates and consumers.</td><td>Continue to monitor economic developments in key markets with appropriate planning, responses, strategy alignment and provisions as required.</td></tr>
<tr><td colspan="3">Local macroeconomic environment</td></tr>
<tr><td>Local economic outlook</td><td>Although the rand has received a boost from yield-seeking global investors, pressure remains due to the volatile nature of these inflows. Global monetary policy settings may strengthen the rand in the medium term.

Although pressure on economic growth remains due to low oil, commodity and international agricultural prices, low inflation growth and many unresolved structural constraints, the economy is showing signs of rebalancing.

Constructive reaction from politicians to the outcome of the local elections may also have a positive impact on the local economic outlook.</td><td rowspan="2">Credit origination and funding strategies are assessed in light of economic conditions and market liquidity.</td></tr>
<tr><td>Structural constraints</td><td>Ongoing structural constraints will further restrict South Africa's ability to grow employment, increase private sector investment and reap the benefits of a weak exchange rate and some global growth. This continues to limit growth in household, corporate and government income.</td></tr>
<tr><td>Sovereign rating</td><td>The risk of a sovereign rating downgrade may impact foreign investment in South Africa and the availability and the cost of funding.</td><td>The impact of a sovereign downgrade on business continues to be assessed.</td></tr>
</table>

Risk	Description	Mitigant
Regulatory and legal risks		
Regulatory developments	The regulatory landscape requires the group to deal with a number of changes and additional legal and regulatory requirements. These include market conduct, financial crime, the implementation of a twin peaks model of financial regulation, the Protection of Personal Information Act, IFRS 9, amendments to the National Credit Act, insurance regulations, foreign account tax compliance and foreign asset control sanctions.	Significant investment in people, systems and processes are made to manage the risks emanating from the large number of new regulatory requirements.
Legal risk	Legal proceedings arising from business operations could give rise to potential financial loss and reputational damage.	
Risks related to business operations and internal control systems		
Structural constraints	Operations are reliant on many elements of the national infrastructure, including water supply, electricity and telecommunications. Structural constraints, such as skills shortages, labour market unrest, possible power outages and financial issues of state owned entities, could potentially have direct or indirect impacts on business.	The impact of structural constraints on operations is assessed with contingency plans in place where appropriate.
Funding costs	Market availability of HQLA could impact the group's funding position and costs.	A number of actions are in place to ensure a resilient funding model.
Cybercrime and fraud	Cybercrime and potential money laundering threats continue to increase globally and remain a key area of focus.	Threats are continuously assessed and controls adapted to address possible control weaknesses and improve system security.
Data management	Data management becoming more important from a strategic perspective and new regulatory requirements for more frequent, consistent, accurate and timely data submissions.	Projects for improved data management, aggregation and reporting are underway.

RISK APPETITE

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.

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

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, i.e. earnings and capital. The group views earnings as the primary defence against adverse outcomes. Risk capacity provides a reference for risk appetite and is not intended to be reached under any circumstances.

Risk appetite states what proportion of the group's financial resources should be utilised in the execution of its strategy and is determined through consideration of a number of filters, including:

- overall strategic objectives;
- growth, volatility and return targets; and
- meeting the group's commitments to all stakeholders including regulators, depositors, debt holders and shareholders.

Risk appetite is captured through both quantitative measures and qualitative principles, which include set objectives for the level of earnings volatility, and minimum levels of capital and liquidity to be maintained over defined time horizons in normal and stressed environments.

Risk limits are clearly defined risk boundaries for different measures per risk type. It is also referred to as thresholds, tolerance or triggers. Actual performance/losses are measured against limits/thresholds for management and escalation purposes.

PROCESS FOR DETERMINING THE GROUP'S RISK APPETITE

Risk capacity

EARNINGS	CAPITAL

Filters

Strategic objectives and growth, return and volatility targets

Constraints based on stakeholder commitments

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% to 22%	**Capital** CET1: 10% – 11%	**Liquidity** To exceed minimum regulatory requirements with appropriate buffers
	Earnings growth Nominal GDP +3% to 5%	**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 relates 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.
No risk taking 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.
No implementation of business models with excessive gearing through either on- or off-balance sheet leverage.	

Note: ROE and earnings growth targets shown above are for the group, not bank.

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

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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. The risk/reward profile should be measured point-in-time and forward looking. Risk appetite should influence the business plans and inform risk-taking activities and strategies in every business.

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 framework drives the allocation of financial resources, including risk-taking capacity. Although different commitments are made to various stakeholders, these are monitored collectively.

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 organisation, supported through the three lines of control in the business performance and risk management framework.

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 houseview which is used for budgeting, forecasting and business origination strategies. The houseview focuses on the key macroeconomic variables that impact the balance sheet and income statement. The macro 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 on a quarterly basis. The business plan for the next three years is 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 stays within the constraints it has set itself. The scenarios are based on changing macroeconomic variables, plausible event risks and regulatory and competitive changes.

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

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 macro environment also inform the portfolio optimisation decisions and the price and allocation of financial resources.

Through the risk appetite framework and processes, the group continues to refine its processes to align and cascade earnings growth, return and volatility targets of the overall risk appetite statement into limits and thresholds at risk type and franchise level. Through this process, the group aims to align the bottom up aggregation of franchise risk-reward statements to the group statement as well as test the limit structures with reference to the group statement.

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 franchises in the lines of risk control are described in the following diagram.

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 B 13.

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

FIRST LINE OF CONTROL

RISK OWNERSHIP

Risk inherent in business activities

Head of business
Reports to franchise CEO

Group Treasury in FCC
Supports business owners, the board and Stratco

Franchise executive committees

GROUP CEO

↑

Strategic executive committee (Stratco)

- Group CEO
- Group deputy CEO
- Group CFO
- Franchise CEOs
- Group Treasurer
- Head: Human Capital and Sustainability

- Financial resource management executive committee
- Conduct executive committee
- Platform executive committee
- International executive committee
- People, leadership and talent forum

SECOND LINE OF CONTROL

RISK CONTROL

Risk identification, measurement, control and independent oversight and monitoring

Enterprise Risk Management (ERM)
Headed by group CRO, represented on platform and conduct executive committees

Regulatory Risk Management (RRM)

- RRM head represented on platform and conduct executive committees
- Franchise compliance heads have functional reporting lines to RRM head

Insurance control functions
Heads report to FirstRand Life Assurance CEO, ERM and RRM

Deployed franchise, segment and business unit risk managers

- Involved in all business decisions
- Represented at franchise executive committees

BOARD

↑

RCC committee

↑

Specialised risk committees | **Franchise risk committees**

↑

Franchise CROs
Report to franchise CEOs and group CRO

THIRD LINE OF CONTROL

INDEPENDENT ASSURANCE

Adequacy and effectiveness of internal control, governance and risk management

Group Internal Audit (GIA)
Headed by chief audit executive with direct, unrestricted access to audit committee chairman, group CEO, franchises, records, property and personnel

External advisors

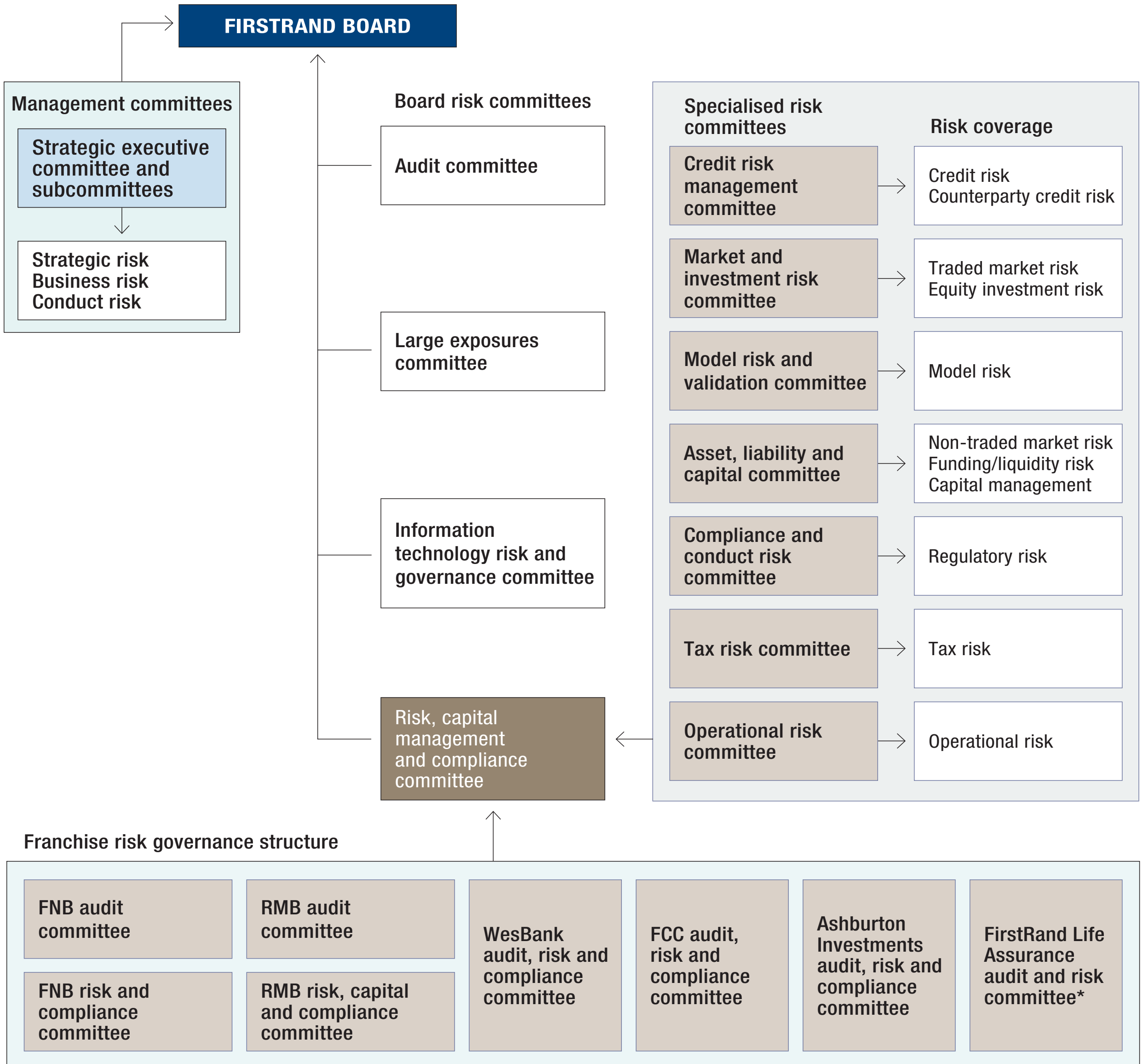
Audit committee

↑

Franchise audit committees

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 FirstRand Pillar 3 disclosure on www.firstrand.co.za/investorpages.aspx. 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



* FirstRand Life Assurance is not a franchise but a subsidiary of FirstRand Insurance Holdings (Pty) Ltd. This committee provides oversight of the group's insurance risk.

DISCLOSURE OF KEY RISKS

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

The financial instruments recognised on the bank's statement of financial position expose the bank to various financial risks. The quantitative information required by IFRS 7 are presented in the notes to the financial statements in the annual financial statements on pages C 139 to C 165 and sets out the bank's exposure to these financial and insurance risks.

Further detailed analysis of the group's risks and 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.

FINANCIAL RISKS AND CAPITAL MANAGEMENT

Description	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 risk, concentration risk 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 • Market liquidity risk	The risk that a bank will not be able to effectively meet current and future cash flow and collateral requirements without negatively affecting the normal course of business, financial position or reputation. 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.	• Funding and liquidity risk governance, assessment and management. • Liquidity risk profile.	Group Pillar 3 disclosure
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
Non-traded market risk		• Projected NII sensitivity • Net structural foreign exposures.	FRB annual financial statements
• 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.	• 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 listed, unlisted or bespoke financial instrument.	• 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.	➲ Governance, 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 causes 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 sustainably implement business strategy.	➲ Governance and assessment	Equator Principles 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 group's solvency and quality of capital during calm and turbulent periods in the economy and financial markets. The group, 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 cover.

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 includes ongoing regulatory developments, expansion initiatives and corporate transactions. 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 levels, with particular focus on the quality of capital and optimisation of the bank's RWA and capital mix during the transitional period of Basel III implementation.

Refer to the analysis of financial results section for further detail on the actual capital and leverage position as at 30 June 2016.

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

	FirstRand Bank	
R million/%	**June 2016**	June 2015
Gross advances	**731 092**	685 477
Credit loss ratio %	**0.85**	0.66
NPLs as % of advances	**2.59**	2.27
Implied loss given default (coverage)	**32.9**	33.7
Total impairments coverage ratio	**60.1**	64.9
Performing book coverage ratio	**0.72**	0.72

* *Metrics provided on IFRS basis.*

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 consumer indebtedness, the rising interest rate cycle, low economic growth and a depressed commodity price cycle. • Assessed credit portfolio performance considering stressed scenarios to the group's outlook to confirm resilience of credit portfolios within risk appetite under stressed conditions. • Assessed adequacy of impairments given current economic conditions. • Continued rollout of the group IFRS 9 programme, established a group IFRS 9 framework, and developed IFRS 9 credit models on pilot products to inform impact analysis and refine approaches prior to implementation. • Implemented amendments for revised affordability assessment criteria of the NCA. • Continued implementation of Directive 7/2015 requirements on restructured credit exposures. • Removed impact of implicit support assumptions on regulatory borrower risk ratings.	• Continue to monitor the effect of economic conditions on consumer indebtedness, interest rates, growth and commodity prices and adjust credit origination strategies as well as credit portfolio management activities accordingly. • Ongoing reviews to ensure alignment of bottom-up and top-down credit risk appetite assessments. • Continue to refine credit risk appetite approaches to assess credit loss volatility. • Focus on debt counselling trends as the South African consumer continues to experience strain due to low economic growth. • Continue rollout of the group IFRS 9 programme and related model development. • 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. FR 1 is the lowest PD and FR 100 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 FIRSTRAND (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 model using internal and external data covering a full economic cycle is used and results supplemented with a 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 model.
	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 model considers 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 model.
	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 model considers the type of collateral underlying the exposure.
	EAD	• Estimation is based on regulatory guidelines with credit conversion factors being 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 system is based on hybrid models using a combination of statistical cash flow simulation models and qualitative scorecards calibrated to a combination of internal data and external benchmarks. • 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 model.
	LGD	• The LGD estimation process is similar to that followed for 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 AIRB models split by fixed regulatory PD ranges. These exposures are for **FirstRand Bank (SA)**, where the AIRB models are applied. The information provided in the different columns are explained as follows:

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

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

CR6: AIRB – FIRSTRAND BANK (SA) CREDIT RISK EXPOSURES BY PORTFOLIO AND PD RANGE

	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	100.0	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 products 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 in line with risk appetite for the year. 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 2016**	June 2015
High quality liquid assets (HQLA)		
– Cash and deposit with central banks	**26**	26
– Government bonds and bills	**74**	82
– Corporate bonds	**41**	12
Total HQLA	**141**	120
LCR %	**102%**	84%

YEAR UNDER REVIEW AND FOCUS AREAS

Year under review	Risk management focus areas
• During the year, the deposit franchise grew 9%, with institutional and other funding increasing 1%. • Innovative customer deposit products showed strong growth, supporting the group's strategy to grow its deposit franchise. • The provisional directive on the NSFR in November 2015 has subsequently been issued as Directive 4/2016 in August. The SARB has applied their discretion in relation to the treatment of deposits from financial institutions with maturities of up to six months. 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 and FirstRand in meeting NSFR requirements. 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 further 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 position; 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** and **structural foreign exchange risk.**

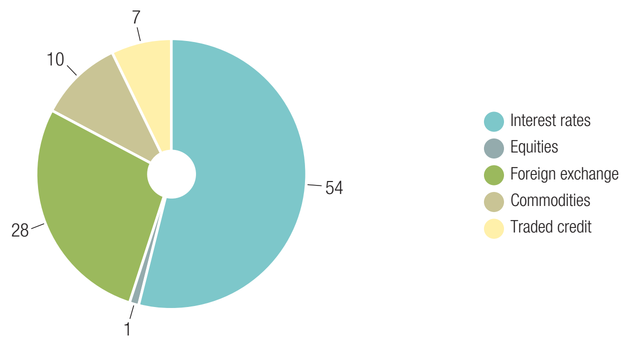
The group's market risk in the trading book emanates mainly from the provision of hedging solutions for clients, market-making activities and term-lending products, and is taken and managed by RMB. The relevant businesses in RMB function as the centres of expertise with respect to all market risk-related activities. Market risk is managed and contained within the group's appetite.

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

VAR EXPOSURE PER ASSET CLASS FOR FIRSTRAND BANK

%



YEAR UNDER REVIEW AND FOCUS AREAS

Year under review	Risk management focus areas
Overall diversified levels of market risk remained relatively low over the last few years with this trend continuing during the year. There are no significant concentrations in the portfolio, which also reflect lower levels of risk.	Given the impending regulatory changes to the BCBS's consultative document, *Fundamental review of the trading book*, RMB is reviewing the current target operating platform for market risk, taking into account 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 bank's 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 R95.3 million on a 10-day ETL basis at 30 June 2016 (2015: R49.6 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 expected tail loss (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), choice of which 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 (IRRBB)** and **structural foreign exchange risk.**

Risk and jurisdiction	Risk measure	Managed by
Interest rate risk in the banking book		
Domestic – FNB, WesBank and FCC	• 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

INTRODUCTION AND OBJECTIVES

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 2016, 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

	FirstRand Bank	
R million	**June 2016**	June 2015
Downward 200 bps	**(1 821)**	(2 517)
Upward 200 bps	**1 475**	2 343

Most of the NII sensitivity relates to the endowment book mismatch. The bank's average endowment book was R154 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
➜ The SARB's Monetary Policy Committee increased rates by 125 bps since July 2015. This positively impacted the bank's earnings as a result of the endowment impact.	➜ The extent and timing of rate normalisation in South Africa is impacted by various global macroeconomic factors. The group continues to actively manage IRRBB. ➜ The BCBS, through the task force for interest rate risk in the banking book, has published a more robust regulation for IRRBB which is due to be implemented by December 2017. The group is addressing these new requirements.

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 can cause a change in rates.

STRUCTURAL FOREIGN EXCHANGE RISK

INTRODUCTION AND OBJECTIVES

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

The bank 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 investor value through diversified earnings, as well as unwanted volatility from currency 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 bank's foreign exchange exposure and macro prudential limit utilisation is centrally owned by Group Treasury as the clearer of all bank currency positions. 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

	FirstRand Bank	
R million	**June 2016**	June 2015
Total net foreign exposure	**4 616**	3 378
Impact on equity from 15% currency translation shock	**692**	507

YEAR UNDER REVIEW AND FOCUS AREAS

Year under review	Risk management focus areas
• Continued to strengthen principles of the management of foreign exchange positions and funding of the bank's foreign entities. • Monitored the net open forward position in foreign exchange limits in each of the bank's foreign entities.	• Continually assess and review the bank'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 section).

Structural foreign exchange risk impacts both the current NAV of the group as well as future profitability and earnings potential. Economic hedging is undertaken 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.

EQUITY INVESTMENT RISK

INTRODUCTION AND OBJECTIVES

Equity investment risk in the bank arises primarily from equity exposures from private equity and investment banking and activities in RMB, e.g. exposures to equity risk arising from principal investments or structured lending. Where appropriate and attractive investment opportunities arise in FNB through lending activities to medium corporate clients, a memorandum of understanding has been put in place between RMB and FNB to co-invest in the entity, provided the arrangement is within approved mandates and policies and is aligned with group strategy.

Other sources of equity investment risk include strategic investments held by FNB and FCC. These investments are, by their nature, core to the individual businesses' daily operations and are managed as such.

EQUITY INVESTMENT RISK PROFILE

	FirstRand Bank					
	June 2016			June 2015		
R million	Listed investments	Unlisted investments	Total	Listed investments	Unlisted investments	Total
Carrying value of investments	**41**	**2 224**	**2 265**	49	1 546	1 595
Fair value	**82**	**4 448**	**4 530**	187	1 551	1 738
Sensitivity to 10% movement in market value on investment fair value			**222**			155

The 10% sensitivity movement is calculated on the carrying value of investments excluding investments subject to the ETL process and includes the carrying value of investments in associates and joint ventures.

YEAR UNDER REVIEW AND FOCUS AREAS

Year under review	Risk management focus areas
➲ FirstRand Bank subscribed for shares in African Bank Holdings Limited.	➲ Continue to monitor the performance of the portfolio.

ASSESSMENT AND MANAGEMENT

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

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

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

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 and in line with regulatory developments and emerging best practice.

