*for the year ended 30 June 2015*

ANNUAL REPORT

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FIRSTRAND BANK

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FIRSTRAND BANK


1929/001225/06





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, 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.

This report covers the audited financial results of the bank based on International Financial Reporting Standards (IFRS) for the year ended 30 June 2015.

In the detailed financial analysis section of this report, 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 audited financial results.

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

## GROUP STRATEGIC OBJECTIVES

FirstRand's vision is to be the African financial services group of choice, create long-term franchise value, deliver superior and sustainable economic returns to shareholders within acceptable levels of volatility and maintain balance sheet strength. The group seeks to achieve this through the following two growth strategies, supported by the effective allocation of capital, funding and risk appetite:

- In its domestic market, the group will continue to protect and grow its lending and transactional franchises through innovation, disruption and specific cross-sell initiatives across group customer bases. In addition, FirstRand believes it can capture a larger share of profits from the broader financial services markets, through leveraging its platforms, skills and proven culture of innovation to deliver highly differentiated channels, products and solutions which enable customers to transact, borrow, save, invest and insure.
- In the rest of Africa, FirstRand must establish meaningful banking franchises in those countries that the group has prioritised as markets expected to show above average economic growth, and which are well positioned to benefit from the trade and investment flows between Africa, India and China. These markets are mainly in the SADC region and the west and east African hubs.

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

1. Utilise the capabilities of the South African franchise, particularly the domestic balance sheet, intellectual capital, international platforms and the existing operating footprint in the rest of Africa.
2. Start an in-country franchise and grow organically.
3. Acquire small- to medium-sized in-country franchises where it makes commercial sense.

The group executes its expansion strategies through the appropriate platforms (legal entities). FRB's balance sheet is utilised for the first pillar of the rest of Africa expansion strategy and to capitalise on the investment flows between Africa, India and China. The subsidiaries in the rest of Africa form part of FirstRand EMA (Pty) Ltd (FREMA) and thus fall outside of the bank. It is anticipated that the group will focus its deployment of capital on pillars 2 and 3 going forward.

For more information on the group's strategy, please refer to the 2015 annual integrated report for FirstRand Limited which is published on the group's website, www.firstrand.co.za.

## PHYSICAL PRESENCE IN AFRICA AND CORRIDOR STRATEGY

Through its FNB Africa subsidiaries (housed in FREMA and not FRB), the group offers full service banking in seven African countries, namely, Namibia, Botswana, Swaziland, Lesotho, Mozambique, Zambia, Tanzania and 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 can 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.

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

# SIMPLIFIED GROUP STRUCTURE

**FIRSTRAND**

LISTED HOLDING COMPANY (FIRSTRAND LIMITED, JSE: FSR)

| 100% | 100% | 100% | 100% | 100% |
|---|---|---|---|---|
| FIRSTRAND BANK LIMITED<br>BOND CODE BIFR1 | FIRSTRAND EMA (PTY) LTD (FREMA) | FIRSTRAND INVESTMENT HOLDINGS (PTY) LTD (FRIHL) | ASHBURTON INVESTMENTS HOLDINGS LIMITED | FIRSTRAND INSURANCE HOLDINGS (PTY) LTD |
| **Banking** | **Africa and emerging markets** | **Other activities** | **Investment management** | **Insurance** |

### Banking (FirstRand Bank Limited)

- 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]

### Africa and emerging markets (FREMA)

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

### Other activities (FRIHL)

- **96%** RMB Private Equity Holdings
- **93%** RMB Private Equity
- **100%** RMB Securities
- **50%** RMB Morgan Stanley
- **100%** FNB Securities
- **100%** RentWorks
- **100%** Direct Axis[#]
- **100%** FirstRand International – Guernsey
- **100%** RMB Australia Holdings

### Investment management (Ashburton Investments Holdings Limited)

- **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%** RMB CIS Management Company (RF)

### Insurance (FirstRand Insurance Holdings (Pty) Ltd)

- **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.
\# Percentage ownership at date of publication of annual integrated report.

## Structure shows effective consolidated shareholding

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

# BOARD OF DIRECTORS

**LL DIPPENAAR** (66)
*Non-executive chairman*
MCom, CA(SA)
Chairman of FirstRand and director of RMB Holdings

**SE NXASANA** (58)
*Chief executive officer*
BCom, BCompt (Hons), CA(SA)
Chief executive officer of FirstRand and director of FirstRand

**JP BURGER** (56)
*Deputy chief executive officer*
BCom (Hons), CA(SA)
Director of FirstRand

**HS KELLAN** (43)
*Financial director*
BCom, BCom (Hons), CA(SA)
Director of FirstRand

**VW BARTLETT** (72)
*Independent non-executive*
AMP (Harvard), FIBSA
Director of FirstRand

**JJH BESTER** (73)
*Independent non-executive*
BSC Eng Elect (Pret), ISMP (Harvard)
Director of FirstRand
Retired December 2014

**MS BOMELA** (42)
*Non-executive*
BCom (Hons), CA(SA), MBA
Director of FirstRand

**P COOPER** (59)
*Alternate non-executive*
BCom (Hons), HDip Tax, CA(SA)
Director of FirstRand and RMB Holdings

**L CROUSE** (62)
*Non-executive*
CA(SA)
Director of FirstRand and RMB Holdings

**JJ DURAND** (48)
*Non-executive*
BAcc (Hons), MPhil (Oxon), CA(SA)
Director of FirstRand and RMB Holdings

**GG GELINK** (65)
*Independent non-executive*
BCompt (Hons), BCom (Hons), CA(SA),
Director of FirstRand

**PM GOSS** (67)
*Independent non-executive*
BEcon (Hons), BAccSc (Hons), CA(SA)
Director of FirstRand and RMB Holdings

**NN GWAGWA** (56)
*Independent non-executive*
BA (Fort Hare), MTRP (Natal), MSc (cum laude)(London),
PhD (London)
Director of FirstRand

**PK HARRIS** (65)
*Non-executive*
MCom
Director of FirstRand and RMB Holdings

**WR JARDINE** (49)
*Independent non-executive*
BSc (Physics), MSc (Radiological Physics)
Director of FirstRand

**RM LOUBSER** (65)
*Independent non-executive*
BCom (Hons) (Accounting), MCom (Statistics), CA(SA)
Director of FirstRand

**EG MATENGE-SEBESHO** (60)
*Independent non-executive*
MBA (Brunel), CAIB (SA)
Director of FirstRand

**AT NZIMANDE** (45)
*Non-executive*
BCom CTA (UCT), CA(SA), HDip Co Law (Wits)
Director of FirstRand

**D PREMNARAYEN** (69)
*Independent non-executive*
BA Economics (Hons) India
Director of FirstRand

**KB SCHOEMAN** (51)
*Non-executive*
BA Economics, Advanced Financial Management Diploma,
Cambridge Advanced Leadership Programme
Director of FirstRand

**BJ VAN DER ROSS** (68)
*Independent non-executive*
Dip Law (UCT)
Director of FirstRand

**JH VAN GREUNING** (62)
*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 under review.

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

## BOARD CHANGES

### Directorate

Sizwe Errol Nxasana will resign as chief executive officer and executive director of FirstRand and FirstRand Bank with effect from 30 September 2015.

Johan Petrus Burger will be appointed as chief executive officer of FirstRand and FirstRand Bank in place of Sizwe Errol Nxasana with effect from 1 October 2015.

Alan Patrick Pullinger will be appointed deputy chief executive officer and executive director of FirstRand and FirstRand Bank with effect from 1 October 2015.

In addition to the above:

Paballo Joel Makosholo will be appointed as a non-executive director of FirstRand and FirstRand Bank with effect from 1 October 2015.

Kgotso Buni Schoeman will resign as a non-executive director of FirstRand and FirstRand Bank with effect from 30 September 2015.

Jurie Johannes Human Bester retired at the conclusion of the 2014 annual general meeting and did not offer himself for re-election.

### 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 4. Non-executive directors comprise individuals of high calibre with diverse backgrounds and expertise. This ensures that their views carry significant weight in the board's deliberations and decisions.

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

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

An annual assessment of the board is conducted and is referred back to the board for 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 80.

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# ANALYSIS OF FINANCIAL RESULTS – NORMALISED

# INTRODUCTION

This section covers the separate normalised results of the bank for the year ended 30 June 2015. The primary results and accompanying commentary are presented on a normalised basis as the bank believes this most accurately reflects its economic performance. The normalised results have been derived from IFRS financial results.

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 13 to 15. Detailed reconciliations of normalised to IFRS results are provided on pages 28 to 33. Commentary is based on normalised results, unless indicated otherwise.

FirstRand's board of directors take full responsibility for the preparation of this section. The auditors expressed an unmodified opinion dated 9 September 2015 on the annual financial statements. This report can be found on page 79.