YEAR UNDER REVIEW AND FOCUS AREAS

Year under review	Risk management focus areas
• Introduced key risk drivers to refine scenario analysis and refined linkages between scenarios and risk mitigation plans. • Refined actions for compliance with the Basel principles for risk data aggregation and reporting and introduced minimum operational risk data quality control standards. • Formalised contingency plans to manage business resilience risks associated with potential national water and electricity supply shortages. • Reviewed key outsourcing arrangements to manage associated operational risks. • Process automation projects continued to reduce manual processes and improve controls. • Power supply, management equipment and infrastructure were upgraded for key facilities with completion of upgrade planned for 2018. • Continued to review risk mitigation strategies to combat cybercrime to ensure that controls are adequate and effective. • Refined processes, and improved data quality and records management practices. • Information governance committees established in all franchises. • 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. • Refine operational risk appetite to deliver greater value in decision making. • Enhance the use of operational risk management information and analysis. • Embed and automate key risk drivers in the application of risk assessment and management tools. • Address gaps relating to Basel principles for risk data aggregation and reporting. • Embed control testing as part of the responsibilities of the second line of control. • Continue to enhance risk measurement, capital calculation and allocation methods. • Ongoing assessment of risk management and measurement impact (including capital) 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 roll out 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 mitigant 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 practise, policies, frameworks and approached 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
• Deliberations on the FIC Amendment Bill have been concluded and were referred for approval in May 2016. • Public comment on the Financial Sector Regulation Bill was concluded. The bill is currently in the parliamentary process. • The amended Regulations relating to Banks became effective from 1 July 2016. • Public comment on the Financial Markets Amendment Bill will be finalised by the end of August 2016 where after it is expected that the bill, together with ministerial regulations, will be tabled.	• 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. • Ongoing investment in systems, processes and resources to ensure compliance with anti-money laundering and combating the financing of terrorism (AML/CFT) legislation. • 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. • Continue to work closely with regulators and industry on the authenticated collections project, which main objective is to prevent debit order abuse.

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 group 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 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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FIRSTRAND BANK ANNUAL FINANCIAL STATEMENTS

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 or company) 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 International Financial Reporting Standards (IFRS), including interpretations issued by the IFRS Interpretations Committee, the Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, the JSE 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. The directors approve significant changes to accounting policies. There were, however, no changes to accounting policies during the financial year. 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 the internal auditors, nothing has come to the attention of the directors to indicate that the internal controls are inadequate and that the financial records may not be relied on in preparing the annual financial statements 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 budget and flow of funds forecast and the assumptions underlying these 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 light of the current financial position and profitable trading history, the directors are satisfied that the bank has adequate resources to continue in business for the foreseeable future. The going concern basis, therefore, continues to apply and has been adopted in the preparation of the annual financial statements.

It is the responsibility of the bank's independent external auditors, Deloitte & Touche and PricewaterhouseCoopers Inc, to report on the fair presentation of the annual financial statements. These annual financial statements have been audited in terms of section 29(1) of the Companies Act 71 of 2008. Their unmodified report appears on page C6.

The annual financial statements of the bank, which appear on pages C8 to C166 and the summary risk and capital management report, which appears in section B, were approved by the board of directors on 7 September 2016 and are signed on its behalf by:

JP Burger	**HS Kellan**
Chief executive officer	Financial director

Sandton

7 September 2016

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
Chairman, audit committee

Sandton

7 September 2016

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDER OF FIRSTRAND BANK LIMITED

We have audited the financial statements of FirstRand Bank Limited, set out on pages C10 to C166, which comprise the statement of financial position as at 30 June 2016, the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and the notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the financial statements fairly present, in all material respects, the financial position of FirstRand Bank Limited as at 30 June 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Other reports required by the Companies Act

As part of our audit of the financial statements for the year ended 30 June 2016, we have read the directors' report, the Audit committee's report and the company secretary's certification for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements.

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

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 18 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 8 years.

DELOITTE & TOUCHE

Deloitte & Touche

Registered Auditor

Per Partner: Darren Shipp

Johannesburg

7 September 2016

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.

Registered auditor

Director: Francois Prinsloo

Johannesburg

7 September 2016

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

7 September 2016

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 24 of the annual financial statements.

DIVIDENDS

Ordinary cash dividends of R9 981 million were paid during the 2016 financial year (2015: R6 447 million).
Dividends of R219 million were paid on non-cumulative non-redeemable preference shares (2015: R207 million).

OWNERSHIP OF FIRSTRAND BANK LIMITED

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

PROFIT AFTER TAX

Profit after tax amounted to R17 150 million (2015: R15 601 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 25 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, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, and the Companies Act no 71 of 2008.

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. The following revised IFRS was adopted in the current year:

New/revised IFRS	Description of change	Impact on FirstRand bank
IAS 1	The bank has elected to early adopt the amendment to IAS 1 which clarified that materiality applies to the complete set of annual financial statements, including disclosures. In terms of the amendment, including immaterial information in the annual financial statements can negatively impact the usefulness of disclosures.	In order to early adopt the amendment the bank reviewed the annual financial statements to identify areas where disclosures were ineffective; related to immaterial items or considered unnecessary. The following key changes were made to the bank's annual financial statements as a result of the amendment: ➢ the accounting policies have been updated to remove boilerplate disclosures, and describe how the bank has applied IFRS requirements and focus on areas in IFRS where an accounting policy choice is available; ➢ the accounting policy around identifying provisions separately from other liabilities was clarified. Based on materiality the bank also changed its policy on presentation of provisions. Creditors, accruals and provisions are now presented on the statement of financial position in a single line rather than separate lines; ➢ the application of materiality to items resulting in aggregation or deletion of immaterial items in the notes to the annual financial statements; and ➢ changes to the flow of certain notes as well as the inclusion of the risk and capital disclosures required by IFRS in the body of the annual financial statements.

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

1.2 Basis of preparation

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. The total profit for the year is also presented to the chief operating decision maker after certain normalised adjustments are made. These adjustments are not segmented but are processed on a total basis.

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 policy 8.

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 comprehensive income.
Materiality	IFRS 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 in fair value gains or losses. 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)
Group's 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; and
- 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 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 and not as part of insurance 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.

Non-interest revenue recognised in profit or loss	
Net fee and commission income continued	
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;
- 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 and associates;
- 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 and associates.

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 income tax	
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.
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.

Scope	This policy applies to: ➢ advances measured at amortised cost; ➢ investment securities 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 LGD, PD and EAD. 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 and then individually or collectively for financial assets that are not individually significant. If the bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and performs a collective assessment for impairment. Financial assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.
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 as part of operating expenses 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 advances, impairments are recognised through the use of the allowance account method and an impairment charge in the income statement. For fair value advances, the credit valuation adjustment is charged to the income statement through fair value gains or losses and recognised as a change to the carrying value of the asset**.**

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 continued	Loans with a specific expiry date (e.g. term loans etc.) and consumer loans repayable by regular instalments (e.g. mortgage loans and personal loans)	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	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.
	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. Excludes advances extended or renewed as part of the ordinary course of business for similar terms and conditions as the original.	Separately classified as neither past due nor impaired assets and remain classified as such until the terms of the renegotiated contract expire. Non-performing advances cannot be reclassified as renegotiated but current unless the arrears balance has been repaid. Renegotiated advances are considered as part of the collective evaluation of 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, are 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. The advances and investment securities which have been transferred are separately reported. 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	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.
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

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.

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 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.

<table>
<tr><th>Classification</th><th>Measurement</th></tr>
<tr><th colspan="2">Intangible assets</th></tr>
<tr><td>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.</td><td>Cost less accumulated amortisation and any impairment losses.

Amortisation is on a straight line basis over the useful life of the asset.</td></tr>
<tr><th colspan="2">Commodities</th></tr>
<tr><td>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.</td><td>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.</td></tr>
<tr><td>Commodities acquired with a longer term investment intention.</td><td>Lower of cost (using the weighted average method) or net realisable value.</td></tr>
<tr><td>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.</td><td>Fair value through profit or loss.</td></tr>
<tr><th colspan="2">Provisions</th></tr>
<tr><td colspan="2">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.</td></tr>
</table>

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.	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. 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 issued by the bank that meet the definition of liabilities, 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. 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.
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 include general risk reserves, capital redemption reserve funds and insurance contingency reserves required to be held by some of the bank's African operations. These reserves are required by in-country legislation governing these subsidiaries and are calculated based on the requirements outlined in the relevant legislation applicable in the specific jurisdiction.

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.
	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 high quality corporate 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 Defined benefit plans continued	
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 equity settled and cash settled share-based compensation plans for employees and historically disadvantaged individuals and organisations.

Options and share awards granted under equity settled plans are allocated to a share-based payment reserve in equity until such time that the options are revised, vest, are forfeited or exercised, at which point the reserve is transferred to equity (either share capital or retained earnings). 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 CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

8.1 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 27.

8.2 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 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 an investee. 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.
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 consolidates 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 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.

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 none of which currently have hyperinflationary economies.

8.3 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. 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.

8.4 Impairment of financial assets

<table>
<tr><th colspan="2">Impairment of financial assets</th></tr>
<tr><td colspan="2">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.</td></tr>
<tr><th>General</th><th>Available-for-sale equity instruments</th></tr>
<tr><td>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.</td><td rowspan="2">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.</td></tr>
<tr><td>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.</td></tr>
</table>

<table>
<tr><th colspan="2">Impairment of financial assets</th></tr>
<tr><th colspan="2">Advances</th></tr>
<tr><td colspan="2">The bank continuously assesses its credit portfolios for impairment. Significant advances are monitored by the credit committee and impaired according to 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 following:
➢ the probability of default (PD) which is a measure of the expectation of how likely the customer is to default;
➢ the exposure at default (EAD) the expected amount outstanding at the point of default; and
➢ 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.</td></tr>
<tr><th>Performing loans</th><th>Non-performing loans</th></tr>
<tr><td>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.</td><td>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.</td></tr>
</table>

Performing loans	Non-performing loans
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. Based on the results of the sensitivity analysis performed, management is satisfied that the current total provisions held for performing accounts is appropriate.	

8.5 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.

8.6 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, sex, 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; ➢ historical volatility is used as a proxy for future volatility; ➢ 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	2016	2015
Interest and similar income	1.1	**62 712**	51 882
Interest expense and similar charges	1.2	**(27 169)**	(21 653)
Net interest income before impairment of advances		**35 543**	30 229
Impairment of advances	11	**(5 998)**	(4 356)
Net interest income after impairment of advances		**29 545**	25 873
Non-interest revenue	2	**28 863**	29 216
Income from operations		**58 408**	55 089
Operating expenses	3	**(35 035)**	(33 498)
Income before indirect tax		**23 373**	21 591
Indirect tax	4.1	**(763)**	(751)
Profit before income tax		**22 610**	20 840
Income tax expense	4.2	**(5 460)**	(5 239)
Profit for the year		**17 150**	15 601
Attributable to			
Ordinary equityholders		**16 931**	15 394
NCNR preference shareholders		**219**	207
Profit for the year		**17 150**	15 601

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June

R million	2016	2015
Profit for the year	**17 150**	15 601
Items that may subsequently be reclassified to profit or loss		
Cash flow hedges	**118**	(271)
- Gains/(losses) arising during the year	**144**	(569)
- Reclassification adjustments for amounts included in profit or loss	**20**	193
- Deferred income tax	**(46)**	105
Available-for-sale financial assets	**(495)**	(35)
- Losses arising during the year	**(679)**	(40)
- Reclassification adjustments for amounts included in profit or loss	**7**	(20)
- Deferred income tax	**177**	25
Exchange differences on translating foreign operations	**482**	290
- Gains arising during the year	**482**	290
Items that may not subsequently be reclassified to profit or loss		
Remeasurements on defined benefit post-employment plans	**(133)**	1
- (Losses)/gains arising during the year	**(185)**	2
- Deferred income tax	**52**	(1)
Other comprehensive loss for the year	**(28)**	(15)
Total comprehensive income for the year	**17 122**	15 586
Attributable to		
Ordinary equityholders	**16 903**	15 379
NCNR preference shareholders	**219**	207
Total comprehensive income for the year	**17 122**	15 586

STATEMENT OF FINANCIAL POSITION

as at 30 June

R million	Notes	2016	2015
ASSETS			
Cash and cash equivalents	6	**50 997**	53 725
Derivative financial instruments	7	**39 923**	34 112
Commodities	8	**12 514**	7 354
Investment securities	9	**155 825**	133 543
Advances	10	**719 693**	675 387
Accounts receivable	12	**4 561**	4 301
Non-current assets and disposal groups held for sale	13	**-**	125
Current tax asset		**166**	-
Amounts due by holding company and fellow subsidiaries	14	**32 793**	27 318
Property and equipment	15	**13 632**	12 821
Intangible assets	16	**106**	71
Deferred income tax asset	17	**1 369**	1 202
Total assets		**1 031 579**	949 959
EQUITY AND LIABILITIES			
Liabilities			
Short trading positions	18	**14 221**	5 270
Derivative financial instruments	7	**50 624**	40 811
Creditors, accruals and provisions*	19	**12 644**	12 465
Current tax liability		**75**	69
Deposits	20	**826 473**	779 703
Employee liabilities	21	**8 772**	8 848
Other liabilities	22	**5 386**	3 977
Amounts due to holding company and fellow subsidiaries	14	**13 997**	11 836
Tier 2 liabilities	23	**17 468**	11 983
Total liabilities		**949 660**	874 962
Equity			
Ordinary shares	24	**4**	4
Share premium	24	**16 804**	16 804
Reserves		**62 111**	55 189
Capital and reserves attributable to ordinary equityholders		**78 919**	71 997
NCNR preference shares	24	**3 000**	3 000
Total equity		**81 919**	74 997
Total equity and liabilities		**1 031 579**	949 959

** In the prior year, provisions were presented in a separate line on the statement of financial position. The prior year has been restated accordingly.*

STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June

		Ordinary share capital and ordinary equityholders' funds				
R million	Notes	Share capital	Share premium	**Share capital and share premium**	Defined benefit post-employment reserve	Cash flow hedge reserve
Balance as at 1 July 2014		4	15 304	**15 308**	(766)	461
Net proceeds of issue of share capital	24	-	1 500	**1 500**	-	-
Movement in other reserves		-	-	**-**	-	-
Vesting of share-based payments		-	-	**-**	-	-
Equity transactions with fellow subsidiaries		-	-	**-**	-	-
Ordinary dividends		-	-	**-**	-	-
Preference dividends		-	-	**-**	-	-
Total comprehensive income for the year		-	-	**-**	1	(271)
Balance as at 30 June 2015		4	16 804	**16 808**	(765)	190
Net proceeds of issue of share capital	24	-	-	**-**	-	-
Movement in other reserves		-	-	**-**	-	-
Vesting of share-based payments		-	-	**-**	-	-
Equity transactions with fellow subsidiaries		-	-	**-**	-	-
Ordinary dividends		-	-	**-**	-	-
Preference dividends		-	-	**-**	-	-
Total comprehensive income for the year		-	-	**-**	(133)	118
Balance as at 30 June 2016		4	16 804	**16 808**	(898)	308

	Ordinary share capital and ordinary equityholders' funds							
	Share-based payment reserve	Available-for-sale reserve	Foreign currency translation reserve	Other reserves	Retained earnings	**Reserves attributable to ordinary equity-holders**	**NCNR preference shares**	**Total equity**
	465	430	186	1 345	43 635	**45 756**	**3 000**	**64 064**
	-	-	-	-	-	**-**	**-**	**1 500**
	74	-	-	-	-	**74**	**-**	**74**
	(539)	-	-	-	539	**-**	**-**	**-**
	-	-	-	-	427	**427**	**-**	**427**
	-	-	-	-	(6 447)	**(6 447)**	**-**	**(6 447)**
	-	-	-	-	-	**-**	**(207)**	**(207)**
	-	(35)	290	-	15 394	**15 379**	**207**	**15 586**
	-	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**

STATEMENT OF CASH FLOWS

for the year ended 30 June

R million	Notes	2016	2015
Cash flows from operating activities			
Interest and fee and commission receipts		**82 481**	70 597
Trading and other income		**4 297**	3 978
Interest payments		**(26 515)**	(20 776)
Other operating expenses		**(28 614)**	(25 422)
Dividends received		**3 034**	2 128
Dividends paid		**(10 200)**	(6 654)
Cash generated from operating activities		**24 483**	23 851
Movements in operating assets and liabilities		**(31 303)**	(20 295)
- Liquid assets and trading securities		**(21 731)**	(41 225)
- Advances		**(44 027)**	(55 407)
- Deposits		**40 947**	84 756
- Creditors (net of debtors)		**166**	1 395
- Employee liabilities		**(4 809)**	(4 528)
- Other liabilities		**4 364**	1 377
- Taxation paid		**(6 213)**	(6 663)
Net cash (outflow)/inflow generated from operating activities		**(6 820)**	3 556
Cash flows from investing activities			
Acquisition of property and equipment		**(3 243)**	(3 600)
Proceeds on disposal of property and equipment		**448**	424
Acquisition of intangible assets		**(104)**	(36)
Proceeds on disposal of non-current assets held for sale		**125**	-
Net cash outflow from investing activities		**(2 774)**	(3 212)
Cash flows from financing activities			
Proceeds from/(repayment of) other liabilities		**1 290**	(460)
Proceeds from issue of Tier 2 liabilities		**5 485**	499
Proceeds from issue of ordinary shares		**-**	1 500
Net cash inflow from financing activities		**6 775**	1 539
Net (decrease)/increase in cash and cash equivalents		**(2 819)**	1 883
Cash and cash equivalents at the beginning of the year		**53 725**	51 788
Effect of exchange rate changes on cash and cash equivalents		**91**	54
Cash and cash equivalents at the end of the year	6	**50 997**	53 725

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	**2016**	2015
Instruments at fair value	**4 340**	3 020
Instruments at amortised cost	**57 912**	48 390
Hedging instruments	**460**	467
Non-financial instruments	**-**	5
Interest and similar income	**62 712**	51 882
Advances	**54 997**	46 844
- Overdrafts and cash management accounts	**5 748**	4 585
- Term loans	**2 642**	1 897
- Card loans	**3 674**	2 835
- Instalment sales and hire purchase agreements	**14 008**	12 119
- Lease payments receivable	**543**	995
- Property finance	**18 625**	16 168
- Personal loans	**7 287**	6 164
- Preference share agreements	**39**	27
- Investment bank term loans	**4**	-
- Long-term loans to group associates	**13**	8
- Other advances	**2 414**	2 046
Cash and cash equivalents	**1 799**	700
Investment securities	**4 151**	2 807
Unwinding of discounted present value on NPLs	**77**	81
Amounts due by holding company and fellow subsidiaries	**1 221**	970
Other	**467**	480
Interest and similar income	**62 712**	51 882

1 ANALYSIS OF INTEREST INCOME AND INTEREST EXPENSE continued

1.2 Interest expense and similar charges

R million	2016	2015
Instruments at fair value	**(604)**	(722)
Instruments at amortised cost	**(26 085)**	(20 268)
Hedging instruments	**(480)**	(660)
Non-financial instruments	**-**	(3)
Interest expense and similar charges	**(27 169)**	(21 653)
Deposits	**(37 207)**	(29 967)
- Current accounts	**(4 287)**	(3 554)
- Savings deposits	**(182)**	(114)
- Call deposits	**(7 586)**	(5 867)
- Fixed and notice deposits	**(11 376)**	(9 265)
- Negotiable certificates of deposit	**(3 323)**	(2 968)
- Repurchase agreements	**(1 207)**	(726)
- Securities lending	**(437)**	(417)
- Cash collateral and credit linked notes	**(1 751)**	(443)
- Fixed and floating rate notes	**(7 058)**	(6 613)
Tier 2 liabilities	**(1 349)**	(884)
Amounts due to holding company and fellow subsidiaries	**(650)**	(541)
Other	**(961)**	(1 218)
Gross interest expense and similar charges	**(40 167)**	(32 610)
Less: interest reallocated to fair value income	**12 998**	10 957
Interest expense and similar charges	**(27 169)**	(21 653)

2 NON-INTEREST REVENUE

R million	Notes	2016	2015
Fee and commission income		**25 210**	23 403
- Instruments at amortised cost		**19 713**	19 218
- Instruments at fair value		**237**	182
- Non-financial instruments		**5 260**	4 003
Fee and commission expenses		**(3 913)**	(3 394)
Net fee and commission income	2.1	**21 297**	20 009
Held for trading		**1 366**	3 808
Designated at fair value through profit or loss		**1 580**	1 185
Other		**69**	(24)
Fair value gains or losses	2.2	**3 015**	4 969
Designated at fair value through profit or loss		**1 234**	886
Available-for-sale		**37**	59
Other		**46**	(44)
Gains less losses from investing activities	2.3	**1 317**	901
Other non-interest revenue	2.4	**3 234**	3 337
Total non-interest revenue		**28 863**	29 216

2 NON-INTEREST REVENUE continued

2.1 Net fee and commission income

R million	2016	2015
Banking fee and commission income	**21 342**	20 292
- Card commissions	**3 062**	3 342
- Cash deposit fees	**1 752**	1 724
- Commitment fees	**868**	823
- Commissions: bills, drafts and cheques	**611**	707
- Exchange commissions	**1 352**	1 020
- Brokerage income	**184**	101
- Bank charges	**13 513**	12 575
Knowledge-based fee and commission income	**1 337**	976
Management, trust and fiduciary fees	**683**	577
Insurance-related income, including commission	**1 210**	1 045
Fees and commission from service providers	**431**	358
Other non-banking fee and commission income	**207**	155
Fee and commission income	**25 210**	23 403
Transaction processing fees	**(935)**	(820)
Commission paid	**(339)**	(265)
Customer loyalty programmes	**(1 193)**	(981)
Cash sorting, handling and transportation charges	**(678)**	(583)
Card and cheque book related	**(255)**	(279)
ATM commissions paid	**(30)**	(26)
Other	**(483)**	(440)
Fee and commission expenses	**(3 913)**	(3 394)
Net fee and commission income	**21 297**	20 009

2.2 Fair value gains or losses

R million	2016	2015
Dividend income	**2 938**	2 089
Other fair value gains or losses	**77**	2 880
Total fair value gains or losses	**3 015**	4 969

2 NON-INTEREST REVENUE continued

2.3 Gains less losses from investing activities

R million	2016	2015
Gain on investment securities	-	46
Reclassification from other comprehensive income on the derecognition/sale of available-for-sale-assets	(7)	20
Preference share dividends	20	13
Other dividends received	23	25
Reversal of impairment of investment in subsidiaries	34	-
Other gains on derecognition of securitised assets	1 247	797
Total gains less losses from investing activities	**1 317**	901

2.4 Other non-interest revenue

R million	2016	2015
Gain/(loss) on disposal of property and equipment	1	(14)
Recoveries from holding company and fellow subsidiaries	1 356	1 749
Rental income	1 038	899
Income related to direct sale and other operating lease transactions	177	186
- Sales	716	597
- Cost of sales	(691)	(536)
- Other operating lease transactions	152	125
Other income	662	517
Total other non-interest revenue	**3 234**	3 337

3 OPERATING EXPENSES

R million	Notes	2016	2015
Auditors' remuneration		**(288)**	(244)
- Audit fees		**(214)**	(179)
- Fees for other services		**(67)**	(60)
- Prior year under accrual		**(7)**	(5)
Operating lease charges		**(1 189)**	(1 093)
Staff costs		**(20 344)**	(20 079)
- Salaries, wages and allowances		**(13 257)**	(11 558)
- Contributions to employee benefit funds		**(1 819)**	(2 046)
- Defined contribution schemes		**(1 713)**	(1 929)
- Defined benefit schemes	21.1	**(106)**	(117)
- Social security levies		**(292)**	(299)
- Share-based payments	25	**(1 034)**	(2 288)
- Movement in short-term employee benefits liability		**(3 500)**	(3 496)
- Other staff costs		**(442)**	(392)
Other operating costs		**(13 214)**	(12 082)
- Amortisation of intangible assets	16	**(46)**	(50)
- Depreciation of property and equipment	15	**(1 989)**	(1 717)
- Impairments incurred*		**(126)**	(4)
- Impairment loss reversed		**12**	3
- Insurance		**(225)**	(209)
- Advertising and marketing		**(1 025)**	(1 044)
- Maintenance		**(1 070)**	(871)
- Property		**(767)**	(763)
- Computer		**(1 577)**	(1 388)
- Stationery		**(150)**	(158)
- Telecommunications		**(251)**	(264)
- Professional fees		**(1 521)**	(1 259)
- Expenses paid to holding company and fellow subsidiaries	29	**(1 084)**	(850)
- Other operating expenditure		**(3 395)**	(3 508)
Total operating expenses		**(35 035)**	(33 498)

* *During the current 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 8.4 of the critical estimates and assumptions note. The remainder of the impairments recognised in the current 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

	2016			2015		
	Services as directors			Services as directors		
R thousand	FirstRand	Group	Total	FirstRand	Group	Total
Independent non-executive directors paid in ZAR						
VW Bartlett	**1 035**	**262**	**1 297**	952	185	1 137
JJH Bester (retired 3 December 2014)	**-**	**-**	**-**	638	1 269	1 907
G Gelink	**1 191**	**1 160**	**2 351**	972	325	1 297
PM Goss	**868**	**202**	**1 070**	810	269	1 079
NN Gwagwa	**693**	**197**	**890**	623	220	843
WR Jardine	**792**	**84**	**876**	637	111	748
RM Loubser	**2 062**	**1 605**	**3 667**	1 151	876	2 027
EG Mantenge-Sebesho	**822**	**556**	**1 378**	740	495	1 235
BJ van der Ross	**911**	**749**	**1 660**	774	726	1 500
Non-executive directors paid in ZAR						
MS Bomela	**908**	**358**	**1 266**	798	232	1 030
P Cooper (alternative to Paul Harris)	**294**	**80**	**374**	291	195	486
L Crouse (retired 31 March 2016)	**854**	**28**	**882**	972	97	1 069
LL Dippenaar (chairman)	**5 028**	**258**	**5 286**	4 463	237	4 700
JJ Durand	**681**	**63**	**744**	621	93	714
PK Harris	**521**	**44**	**565**	486	48	534
F Knoetze (appointed 1 April 2016)	**134**	**208**	**342**	-	-	-
AT Nzimande	**768**	**80**	**848**	690	195	885
PJ Makosholo (appointed 1 October 2015)	**607**	**382**	**989**	-	-	-
KB Schoeman (resigned 30 September 2015)	**95**	**-**	**95**	555	78	633
Total non-executive directors paid in ZAR	**18 264**	**6 316**	**24 580**	16 173	5 651	21 824
Foreign domiciled independent non-executive directors paid in USD						
USD thousand						
D Premnarayen[1,2]	**305**	**20**	**325**	347	22	369
JH van Greuning	**290**	**290**	**580**	245	254	499

1. *Fees include services in India.*
2. *Disclosure of fees paid to Mr D Premnarayen for services rendered to the group's Indian operations were inadvertently omitted for the periods 2009 to 2015. The above disclosure has been restated with the inclusion of an additional USD216 000 paid for the period to June 2015. The omitted amounts are disclosed as follows: 2009: USD622 253; 2010: USD120 000; 2011: USD118 945; 2012: USD191 682; 2013: USD216 000 and 2014: USD216 000.*

3 OPERATING EXPENSES continued

R thousand	2016	2015	2014	2013	2012
SE Nxasana[1] (retired 30 September 2015)					
Cash package paid during the year	**2 113**	8 056	7 522	7 037	6 614
Retirement contributions paid during the year	**250**	955	891	834	786
Other allowances[2]	**22**	82	75	68	81
Subtotal: guaranteed package	**2 385**	9 093	8 488	7 939	7 481
Performance related in respect of the year[3]	**-**	12 915	10 000	11 460	9 600
Portion of performance related deferred in share awards[4]	**-**	11 415	11 000	6 640	5 400
Subtotal: variable pay	**-**	24 330	21 000	18 100	15 000
Total guaranteed and variable pay	**2 385**	33 423	29 488	26 039	22 481
Value of shares taken up during the year[5]					
Conditional Share Plan/Conditional Incentive Plan	**21 946**	25 358	20 747	18 249	-
Two-year bonus deferral	**12 170**	9 661	8 449	8 833	-
Total value of shares taken up	**34 116**	35 019	29 196	27 082	-
JP Burger[1]					
Cash package paid during the year	**8 461**	7 040	6 591	6 103	5 776
Retirement contributions paid during the year	**978**	1 056	981	915	866
Other allowances[2]	**178**	119	98	156	118
Subtotal: guaranteed package	**9 617**	8 215	7 670	7 174	6 760
Performance related in respect of the year[3]	**13 165**	11 770	9 000	10 440	8 760
Portion of performance related deferred in share awards[4]	**11 165**	10 270	10 000	5 960	4 840
Subtotal: variable pay	**24 330**	22 040	19 000	16 400	13 600
Total guaranteed and variable pay	**33 947**	30 255	26 670	23 574	20 360
Value of shares taken up during the year[5]					
Conditional Share Plan/Conditional Incentive Plan	**17 580**	20 313	15 807	13 687	-
Two-year bonus deferral	**10 924**	8 659	7 540	7 639	-
Total value of shares taken up	**28 504**	28 972	23 347	21 326	-

1. *FirstRand defines its prescribed officers as the group CEO, deputy group CEO, group CFO 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 Stratco and attend board meetings.*
2. *Other allowances includes travel and medical.*
3. *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.*
4. *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 25.*
5. *Value of shares taken up in prior years excludes benefits derived in terms of the share appreciation rights (APR) and BEE staff schemes. Benefits in terms of the APR vested after three years and could be exercised between vesting and expiry after five years. In some cases the benefits derived in terms of the APR schemes represents five years of cumulative value aggregation and has therefore been excluded from the table above (refer to the 2014 annual financial statements). Refer to note 3.2 below for benefits derived in terms of the group's ten-year BEE schemes.*

3 OPERATING EXPENSES continued

R thousand	2016	2015	2014	2013	2012
AP Pullinger[1, 7]					
Cash package paid during the year	**5 433**	2 322	2 174	2 036	1 981
Retirement contributions paid during the year	**1 075**	464	556	407	339
Other allowances[2]	**154**	133	13	122	99
Subtotal: guaranteed package	**6 662**	2 919	2 743	2 565	2 419
Performance related in respect of the year[3]	**11 000**	11 750	15 000	13 200	11 400
Portion of performance related deferred in share awards[4]	**9 000**	10 250	9 000	7 800	6 600
Subtotal: variable pay	**20 000**	22 000	24 000	21 000	18 000
Total guaranteed and variable pay	**26 662**	24 919	26 743	23 565	20 419
Value of shares taken up during the year[5]					
Conditional Share Plan/Conditional Incentive Plan	**13 692**	15 799	12 870	11 406	-
Two-year bonus deferral	**14 296**	11 808	11 408	11 118	-
Total value of shares taken up	**27 988**	27 607	24 278	22 524	-
HS Kellan[1, 6]					
Cash package paid during the year	**4 938**	4 493	4 046	-	-
Retirement contributions paid during the year	**405**	402	362	-	-
Other allowances[2]	**118**	108	98	-	-
Subtotal: guaranteed package	**5 461**	5 003	4 506	-	-
Performance related in respect of the year[3]	**4 937**	4 500	4 416	-	-
Portion of performance related deferred in share awards[4]	**2 938**	3 000	1 944	-	-
Subtotal: variable pay	**7 875**	7 500	6 360	-	-
Total guaranteed and variable pay	**13 336**	12 503	10 866	-	-
Value of shares taken up during the year[5]					
Conditional Share Plan/Conditional Incentive Plan	**9 814**	7 674	-	-	-
Two-year bonus deferral	**2 786**	1 293	-	-	-
Total value of shares taken up	**12 600**	8 967	-	-	-

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2. *Other allowances includes travel and medical.*
3. *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.*
4. *Performance payments deferred as a conditional award in terms of the FirstRand CIP vest two years after the award date. Refer to note 25.*
5. *Value of shares taken up in prior years excludes benefits derived in terms of the APR and BEE staff schemes. Benefits in terms of the APR vested after three years and could be exercised between vesting and expiry after five years. In some cases the benefits derived in terms of the APR schemes represents five years of cumulative value aggregation and has therefore been excluded from the table above (refer to the 2014 annual financial statements). Refer to note 3.2 below for benefits derived in terms of the group's ten-year BEE schemes.*
6. *Prescribed officer appointed 1 October 2013. Emoluments include earnings in prior role from 1 July 2013 to 30 September 2013.*
7. *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	2016	2015	2014	2013	2012
J Formby (CEO RMB)[1, 7]					
Cash package paid during the year	**2 630**	-	-	-	-
Retirement contributions paid during the year	**236**	-	-	-	-
Other allowances[2]	**178**	-	-	-	-
Subtotal: guaranteed package	**3 044**	-	-	-	-
Performance related in respect of the year[3]	**10 625**	-	-	-	-
Portion of performance related deferred in share awards[4]	**8 625**	-	-	-	-
Subtotal: variable pay	**19 250**	-	-	-	-
Total guaranteed and variable pay	**22 294**	-	-	-	-
Value of shares taken up during the year[5]					
Conditional Share Plan/Conditional Incentive Plan	**6 024**	-	-	-	-
Two-year bonus deferral	**9 898**	-	-	-	-
Total value of shares taken up	**15 922**	-	-	-	-
J Celliers (CEO FNB)[1, 6]					
Cash package paid during the year	**5 867**	5 513	4 901	-	-
Retirement contributions paid during the year	**582**	551	490	-	-
Other allowances[2]	**118**	108	122	-	-
Subtotal: guaranteed package	**6 567**	6 172	5 513	-	-
Performance related in respect of the year[3]	**6 625**	5 950	5 400	-	-
Portion of performance related deferred in share awards[4]	**4 625**	4 450	2 600	-	-
Subtotal: variable pay	**11 250**	10 400	8 000	-	-
Total guaranteed and variable pay	**17 817**	16 572	13 513	-	-
Value of shares taken up during the year[5]					
Conditional Share Plan/Conditional Incentive Plan	**13 057**	3 611	-	-	-
Two-year bonus deferral	**2 566**	1 431	-	-	-
Total value of shares taken up	**15 623**	5 042	-	-	-
C de Kock (CEO Wesbank)[1, 6]					
Cash package paid during the year	**3 972**	3 098	2 778	-	-
Retirement contributions paid during the year	**347**	291	266	-	-
Other allowances[2]	**98**	69	71	-	-
Subtotal: guaranteed package	**4 417**	3 458	3 115	-	-
Performance related in respect of the year[3]	**5 000**	4 250	4 200	-	-
Portion of performance related deferred in share awards[4]	**3 000**	2 750	1 800	-	-
Subtotal: variable pay	**8 000**	7 000	6 000	-	-
Total guaranteed and variable pay	**12 417**	10 458	9 115	-	-
Value of shares taken up during the year[5]					
Conditional Share Plan/Conditional Incentive Plan	**6 846**	8 125	-	-	-
Two-year bonus deferral	**2 273**	1 879	-	-	-
Total value of shares taken up	**9 119**	10 004	-	-	-

1. *FirstRand defines its prescribed officers as the group CEO, deputy group CEO, group CFO 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 Stratco and attend board meetings.*
2. *Other allowances includes travel and medical.*
3. *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.*

4. *Performance payments deferred as a conditional award in terms of the FirstRand CIP vest two years after the award date. Refer to note 25.*
5. *Value of shares taken up in prior years excludes benefits derived in terms of the APR and BEE staff schemes. Benefits in terms of the APR vested after three years and could be exercised between vesting and expiry after five years. In some cases the benefits derived in terms of the APR schemes represents five years of cumulative value aggregation and has therefore been excluded from the table above (refer to the 2014 annual financial statements). Refer to note 3.2 below for benefits derived in terms of the group's ten-year BEE schemes.*
6. *Prescribed officer appointed 1 October 2013. Emoluments include earnings in prior role from 1 July 2013 to 30 September 2013.*
7. *Prescribed officer appointed effective 30 September 2015. Emoluments include earnings in prior role from 1 July 2015 to 30 September 2015.*

Benefits derived by executive directors in terms of the long-term incentive schemes are disclosed on pages C56 to C59.

Cash package, retirement contributions and other allowances reflect what was paid to the prescribed officers during the year ended 30 June 2016 although the FirstRand remuneration cycle runs from 1 August to 31 July.

The cash variable pay and variable pay deferred in CIP awards for 2016 reflect the amounts that were allocated to the prescribed officer in respect of the year ended 30 June 2016, however, the cash portion will be paid in future periods in terms of the group's deferral structure shown on pages C97 to C98.

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.

3.1 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	**2 016**	2 015
JP Burger	**2 101**	5 387
JR Formby	**4 071**	-
SE Nxasana	**172**	1 064
AP Pullinger	**2 305**	6 384

3.2 Benefits derived during the prior financial year in respect of the group's ten-year BEE schemes

	2015	
Rand	FirstRand black non-executive directors' scheme	FirstRand black employee share scheme
SE Nxasana	39 415 004	35 629 735
HS Kellan	-	38 980 992

3 OPERATING EXPENSES continued

Prescribed officers' outstanding long-term incentives

	Outstanding long-term incentives				
	2016 (CIP allocation made in September 2015)		2015 (CIP allocation made in September 2014)		
	CIP	**Bonus deferral CIP**	CIP	Special three-year bonus deferral CIP	Bonus deferral CIP
Executive directors					
SE Nxasana (retired 30 September 2015)					
Opening balance (number of shares)	**-**	**-**	324 363	15 909	243 051
Granted/taken up (number of shares)	**-**	**216 013**	-	-	-
Closing balance (number of shares)	**-**	**216 013**	324 363	15 909	243 051
Vesting date	**-**	**21/09/2017**	12/09/2017	12/09/2017	13/09/2016
JP Burger					
Opening balance (number of shares)	**-**	**-**	260 728	15 025	220 956
Granted/taken up (number of shares)	**295 776**	**194 345**	-	-	-
Closing balance (number of shares)	**295 776**	**194 345**	260 728	15 025	220 956
Vesting date	**21/09/2018**	**21/09/2017**	12/09/2017	12/09/2017	13/09/2016
AP Pullinger					
Opening balance (number of shares)	**-**	**-**	204 384	-	198 860
Granted/taken up (number of shares)	**189 236**	**193 967**	-	-	-
Closing balance (number of shares)	**189 236**	**193 967**	204 384	-	198 860
Vesting date	**21/09/2018**	**21/09/2017**	12/09/2017	-	13/09/2016
HS Kellan					
Opening balance (number of shares)	**-**	**-**	121 526	-	42 954
Granted/taken up (number of shares)	**132 465**	**56 770**	-	-	-
Closing balance (number of shares)	**132 465**	**56 770**	121 526	-	42 954
Vesting date	**21/09/2018**	**21/09/2017**	12/09/2017	-	13/09/2016

* The benefits derived in the 2015/2016 financial year has been included in the value of shares taken up during the year under the executive director's and prescribed officer's emoluments.

	Outstanding long-term incentives		Vested long-term incentives*		
	2014 (CIP allocation made in September 2013)		2014 (BCIP allocation made in September 2013)	2013 (CIP allocation made in September 2012)	2014 (CIP allocation made in June 2013)
	CIP	Special CIP	Bonus deferral CIP	CIP	Special CIP
	435 820	-	214 916	432 604	-
	-	-	(214 916)	(432 604)	-
	435 820	-	-	-	-
	15/09/2016	-	10/09/2015	11/09/2015	-
	349 563	87 895	192 907	346 545	-
	-	-	(192 907)	(346 545)	-
	349 563	87 895	-	-	-
	15/09/2016	01/10/2016	10/09/2015	11/09/2015	-
	242 752	-	252 462	269 895	-
	-	-	(252 462)	(269 895)	-
	242 752	-	-	-	-
	15/09/2016	-	10/09/2015	11/09/2015	-
	161 835	-	49 198	136 747	67 700
	-	-	(49 198)	(136 747)	(67 700)
	161 835	-	-	-	-
	15/09/2016	-	10/09/2015	11/09/2015	01/06/2016

3 OPERATING EXPENSES continued

Prescribed officers' outstanding long-term incentives

	Outstanding long-term incentives				
	2016 (CIP allocation made in September 2015)		2015 (CIP allocation made in September 2014)		
	CIP	**Bonus deferral CIP**	CIP	Special three-year bonus deferral CIP	Bonus deferral CIP
Prescribed officers					
J Celliers					
Opening balance (number of shares)	**-**	**-**	181 184	-	57 449
Granted/taken up (number of shares)	**189 236**	**84 210**	-	-	-
Closing balance (number of shares)	**189 236**	**84 210**	181 184	-	57 449
Vesting date	**21/09/2018**	**21/09/2017**	12/09/2017	-	13/09/2016
C De Kock					
Opening balance (number of shares)	**-**	**-**	154 669	-	39 772
Granted/taken up (number of shares)	**141 927**	**52 039**	-	-	-
Closing balance (number of shares)	**141 927**	**52 039**	154 669	-	39 772
Vesting date	**21/09/2018**	**21/09/2017**	12/09/2017	-	13/09/2016
J Formby					
Opening balance (number of shares)	**-**	**-**	64 078	-	141 412
Granted/taken up (number of shares)	**94 618**	**158 485**	-	-	-
Closing balance (number of shares)	**94 618**	**158 485**	64 078	-	141 412
Vesting date	**21/09/2018**	**21/09/2017**	12/09/2017	-	13/09/2016

* The benefits derived in the 2015/2016 financial year has been included in the value of shares taken up during the year under the executive director's and prescribed officer's emoluments.