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

## FINANCIAL HIGHLIGHTS

| | Year ended 30 June | | |
|---|---|---|---|
| | **2015** | **2014** | **% change** |
| Normalised earnings (R million) | **15 246** | 12 321 | 24 |
| Normalised ROE (%) | **22.9** | 21.9 | |
| Common Equity Tier 1 ratio (%) | **14.2** | 13.6 | |
| Credit loss ratio (%) | **0.73** | 0.81 | |
| NPLs (% of advances) | **2.17** | 2.32 | |

# KEY FINANCIAL RESULTS, RATIOS AND STATISTICS

| R million | 2015 | 2014 | % change |
|---|---|---|---|
| Earnings attributable to ordinary equityholders | **15 394** | 12 555 | 23 |
| Headline earnings | **15 387** | 12 623 | 22 |
| Normalised earnings | **15 246** | 12 321 | 24 |
| Normalised net asset value | **71 997** | 61 064 | 18 |
| Average normalised net asset value | **66 531** | 56 236 | 18 |
| Gross advances | **718 771** | 646 207 | 11 |
| Normalised ROE (%) | **22.9** | 21.9 | |
| Cost-to-income ratio (%) | **55.3** | 57.0 | |
| Net interest margin (%) | **5.02** | 4.87 | |
| **Capital adequacy*** | | | |
| Capital adequacy ratio (%) | **16.9** | 16.4 | |
| Tier 1 ratio (%) | **14.6** | 14.1 | |
| Common Equity Tier 1 (CET1) ratio (%) | **14.2** | 13.6 | |

* *Comparatives restated to reflect ratios for FRB including foreign branches. Ratios include unappropriated profits.*

# STATEMENT OF HEADLINE EARNINGS – IFRS

*for the year ended 30 June*

| R million | 2015 | 2014 | % change |
|---|---|---|---|
| Profit for the year (refer to page 233) | **15 601** | 12 747 | 22 |
| NCNR preference shareholders | **(207)** | (192) | 8 |
| **Earnings attributable to ordinary equityholders** | **15 394** | 12 555 | 23 |
| Adjusted for: | **(7)** | 68 | (>100) |
| Loss on disposal of investment securities and other investments of a capital nature | **–** | 7 | |
| Gain on disposal of available-for-sale assets | **(20)** | (66) | |
| Gain on disposal of investments in associates | **–** | (13) | |
| Loss on the disposal of property and equipment | **14** | 20 | |
| Impairment of assets in terms of IAS 36 | **–** | 117 | |
| Other | **(3)** | (15) | |
| Tax effects of adjustments | **2** | 18 | |
| **Headline earnings** | **15 387** | 12 623 | 22 |

# RECONCILIATION FROM HEADLINE TO NORMALISED EARNINGS

*for the year ended 30 June*

| R million | 2015 | 2014 | % change |
|---|---|---|---|
| **Headline earnings** | **15 387** | 12 623 | 22 |
| Adjusted for: | **(141)** | (302) | (53) |
| Total return swap and IFRS 2 liability remeasurement | **(34)** | (198) | (83) |
| IAS 19 adjustment | **(107)** | (104) | 3 |
| **Normalised earnings** | **15 246** | 12 321 | 24 |

# DESCRIPTION OF DIFFERENCE BETWEEN NORMALISED AND IFRS RESULTS

The IFRS results 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 non-interest revenue (NIR) to net interest income (NII) to reflect the economic substance of these hedges.

## USD LIQUIDITY FUNDING

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

## 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 the 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 lost 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 within 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 bonds, high quality liquid assets (HQLA) and notes held in securitisation vehicles are classified as investment securities for IFRS purposes. The underlying nature and exposure of these assets is credit related and these assets were, therefore, reclassified from investment securities into advances.

## IAS 19 REMEASUREMENT OF PLAN ASSETS

In terms of the revised IAS 19, interest income is recognised on 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 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 Financial Instruments: Recognition and Measurement*, the TRS is accounted for as a derivative instrument at fair value with the full fair value change recognised in NIR.

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

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

In addition, the portion of the share-based payment expense which relates to the remeasurement of the liability arising from changes in the share price 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.

## EQUITY-SETTLED SHARE-BASED PAYMENTS

IFRS 2 requires that all share-based payment transactions for goods or services received must be expensed with effect from financial periods commencing on or after 1 January 2005.

In 2005 the group concluded a BEE transaction. As part of this transaction, rights were granted to the group's black South African employees and black non-executive directors. These rights were accounted for as expenses in accordance with IFRS 2. In addition to the 2005 grants, the employees received MMI Holdings Limited (MMI) shares pursuant to the unbundling of MMI. These schemes all vested on 31 December 2014 and the staff received the FirstRand and MMI shares due to them.

From an IFRS perspective the following expenses are recognised for the period from 1 July 2014 until the vesting date:

- IFRS 2 cost for the FirstRand shares granted to employees based on grant date fair value; and
- *IAS 19 Employee Benefits* expense for the movement in fair value of the MMI shares that were expected to vest.

When calculating normalised results, the following adjustments are made in respect of the staff share trusts to reflect the economic cost of the scheme:

- IFRS 2 expense is reversed; and
- IAS 19 expense relating to the fair value movement in the MMI shares is reversed.

## HEADLINE EARNINGS ADJUSTMENTS

All adjustments that are required by *Circular 2/2013 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 11. These adjustments include the write back of impairment losses recognised on intangible assets and goodwill.

## REGULATORY CHANGES

The bank has been actively managing its balance sheet since the implementation of the liquidity coverage ratio (LCR) requirements. Under the Basel III liquidity regime, securities that meet the criteria set out in the standard are designated as HQLA. There are operational requirements to be fulfilled with respect to HQLA requiring that the assets need to be under management control of the division charged with the management of liquidity.

For normalised reporting in the current year, certain investment securities have been reclassified into advances. The investment securities reclassified include debt securities qualifying as HQLA and securitisation notes. In the current and prior years, other corporate bonds that do not qualify as HQLA were reclassified to advances.

The segment report is, therefore, also impacted as HQLA and securitisation notes are managed by the Group Treasurer and are included in the FCC (including Group Treasury) segment. Certain corporate bonds that do not qualify as HQLA remain within the RMB investment banking segment.

The table below shows these adjustments.

## CREDIT-BASED INVESTMENTS ADJUSTMENTS

| R million | 2015 | 2014 |
|---|---|---|
| **Normalised advances excluding credit-related assets** | **688 693** | 634 981 |
| Credit-related assets | | |
| – Corporate bonds | **13 283** | 11 226 |
| – HQLA (corporate advances) | **9 494** | – |
| – Securitisation notes | **7 301** | – |
| **Restated normalised advances** | **718 771** | 646 207 |
| **NPLs as a % of advances** | | |
| – Excluding credit-related assets | **2.26** | 2.37 |
| – Including credit-related assets | **2.17** | 2.32 |
| **Impairment charge as a % of average advances** | | |
| – Excluding credit-related assets | **0.75** | 0.82 |
| – Including credit-related assets | **0.73** | 0.81 |

# OVERVIEW OF RESULTS

## INTRODUCTION

The South African economy continued to face a number of external and internal headwinds to growth:

- Global commodity prices remained under pressure as growth in China continued to decelerate.
- The gradual economic recovery in the United States, and the prospect of rising interest rates, has weighed on emerging markets in general and has specifically impacted markets with current account deficits, such as South Africa, resulting in slowing capital flows and currency weakness.
- The euro zone's economic recovery continues to be lacklustre, providing limited support to South African exports.
- Domestic headwinds, including ongoing electricity shortages, weak foreign demand and low prices, resulted in subdued business confidence.
- Household consumption was impacted by higher debt service costs, rising unemployment levels and moderating levels of income growth, although the temporary, oil-led drop in inflation did provide some short-term relief.
- Reduced growth in government spending to stabilise public sector debt and safeguard the country's sovereign credit rating.

The central bank has so far implemented a gradual and moderate hiking cycle, but the economy remains vulnerable to a more aggressive cycle should capital inflows slow down or reverse.

Many economies in sub-Saharan Africa have also experienced weaker exchange rates, increasing inflation, higher policy rates and lower growth. With commodity prices expected to remain well below levels that prevailed in the previous decade, economic performance will likely be driven by structural reform.

## OVERVIEW OF RESULTS

Despite the deteriorating economic backdrop, the bank continued to grow earnings and produced excellent returns in the year to 30 June 2015. Normalised earnings increased 24% to R15.2 billion and normalised ROE increased to 22.9%.

The bank's operating divisions performed well, again demonstrating their leading market positions. FNB produced ongoing topline growth and profitability on the back of sustained momentum in NIR and NII with good growth generated from both advances and deposits.

WesBank's domestic franchise produced a resilient performance on the back of continuing new business volumes despite the subdued local retail credit cycle. WesBank's MotoNovo business in the UK again showed excellent profitability in both rand and GBP terms.

RMB's investment banking and corporate banking franchises underpinned a solid performance in a year characterised by subdued corporate activity and liquidity pressures. RMB also continued to strengthen its balance sheet and remains conservative in its credit provisioning.

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

### SOURCES OF NORMALISED EARNINGS

| R million | 2015 | % composition | 2014 | % composition | % change |
|---|---|---|---|---|---|
| FNB | **9 392** | **61** | 7 846 | 64 | 20 |
| RMB | **3 826** | **25** | 3 646 | 30 | 5 |
| WesBank | **2 089** | **14** | 2 190 | 18 | (5) |
| FCC (including Group Treasury) and other | **146** | **1** | (1 169) | (10) | (>100) |
| NCNR preference dividend | **(207)** | **(1)** | (192) | (2) | 8 |
| **Normalised earnings** | **15 246** | **100** | 12 321 | 100 | 24 |

The bank's NII increased 15% driven by ongoing growth in advances (+11%) and deposits (+12%). The benefits of asset repricing in certain portfolios were, in the main, offset by lower margins in the vehicle asset finance, WesBank corporate and investment banking books. Across the franchises, margins in many of the asset generating businesses continued to come under pressure from higher term funding and liquidity costs.

Total NIR increased 10% year-on-year, with another strong contribution from FNB, which grew NIR 10% and continued to benefit from its strategies to grow fee and commission income (+9%), drive customers onto electronic platforms and generate good momentum in cross-sell. WesBank's NIR increased 17%, driven by strong inflows from insurance income, mainly from the MotoNovo business.

Overall operating cost growth was 9% for the period, reflecting higher staff costs and continuing investment in infrastructure, operating footprint and regulatory requirements.

NPLs continued to reflect a mixed picture with residential mortgages and FNB personal loans showing significant decreases of 18% and 7%, respectively, on the back of workout strategies and disciplined origination. Strong book growth in the current and previous years combined with a deteriorating credit cycle resulted in an increase in NPLs in FNB's card and business subsegments, VAF and WesBank loans. The negative commodity cycle resulted in an increase in RMB NPLs.

The bank continues to exercise prudence on the back of deteriorating macroeconomic indicators. In the first six months of the year, the bank created certain provisions with reference to expected stress in the oil and gas counters. This stress has started to manifest, resulting in the utilisation of some of these provisions, however, the majority remain intact.

In the prior year, on the back of the deteriorating credit cycle, the bank created an extra R450 million of central portfolio overlays. The anticipated elevated risk has now manifested in the form of higher arrears levels and NPLs and related specific impairments during the year being raised in the operating franchises, therefore resulting in the release of R325 million. Despite this release, central overlays now total R925 million. Whilst the bank's total portfolio coverage ratio has declined marginally on the back of these changes, it remains above the current annual charge.

## FRANCHISE PERFORMANCE REVIEW

Below is a brief overview of the financial and operational performance of each division.

### FNB

FNB represents the bank's activities in the retail and commercial segments in South Africa. It is growing its franchise strongly on the back of innovative products and delivery channels, particularly focusing on electronic and digital platforms.

### FNB FINANCIAL HIGHLIGHTS

| | Year ended 30 June | | |
|---|---|---|---|
| **R million** | **2015** | **2014** | **% change** |
| Normalised earnings | **9 392** | 7 846 | 20 |
| Normalised profit before tax | **13 045** | 10 901 | 20 |
| Total assets | **299 444** | 270 765 | 11 |
| Total liabilities | **286 622** | 260 472 | 10 |
| NPLs (%) | **2.66** | 3.31 | |
| Credit loss ratio (%) | **0.76** | 0.88 | |

### SEGMENT RESULTS

| | Year ended 30 June | | |
|---|---|---|---|
| **R million** | **2015** | **2014** | **% change** |
| **Normalised PBT** | | | |
| Retail | **8 367** | 7 035 | 19 |
| FNB Africa* | **(323)** | (407) | (21) |
| Commercial | **5 001** | 4 273 | 17 |
| **Total FNB** | **13 045** | 10 901 | 20 |

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

FNB produced another good performance for the year, increasing pre-tax profits 20%, driven by a strong operational performance from the South African franchise which posted growth in both NII and NIR.

This performance also reflects the success of FNB's primary strategy to grow and retain core transactional accounts, drive cross-sell into the customer base, apply disciplined origination strategies and provide innovative savings products to attract deposits.

FNB's overall NII increased 15% driven by growth in both advances (+10%) and deposits (+12%). The performance of the lending businesses presented a mixed picture:

- the business and commercial segments benefited from good advances growth and low levels of impairments;
- residential mortgage advances showed modest growth of 5%, with NPLs still declining significantly;
- personal loans performed strongly with controlled growth of advances and a significant reduction in impairments, strong collections, lower NPLs and an improved book risk profile resulted in impairments decreasing 27%; and
- credit card continued to benefit from post-write off recoveries, however, there is some pressure in overdrafts and revolving credit facilities in the consumer and premium segments.

Segment analysis of deposits and advances growth is shown below.

## SEGMENT ANALYSIS OF ADVANCES AND DEPOSIT GROWTH

| | Year ended 30 June 2015 | | | |
|---|---|---|---|---|
| | Deposit growth | | Advances growth | |
| **Segments** | **%** | **R billion** | **%** | **R billion** |
| Retail | **13** | **18.6** | **8** | **16.9** |
| Commercial | **11** | **14.7** | **17** | **8.3** |

FNB's bad debt charge dropped to 0.76% of advances, with NPLs trending down to 2.66%. Following strong book growth in previous periods, credit appetite continues to be adjusted and provisions bolstered. Overall provisioning levels for FNB have remained conservative with overlays maintained.

FNB continues to see significant traction in migration of its customer base onto electronic channels. NIR increased 10% year-on-year with continued strong growth of 12% in overall transactional volumes with electronic transactional volumes up 14%. ADT (automated deposit terminal) deposits increased 12%, whilst branch-based deposits decreased 20%. The ongoing success of FNB's electronic migration strategy is also reflected in strong growth in transactions online (+15%), banking app (+69%) and mobile (+25%). FNB's strategy to drive credit card as a transactional product also resulted in 13% growth in volumes, underpinned by good growth in new active accounts of 6%.

NIR growth is under pressure in the consumer segment due to the adjustments to certain fees. In addition, since mid-March reduced interchange impacted NIR and this will continue to be the case for the next twelve months. FNB, however, believes volume growth emanating from its cash-to-card migration strategy will offset the impact of interchange to some degree.

FNB's cross-sell strategy achieved particularly good traction in the premier segment where the ratio improved 23% year-on-year. This was driven by the introduction of new products.

FNB's overall operating expenditure increased 11%, reflecting ongoing investment in its operating footprint. The business, however, continues to deliver positive operating jaws and the cost-to-income ratio decreased to 56.8%.

### 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 continues to benefit from its strategy to generate more income from client-driven activities, anchored around a risk appetite designed to effectively manage the trade-offs between earnings volatility, profit growth and returns. This strategy is delivering a resilient earnings profile.

## RMB FINANCIAL HIGHLIGHTS

| | Year ended 30 June | | |
|---|---|---|---|
| **R million** | **2015** | **2014** | **% change** |
| Normalised earnings | **3 826** | 3 646 | 5 |
| Normalised profit before tax | **5 315** | 5 063 | 5 |
| Total assets | **352 714** | 326 514 | 8 |
| Total liabilities | **348 145** | 321 753 | 8 |
| Credit loss ratio (%) | **0.33** | 0.10 | |
| Cost-to-income ratio (%) | **49.4** | 52.0 | |

## DIVISIONAL PERFORMANCE

| Normalised PBT R million | Year ended 30 June 2015 | 2014 | % change |
|---|---|---|---|
| **Investment banking** | **4 672** | 4 565 | 2 |
| Global Markets | **1 585** | 1 494 | 6 |
| IBD | **3 108** | 3 328 | (7) |
| Private Equity | **(79)** | 32 | (>100) |
| Other RMB | **58** | (289) | >100 |
| **Corporate banking** | **643** | 498 | 29 |
| **Total RMB** | **5 315** | 5 063 | 5 |

RMB produced solid results for the year with pre-tax profits increasing 5% to R5.3 billion. This performance was achieved against a highly challenging economic environment and results from a high quality portfolio of businesses, particularly resilient investment banking and growing corporate banking franchises. RMB's balance sheet remains robust, the quality of earnings continues to improve and enhanced operational leverage has contributed to a decline in cost-to-income to 49.4%.

RMB's organisational structure is based on four separate divisions, namely Investment Banking (IBD), Global Markets, Private Equity and Corporate Banking.

IBD's performance came under pressure due to increasing funding and liquidity costs. In addition, impairments raised against mining and metals, and oil and gas exposures in the core lending book further impacted results, specifically in the first half of the financial year. This is considered prudent action given the ongoing deterioration in the outlook for those sectors. The quality of underlying activities resulted in the securing of a number of significant M&A mandates, both domestic and international, which positively impacted profitability.

Global Markets delivered a solid performance despite challenging market conditions and increased competitive pressures. Structuring results were up with bespoke once-off large transactions executed primarily in the second half of the financial year, and additional benefits were seen from increased local and international price volatility in fixed income, currency and commodity markets.

Corporate Banking performed well, benefiting from focused client coverage initiatives, increased demand for trade and working capital products and higher deposit balances. This was, however, offset by increasing credit provision requirements against specific NPL exposures.

Franchise-wide head office costs, endowment on capital invested and legacy portfolios are reflected in other activities. The legacy portfolio realised a profit of R47 million, curtailing a loss of R140 million in the prior year.

### WesBank

WesBank represents the bank's activities in asset-based finance 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 | Year ended 30 June 2015 | 2014 | % change |
|---|---|---|---|
| Normalised earnings | **2 089** | 2 190 | (5) |
| Normalised profit before tax | **2 861** | 3 042 | (6) |
| Total assets | **166 345** | 156 743 | 6 |
| Total liabilities | **163 586** | 155 058 | 5 |
| NPLs (%) | **3.46** | 2.97 | |
| Credit loss ratio (%) | **1.49** | 1.42 | |
| Cost-to-income ratio (%) | **47.6** | 47.5 | |
| Net interest margin (%) | **4.57** | 5.28 | |

WesBank's performance was in line with expectations given its sensitivity to the local retail credit cycle.

These results reflect the resilience of WesBank's franchise, adherence to disciplined credit origination and effective sales channels.

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

## BREAKDOWN OF PROFIT CONTRIBUTION BY ACTIVITY*

| | Year ended 30 June | | |
|---|---|---|---|
| **Normalised PBT** | **2015** | **2014** | **% change** |
| **VAF** | | | |
| – Retail SA | **1 516** | 1 481 | 2 |
| – Retail UK (MotoNovo) | **455** | 650 | (30) |
| – Corporate and commercial | **385** | 411 | (6) |
| **Personal loans** | **505** | 500 | 1 |
| **Total WesBank** | **2 861** | 3 042 | (6) |

* *Refer to additional segment disclosure on page 60.*

Strong new business volumes and profit growth continued in the MotoNovo business, however, reported profit was negatively impacted by a prospective change in accounting treatment for incentive commissions on new securitisation transactions in the current year of R550 million. On a like-for-like basis, normalised profits would have increased more than 50% year-on-year.

New business volumes increased across all of WesBank's retail portfolios, but remain within appropriate risk parameters with systemic tightening continuing in credit appetite for higher risk segments. Local retail VAF's performance continues to be impacted by the pressures facing consumers, with advances fairly flat year-on-year. Interest margins are trending down mainly due to higher funding and liquidity costs and the ongoing shift in mix from fixed- to floating-rate business.

As anticipated, bad debts in the local VAF portfolio remained fairly flat within WesBank's through-the-cycle thresholds and provisioning continues to be conservatively applied. NPLs are up 24% year-on-year, but remain inflated by the high proportion of restructured debt review accounts, most of which are still paying according to arrangement.

This conservative treatment is in line with bank practice with 34% of NPLs currently under debt review (compared to 29% in the prior year), a high percentage of which have never defaulted, or reflect balances lower than when these went into debt review.

NIR increased 17% driven by satisfactory new business volumes and increasing insurance revenues, mainly in the MotoNovo business in the UK.

Growth in core operating costs remained below inflation, increasing 3%, and WesBank's cost-to-income ratio increased marginally reflecting excellent cost containment.

### STRATEGIES TO ENSURE SUSTAINABILITY OF GROWTH AND RETURNS

As previously stated the group seeks to create long-term franchise value, deliver superior and sustainable economic returns to shareholders within acceptable levels of volatility and maintain balance sheet strength.