	Outstanding long-term incentives		Vested long-term incentives*		
	2014 (CIP allocation made in September 2013)		2014 (BCIP allocation made in September 2013)	2013 (CIP allocation made in September 2012)	2014 (CIP allocation made in June 2013)
	CIP	Special CIP	Bonus deferral CIP	CIP	Special CIP
	226 569	-	45 314	143 944	135 400
	-	-	(45 314)	(143 944)	(135 400)
	226 569	-	-	-	-
	15/09/2016	-	10/09/2015	11/09/2015	01/06/2016
	145 651	57 481	40 135	134 948	-
	-	-	(40 135)	(134 948)	-
	145 651	57 481	-	-	-
	15/09/2016	04/04/2017	10/09/2015	11/09/2015	-
	92 732	-	174 782	118 754	-
	-	-	(174 782)	(118 754)	-
	92 732	-	-	-	-
	15/09/2016	-	10/09/2015	11/09/2015	-

4 INDIRECT TAX AND INCOME TAX EXPENSE

	R million	2016	2015
4.1	**Indirect tax**		
	Value added tax (net)	**(763)**	(751)
	Total indirect tax	**(763)**	(751)
4.2	**Income tax expense**		
	South African income tax		
	Current	**(5 436)**	(5 903)
	- Current year	**(5 397)**	(5 917)
	- Prior year adjustment	**(39)**	14
	Deferred income tax	**(16)**	691
	- Current year	**(118)**	725
	- Prior year adjustment	**102**	(34)
	Total South African income tax	**(5 452)**	(5 212)
	Capital gains tax	**-**	(18)
	- Deferred income tax	**(14)**	(18)
	- Tax rate adjustment	**14**	-
	Total capital gains tax	**-**	(18)
	Customer tax adjustment account	**(7)**	(9)
	Other tax provisions	**(1)**	-
	Total income tax expense	**(5 460)**	(5 239)

4 INDIRECT TAX AND INCOME TAX EXPENSE continued

Tax rate reconciliation

%	2016	2015
Standard rate of income tax	**28.0**	28.0
Total tax has been affected by:		
Dividend income	**(4.2)**	(3.6)
Prior year adjustments	**(0.3)**	0.1
Disallowed expenditure	**0.3**	0.5
Other non-deductible items	**0.3**	0.1
Effective rate of tax	**24.1**	25.1

5 ANALYSIS OF ASSETS AND LIABILITIES

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

	2016			
R million	**Held for trading**	**Designated at fair value through profit or loss**	**Held-to-maturity**	
ASSETS				
Cash and cash equivalents	**-**	**-**	**-**	
Derivative financial instruments	**38 737**	**-**	**-**	
Investment securities	**37 648**	**49 956**	**12 093**	
Advances	**-**	**198 562**	**14**	
Accounts receivable	**-**	**-**	**-**	
Non-current assets and disposal groups held for sale	**-**	**-**	**-**	
Amounts due by holding company and fellow subsidiaries	**383**	**-**	**-**	
Non-financial assets	**-**	**-**	**-**	
Total assets	**76 768**	**248 518**	**12 107**	

	2015			
R million	Held for trading	Designated at fair value through profit or loss	Held-to-maturity	
Cash and cash equivalents	-	-	-	
Derivative financial instruments	33 419	-	-	
Investment securities	33 962	57 454	-	
Advances	-	194 437	16	
Accounts receivable	-	-	-	
Non-current assets and disposal groups held for sale	-	-	-	
Amounts due by holding company and fellow subsidiaries	295	-	-	
Non-financial assets	-	-	-	
Total assets	67 676	251 891	16	

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**
	4	**56 124**	**-**	**-**	**155 825**	**74 142**	**81 683**
	521 117	**-**	**-**	**-**	**719 693**	**255 558**	**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**

2015							
	Loans and receivables	Available-for-sale financial assets	Derivatives designated as hedging instruments	Non-financial instruments	Total carrying value	Current	Non-current
	53 725	-	-	-	53 725	53 725	-
	-	-	693	-	34 112	31 903	2 209
	192	41 935	-	-	133 543	64 686	68 857
	480 915	19	-	-	675 387	232 371	443 016
	2 715	-	-	1 586	4 301	3 122	1 179
	-	-	-	125	125	125	-
	27 023	-	-	-	27 318	14 112	13 206
	-	-	-	21 448	21 448	7 354	14 094
	564 570	41 954	693	23 159	949 959	407 398	542 561

5 ANALYSIS OF ASSETS AND LIABILITIES continued

R million	2016 Held for trading	2016 Designated at fair value through profit or loss	2016 Financial liabilities at amortised cost	
LIABILITIES				
Short trading positions	**14 221**	**-**	**-**	
Derivative financial instruments	**49 812**	**-**	**-**	
Creditors, accruals and provisions	**-**	**-**	**7 540**	
Deposits	**-**	**101 320**	**725 153**	
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**	

R million	2015 Held for trading	2015 Designated at fair value through profit or loss	2015 Financial liabilities at amortised cost	
Short trading positions	5 270	-	-	
Derivative financial instruments	40 317	-	-	
Creditors, accruals and provisions	-	-	5 236	
Deposits	-	96 980	682 723	
Other liabilities	-	3 348	629	
Amounts due to holding company and fellow subsidiaries	135	-	11 701	
Tier 2 liabilities	-	-	11 983	
Non-financial liabilities	-	-	-	
Total liabilities	45 722	100 328	712 272	

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**	**12 644**	**10 125**	**2 519**
	-	**-**	**826 473**	**683 615**	**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**

2015					
	Derivatives designated as hedging instruments	Non-financial instruments	Total carrying value	Current	Non-current
	-	-	5 270	5 270	-
	494	-	40 811	36 854	3 957
	-	7 229	12 465	10 169	2 296
	-	-	779 703	645 824	133 879
	-	-	3 977	835	3 142
	-	-	11 836	10 327	1 509
	-	-	11 983	101	11 882
	-	8 917	8 917	5 140	3 777
	494	16 146	874 962	714 520	160 442

6 CASH AND CASH EQUIVALENTS

R million	2016	2015
Coins and bank notes	**6 989**	7 356
Money at call and short notice	**24 823**	28 184
Balances with central banks	**19 185**	18 185
Total cash and cash equivalents	**50 997**	53 725
Mandatory reserve balances included above	**19 267**	18 223

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 27.

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 of commodity futures used to hedge the price risk associated with physical commodity positions and interest rate swaps used to hedge the fair value risk associated with changes in interest rates. The following amounts were recognised in profit or loss for the year:

R million	2016	2015
Gains/(losses) for the year arising from the change in fair value of fair value hedges		
On hedging instruments	**226**	(552)
On hedged items attributable to the hedged risk	**(152)**	530
Total	**74**	(22)

7 DERIVATIVE FINANCIAL INSTRUMENTS continued

Cash flow hedges

The bank raises funding and holds assets that bear interest at variable and fixed rates. This mix of interest rates in the bank's assets and liabilities exposes the bank to interest rate risk. Changes in the market interest rates have an impact on the bank's profit or loss. The bank has hedges in place to manage this risk. These hedges are accounted for as cash flow hedges.

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

The bank uses the following derivatives as hedging instruments:

- forward rate agreements are negotiated interest rate futures that call for cash settlement at a future date for the difference between the contractual and market rates of interest, based on a notional principal amount; and
- interest rate swaps are commitments to exchange one set of cash flows for another, resulting in the economic exchange of interest rates (for example fixed rate for floating rate). No exchange of principal takes place.

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

R million	**2016**	2015
Hedge ineffectiveness recognised in profit or loss (net of tax)	**(4)**	10

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

	2016		2015	
R million	**Assets**	**Liabilities**	Assets	Liabilities
0 - 3 months	**24**	**(40)**	31	5
4 - 12 months	**147**	**(269)**	100	(87)
1 - 5 years	**282**	**(543)**	128	(430)
Over 5 years	**8**	**(76)**	84	(93)
Total	**461**	**(928)**	343	(605)

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

	2016		2015	
R million	**Assets**	**Liabilities**	Assets	Liabilities
0 - 3 months	**(53)**	**26**	(5)	26
4 - 12 months	**(273)**	**158**	(87)	106
1 - 5 years	**(514)**	**292**	(433)	123
Over 5 years	**(69)**	**5**	(78)	83
Total	**(909)**	**481**	(603)	338

7 DERIVATIVE FINANCIAL INSTRUMENTS continued

Derivative financial instruments - Assets

R million	2016 Notional	2016 Fair value	2015 Notional	2015 Fair value
Qualifying for hedge accounting				
Cash flow hedges	**80 923**	**852**	45 003	528
- Interest rate derivatives	**80 923**	**852**	45 003	528
Fair value hedges	**25 691**	**334**	19 814	165
- Interest rate derivatives	**23 991**	**334**	17 298	165
- Commodity derivatives	**1 700**	**-**	2 516	-
Held for trading	**7 784 190**	**38 737**	7 128 986	33 419
- Currency derivatives	**277 181**	**12 223**	240 466	5 954
- Interest rate derivatives	**7 370 161**	**23 349**	6 790 281	23 889
- Equity derivatives	**84 964**	**2 290**	68 761	2 885
- Commodity derivatives	**29 923**	**602**	14 176	601
- Energy derivatives	**3 898**	**162**	38	-
- Credit derivatives	**18 063**	**111**	15 264	90
Total derivative assets	**7 890 804**	**39 923**	7 193 803	34 112
Exchange traded	**43 935**	**62**	14 048	85
Over the counter	**7 846 869**	**39 861**	7 179 755	34 027
Total derivative assets	**7 890 804**	**39 923**	7 193 803	34 112

Derivative financial instruments - Liabilities

R million	2016 Notional	2016 Fair value	2015 Notional	2015 Fair value
Qualifying for hedge accounting				
Cash flow hedges	**56 105**	**469**	58 423	350
- Interest rate derivatives	**56 105**	**469**	58 423	350
Fair value hedges	**41 432**	**343**	14 543	144
- Interest rate derivatives	**41 432**	**343**	14 543	144
Held for trading	**7 873 617**	**49 812**	7 351 256	40 317
- Currency derivatives	**243 395**	**20 613**	294 361	11 893
- Interest rate derivatives	**7 530 297**	**22 892**	6 977 995	24 096
- Equity derivatives	**55 418**	**5 052**	50 105	4 092
- Commodity derivatives	**36 521**	**893**	24 303	164
- Energy derivatives	**3 451**	**134**	764	3
- Credit derivatives	**4 535**	**228**	3 728	69
Total derivative liabilities	**7 971 154**	**50 624**	7 424 222	40 811
Exchange traded	**45 447**	**66**	52 261	42
Over the counter	**7 925 707**	**50 558**	7 371 961	40 769
Total derivative liabilities	**7 971 154**	**50 624**	7 424 222	40 811

Refer to note 29 for information on related party derivatives.

8 COMMODITIES

R million	2016	2015
Agricultural commodities	**1 518**	1 406
Gold	**10 996**	5 948
Total commodities	**12 514**	7 354

9 INVESTMENT SECURITIES

R million	2016	2015
Negotiable certificates of deposit	**367**	1 703
Treasury bills	**20 703**	22 345
Other government and government guaranteed stock	**62 694**	56 781
Other dated securities	**58 105**	38 352
Other undated securities	**10**	509
Equities	**13 841**	13 738
Other	**105**	115
Total investment securities	**155 825**	133 543
Analysis of investment securities		
- Equities	**13 841**	13 738
- Debt	**141 984**	119 805
Total investment securities	**155 825**	133 543

R44 076 million (2015: R40 219 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	2016	2015	2016	2015
Repurchase agreements	**21 108**	18 655	**20 048**	17 893

10 ADVANCES

R million	Notes	2016	2015
Notional value of advances		**732 560**	686 848
Contractual interest suspended		**(1 468)**	(1 371)
Gross value of advances		**731 092**	685 477
Category analysis			
Overdrafts and cash management accounts		**61 696**	52 608
Term loans		**35 375**	30 858
Card loans		**23 307**	20 765
Instalment sales and hire purchase agreements		**146 311**	136 279
Lease payments receivable		**4 979**	5 715
Property finance		**203 688**	194 207
Personal loans		**33 274**	28 697
Preference share agreements		**36 376**	30 034
Assets under agreement to resell		**42 451**	40 066
Investment bank term loans		**117 333**	122 249
Long-term loans to associates		**285**	176
Other		**26 017**	23 823
Gross value of advances		**731 092**	685 477
Impairment of advances	11	**(11 399)**	(10 090)
Net advances		**719 693**	675 387

10 ADVANCES continued

Analysis of instalment sale, hire purchase and lease payments receivable

	2016			2015		
	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	**53 580**	**(10 733)**	**42 847**	44 102	(8 876)	35 226
Between 1 and 5 years	**128 880**	**(28 200)**	**100 680**	126 566	(26 247)	100 319
More than 5 years	**10 478**	**(2 666)**	**7 812**	8 579	(1 998)	6 581
Sub-total	**192 938**	**(41 599)**	**151 339**	179 247	(37 121)	142 126
Less: interest in suspense			**(49)**			(132)
Total net instalment sales, hire purchase and lease payments receivable			**151 290**			141 994

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 R67 million (2015: R123 million).

Transfers and derecognition of advances in structured transactions

Transfers without derecognition

Conduit transactions

Advances with the carrying amount of R5 841 million (2015: R5 826 million) have been transferred in terms of conduit transactions. Associated liabilities of Rnil (2015: R5 826 million) have been recognised for cash received and included in deposits. During the current 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.

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 MotoNovo finance lease receivables (Turbo Finance 3, 4, 5, 6 and MotoHouse).

10 ADVANCES continued

The following bankruptcy remote structured entities were created to facilitate traditional securitisation transactions for WesBank retail instalment sale advances (Nitro 4 and Nitro 5) and MotoNovo (Turbo Finance 3, 4, 5, 6 and MotoHouse) finance lease receivables.

Name of securitisation	Established	Initial transaction value	Carrying value of assets		Carrying value of liabilities	
			2016	2015	**2016**	2015
Nitro 4	August 2011	R4 billion	**-**	12	**-**	12
Nitro 5	June 2015	R2.4 billion	**1 475**	2 475	**1 475**	2 475
Turbo Finance 3	November 2012	GBP326 million	**-**	890	**-**	851
Turbo Finance 4	November 2013	GBP374 million	**2 499**	5 595	**2 496**	5 571
Turbo Finance 5	September 2014	GBP420 million	**5 980**	9 075	**6 014**	9 041
Turbo Finance 6	February 2016	GBP392 million	**8 729**	-	**8 695**	-
MotoHouse	July 2015	GBP295 million	**6 675**	-	**6 645**	-

In the current year, both the Turbo Finance 3 and Nitro 4 transactions were wound up and the notes were called and settled.

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

- indirect credit risk as a result of any notes held by the bank;
- liquidity and funding risk on any potential repurchase of the transferred assets in terms of a clean-up call or SARB approved asset repurchase;
- operational risk related to the servicing of the transferred assets; and
- interest rate or other risk through derivatives held with the 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 subsequent 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 about the continuing involvement in transferred financial assets which have been derecognised in their entirety.

Type of continuing involvement R million	Carrying amount of continuing involvement recognised in the statement of financial position (2016) Assets	Liabilities	Fair value of continuing involvement (2016) Assets	Liabilities	Maximum exposure to loss (2016)
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**

Type of continuing involvement R million	Carrying amount of continuing involvement recognised in the statement of financial position (2015) Assets	Liabilities	Fair value of continuing involvement (2015) Assets	Liabilities	Maximum exposure to loss (2015)
Traditional securitisation transactions					
Derivative financial instruments	49	-	49	-	2 429
Investment securities and other investments	2 853	-	2 853	-	2 853
Other structured transactions					
Investment securities and other investments	2 189	-	2 189	-	2 189
Total	5 091	-	5 091	-	7 471

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 an investment 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.

	2016			2015		
	Type of continuing involvement			Type of continuing involvement		
R million	Traditional securitisation transactions	Other structured transactions	Total	Traditional securitisation transactions	Other structured transactions	Total
Gain at date of transfer	1 387	-	1 387	1 418	-	1 418
Income recognised from continuing involvement	761	62	823	389	49	438
- for the current period	287	29	316	174	9	183
- cumulative	474	33	507	215	40	255

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.

	2016			2015		
	Type of continuing involvement			Type of continuing involvement		
R million	Traditional securitisation transactions	Other structured transactions	Total	Traditional securitisation transactions	Other structured transactions	Total
Total undiscounted cash outflows	21 499	-	21 499	15 518	-	15 518
- Call	10	-	10	10	-	10
- 1 to 3 months	39	-	39	32	-	32
- 4 to 12 months	710	-	710	545	-	545
- 1 to 5 years	20 735	-	20 735	14 931	-	14 931
- Over 5 years	5	-	5	-	-	-

11 IMPAIRMENT OF ADVANCES

R million	FNB Retail	FNB Commercial	RMB Investment banking	RMB Corporate banking
Analysis of movement in impairment of advances per class of advance				
Balance as at 1 July 2014	4 053	1 061	231	252
Amounts written off	(2 982)	(266)	-	(35)
Acquisitions of business	-	-	-	-
Transfers (to)/from other divisions	(35)	68	(228)	263
Reclassifications	-	-	-	-
Exchange rate difference	7	-	9	-
Unwinding of discounted present value on NPLs	(70)	(2)	-	-
Net new impairments created/(released)	2 984	395	(9)	177
Balance as at 30 June 2015	3 957	1 256	3	657
(Increase)/decrease in impairment	(2 984)	(395)	9	(177)
Recoveries of bad debts previously written off	1 221	30	-	-
Impairment loss recognised in profit or loss	(1 763)	(365)	9	(177)
Opening balance as at 1 July 2015	**3 957**	**1 256**	**3**	**657**
Amounts written off	**(3 243)**	**(274)**	**(92)**	**(6)**
Acquisitions of business	**-**	**-**	**-**	**-**
Transfers from/(to) other divisions	**-**	**-**	**2**	**(2)**
Reclassifications	**-**	**-**	**-**	**-**
Exchange rate difference	**9**	**-**	**-**	**-**
Unwinding of discounted present value on NPLs	**(59)**	**(2)**	**-**	**-**
Net new impairments created	**4 018**	**437**	**257**	**162**
Balance as at 30 June 2016	**4 682**	**1 417**	**170**	**811**
(Increase)/decrease in impairment	**(4 018)**	**(437)**	**(257)**	**(162)**
Recoveries of bad debts previously written off	**1 235**	**40**	**-**	**-**
Impairment loss recognised in profit or loss	**(2 783)**	**(397)**	**(257)**	**(162)**

	WesBank	FCC and other	Total impairment	Specific impairment	Portfolio impairment
	2 595	1 347	9 539	4 995	4 544
	(2 302)	(1)	(5 586)	(5 586)	-
	14	-	14	12	2
	(69)	1	-	-	-
	-	-	-	50	(50)
	6	-	22	7	15
	(8)	-	(80)	(80)	-
	2 932	(298)	6 181	5 841	340
	3 168	1 049	10 090	5 239	4 851
	(2 932)	298	(6 181)	(5 841)	(340)
	574	-	1 825	1 825	-
	(2 358)	298	(4 356)	(4 016)	(340)
	3 168	**1 049**	**10 090**	**5 239**	**4 851**
	(2 835)	**(1)**	**(6 451)**	**(6 451)**	**-**
	(23)	**-**	**(23)**	**(23)**	**-**
	-	**-**	**-**	**-**	**-**
	-	**-**	**-**	**86**	**(86)**
	(3)	**-**	**6**	**7**	**(1)**
	(16)	**-**	**(77)**	**(77)**	**-**
	3 275	**(295)**	**7 854**	**7 462**	**392**
	3 566	**753**	**11 399**	**6 243**	**5 156**
	(3 275)	**295**	**(7 854)**	**(7 462)**	**(392)**
	581	**-**	**1 856**	**1 856**	**-**
	(2 694)	**295**	**(5 998)**	**(5 606)**	**(392)**

12 ACCOUNTS RECEIVABLE

R million	2016	2015
Items in transit	**1 454**	1 807
Interest and commission accrued	**165**	118
Prepayments	**1 149**	754
Sundry debtors	**748**	743
Fair value hedge interest rate component	**186**	163
Other accounts receivable	**859**	716
Total accounts receivable	**4 561**	4 301

13 NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE

R million	2016	2015
Non-current assets held for sale		
Advances	**-**	125
Total non-current assets held for sale	**-**	125

Non-current assets held for sale in 2015

Advances

As part of the overall restructure of the RMB resources business, the bank met the IFRS 5 requirements to classify advances of R125 million as held for sale. The sale was finalised in the 2016 financial year.