FirstRand believes it has the necessary strategies and operating platforms to continue to generate growth and earnings above its hurdle rates, although the level of outperformance that can be achieved becomes more difficult given the high earnings base created in the past and the challenging operating environment going forward.

The group's portfolio of businesses already represents a diversified earnings stream, although mainly concentrated in traditional banking activities, namely retail and wholesale lending, transactional and related endowment. The high quality of the lending and transactional franchises that reside in FNB, RMB and WesBank are a direct result of the group's strategy over the past five years to achieve significant market share of profits in those activities.

This market positioning will stand the domestic franchises in good stead moving into what is expected to be a more difficult operating environment. FirstRand, however, recognises the imperative to continue to protect and grow these franchises. The group believes this can be achieved through executing on disruptive and innovative strategies to deliver differentiated offerings to customers. In addition, the appropriate level of cross-sell available through collaboration across all of the franchises is still not fully realised.

For example, there are still meaningful opportunities within the WesBank customer base for FNB to introduce its market leading transactional offering, particularly given that 60% of WesBank customers remain unbanked by FNB. The recent acquisition of the non-controlling interests in Direct Axis, which has a customer base that is also significantly under-penetrated by FNB, provides new high quality customers to introduce transactional products. The group believes transactional offerings are the appropriate mechanisms to drive growth in new customers, particularly given the negative credit cycle. It is in line with FNB's stated objective to increase volumes on its electronic platforms and grow fee and commission income, with the concomitant positive impact this will have on NIR, ROA and ROE. Credit extension should increase on the back of these new transactional relationships, particularly where FNB gains comfort from transactional data on the account.

The group believes growth of its domestic franchise also lies in its ability to capture a larger share of profits from the broader financial services markets including savings, insurance and investment products, currently the domain of asset managers and insurance companies. These activities currently represent only 11% of the group's gross revenue and have become more attractive following changes in regulations. The group can offer significantly differentiated, but more cost-effective offerings to both existing and new customers currently saving and investing with competitors. It can, in particular, leverage off its strong actuarial skills base, flexible electronic distribution platforms and track record of innovation.

As the group's primary objective is to produce superior returns for its shareholders and its key performance measurement is net income after capital charge (NIACC), the majority of the growth initiatives outlined above are "capital light" and seek to drive growth in NIR and enhance ROE.

## MANAGEMENT OF FINANCIAL RESOURCES

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

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

### Balance sheet strength

### Capital position

Current targeted ranges and actual ratios are summarised below.

| % | CET1 | Tier 1 | Total |
|---|---|---|---|
| Regulatory minimum* | 6.5 | 8.0 | 10.0 |
| Targets | 10.0 – 11.0 | >12.0 | >14.0 |
| **Actual**** | **14.2** | **14.6** | **16.9** |

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

** *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.

### Liquidity position

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

The bank exceeds the 60% minimum liquidity coverage ratio as set out by the Basel Committee with an LCR of 84% as at 30 June 2015, holding available liquidity of R119 billion with an additional R11 billion of management liquidity available.

## REGULATORY UPDATE

During the year, the Basel Committee on Banking Supervision (BCBS) issued a number of consultative documents that may impact the capital levels going forward:

- a revised set of standardised approaches for credit and operational risk; and
- a capital floor based on the revised standardised approach for internal ratings-based (IRB) accredited banks.

The capital floor aims to address variability in capital for banks using the IRB approaches, and to enhance comparability across jurisdictions. These consultative documents are still under discussion and the impact of the standardised capital floor cannot yet be determined as the BCBS has not yet clarified the proposed calibration and implementation timeline.

In addition, the Financial Stability Board issued for consultation a set of principles on the adequacy of loss absorbing and recapitalisation capacity of global systemically important banks (G-SIBs) at the end of 2014. These were developed in consultation with the BCBS and will, once finalised, form a new minimum standard for the total loss absorbing capacity and composition of a bank's capital structure. Recently National Treasury, the South African Reserve Bank and the Financial Services Board 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 G-SIBs, and have been identified as:

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

Comments are expected from all relevant stakeholders and the public by the end of September 2015. The final outcome from the consultation phase is not clear. It is, therefore, anticipated that further enhancements and changes may be incorporated in the current discussion document.

The bank is of the view that, given its current high levels of capital, it is well positioned to absorb these increased regulatory requirements, however, it is fair to say that the absolute impact on capital levels and composition remains unclear.

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# DETAILED FINANCIAL ANALYSIS

This section is based on normalised results. A detailed reconciliation between IFRS and normalised results is set out on pages 28 to 33.

# KEY FINANCIAL RESULTS, RATIOS AND STATISTICS – NORMALISED

*for the year ended 30 June*

| R million | 2015 | 2014 | % change |
|---|---|---|---|
| **Earnings performance** | | | |
| Normalised earnings contribution by franchise | **15 246** | 12 321 | 24 |
| FNB | **9 392** | 7 846 | 20 |
| RMB | **3 826** | 3 646 | 5 |
| WesBank | **2 089** | 2 190 | (5) |
| FCC (including Group Treasury) and other | **146** | (1 169) | (>100) |
| NCNR preference dividend | **(207)** | (192) | 8 |
| Attributable earnings – IFRS (refer page 233) | **15 394** | 12 555 | 23 |
| Headline earnings | **15 387** | 12 623 | 22 |
| Normalised earnings | **15 246** | 12 321 | 24 |
| Normalised net asset value | **71 997** | 61 064 | 18 |
| Tangible normalised net asset value | **71 926** | 60 980 | 18 |
| Average normalised net asset value | **66 531** | 56 236 | 18 |
| **Balance sheet** | | | |
| Normalised total assets | **949 959** | 851 209 | 12 |
| Loans and advances (net of credit impairment) | **705 257** | 633 183 | 11 |
| **Ratios and key statistics** | | | |
| ROE (%) | **22.9** | 21.9 | |
| ROA (%) | **1.69** | 1.51 | |
| Average gross loan-to-deposit ratio (%) | **92.7** | 91.9 | |
| Diversity ratio (%) | **42.5** | 43.5 | |
| Credit impairment charge | **4 993** | 4 925 | 1 |
| NPLs as % of advances | **2.17** | 2.32 | |
| Credit loss ratio (%) | **0.73** | 0.81 | |
| Specific coverage ratio (%) | **41.0** | 40.4 | |
| Total impairment coverage ratio (%) | **86.6** | 86.9 | |
| Performing book coverage ratio (%) | **1.01** | 1.10 | |
| Cost-to-income ratio (%) | **55.3** | 57.0 | |
| Effective tax rate (%) | **25.1** | 25.3 | |
| Number of employees | **36 793** | 33 476 | 10 |

# SUMMARISED INCOME STATEMENT – NORMALISED

*for the year ended 30 June*

| R million | 2015 | 2014 | % change |
|---|---|---|---|
| **Net interest income before impairment of advances** | **33 913** | 29 544 | 15 |
| Impairment of advances | **(4 993)** | (4 925) | 1 |
| **Net interest income after impairment of advances** | **28 920** | 24 619 | 17 |
| Non-interest revenue* | **25 057** | 22 736 | 10 |
| **Income from operations** | **53 977** | 47 355 | 14 |
| Operating expenses | **(32 591)** | (29 807) | 9 |
| **Income before tax** | **21 386** | 17 548 | 22 |
| Indirect tax | **(751)** | (796) | (6) |
| **Profit before tax** | **20 635** | 16 752 | 23 |
| Income tax expense | **(5 182)** | (4 239) | 22 |
| **Profit for the year** | **15 453** | 12 513 | 23 |
| NCNR preference shareholders | **(207)** | (192) | 8 |
| **Normalised earnings attributable to ordinary equityholders of the bank** | **15 246** | 12 321 | 24 |

* *NIR and NII have been restated for the USD funding normalisation.*

# SUMMARISED STATEMENT OF COMPREHENSIVE INCOME – NORMALISED

*for the year ended 30 June*

| R million | 2015 | 2014 | % change |
|---|---|---|---|
| **Profit for the year** | **15 453** | 12 513 | 23 |
| **Items that may subsequently be reclassified to profit or loss** | | | |
| **Cash flow hedges** | **(271)** | 361 | (>100) |
| Losses arising during the year | **(569)** | (111) | >100 |
| Reclassification adjustments for amounts included in profit or loss | **193** | 613 | (69) |
| Deferred income tax | **105** | (141) | (>100) |
| **Available-for-sale financial assets** | **(35)** | (149) | (77) |
| Losses arising during the year | **(40)** | (149) | (73) |
| Reclassification adjustments for amounts included in profit or loss | **(20)** | (67) | (70) |
| Deferred income tax | **25** | 67 | (63) |
| **Exchange differences on translating foreign operations** | **290** | 193 | 50 |
| Gains arising during the year | **290** | 193 | 50 |
| **Items that may not subsequently be reclassified to profit or loss** | | | |
| **Remeasurements on defined benefit post-employment plans** | **108** | (103) | (>100) |
| Gains/(losses) arising during the year | **151** | (142) | (>100) |
| Deferred income tax | **(43)** | 39 | (>100) |
| **Other comprehensive income for the year** | **92** | 302 | (70) |
| **Total comprehensive income for the year** | **15 545** | 12 815 | 21 |
| **Attributable to:** | | | |
| Ordinary equityholders | **15 338** | 12 623 | 22 |
| NCNR preference shareholders | **207** | 192 | 8 |
| **Total comprehensive income for the year** | **15 545** | 12 815 | 21 |

# SUMMARISED STATEMENT OF FINANCIAL POSITION – NORMALISED

*as at 30 June*

| R million | 2015 | 2014 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | **53 725** | 51 788 |
| Derivative financial instruments | **34 112** | 38 633 |
| Commodities | **7 354** | 7 904 |
| Accounts receivable | **4 301** | 4 131 |
| Advances** | **705 257** | 633 183 |
| Amounts due by holding company and fellow subsidiary companies | **27 318** | 26 005 |
| Investment securities and other investments** | **103 673** | 77 712 |
| Investment in subsidiary companies | ***** | * |
| Investment in associate companies | ***** | * |
| Property and equipment | **12 821** | 11 369 |
| Intangible assets | **71** | 84 |
| Deferred income tax asset | **1 202** | 400 |
| Non-current assets and disposal groups held for sale | **125** | – |
| **Total assets** | **949 959** | 851 209 |
| **EQUITY AND LIABILITIES** | | |
| **Liabilities** | | |
| Short trading positions | **5 270** | 5 398 |
| Derivative financial instruments | **40 811** | 41 628 |
| Creditors and accruals | **12 166** | 10 380 |
| Current tax liability | **69** | 53 |
| Deposits | **779 703** | 693 176 |
| Provisions | **299** | 386 |
| Employee liabilities | **8 848** | 8 080 |
| Other liabilities | **3 977** | 4 268 |
| Amounts due to holding company and fellow subsidiary companies | **11 836** | 12 292 |
| Tier 2 liabilities | **11 983** | 11 484 |
| **Total liabilities** | **874 962** | 787 145 |
| **Equity** | | |
| Ordinary shares | **4** | 4 |
| Share premium | **16 804** | 15 304 |
| Reserves | **55 189** | 45 756 |
| **Capital and reserves attributable to ordinary equityholders** | **71 997** | 61 064 |
| NCNR preference shares | **3 000** | 3 000 |
| **Total equity** | **74 997** | 64 064 |
| **Total equity and liabilities** | **949 959** | 851 209 |

* *Denotes amounts less than R500 000.*

** *Advances include R9 494 million of HQLA which are under the control of the Group Treasurer, as well as corporate bonds not qualifying as HQLA and securitisation notes of R18 714 million. These were reclassified from investment securities. Prior year numbers have been restated.*

# RECONCILIATION OF NORMALISED TO IFRS SUMMARISED INCOME STATEMENT

*for the year ended 30 June 2015*

| R million | June 2015 Normalised | Economic hedges | Fair value annuity income (lending) | IAS 19 adjustment | |
|---|---|---|---|---|---|
| **Net interest income before impairment of advances** | **33 913** | (265) | (2 816) | – | |
| Impairment of advances | **(4 993)** | – | 637 | – | |
| **Net interest income after impairment of advances** | **28 920** | (265) | (2 179) | – | |
| Non-interest revenue | **25 057** | 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** | – | – | – | |

| Margin on securitised assets | USD liquidity funding | TRS adjustment | Headline earnings | IFRS |
|---|---|---|---|---|
| (807) | 204 | – | – | **30 229** |
| – | – | – | – | **(4 356)** |
| (807) | 204 | – | – | **25 873** |
| 807 | (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 INCOME STATEMENT

*for the year ended 30 June 2014*

| R million | Normalised | Economic hedges | Fair value annuity income (lending) | IAS 19 adjustment | |
|---|---|---|---|---|---|
| **Net interest income before impairment of advances** | 29 544 | (253) | (3 081) | – | |
| Impairment of advances | (4 925) | – | 98 | – | |
| **Net interest income after impairment of advances** | 24 619 | (253) | (2 983) | – | |
| Non-interest revenue | 22 736 | 253 | 2 983 | – | |
| **Income from operations** | 47 355 | – | – | – | |
| Operating expenses | (29 807) | – | – | 145 | |
| **Income before tax** | 17 548 | – | – | 145 | |
| Indirect tax | (796) | – | – | – | |
| **Profit before tax** | 16 752 | – | – | 145 | |
| Income tax expense | (4 239) | – | – | (41) | |
| **Profit for the year** | 12 513 | – | – | 104 | |
| **Attributable to:** | | | | | |
| NCNR preference shareholders | (192) | – | – | – | |
| **Ordinary equityholders** | 12 321 | | | 104 | |
| Headline and normalised earnings adjustments | – | – | – | (104) | |
| **Normalised earnings** | 12 321 | – | – | – | |

| Margin on securitised assets | USD liquidity funding | TRS adjustment | Headline earnings | IFRS |
|---|---|---|---|---|
| (958) | (53) | – | – | 25 199 |
| – | – | – | – | (4 827) |
| (958) | (53) | – | – | 20 372 |
| 958 | 53 | 1 572 | 67 | 28 622 |
| – | – | 1 572 | 67 | 48 994 |
| – | – | (1 297) | (117) | (31 076) |
| – | – | 275 | (50) | 17 918 |
| – | – | – | – | (796) |
| – | – | 275 | (50) | 17 122 |
| – | – | (77) | (18) | (4 375) |
| – | – | 198 | (68) | 12 747 |
| – | – | – | – | (192) |
| – | – | 198 | (68) | 12 555 |
| – | – | (198) | 68 | (234) |
| – | – | – | – | 12 321 |

# RECONCILIATION OF NORMALISED TO IFRS SUMMARISED STATEMENT OF FINANCIAL POSITION

*as at 30 June 2015*

| R million | Normalised | Reallocation of credit instruments | IFRS |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | **53 725** | – | **53 725** |
| Derivative financial instruments | **34 112** | – | **34 112** |
| Commodities | **7 354** | – | **7 354** |
| Accounts receivable | **4 301** | – | **4 301** |
| Advances | **705 257** | (29 870) | **675 387** |
| Amounts due by holding company and fellow subsidiary companies | **27 318** | – | **27 318** |
| Investment securities and other investments | **103 673** | 29 870 | **133 543** |
| Investment in subsidiary companies | ***** | – | ***** |
| Investment in associate companies | ***** | – | ***** |
| Property and equipment | **12 821** | – | **12 821** |
| Intangible assets | **71** | – | **71** |
| Deferred income tax asset | **1 202** | – | **1 202** |
| Non-current assets and disposal groups held for sale | **125** | – | **125** |
| **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 and accruals | **12 166** | – | **12 166** |
| Current tax liability | **69** | – | **69** |
| Deposits | **779 703** | – | **779 703** |
| Provisions | **299** | – | **299** |
| Employee liabilities | **8 848** | – | **8 848** |
| Other liabilities | **3 977** | – | **3 977** |
| Amounts due to holding company and fellow subsidiary companies | **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** |

* *Denotes amounts less than R500 000.*

# RECONCILIATION OF NORMALISED TO IFRS SUMMARISED STATEMENT OF FINANCIAL POSITION

*as at 30 June 2014*

| R million | Normalised | Reallocation of credit instruments | IFRS |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | 51 788 | – | 51 788 |
| Derivative financial instruments | 38 633 | – | 38 633 |
| Commodities | 7 904 | – | 7 904 |
| Accounts receivable | 4 131 | – | 4 131 |
| Advances | 633 183 | (11 071) | 622 112 |
| Amounts due by holding company and fellow subsidiary companies | 26 005 | – | 26 005 |
| Investment securities and other investments | 77 712 | 11 071 | 88 783 |
| Investment in subsidiary companies | * | – | * |
| Investment in associate companies | * | – | * |
| Property and equipment | 11 369 | – | 11 369 |
| Intangible assets | 84 | – | 84 |
| Deferred income tax asset | 400 | – | 400 |
| Non-current assets and disposal groups held for sale | – | – | – |
| **Total assets** | 851 209 | – | 851 209 |
| **EQUITY AND LIABILITIES** | | | |
| **Liabilities** | | | |
| Short trading positions | 5 398 | – | 5 398 |
| Derivative financial instruments | 41 628 | – | 41 628 |
| Creditors and accruals | 10 380 | – | 10 380 |
| Current tax liability | 53 | – | 53 |
| Deposits | 693 176 | – | 693 176 |
| Provisions | 386 | – | 386 |
| Employee liabilities | 8 080 | – | 8 080 |
| Other liabilities | 4 268 | – | 4 268 |
| Amounts due to holding company and fellow subsidiary companies | 12 292 | – | 12 292 |
| Tier 2 liabilities | 11 484 | – | 11 484 |
| **Total liabilities** | 787 145 | – | 787 145 |
| **Equity** | | | |
| Ordinary shares | 4 | – | 4 |
| Share premium | 15 304 | – | 15 304 |
| Reserves | 45 756 | – | 45 756 |
| **Capital and reserves attributable to ordinary equityholders** | 61 064 | – | 61 064 |
| NCNR preference shares | 3 000 | – | 3 000 |
| **Total equity** | 64 064 | – | 64 064 |
| **Total equity and liabilities** | 851 209 | – | 851 209 |

* *Denotes amounts less than R500 000.*

# FLOW OF FUNDS ANALYSIS

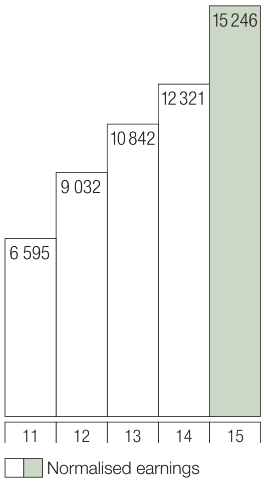
| R million | June 2015 vs June 2014 12-month movement | June 2014 vs June 2013 12-month movement |
|---|---|---|
| **Sources of funds** | | |
| Capital account movement (including profit and reserves) | **10 933** | 9 657 |
| Working capital movement | **(674)** | (1 543) |
| Derivatives positions | **3 576** | 4 285 |
| Investments | **(889)** | (2 717) |
| Deposits and long-term liabilities | **87 026** | 67 163 |
| Advances | **(72 074)** | (84 602) |
| **Total** | **27 898** | (7 757) |
| **Application of funds** | | |
| Cash and cash equivalents | **(1 937)** | (9 492) |
| Investment securities and other investments | **(25 961)** | 17 249 |
| **Total** | **(27 898)** | 7 757 |

# OVERVIEW OF RESULTS

## EARNINGS PERFORMANCE

### NORMALISED EARNINGS
*R million*

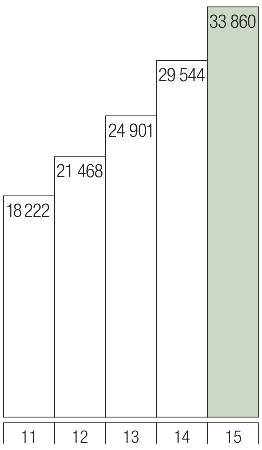
CAGR 23%




*Note: 2013 to 2015 figures have been prepared in terms of IFRS 10 and 11, and the revised IAS 19.*