14 AMOUNTS DUE (TO)/BY HOLDING COMPANY AND FELLOW SUBSIDIARIES

R million	**2016**	2015
Amounts due by holding company	**-**	-
Amounts due by fellow subsidiaries	**32 793**	27 318
Total amounts due by holding company and fellow subsidiaries	**32 793**	27 318
Amounts due to holding company	**(255)**	(291)
Amounts due to fellow subsidiaries	**(13 742)**	(11 545)
Total amounts due to holding company and fellow subsidiaries	**(13 997)**	(11 836)
Net amounts due by holding company and fellow subsidiaries	**18 796**	15 482

These loans have no fixed terms of repayment and carry varying rates of interest. Loans to fellow subsidiaries amounting to R352 million (2015: R263 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**
2016				
Derivative financial instruments	**19 540**	**383**	**(23 285)**	**(319)**
2015				
Derivative financial instruments	19 574	295	(24 851)	(135)

15 PROPERTY AND EQUIPMENT

R million	Property				
	Freehold property	Leasehold premises	Computer equipment	Other equipment	Total
Net book value as at 1 July 2014	4 802	2 016	1 975	2 576	11 369
- Cost	5 730	3 091	4 983	4 449	18 253
- Accumulated depreciation	(928)	(1 075)	(3 008)	(1 873)	(6 884)
Movement for the year	582	2	660	208	1 452
- Acquisitions	746	277	1 363	1 214	3 600
- Disposals	(11)	(19)	(4)	(404)	(438)
- Exchange rate difference	-	1	1	2	4
- Depreciation charge for the year	(152)	(254)	(712)	(599)	(1 717)
- Impairments reversed	-	-	-	3	3
- Transfers	(1)	(3)	12	(8)	-
Net book value as at 30 June 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	**-**	**-**	**-**	**-**	**-**
- Transfers	**-**	**-**	**-**	**-**	**-**
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)**

16 INTANGIBLE ASSETS

	Goodwill	Software development cost	Trademarks	Other	Total
Carrying amount as at 1 July 2014	-	84	-	-	84
- Cost	104	932	70	96	1 202
- Accumulated amortisation	(104)	(848)	(70)	(96)	(1 118)
Movements for the year	-	(13)	-	-	(13)
- Acquisitions	-	36	-	-	36
- Amortisation for the year	-	(50)	-	-	(50)
- Impairments recognised	-	-	-	-	-
- Other	-	1	-	-	1
Carrying amount as at 30 June 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)**
- Other	**-**	**-**	**-**	**-**	**-**
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)**

17 DEFERRED INCOME TAX

Movement on the deferred income tax account is shown below.

R million	2016	2015
Deferred income tax asset		
Opening balance	**1 202**	400
Recognised in profit or loss	**(16)**	673
Deferred income tax on amounts charged directly to other comprehensive income	**183**	129
Total deferred income tax asset	**1 369**	1 202

The deferred income tax asset and deferred income tax charged/released to profit or loss are attributable to the items below.

R million	2016	2015
Deferred income tax asset		
Tax losses	**102**	133
Provision for loan impairment	**725**	776
Provision for post-employment benefits	**328**	247
Other provisions	**638**	922
Cash flow hedges	**(120)**	(74)
Instalment credit assets	**(138)**	(469)
Accruals	**(63)**	(93)
Available-for-sale securities	**67**	(110)
Capital gains tax	**70**	70
Other	**(240)**	(200)
Total deferred income tax asset	**1 369**	1 202

The bank has not recognised a deferred tax asset amounting to R117 million (2015: R93 million) relating to capital gains tax losses.

18 SHORT TRADING POSITIONS

R million	2016	2015
Government and government guaranteed	**14 177**	5 232
Other dated securities	**44**	38
Total short trading positions	**14 221**	5 270

19 CREDITORS, ACCRUALS AND PROVISIONS

R million	2016	2015
Sundry creditors	**4 061**	3 958
Net unclaimed balances	**141**	148
Fair value hedge interest rate component	**220**	-
Other accounts payable	**4 393**	4 686
Withholding tax for employees	**427**	392
Deferred income	**1 380**	1 146
Operating lease liability arising from straight lining of lease payments	**92**	86
Payments received in advance	**254**	225
Accrued interest	**157**	101
Accrued expenses	**1 310**	1 424
Audit fees accrued	**78**	50
Provisions (including litigation and claims)	**131**	249
Total creditors, accruals and provisions	**12 644**	12 465

Reconciliation of provisions

R million	2016	2015
Opening balance	**249**	343
Exchange rate differences	**-**	1
Charge to profit or loss	**26**	118
- Additional provisions created	**91**	155
- Unused provisions reversed	**(65)**	(37)
Utilised	**(144)**	(213)
Closing balance	**131**	249

20 DEPOSITS

R million	2016	2015
Category analysis		
Current accounts	**174 213**	165 128
Savings accounts	**8 397**	7 318
Call deposits	**161 826**	140 784
Fixed and notice deposits	**246 881**	229 010
Negotiable certificates of deposit	**57 638**	49 927
Repurchase agreements	**35 868**	27 323
Securities lending	**4 726**	7 845
Credit-linked notes and cash collateral	**27 107**	24 999
Fixed and floating rate notes	**86 160**	102 577
Other	**23 657**	24 792
Total deposits	**826 473**	779 703

21 EMPLOYEE LIABILITIES AND RELATED ASSETS

R million	Notes	2016	2015
Liability for short-term employee benefits		**5 355**	5 004
Share-based payment liability		**2 230**	2 955
Defined benefit post-employment liability	21.1	**1 172**	885
Other long-term employee liabilities		**15**	4
Defined contribution post-employment liability	21.2	**-**	-
Total employee liabilities		**8 772**	8 848

21 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

21.1 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 fund (the fund) has been established. The fund 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 member. There are also a small number of active members whose benefits are calculated 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 contributing 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.

21 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.

21 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.

21 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

Details of the defined benefit plan assets and fund liability are below.

		2016			2015		
R million	Notes	Pension	Medical	Total	Pension	Medical	Total
Post-employment benefit fund liability							
Present value of funded obligation		**9 424**	**3 363**	**12 787**	9 449	3 171	12 620
Fair value of plan assets		**(9 586)**	**(2 191)**	**(11 777)**	(9 645)	(2 286)	(11 931)
- Listed equity instruments		**(2 460)**	**-**	**(2 460)**	(2 116)	-	(2 116)
- Cash and cash equivalents		**(400)**	**-**	**(400)**	(386)	-	(386)
- Debt instruments		**(3 656)**	**-**	**(3 656)**	(6 690)	-	(6 690)
- Derivatives		**(6)**	**-**	**(6)**	(2)	-	(2)
- Qualifying Insurance policy		**-**	**(2 191)**	**(2 191)**	-	(2 286)	(2 286)
- Other		**(3 064)**	**-**	**(3 064)**	(451)	-	(451)
Total employee (asset)/liability		**(162)**	**1 172**	**1 010**	(196)	885	689
Limitation imposed by IAS 19 asset ceiling		**162**	**-**	**162**	196	-	196
Total net post-employment liability		**-**	**1 172**	**1 172**	-	885	885
Total amount recognised in the income statement (included in staff costs)	**3**	**(12)**	**118**	**106**	(28)	145	117
Movement in post-employment benefit fund liability							
Present value opening balance		**-**	**885**	**885**	-	649	649
Current service cost		**5**	**49**	**54**	4	49	53
Net interest		**(17)**	**68**	**51**	(32)	96	64
Remeasurements recognised in OCI		**15**	**170**	**185**	31	(33)	(2)
Benefits paid		**-**	**-**	**-**	-	124	124
Employer contributions		**(2)**	**-**	**(2)**	(2)	-	(2)
Employee contributions		**(1)**	**-**	**(1)**	(1)	-	(1)
Closing balance		**-**	**1 172**	**1 172**	-	885	885

21 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

	2016			2015		
R million	Pension	Medical	Total	Pension	Medical	Total
Movement in the fair value of plan assets:						
Opening balance	9 645	2 286	11 931	9 725	2 381	12 106
Interest income	824	217	1 041	848	180	1 028
Remeasurements recognised in OCI	(264)	(168)	(432)	(352)	(18)	(370)
Employer contributions	2	-	2	2	-	2
Employee contributions	1	-	1	1	-	1
Benefits paid and settlements	(622)	(144)	(766)	(579)	(257)	(836)
Closing balance	9 586	2 191	11 777	9 645	2 286	11 931
Reconciliation of limitation imposed by IAS 19 asset ceiling:						
Opening balance	196	-	196	356	-	356
Interest income	17	-	17	32	-	32
Change in the asset ceiling, excluding amounts included in interest	(51)	-	(51)	(192)	-	(192)
Closing balance	162	-	162	196	-	196
The actual return on plan assets was	11%	-		12%	-	
Included in plan assets were the following:						
FirstRand Limited ordinary shares with fair value of	31	-	31	41	-	41
Total exposure to FirstRand	31	-	31	41	-	41

21 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.

	2016		2015	
%	**Pension**	**Medical**	Pension	Medical
The principal actuarial assumptions used for accounting purposes were:				
Expected rates of salary increases %	**8.8**	**-**	8.2	**-**
Long term increase in health cost %	**-**	**8.8**	-	8.2
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)	**1.0**	**60.5**	0.5	55.8
- Effect on the defined benefit obligation (R million)	**7.7**	**499.9**	8.2	482.2
Decrease of 1%				
- Effect on the aggregate of the current service cost and interest cost (R million)	**(0.9)**	**(49.1)**	(0.5)	(45.1)
- Effect on the defined benefit obligation (R million)	**(7.0)**	**(409.2)**	(7.5)	(393.3)
The effects of a change in the average life expectancy of a pensioner retiring at age 65:				
Increase in life expectancy by 10 years				
- Effect on the defined benefit obligation (R million)	**353.2**	**122.4**	349.2	114.9
- Effect on the aggregate of the current service cost and interest cost (R million)	**33.1**	**13.5**	31.0	12.0
Decrease in life expectancy by 10 years				
- Effect on the defined benefit obligation (R million)	**(348.4)**	**(120.8)**	(344.6)	(113.5)
- Effect on the aggregate of the current service cost and interest cost (R million)	**(32.7)**	**(13.4)**	(30.6)	(11.9)
Estimated contributions expected to be paid to the plan in the next annual period (R million)	**4**	**-**	3	-
Net increase in rate used to value pensions, allowing for pension increases (%)	**1.8**	**1.0**	1.8	1.0
The weighted average duration of the defined benefit obligation is (years)	**10.1**	**14.8**	11.0	15.9

21 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	**707**	**3 045**	**36 095**	**39 847**
Post-employment medical benefits	**153**	**770**	**33 282**	**34 205**
Total as 30 June 2016	**860**	**3 815**	**69 377**	**74 052**

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.

21 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

	2016	2015
Pension		
The number of employees covered by the scheme:		
Active members	**33**	37
Pensioners	**6 225**	6 341
Deferred plan participants	**261**	267
Total	**6 519**	6 645
Defined benefit obligation amounts due to:		
Benefits vested at the end of the reporting period (R million)	**9 424**	9 449
- Amounts attributable to future salary increases (R million)	**123**	114
- Other benefits (R million)	**9 301**	9 335
Medical		
The number of employees covered by the scheme:		
Active members	**4 433**	5 042
Pensioners	**5 298**	5 146
Total employees	**9 731**	10 188
Defined benefit obligation amounts due to:		
Benefits vested at the end of the reporting period (R million)	**2 162**	2 000
Benefits accrued but not vested at the end of the reporting period (R million)	**1 201**	1 171
Conditional benefits (R million)	**1 201**	1 171
Other benefits (R million)	**2 162**	2 000

21 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

21.2 Defined contribution post-employment liability

R million	2016	2015
Post-employment defined contribution plan		
Present value of obligation	**17 281**	16 115
Present value of assets	**(17 281)**	(16 115)
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.

22 OTHER LIABILITIES

R million	2016	2015
Finance lease liabilities	**27**	-
Funding liabilities	**5 359**	3 977
- Preference shares	**5 349**	3 977
- Other	**10**	-
Total other liabilities	**5 386**	3 977

23 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	2016	2015
Fixed rate bonds				
- ZAR denominated	21 December 2018 to 2 June 2021	8.5%-12%	**3 336**	2 807
Floating rate bonds			**14 132**	9 176
- ZAR denominated	10 June 2016 to 2 June 2021	Three month JIBAR + 70bps - 350 bps	**11 576**	7 063
- USD denominated	9 April 2019	LIBOR + 415 bps	**2 556**	2 113
Total Tier 2 liabilities			**17 468**	11 983

24 SHARE CAPITAL AND SHARE PREMIUM

24.1 Share capital and share premium classified as equity

R million	2016	2015
Ordinary shares		
Authorised		
2 000 000 shares with a par value of R2 per share	**4**	4
Issued		
1 866 836 (2015: 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 (2015: 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

25 REMUNERATION SCHEMES

R million	Notes	2016	2015
The charge to profit or loss for share-based payments is as follows:			
FirstRand black employee scheme*		**-**	72
FirstRand black non-executive directors scheme*		**-**	2
FirstRand share appreciation rights scheme*		**-**	-
Conditional share plan		**1 034**	2 214
Amount included in profit or loss	**3**	**1 034**	2 288

** These schemes were fully vested on 30 June 2015.*

The purpose of these schemes is to appropriately attract, incentivise and retain managers within the bank.

Maturity of FirstRand's BEE transaction

The staff and director components of FirstRand's 2005 Black Economic Empowerment (BEE) transaction matured on 31 December 2014. This resulted in participants receiving a net benefit valued at R5.4 billion from the vesting of 107.5 million FirstRand ordinary shares and R560 million from the vesting of 17.8 million MMI Holdings Limited (MMI) shares. The shares were held by the FirstRand black employee trust, the FirstRand black non-executive directors trust and the staff assistance trust (the trusts) after purchasing the FirstRand shares in the market in 2005 and receiving the MMI shares pursuant to the unbundling of MMI in 2010.

25 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 conditionally after three years. The number of shares that vest is determined by the extent to which the performance conditions are met. Conditional awards are made annually and vesting is subject to specified financial and non-financial performance set annually by the group's remuneration committee. These corporate performance targets (CPTs) are set out below.
Valuation methodology	The conditional share plan is valued using the Black Scholes option pricing model with a zero strike price. The scheme is cash settled and is therefore repriced at each reporting date.
Valuation assumptions	
Dividend data	Management's estimates of future discrete dividends.
Market related	➢ Volatility is the expected volatility over the period of the plan and historical volatility was used as a proxy for expected volatility; and ➢ The interest rate is the risk free rate of return as recorded on the last day of the financial year, on a swap curve of a term equal to the expected life of the plan.
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.

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 long-term incentive (LTI) allocations during the performance period nor do these accrue to them during the performance period.

25 REMUNERATION SCHEMES continued

The criteria for the expired and currently open schemes are as follows:

Expired schemes

2011 (CPTs met- vested in September 2014) - FirstRand's normalised EPS growth must equal or exceed South African nominal GDP plus 1.5%, measured on a cumulative basis from base year end 30 June 2011 to enable 100% vesting. In addition, NIACC must be positive over the three-year performance period. Should nominal GDP plus 1.5% not be achieved, the committee may sanction a partial vesting of conditional shares, which is calculated *pro rata* to the performance which exceeds nominal GDP.

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 date. In addition, NIACC must be positive over the three-year performance period.

Currently open

2013 (vests in 2016) - FirstRand Limited must achieve growth in normalised EPS which equals or exceeds the 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.

2014 (vests in 2017) - FirstRand Limited must achieve growth in normalised EPS which equals or exceeds the 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 the 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 the 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.

25 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	
	2016	2015
Range of exercise prices (rand)	**-**	-
Expected volatility (%)	**25**	25
Expected option life (years)	**3**	3
Expected risk free rate (%)	**7.36 - 8.06**	4.82 - 7.07

	Conditional share plan (FSR shares)	
Options and share awards outstanding	**2016**	2015
Number of options and share awards in force at the beginning of the year (millions)	**90.7**	105.4
Number of options and share awards granted during the year (millions)	**28.2**	30.5
Number of options and share awards transferred (within the group) during the year (millions)	**(1.3)**	(0.3)
Number of options and share awards exercised/released during the year (millions)	**(33.4)**	(40.2)
- Market value range at date of exercise/release (cents)	**1 851 - 5 631**	3 935 - 5 631
- Weighted average (cents)	**5 056**	4 427
Number of options and share awards cancelled/lapsed during the year (millions)	**(3.5)**	(4.7)
Number of options and share awards in force at the end of the year (millions)	**80.7**	90.7

	Conditional share plan (FSR shares)			
	2016		2015	
Options and share awards outstanding	**Weighted average remaining life (years)**	**Out-standing options (millions)**	Weighted average remaining life (years)	Out-standing options (millions)
	0.29	**31.8**	0.28	28.6
	1.29	**27.9**	1.29	31.7
	2.31	**21.0**	2.28	30.2
	-	**-**	2.59	0.2
Total options and share awards	**-**	**80.7**	-	90.7
Number of participants		**2 794**		2 628

26 CONTINGENCIES AND COMMITMENTS

R million	**2016**	2015
Guarantees	**32 659**	33 319
Letters of credit	**6 485**	5 494
Total contingencies	**39 144**	38 813
Irrevocable commitments	**95 630**	80 044
Committed capital expenditure	**3 702**	4 778
Operating lease commitments	**2 545**	1 971
Other	**153**	160
Total contingencies and commitments	**141 174**	125 766
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.	**75**	218
Commitments		
Commitments in respect of capital expenditure and long-term investments approved by directors	**3 702**	4 778
Guarantees		
Guarantees consist predominantly of endorsements and performance guarantees. Guarantees granted to other FirstRand group companies amount to:	**1 420**	1 377

African Bank Investments Limited (ABIL) contingency

The bank subscribed for R655 million of ordinary shares in the African Bank Holdings Limited, an entity created from the restructuring and resolution of ABIL, as part of a consortium of parties, including the SARB, Government Employees Pension Fund and various other banks, contributing to this capitalisation. This transaction will entitle the bank to 6.55% of the ordinary shares of African Bank Holdings Limited.

26.1 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.

26 CONTINGENCIES AND COMMITMENTS continued

	2016			
R million	Within 1 year	Between 1 and 5 years	More than 5 years	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

	2015			
R million	Within 1 year	Between 1 and 5 years	More than 5 years	Total
Office premises	693	1 226	-	1 919
Equipment and motor vehicles	30	22	-	52
Total operating lease commitments	723	1 248	-	1 971

26.2 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.

	2016			
R million	Within 1 year	Between 1 and 5 years	More than 5 years	Total
Property	20	60	-	80
Motor vehicles	743	1 182	-	1 925
Total receivable under non-cancellable operating leases	763	1 242	-	2 005

	2015			
R million	Within 1 year	Between 1 and 5 years	More than 5 years	Total
Property	22	53	-	75
Motor vehicles	515	645	-	1 160
Total receivable under non-cancellable operating leases	537	698	-	1 235

27 FAIR VALUE MEASUREMENTS

27.1 Valuation methodology

In terms of IFRS, the bank is required to or elects to measure certain assets and liabilities at fair value. The bank has established control frameworks and processes at a franchise level to independently validate its valuation techniques and inputs used to determine its fair value measurements. At a franchise level, technical teams are responsible for the selection, implementation and any changes to the valuation techniques used to determine fair value measurements. Valuation committees comprising representatives from key management have been established 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 technical teams, valuation committees and relevant risk committees annually or more frequently if considered appropriate.

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

Fair value measurements are determined by the bank on both a recurring and non-recurring basis.

Recurring fair value measurements

Recurring fair value measurements include financial assets, financial liabilities and non-financial assets, including commodities that the bank measures at fair value at the end of each reporting period.

Financial instruments

When determining the fair value of a financial instrument, where the financial instruments 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. Although not a requirement, the bank uses the bid price for financial assets or the ask/offer price for financial liabilities where this best represents fair value.

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

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

27 FAIR VALUE MEASUREMENTS continued

Non-financial assets

When determining the fair value of a non-financial asset, a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use, is taken into account. This includes the use of the asset that is physically possible, legally permissible and financially feasible. In determining the fair value of the bank's commodities, the highest and best use of the assets was their current use.

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 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. The fair value for these items is determined by using observable quoted market prices where these are available, such as market prices quoted on BESA, or in accordance with generally acceptable pricing models such as a discounted cash flow analysis. Except for the amounts included under section 27.4, for all other financial instruments at amortised cost the carrying value is equal to or a reasonable approximation of the fair value.

27 FAIR VALUE MEASUREMENTS continued

27.2 Fair value 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. 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. The valuation techniques employed by the bank include, *inter alia*, quoted prices for similar assets or liabilities in an active market, quoted prices for the same asset or liability in an inactive market, adjusted prices from recent arm's length transactions, option-pricing models, and discounted cash flow techniques.

Where a valuation model is applied and the bank cannot mark-to-market, it applies a mark-to-model approach, subject to 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 when making appropriate valuation adjustments.

27 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

27 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. The 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

27 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	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	BESA bond pricing model	The BESA bond pricing model uses the BESA 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)

27 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
Tier 2 liabilities	Discounted cash flows	Future cash flows are discounted using market-related interest rates.	Market interest rates and curves
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

27 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. The 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

27 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

27 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	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 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 are used. The valuation methodology does not take early withdrawals and other behavioural aspects into account.	Credit inputs on related advances

27 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

27 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.