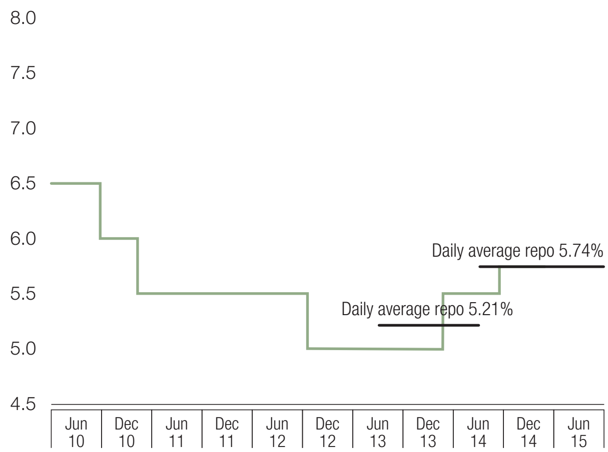
## NET INTEREST INCOME (BEFORE IMPAIRMENT OF ADVANCES) – UP 15%

### NET INTEREST INCOME
*R million*




*Note: 2013 to 2015 figures have been prepared in terms of IFRS 10 and 11, and the revised IAS 19.*

### REPO RATE
*%*




*Note: R126 billion = average endowment book for the year. Rates were higher by 53 bps on average in the current year, which translates into a positive endowment impact of approximately R668 million.*

### MARGIN CASCADE TABLE

| Percentage of average interest-earning banking assets | % |
|---|---|
| **June 2014 normalised margin*** | **4.87** |
| Capital and deposit endowment | **0.15** |
| Advances | **(0.02)** |
| – Change in balance sheet mix | **0.09** |
| – Asset pricing** | **(0.11)** |
| Liabilities | **(0.05)** |
| – Change in balance sheet mix (deposits) | **0.06** |
| – Term funding cost | **(0.09)** |
| – Deposit pricing | **(0.02)** |
| Group Treasury and other movements | **0.07** |
| – MTM vs accrual on term issuance in professional funding | **0.06** |
| – Increase in HQLA | **(0.09)** |
| – Other accounting mismatches and interest rate risk hedges | **0.10** |
| **June 2015 normalised margin** | **5.02** |

* *The 2014 margin has been restated to include corporate bonds not qualifying as HQLA. The June 2015 margin includes the impact of non-qualifying HQLA corporate bonds and HQLA, as these have been reclassified from fair value investment securities into interest-earning assets. This is due to the bank actively managing its balance sheet since the implementation of the LCR requirements.*

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

## SEGMENTAL ANALYSIS OF NET INTEREST INCOME BEFORE IMPAIRMENT OF ADVANCES

| | Year ended 30 June | | |
|---|---|---|---|
| **R million** | **2015** | **2014** | **% change** |
| **FNB** | **18 630** | 16 138 | 15 |
| Retail | **12 505** | 10 990 | 14 |
| – Residential mortgages | **3 548** | 3 418 | 4 |
| – Card | **1 856** | 1 517 | 22 |
| – Personal loans | **2 232** | 2 216 | 1 |
| – Retail other | **4 869** | 3 839 | 27 |
| Commercial | **6 121** | 5 146 | 19 |
| FNB Africa* | **4** | 2 | 100 |
| **RMB** | **5 300** | 5 178 | 2 |
| Investment banking | **4 382** | 4 365 | – |
| Corporate banking | **918** | 813 | 13 |
| **WesBank** | **8 124** | 8 159 | – |
| **FCC (including Group Treasury) and other**** | **1 859** | 69 | >100 |
| **Net interest income – bank activities** | **33 913** | 29 544 | 15 |

* *Includes FNB's activities in India.*

** *Includes aggregation adjustments.*

**Key drivers**

- Positive endowment effect from the 50 bps increase in the repo rate in January 2014 and a further 25 bps increase in July 2014 (an average increase of 53 bps in the repo rate for the year).
- Higher capital levels further underpinned NII growth.
- Strong advances and deposit growth of 11% and 12%, respectively, boosted NII.
- An increase in certain asset margins in FNB. Repricing benefits in card, retail overdrafts and commercial term loans were, to some extent offset by lower margins in commercial overdrafts and FNB loans.
- WesBank's margins reduced slightly, negatively impacted by a change in the fixed vs floating retail new business mix, an increase in liquidity costs and competitive pricing pressures.
- Investment banking advances were negatively impacted by higher term funding and liquidity costs.
- A decrease of R77 million in the dollar funding carry costs relating to excess dollar liquidity, primarily affected by the increased funding of operational assets during the year.
- With LCR becoming a prudential regulatory requirement from 1 January 2015, higher holdings of HQLA resulted in lower interest margin in bank.

## AVERAGE BALANCE SHEET

| | | June 2015 | | | June 2014 | | |
|---|---|---|---|---|---|---|---|
| **R million** | **Notes** | **Average balance*,**** | **Interest income/ (expense)** | **Average rate %** | **Average balance** | **Interest income/ (expense)** | **Average rate %** |
| **INTEREST-EARNING ASSETS** | | | | | | | |
| **Average prime rate** | | | | **9.24** | | | 8.71 |
| Balances with central banks | | **17 225** | **–** | **–** | 15 151 | – | – |
| Cash and cash equivalents | | **14 763** | **555** | **3.76** | 18 526 | 545 | 2.94 |
| Liquid assets portfolio | | **62 210** | **4 641** | **7.46** | 56 380 | 4 217 | 7.48 |
| Loans and advances to customers | 1 | **581 780** | **57 704** | **9.92** | 517 110 | 49 037 | 9.48 |
| **Interest-earning assets** | | **675 978** | **62 900** | **9.31** | 607 167 | 53 799 | 8.86 |
| **INTEREST-BEARING LIABILITIES** | | | | | | | |
| **Average JIBAR** | | | | **6.05** | | | 5.33 |
| Deposits due to customers | 2 | **(393 953)** | **(15 150)** | **3.85** | (349 135) | (12 182) | 3.49 |
| Group Treasury funding | | **(249 744)** | **(16 558)** | **6.63** | (215 109) | (12 799) | 5.95 |
| **Interest-bearing liabilities** | | **(643 697)** | **(31 708)** | **4.93** | (564 244) | (24 981) | 4.43 |
| **ENDOWMENT AND TRADING BOOK** | | | | | | | |
| Other assets# | | **123 281** | **2 721** | **2.21** | 109 065 | 726 | 0.67 |
| Other liabilities† | | **(87 236)** | **–** | **–** | (90 508) | – | – |
| NCNR preference shareholders | | **(3 000)** | **–** | **–** | (3 000) | – | – |
| Equity | | **(65 326)** | **–** | **–** | (58 480) | – | – |
| **Endowment and trading book** | | **(32 281)** | **2 721** | **(8.43)** | (42 923) | 726 | (1.69) |
| **Total interest-bearing liabilities, endowment and trading book** | | **(675 978)** | **(28 987)** | **4.29** | (607 167) | (24 255) | 3.99 |
| **Net interest margin on average interest-earning assets** | | **675 978** | **33 913** | **5.02** | 607 167 | 29 544 | 4.87 |

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

* *Includes level 1 HQLA.*

** *Includes level 2 HQLA and corporate bonds not qualifying as HQLA. 2014 numbers have been restated as appropriate. This is due to the bank actively managing its balance sheet since the implementation of the LCR requirements.*

# *Includes preference share advances and trading assets.*

† *Includes trading liabilities.*

## NOTE 1 – MARGIN ANALYSIS ON LOANS AND ADVANCES TO CUSTOMERS

| | June 2015 | | June 2014# | |
|---|---|---|---|---|
| **R million** | **Average balance** | **Average margin %** | **Average balance** | **Average margin %** |
| **Average prime rate (RSA)** | | **9.24** | | 8.71 |
| **Advances** | | | | |
| **Retail – secured** | **290 206** | **2.62** | 269 406 | 2.95 |
| Residential mortgages | **174 898** | **1.77** | 166 808 | 1.76 |
| VAF* | **115 308** | **3.92** | 102 598 | 4.87 |
| **Retail – unsecured** | **52 005** | **12.45** | 41 364 | 13.02 |
| Card | **17 732** | **9.10** | 14 611 | 8.84 |
| Personal loans | **22 947** | **17.08** | 21 091 | 17.49 |
| – FNB loans | **13 233** | **15.24** | 12 696 | 15.49 |
| – WesBank loans | **9 714** | **19.60** | 8 395 | 20.51 |
| Overdrafts | **11 326** | **8.32** | 5 662 | 7.17 |
| **Corporate and commercial** | **239 569** | **2.43** | 206 340 | 2.63 |
| FNB commercial | **52 490** | **3.78** | 44 865 | 3.76 |
| – Mortgages | **14 467** | **2.64** | 12 354 | 2.58 |
| – Overdrafts | **21 803** | **4.87** | 18 904 | 4.93 |
| – Term loans | **16 220** | **3.32** | 13 607 | 3.21 |
| WesBank corporate | **38 032** | **2.69** | 34 116 | 2.77 |
| RMB investment banking** | **146 755** | **1.89** | 124 707 | 2.19 |
| RMB corporate banking | **2 292** | **2.57** | 2 652 | 2.23 |
| **Total advances** | **581 780** | **3.42** | 517 110 | 3.63 |

*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.*

* *Normalised interest margin on WesBank's MotoNovo book was impacted by a transfer of NII from FCC (including Group Treasury) to compensate WesBank for margin forfeited on securitised assets. This is included in WesBank's NII whilst securitised advances are not reflected on the bank's statement of financial position.*

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

# *2014 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 bank operates a transfer pricing framework that incorporates liquidity cost and benefits into products pricing, including any regulatory costs for all significant business activities on- and off-balance sheets; thereby aligning liquidity risk-taking incentives of individual business units with the liquidity risk exposure this activity creates for the bank as a whole.