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

27.2.1 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.

	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	**75 709**	**21 629**	**46 390**	**143 728**
Advances	**-**	**43 831**	**154 731**	**198 562**
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**

27 FAIR VALUE MEASUREMENTS continued

	2015			
R million	Level 1	Level 2	Level 3	Total fair value
Assets				
Recurring fair value measurements				
Derivative financial instruments	96	34 011	5	34 112
Investment securities	65 313	39 361	28 677	133 351
Advances	-	40 679	153 777	194 456
Commodities	7 354	-	-	7 354
Amounts due by holding company and fellow subsidiaries	-	295	-	295
Total assets measured at fair value	72 763	114 346	182 459	369 568
Liabilities				
Recurring fair value measurements				
Short trading positions	5 270	-	-	5 270
Derivative financial instruments	51	40 755	5	40 811
Deposits	2 207	93 591	1 182	96 980
Other liabilities	-	3 348	-	3 348
Amounts due to holding company and fellow subsidiaries	-	135	-	135
Total liabilities measured at fair value	7 528	137 829	1 187	146 544

27 FAIR VALUE MEASUREMENTS continued

27.2.2 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.

	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 has become inactive in the current year because of stresses in the macro environment. The market price is therefore not representative of fair value and a valuation technique is applied. Because of credit inputs being unobservable the bonds have been classified 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 out of level 2 of the fair value hierarchy and into level 3.
Total transfers	**2 928**	**(2 928)**	

	2015		
R million	**Transfers in**	**Transfers out**	**Reasons for significant transfer in**
Level 1	-	-	There were no transfers in or out of level 1.
Level 2	6	(4 709)	The transfers into level 2 relates to advances for which the significant inputs into the fair value calculation became observable in the current year.
Level 3	4 709	(6)	Corporate bonds to the value of R4 709 million were transferred into level 3. The market for these bonds is not active and the fair value is determined using a valuation technique that makes use of unobservable inputs for credit. Level 3 of the fair value hierarchy is therefore deemed more appropriate.
Total transfers	4 715	(4 715)	

27 FAIR VALUE MEASUREMENTS continued

27.3 Additional disclosures for level 3 financial instruments

27.3.1 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 2014	1	146 064	5 518	5	952	-
Gains/losses recognised in profit or loss	4	6 801	1 083	4	14	-
Gains/losses recognised in other comprehensive income	-	-	97	-	-	-
Purchases, sales, issues and settlements	-	(367)	17 248	(4)	216	-
Transfers into/(out) of level 3	-	(6)	4 709	-	-	-
Exchange rate differences	-	1 285	22	-	-	-
Balance as at 30 June 2015	5	153 777	28 677	5	1 182	-
Gains/losses recognised in profit or loss	**(6)**	**8 008**	**5 764**	**13**	**15**	**35**
Gains/losses recognised in other comprehensive income	**-**	**-**	**29**	**-**	**-**	**-**
Purchases, sales, issues and settlements	**-**	**(8 953)**	**9 025**	**3**	**(669)**	**1 422**
Transfers into/(out) of level 3	**-**	**-**	**2 821**	**107**	**-**	**-**
Exchange rate differences	**1**	**1 899**	**74**	**-**	**-**	**-**
Balance as at 30 June 2016	**-**	**154 731**	**46 390**	**128**	**528**	**1 457**

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.

27 FAIR VALUE MEASUREMENTS continued

27.3.2 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.

	2016		2015	
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	**-**	**-**	4	-
Advances*	**7 415**	**-**	5 132	-
Investment securities	**5 476**	**29**	937	97
Total	**12 891**	**29**	6 073	97
Liabilities				
Derivative financial instruments	**19**	**-**	4	-
Deposits	**(14)**	**-**	(14)	-
Other liabilities	**-**	**-**	-	-
Total	**5**	**-**	(10)	-

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

27 FAIR VALUE MEASUREMENTS continued

27.3.3 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	Credit migration matrix	The credit migration matrix is used as part of the bank's credit risk management process for the advances measured at fair value through profit or loss. The matrix is a simulation model that contains a matrix of probabilities for downgrading or upgrading to another rating bucket. The migration matrix is based on actual observed rating migrations from S&P over the long term and is based on the fair value in the 75th percentile.
Investment securities	Credit, growth rates and P/E ratios of unlisted investments	Unobservable inputs	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 by 10% and decreased by 1%.

27 FAIR VALUE MEASUREMENTS continued

	2016			2015		
		Reasonably possible alternative fair value			Reasonably possible alternative fair value	
R million	**Fair value**	**Using more positive assumptions**	**Using more negative assumptions**	Fair value	Using more positive assumptions	Using more negative assumptions
Assets						
Derivative financial instruments	**-**	**-**	**-**	5	6	5
Advances	**154 731**	**155 346**	**153 870**	153 777	154 411	151 871
Investment securities	**46 390**	**46 912**	**45 884**	28 677	29 004	28 360
Total financial assets measured at fair value in level 3	**201 121**	**202 258**	**199 754**	182 459	183 421	180 236
Liabilities						
Derivative financial instruments	**128**	**124**	**129**	5	4	5
Deposits	**528**	**478**	**618**	1 182	1 064	1 301
Other liabilities	**1 457**	**1 443**	**1 602**	-	-	-
Total financial liabilities measured at fair value in level 3	**2 113**	**2 045**	**2 349**	1 187	1 068	1 306

27 FAIR VALUE MEASUREMENTS continued

27.4 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.

	2016				
R million	**Carrying value**	**Total fair value**	**Level 1**	**Level 2**	**Level 3**
Assets					
Advances	**521 131**	**525 651**	**-**	**86 363**	**439 288**
Investment securities	**12 097**	**12 083**	**-**	**12 083**	**-**
Total assets at amortised cost	**533 228**	**537 734**	**-**	**98 446**	**439 288**
Liabilities					
Deposits	**725 153**	**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	**743 153**	**743 032**	**7 897**	**734 905**	**230**

	2015				
R million	Carrying value	Total fair value	Level 1	Level 2	Level 3
Assets					
Advances	480 931	483 816	-	86 999	396 817
Investment securities	192	192	-	192	-
Total assets at amortised cost	481 123	484 008	-	87 191	396 817
Liabilities					
Deposits	682 723	682 482	5 159	674 881	2 442
Other liabilities	629	625	-	625	-
Tier 2 liabilities	11 983	12 188	-	12 188	-
Total liabilities at amortised cost	695 335	695 295	5 159	687 694	2 442

27 FAIR VALUE MEASUREMENTS continued

27.5 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	**2016**	2015
Opening balance	**6**	11
Day 1 profits or losses not recognised on financial instruments initially recognised in the current year	**37**	-
Amount recognised in profit or loss as a result of changes which would be observable by market participants	**(5)**	(5)
Closing balance	**38**	6

27.6 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.

27 FAIR VALUE MEASUREMENTS continued

27.6.1 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.

	2016			
			Change in fair value	
			Due to credit risk	
R million	**Carrying value**	**Mitigated credit risk**	**Current period**	**Cumulative**
Advances	**198 562**	**3 452**	**(362)**	**(3 657)**
Investment securities	**29 153**	**-**	**(20)**	**(20)**
Total	**227 715**	**3 452**	**(382)**	**(3 677)**

	2015			
			Change in fair value	
			Due to credit risk	
R million	Carrying value	Mitigated credit risk	Current period	Cumulative
Advances	194 437	3 542	250	(1 996)
Investment securities	35 630	-	(237)	(318)
Total	230 067	3 542	13	(2 314)

Losses are indicated with brackets.

27.6.2 Financial liabilities designated as at fair value through profit or loss

	2016		2015	
R million	**Fair value**	**Contractually payable at maturity**	Fair value	Contractually payable at maturity
Deposits	**101 320**	**114 460**	96 980	111 891
Other liabilities	**4 827**	**4 763**	3 348	3 267
Total	**106 147**	**119 223**	100 328	115 158

28 SEGMENT INFORMATION

28.1 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 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.

28 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.

28.2 Description of normalised adjustments

Normalised adjustments
The bank believes that normalised earnings more accurately reflect its economic performance. 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 headline earning adjustments include reallocation entries where amounts are moved between income statement and balance sheet lines, 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. A description of the normalised adjustments made to IFRS profit or loss for the year when preparing the normalised results is below. This description excludes reallocation entries that have no impact on IFRS earnings reported.

28 SEGMENT INFORMATION continued

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.
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.

The pro forma financial information should be read in conjunction with the unmodified Deloitte & Touche and PricewaterhouseCoopers Inc. independent reporting accountants' reports, which are available for inspection at the company's registered office.

28 SEGMENT INFORMATION continued

28.3 Reportable segments

	2016		
R million	FNB	FNB Africa*	
Net interest income before impairment of advances	22 167	8	
Impairment of advances	(3 182)	2	
Net interest income after impairment of advances	18 985	10	
Non-interest revenue	17 986	621	
Net income from operations	36 971	631	
Operating expenses	(21 427)	(986)	
Income before indirect tax	15 544	(355)	
Indirect tax	(399)	(2)	
Profit before income tax	15 145	(357)	
Income tax expense	(4 241)	100	
Profit for the year	10 904	(257)	
The income statement includes:			
Depreciation	(1 391)	(4)	
Amortisation	(12)	(1)	
Net impairment charge	5	-	
The statement of financial position includes:			
Advances (after ISP - before impairments)	317 431	761	
Total assets	332 172	1 148	
Total liabilities	317 128	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

	2016				
R million	South Africa	United Kingdom	Asia	Other	Total
Net interest income after impairment of advances	29 066	421	58	-	29 545
Non-interest revenue	26 999	1 768	96	-	28 863
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)	Elimination and IFRS adjustments	
	Investment banking	Corporate banking	WesBank			Total
	1 577	1 557	7 847	2 279	108	35 543
	(257)	(162)	(2 694)	-	295	(5 998)
	1 320	1 395	5 153	2 279	403	29 545
	7 523	1 593	3 867	(1 076)	(1 651)	28 863
	8 843	2 988	9 020	1 203	(1 248)	58 408
	(4 731)	(1 881)	(5 249)	(1 202)	441	(35 035)
	4 112	1 107	3 771	1	(807)	23 373
	(83)	(7)	(232)	(40)	-	(763)
	4 029	1 100	3 539	(39)	(807)	22 610
	(1 128)	(308)	(990)	11	1 096	(5 460)
	2 901	792	2 549	(28)	289	17 150
	(103)	(3)	(461)	(26)	(1)	(1 989)
	(6)	-	(22)	(4)	(1)	(46)
	(44)	2	(77)	-	-	(114)
	205 195	34 442	168 992	4 379	(108)	731 092
	339 258	36 269	169 050	173 972	(20 290)	1 031 579
	336 224	34 919	165 582	115 023	(20 723)	949 660

Reconciliation of profit for the year to normalised earnings

R million	2016
Profit for the year (per above)	**17 150**
NCNR preference shareholders	**(219)**
Attributable earnings to ordinary equity holders	**16 931**
Headline earnings adjustments	**28**
Headline earnings to ordinary equityholders	**16 959**
TRS adjustment	**494**
IAS 19 adjustment	**(102)**
Normalised earnings	**17 351**

28 SEGMENT INFORMATION continued

R million	2015 FNB	FNB Africa*
Net interest income before impairment of advances	18 884	4
Impairment of advances	(2 125)	(3)
Net interest income after impairment of advances	16 759	1
Non-interest revenue	17 005	501
Net income from operations	33 764	502
Operating expenses	(19 906)	(824)
Income before indirect tax	13 858	(322)
Indirect tax	(436)	(1)
Profit before income tax	13 422	(323)
Income tax expense	(3 759)	90
Profit for the year	9 663	(233)
The income statement includes:		
Depreciation	(1 206)	(3)
Amortisation	(3)	-
Net impairment charge	(3)	-
The statement of financial position includes:		
Advances (after ISP - before impairments)	293 014	443
Total assets	307 666	579
Total liabilities	294 237	903

* *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

	2015				
R million	South Africa	United Kingdom	Asia	Other	Total
Net interest income after impairment of advances	25 599	200	74	-	25 873
Non-interest revenue	28 421	717	78	-	29 216
Non-current assets *	12 813	53	26	-	12 892

* *Excludes financial instruments, accounts receivable, deferred income tax assets, current tax assets and post-employment benefit assets.*

	2015					
	RMB			FCC (including Group Treasury)	Elimination and IFRS adjustments	
	Investment banking	Corporate banking	WesBank			Total
	1 123	1 286	6 947	1 875	110	30 229
	9	(177)	(2 358)	(27)	325	(4 356)
	1 132	1 109	4 589	1 848	435	25 873
	7 547	1 510	3 182	1 252	(1 781)	29 216
	8 679	2 619	7 771	3 100	(1 346)	55 089
	(4 412)	(1 611)	(4 931)	(2 413)	599	(33 498)
	4 267	1 008	2 840	687	(747)	21 591
	(73)	16	(238)	(22)	3	(751)
	4 194	1 024	2 602	665	(744)	20 840
	(1 176)	(288)	(727)	(185)	806	(5 239)
	3 018	736	1 875	480	62	15 601
	(66)	(3)	(411)	(26)	(2)	(1 717)
	(8)	-	(36)	(2)	(1)	(50)
	-	-	(98)	-	100	(1)
	194 252	33 192	157 982	6 594	-	685 477
	316 633	36 081	157 554	133 323	(1 877)	949 959
	313 381	34 764	154 915	78 774	(2 012)	874 962

Reconciliation of profit for the year to normalised earnings

R million	2015
Profit for the year (per above)	15 601
NCNR preference shareholders	(207)
Attributable earnings to ordinary equity holders	15 394
Headline earnings adjustments	(7)
Headline earnings to ordinary equityholders	15 387
TRS adjustment	(34)
IAS 19 adjustment	(107)
Normalised earnings	15 246

29 RELATED PARTIES

29.1 Balances with related parties

R million	2016	2015
Advances		
Entities that have significant influence over the parent and its subsidiaries	**5 235**	1 274
Own associates	**161**	52
Associates of parent and fellow subsidiaries	**2 886**	3 586
Joint ventures of parent and fellow subsidiaries	**8 892**	6 128
Key management personnel	**49**	122
Accounts receivable		
Associates of parent and fellow subsidiaries	**276**	240
Joint ventures of parent and fellow subsidiaries	**24**	36
Amounts due by holding company and fellow subsidiaries		
Fellow subsidiaries	**32 793**	27 318
Derivative assets		
Entities that have significant influence over the parent and its subsidiaries	**80**	30
Associates of parent and fellow subsidiaries	**435**	1 338
Joint ventures of parent and fellow subsidiaries	**27 073**	26 695
Guarantees received		
Associates of parent and fellow subsidiaries	**-**	5
Investments under co-investment scheme		
Key management personnel	**65**	38
Deposits		
Entities that have significant influence over the parent and its subsidiaries	**4**	177
Associates of parent and fellow subsidiaries	**175**	228
Joint ventures of parent and fellow subsidiaries	**2 602**	1 955
Key management personnel	**266**	128
Accounts payable		
Entities that have significant influence over the parent and its subsidiaries	**2**	2
Associates of parent and fellow subsidiaries	**66**	52
Joint ventures of parent and fellow subsidiaries	**28**	11
Amounts due to holding company and fellow subsidiaries		
Parent	**255**	291
Fellow subsidiaries	**13 742**	11 545
Derivative liabilities		
Entities that have significant influence over the parent and its subsidiaries	**5**	5

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.

29 RELATED PARTIES continued

29.2 Transactions with related parties

R million	2016	2015
Interest received		
Fellow subsidiaries	**1 221**	970
Associates of parent and fellow subsidiaries	**15**	17
Joint ventures of parent and fellow subsidiaries	**420**	342
Key management personnel	**3**	11
Interest paid		
Fellow subsidiaries	**(650)**	(541)
Associates of parent and fellow subsidiaries	**(32)**	(2)
Joint ventures of parent and fellow subsidiaries	**(161)**	(133)
Key management personnel	**(13)**	(1)
Non-interest revenue		
Entities that have significant influence over the parent and their subsidiaries	**216**	100
Fellow subsidiaries	**1 356**	1 749
Own associates	**20**	13
Associates of parent and fellow subsidiaries	**223**	263
Joint ventures of parent and fellow subsidiaries	**939**	1 010
Operating expenses		
Entities that have significant influence over the parent and their subsidiaries	**-**	(14)
Fellow subsidiaries (note 3)	**(1 084)**	(850)
Associates of parent and fellow subsidiaries	**(803)**	(683)
Joint ventures of parent and fellow subsidiaries	**4**	(1)
Dividends (paid)/received		
Parent	**(9 981)**	(6 447)
Net interest return credited in respect of investments under the co-investment scheme		
Key management personnel	**9**	13
Financial consulting fees and other		
Key management personnel	**8**	7
Salaries and other employee benefits		
Key management personnel*	**272**	432
- Salaries and other short-term benefits	**128**	221
- Share based payments	**144**	211

* *The current year benefits are down in the prior year as 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 (2015: R52 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. The prior year deferred compensation has been restated to reflect the amended definition of key management, in line with the changes to governance structures.

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.

29 RELATED PARTIES continued

29.3 Post-retirement benefit fund

Details of transactions between the bank and the bank's post-retirement benefit plan are listed below:

R million	**2016**	2015
Dividend income	**5**	8
Deposits and current accounts held with the bank	**766**	382
Interest expenses	**33**	21

30 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The following new and revised standards and interpretations are applicable to the business of the bank and may have a significant impact on future financial statements. 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 bank but introduce additional disclosures.	Annual periods commencing on or after 1 January 2017
IAS 12 (amended)	**Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)** 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
IFRS 2 (amended)	**Classification and Measurement of Share-Based Payment Transactions (Amendments to IFRS 2)** As a result of work performed 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 for 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 first two amendments will be applied retrospectively while the third amendment will be applied prospectively to any modifications made on or after the adoption date. The bank does not expect the retrospective amendments to have a material impact on the schemes currently in place.	Annual periods commencing on or after 1 January 2018

30 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE continued

Standard	Impact assessment	Effective date
IFRS 9	**Financial Instruments** 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. However, if 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 group 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 still in the early stages and subject to validation it is therefore not possible to provide an accurate indication of what the amount will be.	Annual periods commencing on or after 1 January 2018

30 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE continued

Standard	Impact assessment	Effective date
IFRS 10, IFRS 12 and IAS 28 (amended)	**Investment Entities: Applying the Consolidation Exception** The amendments introduce clarifications to the requirements when applying the consolidation exemption for entities that meet the definition of an investment entity. The amendments will not impact the bank as the bank does not meet the definition of an investment entity.	Annual periods commencing on or after 1 January 2016
IFRS 11 (amended)	**Accounting for acquisitions of Interests in Joint Operations** The IASB has issued an amendment to IFRS 11 to provide guidance on the accounting for acquisitions of interests in joint operations that constitutes a business. The amendment indicates that the acquirer of an interest in a joint operation, in which the activity constitutes a business in terms of IFRS 3, is required to apply all the principles on business combinations accounting in IFRS 3. The amendment is not expected to have an impact on the bank as the bank does not presently have any interests in joint operations.	Annual periods commencing on or after 1 January 2016
IFRS 15	**Revenue** 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 bank is in the process of assessing the impact that IFRS 15 will have on the financial statements. Until the process has been completed, the bank is unable to quantify the expected impact.	Annual periods commencing on or after 1 January 2018

30 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE continued

Standard	Impact assessment	Effective date
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
Annual Improvements	**Improvements to IFRS** The IASB issued the Annual Improvements 2012-2014 Cycle. The annual improvements project includes amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34. 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 bank.	Annual periods commencing on or after 1 January 2016

31 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 8.2 for additional information about the bank's decision not to prepare consolidated financial statements.

31.1 Structured entities

The bank uses structured entities in the ordinary course of business to support its own and customers' financing and investing needs.

Interests in unconsolidated structured entities

The bank has financial interests in a structured entity that exposes the bank to the variable income of that entity without resulting in control. The table below sets out the nature of the relationship and the impact of the relationship on the financial position and performance of the bank.

	Multi Issuer Programme 4 (RF) Limited
Nature of relationship	The bank has established the Multi Issuer Programme 4 (RF) Limited entity on the Multi Issuer Programme. The purpose of the entity is to issue notes to the market. The bank has invested in the majority of the notes alongside other external noteholders and shares in the protective rights. The bank is exposed to the residual margin of the entity extracted through a preference share. The bank or any other noteholders are not able to use their voting power to influence the variable returns that they may earn, as the noteholder voting rights are protective in nature and merely protect the variable lender return without the ability to leverage or improve the return in excess of the original margin. Therefore, without the ability to use the power to influence returns, the bank does not control the entity.

31 INTERESTS IN OTHER ENTITIES continued

The impact on the statement of financial position of the bank is an equity investment in the entity of R100; which exposes the bank to a maximum loss of R100.