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

## NOTE 2 – MARGIN ANALYSIS ON DEPOSITS DUE TO CUSTOMERS

| | June 2015 | | June 2014* | |
|---|---|---|---|---|
| **R million** | **Average balance** | **Average margin %** | **Average balance** | **Average margin %** |
| **Average prime rate (RSA)** | | **9.24** | | 8.71 |
| **Deposits** | | | | |
| **Retail** | **135 200** | **2.84** | 119 278 | 2.61 |
| Current and savings | **47 469** | **5.53** | 40 904 | 4.98 |
| Call | **3 112** | **2.98** | 3 111 | 2.63 |
| Money market | **29 164** | **1.65** | 28 032 | 1.64 |
| Term | **55 455** | **1.15** | 47 231 | 1.12 |
| **Commercial** | **141 837** | **2.57** | 128 390 | 2.33 |
| Current and savings | **53 758** | **4.94** | 48 815 | 4.39 |
| Call | **35 235** | **1.29** | 31 097 | 1.26 |
| Money market | **19 381** | **2.01** | 18 129 | 1.84 |
| Term | **33 463** | **0.46** | 30 349 | 0.44 |
| **Corporate and investment banking** | **116 916** | **0.69** | 101 467 | 0.68 |
| Current and savings | **48 947** | **1.30** | 40 706 | 1.20 |
| Call | **36 857** | **0.20** | 30 772 | 0.30 |
| Term | **31 112** | **0.29** | 29 989 | 0.36 |
| **Total deposits** | **393 953** | **2.10** | 349 135 | 1.95 |

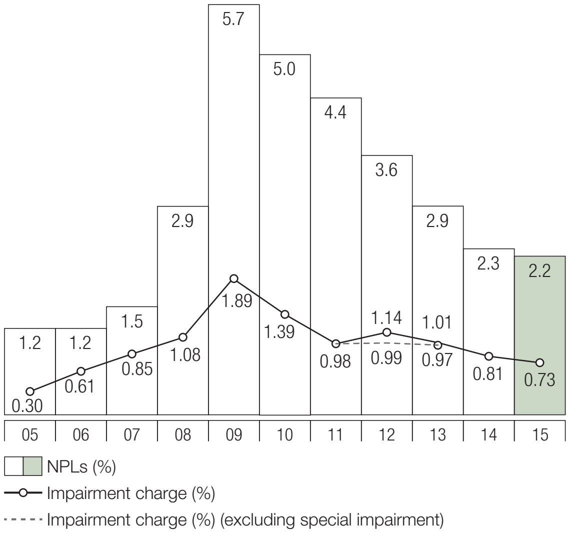
*Average balances are daily averages for the South African operations (FNB and WesBank) and monthly averages for RMB.*

*Institutional funding is excluded from deposits due to customers.*

* *2014 margins have been restated due to segmentation.*

## CREDIT HIGHLIGHTS

### NPLs AND IMPAIRMENT HISTORY




| R million | Year ended 30 June 2015 | 2014 | % change |
|---|---|---|---|
| Total gross advances – including credit-related assets* | **718 771** | 646 207 | 11 |
| NPLs – including credit-related assets | **15 603** | 14 984 | 4 |
| NPLs as a % of advances – including credit-related assets | **2.17** | 2.32 | |
| Impairment charge – including credit-related assets | **4 993** | 4 925 | 1 |
| Impairment charge as a % of average advances – including credit-related assets | **0.73** | 0.81 | |
| Total impairments* | **13 514** | 13 024 | 4 |
| – Portfolio impairments | **7 109** | 6 963 | 2 |
| – Specific impairments | **6 405** | 6 061 | 6 |
| Implied loss given default (coverage)** | **41.0** | 40.4 | |
| Total impairments coverage ratio# | **86.6** | 86.9 | |
| Performing book coverage ratio† | **1.01** | 1.10 | |

* *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.*

Credit impairments increased 1%. The credit impairment ratio, however, reduced from 81 bps (restated) to 73 bps.

Overall NPLs increased 4%, driven by strong book growth in card, other retail, India and WesBank loans. The downturn in the commodity cycle negatively impacted NPL formation in the corporate portfolio.

The total coverage ratio marginally reduced to 86.6 bps (June 2014: 86.9 bps), reflecting a change in NPL mix, although both specific and portfolio impairments increased during the year. Increased portfolio impairments were driven by strong book growth in WesBank loans, retail VAF, card, and in RMB, by the adverse commodity cycle (oil and gas, and mining and metals sectors). The performing book coverage ratio of 101 bps reduced from the prior year (June 2014:110 bps). This was largely a result of central overlay release, given the previously identified risk manifesting with NPL formation increasing in the underlying franchises and products during the year, resulting in higher specific impairments.

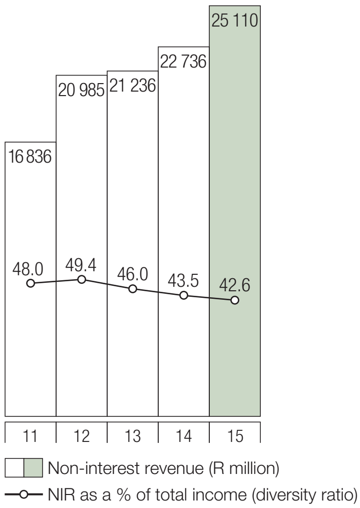
**Key drivers**

- An 18% reduction in residential mortgage NPLs, reflecting continued strong cure rates of defaulted accounts and constrained levels of new inflows, reflecting disciplined origination strategies and effective workout strategies.
- A reduction of 7% in FNB personal loans NPLs, underpinned by a 22% reduction in NPLs in mass loans, reflecting more conservative origination strategies and tightening credit criteria.
- Higher NPLs in card, retail VAF and WesBank loans, impacted by strong book growth and the worsening credit cycle.
- NPLs in RMB's Investment Banking division increased 26%, primarily driven by the impact of the adverse commodity cycle on certain counters in the mining and metals sector.
- Post write-off recoveries remained robust at R1.83 million, driven by card, the unsecured retail lending portfolios (personal loans) and VAF.

## NON-INTEREST REVENUE – UP 10%

### NON-INTEREST REVENUE AND DIVERSITY RATIO

**NIR CAGR 11%**




*Note: 2013 to 2015 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** | **2015** | **2014** | **% change** |
| Fee and commission income | 1 | **20 009** | 18 812 | 6 |
| Fair value income | 2 | **2 522** | 2 063 | 22 |
| Investment income | | **74** | (99) | (>100) |
| Other non-interest revenue | 3 | **2 452** | 1 960 | 25 |
| **Total non-interest revenue** | | **25 057** | 22 736 | 10 |

NIR growth was satisfactory, although the growth trajectory moderated given the more constrained macro environment and the initial regulatory impact of the reduction in interchange.

NIR growth was underpinned by fee and commission income growth, benefiting from the specific ongoing strategies to grow electronic transaction volumes. Fee and commission income represents 80% of total NIR.

## NOTE 1 – FEE AND COMMISSION INCOME – UP 6%

| | Year ended 30 June | | |
|---|---|---|---|
| **R million** | **2015** | **2014** | **% change** |
| **Bank commissions and fee income** | **20 292** | 18 970 | 7 |
| – Card commissions | **3 342** | 3 149 | 6 |
| – Cash deposit fees | **1 724** | 1 664 | 4 |
| – Commissions on bills, drafts and cheques | **1 727** | 1 610 | 7 |
| – Bank charges | **13 499** | 12 547 | 8 |
| Knowledge-based fees | **976** | 1 137 | (14) |
| Management and fiduciary fees | **577** | 557 | 4 |
| Insurance income | **1 045** | 1 009 | 4 |
| Other non-bank commissions* | **513** | 297 | 73 |
| Gross fee and commission income | **23 403** | 21 970 | 7 |
| Fee and commission expenditure | **(3 394)** | (3 158) | 7 |
| **Total fee and commission income** | **20 009** | 18 812 | 6 |

* *Other non-banking and commission income which better relates to other fee and commission categories were reallocated from other non-banking fee and commission income to relevant fee and commission categories for both the current and prior years.*

### Key drivers

- FNB grew fee and commission income 9%, benefiting from a 12% growth in transaction volumes, increased product cross-sell and an increase in the active account base in targeted segments.
- Electronic volumes increased 14%, while manual volumes decreased marginally, in line with strategy.

| | **Increase in certain transaction volumes %** |
|---|---|
| Mobile financial | **25** |
| Internet banking | **15** |
| Debit card | **18** |
| Cheque card | **13** |
| Banking app | **69** |
| ADT/ATM cash deposits | **12** |

- Overall fee and commission income growth rates were impacted by the initial impact of interchange as well as lower credit life revenue.
- WesBank's NIR growth of 17% was driven by satisfactory new business volumes, given the constrained macro environment, a strong contribution from the full maintenance rental book and increasing insurance revenues, primarily driven by MotoNovo in the UK.
- Knowledge-based fee income remained resilient, although down from the high base in 2014, impacted by:
  - higher levels of equity capital market fees due to a number of significant transactions during the year;
  - disappointing debt capital market fees on the back of a significant reduction in issuance volumes, after the failure of ABIL;
  - solid levels of M&A advisory income benefiting from a substantial increase in both domestic and cross-border activity and some notable significant deals concluded during the year; and
  - resilient structuring and origination fees, benefiting from the finalisation of key mandates during the year as well as ongoing book growth.

## NOTE 2 – FAIR VALUE INCOME – UP 22%

| | Year ended 30 June | | |
|---|---|---|---|
| **R million** | **2015** | **2014** | **% change** |
| Client | **1 704** | 1 340 | 27 |
| Markets | **688** | 972 | (29) |
| Other | **130** | (249) | (>100) |
| **Total** | **2 522** | 2 063 | 22 |

**Key drivers**

- Flow trading performance remained resilient, benefiting from a strong performance across most asset classes, notably interest rates and currencies. Rand depreciation and higher inflation led to increased client flow activity.
- The structuring business had an excellent performance, benefiting from large bespoke transactions in the current year.
- The markets business was negatively impacted by an adverse soft commodity trading environment, especially in the latter half of the financial year, negatively impacted by the drought in certain parts of South Africa.
- The bank's net TRS fair value income increased R234 million during the year benefiting from decreased volatility in the share-based payment expense due to rollover and vesting of schemes.