Sponsorships of unconsolidated structured entities

The bank has also provided liquidity facilities and credit enhancement facilities to two non-recourse vehicles. The non-recourse vehicles are consolidated by the bank's fellow subsidiary, FRIHL. During the current and prior years, no assets were transferred by the bank to these entities.

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.

31.2 Liquidity facilities

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

R million	Transaction type	2016	2015
Own transaction		**988**	2 619
Indwa	Conduit	**-**	1 294
iVuzi	Conduit	**988**	1 325
Third party transaction	Securitisation	**31**	175
Total facilities provided		**1 019**	2 794

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 Indwa and iVuzi as if the underlying assets were held by the bank.

32 FINANCIAL RISK

Overview of financial risks

The financial instruments recognised on the bank's balance sheet, 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. A description of how the risks arise and the group's objectives, policies and processes for managing these financial risks 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">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 (32.1.1);
➢ information about the quality of credit assets (32.1.2);
➢ exposure to concentration risk (32.1.3); and
➢ credit risk mitigation and collateral held (32.1.4).</td></tr>
</table>

32 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 (32.2.1);
➢ discounted cash flow analysis of total assets and liabilities (32.2.2);
➢ collateral pledged (32.2.3); and
➢ concentration analysis of deposits (32.2.4).</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 and or rates.</td></tr>
<tr><td>Market risk in the trading book (32.3.1) 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 (32.4.1) originates from the differing repricing characteristics of balance sheet transactions, yield curve risk, basis risk and client optionality embedded in the 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 (32.4.2) arises from balances denominated in foreign currencies and bank entities with functional currencies other than ZAR.</td><td>Information about the bank's net structural foreign exposure and the sensitivity of the exposure is presented.</td></tr>
</table>

32 FINANCIAL RISK continued

Overview of financial risks		
Equity investment risk	The risk of an adverse change in the fair value of an investment in a company, fund or listed, unlisted or bespoke financial instruments.	
	Equity investment risk (32.5) arises primarily from equity exposures from investment banking activities in RMB, strategic investments held by WesBank, FNB and FCC.	For equity investment risk, both the exposure and the sensitivity thereof have been presented.

32 FINANCIAL RISK continued

32.1 Credit risk

32.1.1 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 balance sheet represents the maximum exposure to credit risk, before taking into account collateral and other credit enhancements.

R million	2016	2015
On-balance sheet exposures		
Cash and short-term funds	**44 008**	46 369
- Money at call and short notice	**24 823**	28 184
- Balances with central banks	**19 185**	18 185
Gross advances	**731 092**	685 477
- FNB	**318 192**	293 457
- FNB retail	**240 207**	225 867
- FNB commercial*	**77 224**	67 147
- FNB Africa**	**761**	443
- WesBank	**168 992**	157 982
- RMB investment banking	**205 195**	194 252
- RMB corporate banking	**34 442**	33 192
- FCC	**4 271**	6 594
Derivatives	**39 923**	34 112
Debt investment securities (excluding non-recourse investments)	**141 984**	119 805
Accounts receivable	**4 561**	4 301
Amounts due by holding company and fellow subsidiaries	**32 793**	27 318
Off-balance sheet exposure	**141 233**	124 318
- Total contingencies	**39 144**	38 813
- Guarantees	**32 659**	33 319
- Letters of credit#	**6 485**	5 494
- Irrevocable commitments	**95 630**	80 044
- Credit derivatives	**6 459**	5 461
Total	**1 135 594**	1 041 700

* *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.*

32 FINANCIAL RISK continued

32.1.2 Quality of credit assets

Advances - Age analysis of advances

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	302 388	4 078	2 394	9 332	318 192
- FNB retail	226 657	3 988	2 294	7 268	240 207
- FNB commercial*	75 112	90	100	1 922	77 224
- FNB Africa**	619	-	-	142	761
WesBank	155 826	4 796	1 938	6 432	168 992
RMB investment banking#	203 012	36	140	2 007	205 195
RMB corporate banking	34 325	-	1	116	34 442
FCC	4 271	-	-	-	4 271
Total	**699 822**	**8 910**	**4 473**	**17 887**	**731 092**
Percentage of total book	**95.7%**	**1.2%**	**0.6%**	**2.5%**	**100.0%**

R million	2015				
		Past due but not impaired			
	Neither past due nor impaired	One full instalment past due	Two full instalments past due	Impaired (NPLs)	Total
FNB	272 626	11 415	1 693	7 723	293 457
- FNB retail	215 473	2 602	1 615	6 177	225 867
- FNB commercial*	56 790	8 813	78	1 466	67 147
- FNB Africa**	363	-	-	80	443
WesBank	154 624	(4 098)	1 853	5 603	157 982
RMB investment banking#	220 191	(27 816)	3	741	193 119
RMB corporate banking	6 062	26 777	-	353	33 192
FCC	6 594	-	-	-	6 594
Total	660 097	6 278	3 549	14 420	684 344
Percentage of total book	96.5%	0.9%	0.5%	2.1%	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.*

\# *Impaired advances for RMB investment banking are net of cumulative credit fair value adjustments on the non-performing book.*

Categorisations have been made in order to keep reporting in line with management structures.

32 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)

	2016							
		FNB				**RMB**	**RMB**	
R million	**Total**	**Retail**	**Commercial***	**Africa****	**WesBank**	**investment banking**	**corporate banking**	**FCC**
FR 1 - 25	**182 676**	**41 126**	**6 495**	**3**	**12 688**	**101 986**	**16 290**	**4 088**
FR 26 - 90	**505 550**	**179 379**	**66 903**	**616**	**141 168**	**99 437**	**17 869**	**178**
Above FR 90	**11 596**	**6 152**	**1 714**	**-**	**1 970**	**1 589**	**166**	**5**
Total	**699 822**	**226 657**	**75 112**	**619**	**155 826**	**203 012**	**34 325**	**4 271**

	2015							
		FNB				RMB	RMB	
R million	Total	Retail	Commercial*	Africa**	WesBank	investment banking	corporate banking	FCC
FR 1 - 25	191 626	48 679	2 978	2	11 732	119 732	2 064	6 439
FR 26 - 90	458 061	160 548	52 758	361	141 121	99 131	3 998	144
Above FR 90	10 410	6 246	1 054	-	1 771	1 328	-	11
Total	660 097	215 473	56 790	363	154 624	220 191	6 062	6 594

* *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.*

32 FINANCIAL RISK continued

Analysis of impaired advances (NPLs)

	2016		
R million	Total value net of interest in suspense	Security held and expected recoveries	Specific impairment
NPLs by class			
- FNB retail	7 268	4 430	2 838
- FNB commercial	1 922	988	934
- FNB Africa	142	46	96
Total FNB	9 332	5 464	3 868
WesBank	6 432	4 268	2 164
- RMB investment banking	3 073	2 907	166
- RMB corporate banking	116	71	45
Total RMB	3 189	2 978	211
Total NPLs	18 953	12 710	6 243
NPLs by category			
Overdrafts 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	2 632	-
Other	65	35	30
Total NPLs	18 953	12 710	6 243

For asset finance, the total security value 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 the recoveries total.

Total NPLs, reflected above, includes the cumulative fair value adjustment applicable to RMB investment banking NPLs of R1 063 million at 30 June 2016 (2015: R1 166 million). The age analysis of advances reflects NPLs net of the cumulative fair value adjustment. Refer to page C143.

32 FINANCIAL RISK continued

	2015		
R million	Total value net of interest in suspense	Security held and expected recoveries	Specific impairment
NPLs by class			
- FNB retail	6 177	4 062	2 115
- FNB commercial	1 466	623	843
- FNB Africa	80	18	62
Total FNB	7 723	4 703	3 020
WesBank	5 603	3 467	2 136
- RMB investment banking	1 874	1 874	-
- RMB corporate banking	353	270	83
Total RMB	2 227	2 144	83
Total NPLs	15 553	10 314	5 239
NPLs by category			
Overdraft and cash management accounts	1 226	364	862
Term loans	308	204	104
Card loans	459	121	338
Instalment sales and hire purchase agreements	4 633	3 011	1 622
Lease payments receivable	230	105	125
Property finance	4 871	3 860	1 011
Personal loans	1 726	630	1 096
Investment bank term loans	1 827	1 827	-
Other	273	192	81
Total NPLs	15 553	10 314	5 239

32 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
	2016					
AAA to BBB	**135 436**	**33 370**	**43 864**	**32 793**	**445**	**245 908**
BB+ to B-	**6 548**	**6 537**	**144**	**-**	**1 918**	**15 147**
CCC	**-**	**16**	**-**	**-**	**1**	**17**
Unrated	**-**	**-**	**-**	**-**	**150**	**150**
Total	**141 984**	**39 923**	**44 008**	**32 793**	**2 514**	**261 222**

R million	Debt investment securities	Derivatives	Cash and short-term funds	Amounts due by fellow subsidiaries	Accounts receivable	Total
	2015					
AAA to BBB	113 147	27 864	46 015	27 318	2 042	216 386
BB+ to B-	6 534	6 243	328	-	414	13 519
CCC	124	5	-	-	-	129
Unrated	-	-	26	-	39	65
Total	119 805	34 112	46 369	27 318	2 495	230 099

32 FINANCIAL RISK continued

The age analysis of the financial instruments included in accounts receivable is provided in the table below.

	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**

	2015					
		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	1 528	-	-	-	-	1 528
Interest and commission accrued	118	-	-	-	-	118
Sundry debtors	634	44	1	17	12	708
Other accounts receivable	215	57	21	19	49	361
Total financial accounts receivable	2 495	101	22	36	61	2 715

32.1.3 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 within each portfolio. The bank's credit portfolio is well diversified, which is achieved through setting maximum exposure guidelines to individual counterparties. The bank constantly reviews its concentration levels and sets maximum exposure guidelines to these.

The bank seeks to establish a balanced portfolio profile and closely monitors credit concentrations.

32 FINANCIAL RISK continued

Geographic concentration of significant credit asset exposure

The following tables provide a breakdown of credit exposure across geographical areas.

	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	**661 919**	**25 022**	**32 255**	**6 138**	**1 734**	**409**	**3 615**	**731 092**
Total value net of ISP	**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)	**121 848**	**626**	**3 851**	**1 035**	**8 824**	**-**	**5 800**	**141 984**
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**

* *Exposures to South America consists of advances of R952 million as at June 2016.*

32 FINANCIAL RISK continued

R million	South Africa	Rest of Africa	United Kingdom	Other Europe	North and South America*	Austra-lasia	Asia	Total
	2015							
On-balance sheet exposures								
Cash and short-term funds	36 010	35	5 324	2 158	2 649	66	127	46 369
Total advances	617 517	28 912	29 553	5 151	1 028	2	3 314	685 477
Total value net of ISP	14 677	674	75	47	-	-	80	15 553
Derivatives	18 348	396	12 721	1 888	622	-	137	34 112
Debt investment securities (excluding non-recourse investments)	106 338	725	2 898	108	2 426	-	7 310	119 805
Accounts receivable	3 588	48	318	11	215	6	115	4 301
Off-balance sheet exposures								
Guarantees, acceptances and letters of credit	33 307	2 623	288	384	97	436	1 678	38 813
Irrevocable commitments	75 576	2 367	340	1 416	-	-	345	80 044

** Exposures to South America consists of advances of R718 million as at June 2015.*

32 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.

	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	95 487	91	49	42
Building and property development	27 461	1 237	1 078	159
Government, Land Bank and public authorities	16 715	12	6	6
Individuals	366 555	13 027	8 369	4 658
Manufacturing and commerce	83 020	766	319	447
Mining	14 771	2 013	1 821	192
Transport and communication	18 168	196	61	135
Other services	70 209	1 177	663	514
Gross value of advances	**731 092**	**18 953**	**12 710**	**6 243**
Impairment of advances	(11 399)			
Net advances	**719 693**			

32 FINANCIAL RISK continued

R million	2015			
		NPLs		
	Total advances	Total value net of interest in suspense	Security held and expected recoveries	Specific impairment
Sector analysis				
Agriculture	25 216	219	163	56
Banks	16 186	-	-	-
Financial institutions	79 113	98	45	53
Building and property development	24 737	1 391	1 228	163
Government, Land Bank and public authorities	14 847	8	6	2
Individuals	341 998	10 992	7 133	3 859
Manufacturing and commerce	83 385	972	464	508
Mining	22 121	811	776	35
Transport and communication	16 012	125	57	68
Other services	61 862	937	442	495
Gross value of advances	685 477	15 553	10 314	5 239
Impairment of advances	(10 090)			
Net advances	675 387			

32.1.4 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:

- mortgage and instalment sale finance portfolios in FNB and WesBank are secured by the underlying assets financed;
- personal loans, overdrafts and credit card exposures are generally unsecured or secured by guarantees and sureties;
- FNB commercial credit 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;
- working capital facilities in RMB corporate banking are unsecured;
- structured facilities in RMB are secured as part of the structure through financial or other collateral, including guarantees, credit derivative instruments and assets; and
- credit risk in RMB is mitigated through the use of netting agreements and financial collateral.

32 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 statistical indexate models and physical inspection is performed in the event of default at the beginning of the recovery process.

Concentrations within 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.

Collateral held per class of advance

The table below sets out the financial effect of collateral per class of advance.

R million	**2016**	2015
FNB retail	**4 517**	6 770
FNB commercial	**743**	619
FNB Africa	**48**	2
Total FNB	**5 308**	7 391
RMB investment banking	**1 848**	1 126
RMB corporate banking	**412**	30
Total RMB	**2 260**	1 156
WesBank	**2 362**	1 994
FCC and other	**-**	-
Total	**9 930**	10 541

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 balance sheet impairment for unsecured portfolios.

Where there is no collateral or where collateral is disregarded for provisioning purposes, no financial effect was calculated.

32 FINANCIAL RISK continued

Collateral held against derivative positions

The table below sets out the cash collateral held against the net derivative position.

R million	**2016**	2015
Cash collateral held	**5 828**	5 152

Collateral held in structured transactions

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:

	2016		2015	
R million	**Fair Value**	**Fair value of collateral sold or repledged**	Fair Value	Fair value of collateral sold or repledged
Cash and cash equivalents	**7 311**	**-**	6 444	-
Investment securities and other investments - held under reverse repurchase agreements	**42 451**	**30 166**	40 066	14 902
Investment securities and other investments - other*	**4 066**	**4 066**	8 083	8 083
Total collateral pledged	**53 828**	**34 232**	54 593	22 985

* *The amount excludes securities lending transactions where securities are obtained as collateral for securities lent. This is in line with industry practice.*

32 FINANCIAL RISK continued

Collateral taken possession of

The table below sets out the reconciliation of collateral taken possession of and recognised on the statement of financial position.

	Property	
R million	**2016**	2015
Opening balance	**68**	110
Net movement	**(68)**	(42)
Closing balance	**-**	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 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.

32 FINANCIAL RISK continued

32.1.4 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	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Assets								
Offsetting applied								
Gross amount	**51 385**	42 294	**49 483**	44 890	**300**	2 930	**8 586**	9 035
Amount set-off	**(13 949)**	(10 135)	**(11 729)**	(12 400)	**(300)**	(2 771)	**(929)**	(1 166)
Net amount reported on the statement of financial position	**37 436**	32 159	**37 754**	32 490	**-**	159	**7 657**	7 869
Offsetting not applied								
Financial instruments subject to MNA and similar agreements	**(27 569)**	(25 531)	**(4 179)**	(849)	**-**	-	**(68)**	(33)
Financial collateral	**(3 679)**	(1 305)	**(33 575)**	(31 641)	**-**	-	**-**	-
Net amount	**6 188**	5 323	**-**	-	**-**	159	**7 589**	7 836
Financial instruments not subject to set-off or MNA	**2 487**	1 953	**4 697**	7 576	**677 242**	635 162	**25 136**	19 449
Total as per statement of financial position	**39 923**	34 112	**42 451**	40 066	**677 242**	635 321	**32 793**	27 318
Liabilities								
Offsetting applied								
Gross amount	**59 320**	49 128	**46 816**	39 106	**300**	2 993	**1 610**	1 227
Amount set-off	**(13 949)**	(10 135)	**(11 729)**	(12 400)	**(300)**	(2 771)	**(929)**	(1 166)
Net amount reported on the statement of financial position	**45 371**	38 993	**35 087**	26 706	**-**	222	**681**	61
Offsetting not applied								
Financial instruments subject to MNA and similar agreements	**(27 569)**	(25 531)	**(4 179)**	(849)	**-**	-	**(68)**	(33)
Financial collateral	**(729)**	(136)	**(30 908)**	(25 857)	**-**	-	**-**	-
Net amount	**17 073**	13 326	**-**	-	**-**	222	**613**	28
Financial instruments not subject to set-off or MNA	**5 253**	1 818	**5 507**	8 462	**785 879**	744 313	**13 316**	11 775
Total as per statement of financial position	**50 624**	40 811	**40 594**	35 168	**785 879**	744 535	**13 997**	11 836

32 FINANCIAL RISK continued

32.2 Liquidity risk

32.2.1 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.

	2016			
		Term to maturity		
R million	Carrying amount	Call - 3 months	4 - 12 months	> 12 months
On-balance sheet amounts				
Deposits and current accounts	893 487	571 551	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	12 665	9 875	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 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	-	-

32 FINANCIAL RISK continued

	2015			
		Term to maturity		
R million	Carrying amount	Call - 3 months	4 - 12 months	> 12 months
On-balance sheet amounts				
Deposits and current accounts	855 035	539 566	113 775	201 694
Short trading positions	5 270	5 270	-	-
Derivative financial instruments	42 058	36 260	567	5 231
Creditors, accruals and provisions	12 716	9 974	371	2 371
Tier 2 liabilities	16 623	-	107	16 516
Other liabilities	4 417	544	301	3 572
Amounts due to holding and fellow subsidiaries	13 467	10 847	99	2 521
Off-balance sheet amounts				
Financial and other guarantees	37 419	36 053	1 143	223
Operating lease commitments	1 950	201	512	1 237
Other contingencies and commitments	891	505	379	7
Facilities not drawn	80 044	80 006	38	-

32 FINANCIAL RISK continued

32.2.2 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.

	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)**	**-**

	2015			
		Term to maturity		
R million	Carrying amount	Call - 3 months	4 - 12 months	> 12 months
Total assets	949 959	320 457	86 941	542 561
Total equity and liabilities	949 959	604 842	109 678	235 439
Net liquidity gap	-	(284 385)	(22 737)	307 122
Cumulative liquidity gap	-	(284 385)	(307 122)	-

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.

32 FINANCIAL RISK continued

32.2.3 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. 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	**2016**	2015
Cash and cash equivalents	**1 725**	861
Advances	**17**	4
Investment securities - held under repurchase agreements	**21 108**	18 655
Investment securities - other	**77**	226
Total assets pledged	**22 927**	19 746

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	**2016**	2015
Short trading positions	**14 221**	5 270
Creditors and accruals	**-**	65
Total deposits	**40 738**	35 168
- Deposits under repurchase agreements	**35 868**	27 323
- Deposits in securities lending transactions	**4 726**	7 845
- Other secured deposits	**144**	-
Amounts due to holding company and fellow subsidiaries	**-**	2
Other	**1 598**	1 022
Total liabilities secured	**56 557**	41 527

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.

32 FINANCIAL RISK continued

32.2.4 Concentration analysis of deposits

R million	2016	2015
Sector analysis		
Deposit current accounts and other loans		
Sovereigns, including central banks	**61 312**	55 457
Public sector entities	**29 948**	26 492
Local authorities	**8 705**	9 526
Banks	**73 656**	70 073
Securities firms	**20 157**	15 860
Corporate customers	**366 505**	371 542
Retail customers	**263 262**	228 421
Other	**2 928**	2 332
Total deposits	**826 473**	779 703
Geographical analysis		
South Africa	**754 189**	702 176
Other Africa	**16 601**	19 392
UK	**31 710**	29 795
Other	**23 973**	28 340
Total deposits	**826 473**	779 703

32 FINANCIAL RISK continued

32.3 Market risk

The bank distinguishes between market risk in the trading book and non-traded market risk.

32.3.1 Market risk in the trading book

VaR analysis by risk type

The following table reflects VaR over a 1-day holding period at a 99% confidence level.

	2016				2015
R million	**Min***	**Max***	**Average**	**Period end**	Period end
Risk type#					
Equities	**0.6**	**18.1**	**6.5**	**2.3**	10.9
Interest rates**	**25.3**	**95.5**	**42.0**	**95.5**	30.3
Foreign exchange	**14.3**	**96.0**	**39.5**	**48.1**	5.0
Commodities	**2.7**	**17.4**	**6.6**	**16.8**	6.0
Traded credit	**1.7**	**29.3**	**9.5**	**12.7**	3.6
Diversification effect	**-**	**-**	**-**	**(108.5)**	(20.8)
Diversified total	**29.5**	**114.2**	**48.1**	**66.9**	35.0

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

** *Interest rate risk in the trading book.*

FirstRand Bank (SA) excludes the 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 at 30 June 2016. 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.

	2016		2015	
	Period end		Period end	
R million	**VaR**	**sVaR**	VaR	sVaR
Risk type*				
Equities	**4.9**	**13.6**	34.9	86.5
Interest rates	**248.1**	**95.3**	61.3	78.9
Foreign exchange	**88.5**	**133.1**	5.4	15.6
Commodities	**24.7**	**32.0**	13.8	42.2
Traded credit	**26.7**	**34.1**	13.0	13.4
Diversification effect	**(245.4)**	**(161.8)**	(73.0)	(170.4)
Diversified total	**147.5**	**146.3**	55.4	66.2

* *FirstRand Bank (SA) excludes the 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.*

32 FINANCIAL RISK continued

32.4 Non-traded market risk

32.4.1 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, assuming a constant balance sheet size and mix. A pass-through assumption is applied in relation to non-maturing deposits, which reprice at management'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 the NII sensitivity relates to the endowment book mismatch. The bank's average endowment book was R154 billion for the year (2015: R125 billion).

Projected ZAR NII sensitivity to interest rate movements

	Change in projected 12-month NII	
R million	**2016**	2015
Downward 200 bps	**(1 821)**	(2 517)
Upward 200 bps	**1 475**	2 343

Assuming no change in the balance sheet and no management action in response to interest rate movements, an instantaneous, sustained parallel decrease in interest rates of 200 bps would result in a reduction in projected 12-month NII of R1 821 million (2015: R2 517 million). A similar increase in interest rates would result in an increase in projected 12-month NII of R1 475 million (2015: R2 343 million).

32 FINANCIAL RISK continued

Economic value of equity

An economic value of equity (EVE) sensitivity measure is used to assess the impact on the total NAV of the bank as a result of a shock to underlying interest rates. Unlike the trading book, where a change in interest rates will impact fair value income and reportable earnings of an entity, when a rate change occurs the realisation of a role move 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 transactions. 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;
- reflects a point-in-time view which is dynamically managed and subject to change over time; and
- excludes the foreign operations' banking books, which are separately managed.

Banking book NAV sensitivity to interest rate movements as a percentage of total bank capital

%	2016	2015
Downward 200 bps	**0.11**	0.71
Upward 200 bps	**(0.07)**	(0.79)

32 FINANCIAL RISK continued

32.4.2 Structural foreign exchange risk

The table below provides an overview of the bank's exposure to entities with functional currencies other than ZAR and the pre-tax impact on equity of a 15% change in the exchange rate between ZAR and the relevant functional foreign currencies. There were no significant structural hedging strategies employed in the current financial year.

Net structural foreign exposures

	2016	**Impact on equity from 15% currency translation shock**	2015	Impact on equity from 15% currency translation shock
United States dollar	**2 601**	**390**	1 689	253
Sterling	**1 288**	**193**	974	146
Indian rupees	**727**	**109**	715	107
Total	**4 616**	**692**	3 378	506

32.5 Equity investment risk

Investment risk exposure and sensitivity of investment risk exposure

R million	**2016**	2015
Listed equity investment risk exposure included in the expected tail loss (ETL) process	**41**	49
ETL on above equity investment risk exposures	**3**	3
Estimated sensitivity of remaining investment balances		
Sensitivity to 10% movement in market value on investment fair value*	**222**	155
Cumulative gains realised from sale of positions in the banking book during the period	**131**	7

** The 10% sensitivity movement is calculated on the carrying value of investments excluding investments subject to the expected tail loss (ETL) process. The impact of the sensitivity movements would be recognised in profit or loss.*

33 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

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COMPANY INFORMATION

COMPANY SECRETARY AND REGISTERED OFFICE

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Fax: +27 11 282 8088
www.firstrand.co.za

SPONSOR

(In terms of JSE debt listing requirements)
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Debt Capital Markets
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Fax: +27 11 282 4184

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Building 8
Deloitte Place
The Woodlands
Woodlands Drive
Woodmead, Sandton
Docex 10 Johannesburg

LISTED FINANCIAL INSTRUMENTS

LISTED DEBT INSTRUMENTS

Johannesburg Stock Exchange (JSE)

	Issuer	Bond code	ISIN code
Subordinated debt	FirstRand Bank Limited	FRB05	ZAG000031337
	FirstRand Bank Limited	FRB09	ZAG000047804
	FirstRand Bank Limited	FRB10	ZAG000092487
	FirstRand Bank Limited	FRB11	ZAG000102054
	FirstRand Bank Limited	FRB12	ZAG000116278
	FirstRand Bank Limited	FRB13	ZAG000116286
	FirstRand Bank Limited	FRB14	ZAG000116294
	FirstRand Bank Limited	FRB15	ZAG000124199
	FirstRand Bank Limited	FRB16	ZAG000127622
	FirstRand Bank Limited	FRB17	ZAG000127630
	FirstRand Bank Limited	FRB18	ZAG000135229
	FirstRand Bank Limited	FRB19	ZAG000135310
	FirstRand Bank Limited	FRB20	ZAG000135385
	FirstRand Bank Limited	FRBC21	ZAG000052283
	FirstRand Bank Limited	FRBC22	ZAG000052390
Senior unsecured	FirstRand Bank Limited	FRBZ01	ZAG000049255
	FirstRand Bank Limited	FRBZ02	ZAG000072711
	FirstRand Bank Limited	FRBZ03	ZAG000080029
	FirstRand Bank Limited	FRJ16	ZAG000073826
	FirstRand Bank Limited	FRJ17	ZAG000094343
	FirstRand Bank Limited	FRJ18	ZAG000084187
	FirstRand Bank Limited	FRJ19	ZAG000104563
	FirstRand Bank Limited	FRJ20	ZAG000109596
	FirstRand Bank Limited	FRJ21	ZAG000115858
	FirstRand Bank Limited	FRJ25	ZAG000124256
	FirstRand Bank Limited	FRS36	ZAG000077397
	FirstRand Bank Limited	FRS37	ZAG000077793
	FirstRand Bank Limited	FRS43	ZAG000078643
	FirstRand Bank Limited	FRS46	ZAG000079807
	FirstRand Bank Limited	FRS49	ZAG000081787
	FirstRand Bank Limited	FRS51	ZAG000086117
	FirstRand Bank Limited	FRS56	ZAG000087271
	FirstRand Bank Limited	FRS59	ZAG000089855
	FirstRand Bank Limited	FRS62	ZAG000090614
	FirstRand Bank Limited	FRS64	ZAG000092529
	FirstRand Bank Limited	FRS81	ZAG000100892
	FirstRand Bank Limited	FRS85	ZAG000104985
	FirstRand Bank Limited	FRS86	ZAG000105008
	FirstRand Bank Limited	FRS87	ZAG000105420
	FirstRand Bank Limited	FRS88	ZAG000106154
	FirstRand Bank Limited	FRS90	ZAG000106410
	FirstRand Bank Limited	FRS94	ZAG000107871
	FirstRand Bank Limited	FRS96	ZAG000108390
	FirstRand Bank Limited	FRS100	ZAG000111634
	FirstRand Bank Limited	FRS101	ZAG000111774
	FirstRand Bank Limited	FRS102	ZAG000111782
	FirstRand Bank Limited	FRS103	ZAG000111840
	FirstRand Bank Limited	FRS104	ZAG000111857
	FirstRand Bank Limited	FRS107	ZAG000112061
	FirstRand Bank Limited	FRS108	ZAG000113515
	FirstRand Bank Limited	FRS109	ZAG000113564
	FirstRand Bank Limited	FRS110	ZAG000113663
	FirstRand Bank Limited	FRS112	ZAG000115395

	Issuer	Bond code	ISIN code
Senior unsecured	FirstRand Bank Limited	FRS113	ZAG000115478
	FirstRand Bank Limited	FRS114	ZAG000116070
	FirstRand Bank Limited	FRS115	ZAG000116740
	FirstRand Bank Limited	FRS117	ZAG000117706
	FirstRand Bank Limited	FRS119	ZAG000118951
	FirstRand Bank Limited	FRS120	ZAG000119298
	FirstRand Bank Limited	FRS121	ZAG000120643
	FirstRand Bank Limited	FRS122	ZAG000121062
	FirstRand Bank Limited	FRS123	ZAG000121328
	FirstRand Bank Limited	FRS124	ZAG000122953
	FirstRand Bank Limited	FRS126	ZAG000125188
	FirstRand Bank Limited	FRS127	ZAG000125394
	FirstRand Bank Limited	FRS129	ZAG000125865
	FirstRand Bank Limited	FRS130	ZAG000125873
	FirstRand Bank Limited	FRS131	ZAG000126186
	FirstRand Bank Limited	FRS132	ZAG000126194
	FirstRand Bank Limited	FRS133	ZAG000126541
	FirstRand Bank Limited	FRS134	ZAG000126574
	FirstRand Bank Limited	FRS135	ZAG000126608
	FirstRand Bank Limited	FRS136	ZAG000126780
	FirstRand Bank Limited	FRS137	ZAG000127549
	FirstRand Bank Limited	FRS138	ZAG000127556
	FirstRand Bank Limited	FRS139	ZAG000128646
	FirstRand Bank Limited	FRS140	ZAG000129842
	FirstRand Bank Limited	FRS141	ZAG000130048
	FirstRand Bank Limited	FRS142	ZAG000130782
	FirstRand Bank Limited	FRS143	ZAG000130790
	FirstRand Bank Limited	FRS144	ZAG000131483
	FirstRand Bank Limited	FRX16	ZAG000084203
	FirstRand Bank Limited	FRX17	ZAG000094376
	FirstRand Bank Limited	FRX18	ZAG000076472
	FirstRand Bank Limited	FRX19	ZAG000073685
	FirstRand Bank Limited	FRX20	ZAG000109604
	FirstRand Bank Limited	FRX23	ZAG000104969
	FirstRand Bank Limited	FRX24	ZAG000073693
	FirstRand Bank Limited	FRX26	ZAG000112160
	FirstRand Bank Limited	FRX30	ZAG000124264
	FirstRand Bank Limited	FRX31	ZAG000084195
	FirstRand Bank Limited	FRX45	ZAG000076480
Inflation-linked bonds	FirstRand Bank Limited	FRBI22	ZAG000079666
	FirstRand Bank Limited	FRBI23	ZAG000076498
	FirstRand Bank Limited	FRBI25	ZAG000109588
	FirstRand Bank Limited	FRBI28	ZAG000079237
	FirstRand Bank Limited	FRBI33	ZAG000079245
Credit-linked notes	FirstRand Bank Limited	FRC46	ZAG000082959
	FirstRand Bank Limited	FRC61	ZAG000087347
	FirstRand Bank Limited	FRC66	ZAG000088485
	FirstRand Bank Limited	FRC67	ZAG000088741
	FirstRand Bank Limited	FRC69	ZAG000088766
	FirstRand Bank Limited	FRC71	ZAG000088923
	FirstRand Bank Limited	FRC72	ZAG000088956
	FirstRand Bank Limited	FRC74	ZAG000089178
	FirstRand Bank Limited	FRC76	ZAG000089574

LISTED DEBT INSTRUMENTS

JSE continued

	Issuer	Bond code	ISIN code
Credit-linked notes	FirstRand Bank Limited	FRC78	ZAG000089806
	FirstRand Bank Limited	FRC82	ZAG000090796
	FirstRand Bank Limited	FRC83	ZAG000090952
	FirstRand Bank Limited	FRC84	ZAG000090986
	FirstRand Bank Limited	FRC86	ZAG000091182
	FirstRand Bank Limited	FRC87	ZAG000091570
	FirstRand Bank Limited	FRC94A	ZAG000106725
	FirstRand Bank Limited	FRC95	ZAG000092792
	FirstRand Bank Limited	FRC96A	ZAG000106733
	FirstRand Bank Limited	FRC98	ZAG000093220
	FirstRand Bank Limited	FRC99	ZAG000093501
	FirstRand Bank Limited	FRC101	ZAG000093576
	FirstRand Bank Limited	FRC105	ZAG000093998
	FirstRand Bank Limited	FRC106	ZAG000093956
	FirstRand Bank Limited	FRC107	ZAG000094574
	FirstRand Bank Limited	FRC108	ZAG000094871
	FirstRand Bank Limited	FRC109	ZAG000094889
	FirstRand Bank Limited	FRC112	ZAG000095621
	FirstRand Bank Limited	FRC113	ZAG000095761
	FirstRand Bank Limited	FRC115	ZAG000095852
	FirstRand Bank Limited	FRC116	ZAG000095860
	FirstRand Bank Limited	FRC117	ZAG000095928
	FirstRand Bank Limited	FRC118	ZAG000096280
	FirstRand Bank Limited	FRC121	ZAG000096314
	FirstRand Bank Limited	FRC122	ZAG000096322
	FirstRand Bank Limited	FRC124	ZAG000096579
	FirstRand Bank Limited	FRC125	ZAG000096678
	FirstRand Bank Limited	FRC128	ZAG000096959
	FirstRand Bank Limited	FRC134	ZAG000097056
	FirstRand Bank Limited	FRC135	ZAG000097122
	FirstRand Bank Limited	FRC144	ZAG000097569
	FirstRand Bank Limited	FRC145	ZAG000097627
	FirstRand Bank Limited	FRC148	ZAG000099466
	FirstRand Bank Limited	FRC150	ZAG000099821
	FirstRand Bank Limited	FRC151	ZAG000099904
	FirstRand Bank Limited	FRC152	ZAG000100330
	FirstRand Bank Limited	FRC153	ZAG000100348
	FirstRand Bank Limited	FRC154	ZAG000100694
	FirstRand Bank Limited	FRC155	ZAG000101643
	FirstRand Bank Limited	FRC161	ZAG000102260
	FirstRand Bank Limited	FRC163	ZAG000102898
	FirstRand Bank Limited	FRC166	ZAG000103573
	FirstRand Bank Limited	FRC167	ZAG000104019
	FirstRand Bank Limited	FRC168	ZAG000104753
	FirstRand Bank Limited	FRC169	ZAG000104852
	FirstRand Bank Limited	FRC170	ZAG000105586
	FirstRand Bank Limited	FRC171	ZAG000105719
	FirstRand Bank Limited	FRC172	ZAG000105818
	FirstRand Bank Limited	FRC173	ZAG000105826
	FirstRand Bank Limited	FRC174	ZAG000105891
	FirstRand Bank Limited	FRC175	ZAG000106527
	FirstRand Bank Limited	FRC176	ZAG000107178
	FirstRand Bank Limited	FRC177	ZAG000107632

	Issuer	Bond code	ISIN code
Credit-linked notes	FirstRand Bank Limited	FRC178	ZAG000107897
	FirstRand Bank Limited	FRC179	ZAG000108168
	FirstRand Bank Limited	FRC180	ZAG000108234
	FirstRand Bank Limited	FRC181	ZAG000108549
	FirstRand Bank Limited	FRC182	ZAG000108713
	FirstRand Bank Limited	FRC183	ZAG000109356
	FirstRand Bank Limited	FRC185	ZAG000111451
	FirstRand Bank Limited	FRC186	ZAG000111576
	FirstRand Bank Limited	FRC188	ZAG000111873
	FirstRand Bank Limited	FRC189	ZAG000112145
	FirstRand Bank Limited	FRC190	ZAG000113994
	FirstRand Bank Limited	FRC191	ZAG000114547
	FirstRand Bank Limited	FRC192	ZAG000114521
	FirstRand Bank Limited	FRC193	ZAG000114620
	FirstRand Bank Limited	FRC194	ZAG000114638
	FirstRand Bank Limited	FRC195	ZAG000114745
	FirstRand Bank Limited	FRC196	ZAG000114729
	FirstRand Bank Limited	FRC197	ZAG000114737
	FirstRand Bank Limited	FRC198	ZAG000114760
	FirstRand Bank Limited	FRC199	ZAG000114844
	FirstRand Bank Limited	FRC200	ZAG000114992
	FirstRand Bank Limited	FRC201	ZAG000115106
	FirstRand Bank Limited	FRC202	ZAG000115114
	FirstRand Bank Limited	FRC203	ZAG000115122
	FirstRand Bank Limited	FRC204	ZAG000115593
	FirstRand Bank Limited	FRC205	ZAG000115619
	FirstRand Bank Limited	FRC206	ZAG000116088
	FirstRand Bank Limited	FRC207	ZAG000117649
	FirstRand Bank Limited	FRC208	ZAG000117656
	FirstRand Bank Limited	FRC209	ZAG000118613
	FirstRand Bank Limited	FRC210	ZAG000120296
	FirstRand Bank Limited	FRC211	ZAG000121013
	FirstRand Bank Limited	FRC212	ZAG000121054
	FirstRand Bank Limited	FRC213	ZAG000121047
	FirstRand Bank Limited	FRC214	ZAG000121039
	FirstRand Bank Limited	FRC215	ZAG000121021
	FirstRand Bank Limited	FRC216	ZAG000121070
	FirstRand Bank Limited	FRC217	ZAG000121088
	FirstRand Bank Limited	FRC218	ZAG000121096
	FirstRand Bank Limited	FRC219	ZAG000121138
	FirstRand Bank Limited	FRC220	ZAG000121146
	FirstRand Bank Limited	FRC221	ZAG000121229
	FirstRand Bank Limited	FRC222	ZAG000121294
	FirstRand Bank Limited	FRC223	ZAG000121302
	FirstRand Bank Limited	FRC224	ZAG000121310
	FirstRand Bank Limited	FRC225	ZAG000121435
	FirstRand Bank Limited	FRC227	ZAG000124363
	FirstRand Bank Limited	FRC228	ZAG000124397
	FirstRand Bank Limited	FRC229	ZAG000124850
	FirstRand Bank Limited	FRC230	ZAG000125006
	FirstRand Bank Limited	FRC231	ZAG000125030
	FirstRand Bank Limited	FRC232	ZAG000127994
	FirstRand Bank Limited	FRC233	ZAG000128752

	Issuer	Bond code	ISIN code
Credit-linked notes	FirstRand Bank Limited	FRC234	ZAG000130816
	FirstRand Bank Limited	FRC235	ZAG000132390
	FirstRand Bank Limited	FRD003	ZAG000114067
	FirstRand Bank Limited	FRD013	ZAG000128695
Structured notes	FirstRand Bank Limited	COLRMB	ZAE000155222

London Stock Exchange (LSE)

European medium term note (EMTN) programme

	Issuer	ISIN code
Senior unsecured	FirstRand Bank Limited	XS0610341967
	FirstRand Bank Limited	XS0635404477
	FirstRand Bank Limited	XS0595260141
	FirstRand Bank Limited	XS1225512026
	FirstRand Bank Limited	XS1178685084

SIX Swiss Exchange

	Issuer	ISIN code
Senior unsecured	FirstRand Bank Limited	CH0238315680

DEFINITIONS

Additional Tier 1 capital (AT1)	NCNR preference share capital plus qualifying capital instruments issued out of fully consolidated subsidiaries to third parties less specified regulatory deductions.
CAGR	Compound annual growth rate.
Capital adequacy ratio (CAR)	Total qualifying capital and reserves divided by RWA.
Common Equity Tier 1 (CET1) capital	Share capital and premium plus accumulated comprehensive income and reserves plus qualifying capital instruments issued out of fully consolidated subsidiaries to third parties less specified regulatory deductions.
Cost-to-income ratio	Operating expenses excluding indirect taxes expressed as a percentage of total income.
Credit loss ratio	Total impairment charge per the income statement expressed as a percentage of average advances (average between the opening and closing balance for the year).
Diversity ratio	Non-interest revenue expressed as a percentage of total income.
Effective tax rate	Tax per the income statement divided by the profit before tax per the income statement.
EMTN	European medium term note programme.
Exposure at default (EAD)	Gross exposure of a facility upon default of a counterparty.
Loan-to-deposit ratio	Average advances expressed as a percentage of average deposits.
Loss given default (LGD)	Economic loss that will be suffered on an exposure following default of the counterparty, expressed as a percentage of the amount outstanding at the time of default.
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 bank 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.
Probability of default (PD)	Probability that a counterparty will default within the next year considering the ability and willingness of the counterparty to repay.
Return on assets (ROA)	Normalised earnings divided by average assets.
Return on equity (ROE)	Normalised earnings divided by average normalised ordinary shareholders equity.
Risk weighted assets (RWA)	Prescribed risk weightings relative to the credit risk of counterparties, operational risk, market risk, equity investment risk and other risk multiplied by on- and off-balance sheet assets.
Tier 1 ratio	Tier 1 capital divided by RWA.
Tier 1 capital	Common Equity Tier 1 capital plus AT 1 capital.
Tier 2 capital	Qualifying subordinated debt instruments plus qualifying capital instruments issued out of fully consolidated subsidiaries to third parties plus general provisions for entities on the standardised approach less specified regulatory deductions.
TLAC	Total loss absorbing capacity.
TRS	Total return swap.
Total qualifying capital and reserves	Tier 1 capital plus Tier 2 capital.

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
IAS 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 – 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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