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

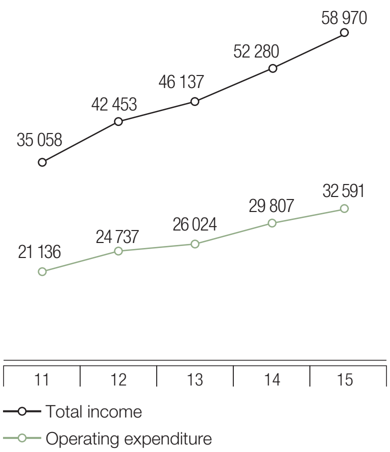
Other NIR includes rental income, with the most significant rental income being the WesBank fixed maintenance rental income, and smart box and speedpoint rental. Rental income grew 17%.

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.

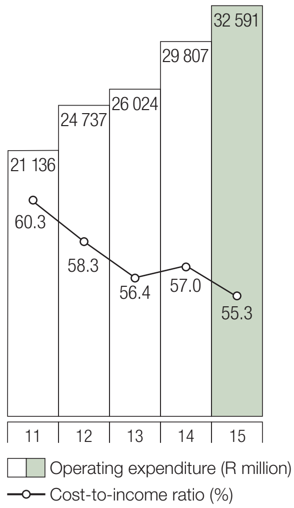
## OPERATING EXPENSES – UP 9%

OPERATING JAWS

*R million*




OPERATING EFFICIENCY




*Note: 2013 to 2015 figures have been prepared in terms of IFRS 10 and 11, and the revised IAS 19.*

OPERATING EXPENSES

| | Year ended 30 June | | |
|---|---|---|---|
| **R million** | **2015** | **2014** | **% change** |
| Staff expenditure | **19 169** | 17 149 | 12 |
| – Direct staff expenditure | **11 558** | 10 374 | 11 |
| – Other staff-related expenditure | **7 611** | 6 775 | 12 |
| Depreciation | **1 717** | 1 673 | 3 |
| Amortisation of other intangible assets | **50** | 54 | (7) |
| Advertising and marketing | **1 044** | 1 020 | 2 |
| Insurance | **209** | 206 | 1 |
| Lease charges | **1 093** | 1 023 | 7 |
| Professional fees | **1 259** | 1 156 | 9 |
| Audit fees | **244** | 190 | 28 |
| Computer expenses | **1 388** | 1 407 | (1) |
| Maintenance | **871** | 662 | 32 |
| Telecommunications | **264** | 289 | (9) |
| Cooperation agreements and joint ventures | **871** | 1 052 | (17) |
| Property | **763** | 678 | 13 |
| Business travel | **319** | 288 | 11 |
| Other expenditure | **3 330** | 2 960 | 13 |
| **Total operating expenses** | **32 591** | 29 807 | 9 |

**Key drivers**

- Cost growth of 9% was driven by higher levels of variable costs associated with income generation and ongoing investment into infrastructure, capacity and expansion.

| Description | % change | Reasons |
|---|---|---|
| Direct staff costs | 11 | Unionised increases of 8% and a 10% increase in the staff complement across the bank, impacted by the converting of temporary staff to permanent staff, which accounted for 6% of the increase in staff numbers and had a positive impact on the increase in professional fees. |
| Variable staff costs | 4 | Directly related to higher levels of profitability. |

- Decrease of 17% in cooperation agreement and JV costs due to margin pressure and increased operating expenses incurred by the partners.
- The 9% growth in professional fees reflects the increased spend on development, implementation and improvement projects related to various electronic platforms, as well as additional compliance related projects during the year.
- Increase in property and maintenance expenses relate to additional premises obtained during the last two financial years.

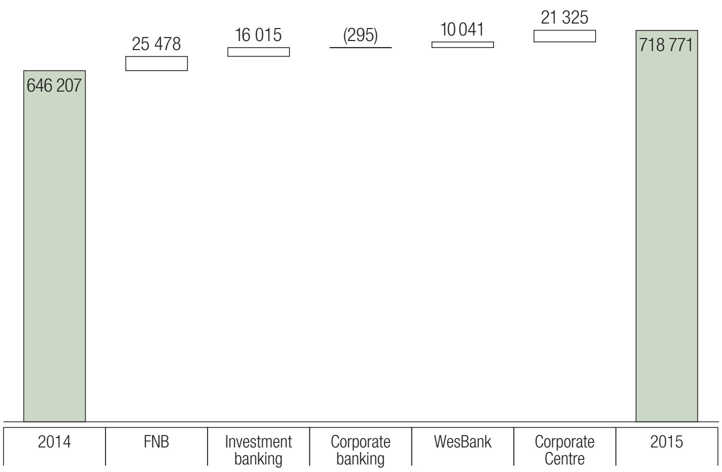
## DIRECT TAXATION – UP 22%

**Key drivers**

- Higher levels of profitability during the year.
- A change in income mix, with strong growth in NII and standard-rate taxable NIR, e.g. fee and commission income.

## ADVANCES – UP 11%

GROSS ADVANCES BY FRANCHISE
*R million*




| | Year ended 30 June | | |
|---|---|---|---|
| **R million** | **2015** | **2014** | **% change** |
| Normalised gross advances | **718 771** | 646 207 | 11 |
| Normalised impairment of advances | **(13 514)** | (13 024) | 4 |
| **Normalised net advances** | **705 257** | 633 183 | 11 |

The bank delivered satisfactory advances growth given the more constrained macro environment and rising interest rate cycle.

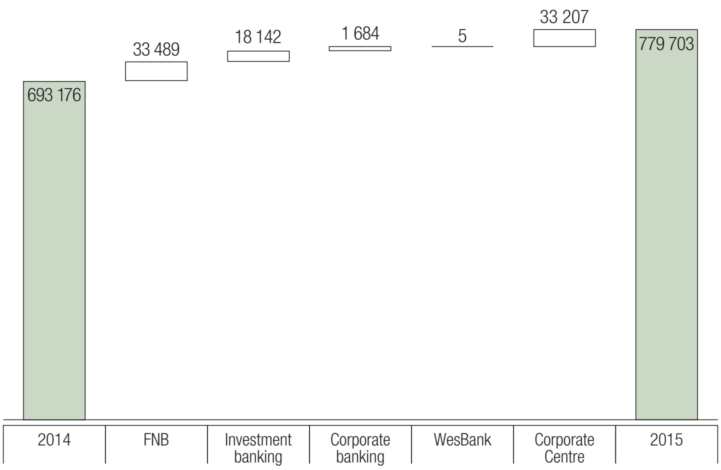
Growth rates have moderated across most retail portfolios, and in the case of the corporate portfolio, specifically in the second half of the financial year. Robust growth continues in the commercial portfolio.

| Portfolio/product | % change | Key drivers |
|---|---|---|
| **FNB retail** | **8** | |
| Residential mortgages | 5 | Continued strong growth of 14% in secured affordable housing, reflecting client demand.<br>5% growth in FNB HomeLoans, reflecting an improvement in new business volumes, although absolute growth is tracking nominal house price inflation. |
| Card | 24 | Underpinned by targeted client acquisition, increased client migration and higher utilisation levels. |
| Personal loans | 11 | Growth reflects a more conservative origination appetite, with consumer personal loans (including student loans) growing 16%, while mass market term loans decreased marginally. |
| Other retail | 30 | Growth driven by increased transactional banking accounts (primarily overdrafts) and revolving credit facilities, although growth has moderated on a rolling six month basis, reflecting lower risk appetite, slowing customer acquisition and more competitive pressures. |
| **FNB commercial** | **17** | Reflecting targeted new client acquisition in the business segment, resulting in growth of 22% in business banking advances, underpinned by growth of 25% in agriculture, 18% in commercial property finance and 14% in overdrafts. |
| **RMB investment banking core advances (excluding repos)** | **7** | Resilient growth from the SA core advances book, underpinned by infrastructure, renewable energy and leverage finance. Cross border growth was marginally negative given reduced risk appetite given the constrained commodity cycle. The introduction of LCR with effect from 1 January 2015 and the resultant creation of HQLA further impacted on absolute growth. |
| **WesBank** | **6** | Strong growth of 59% (44% in GBP) in new business volumes in MotoNovo, driven by increased volumes, new products and increased footprint.<br>Overall growth in advances was negatively impacted by slower new business volumes of 9% in personal loans and 0.5% in SA retail secured, reflecting the more constrained macro environment, a 4.8% slowdown in new vehicle sales and a change in origination structure with an alliance partner. |

## DEPOSITS – UP 12%

### GROSS DEPOSITS BY FRANCHISE

*R million*




Client deposits grew 12% with institutional funding including term and structures issuances, increasing at 14%.

**Key drivers**

- FNB's deposits increased 12%.
- Retail deposit growth of 13% was supported by ongoing product innovation.
- Commercial deposit growth of 11% was driven by new client acquisition and cross-sell.

GROWTH IN DEPOSIT BALANCES

| Product | % |
|---|---|
| Current accounts | **7** |
| Savings and transmission accounts | **5** |
| Fixed deposits | **19** |
| Notice deposits | **14** |

- Corporate transactional banking growth of 14% was driven by client acquisition, which led to an increase in both transactional and operational deposit balances, as well as new product innovation.
- Group Treasury deposits grew 19%, benefiting from foreign currency and structured issuances in the domestic market and higher activity in the bond markets.

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# SEGMENT REPORT

# SEGMENT REPORT

*for the year ended 30 June 2015*

| R million | FNB | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Retail | | | | | | | |
| | 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 | 4 869 | **12 505** | 6 121 | 4 | **18 630** |
| Impairment of advances | (111) | (191) | (715) | (743) | **(1 760)** | (310) | (3) | **(2 073)** |
| **Net interest income after impairment of advances** | 3 437 | 1 665 | 1 517 | 4 126 | **10 745** | 5 811 | 1 | **16 557** |
| Non-interest revenue | 305 | 1 287 | 757 | 8 511 | **10 860** | 5 987 | 501 | **17 348** |
| **Income from operations** | 3 742 | 2 952 | 2 274 | 12 637 | **21 605** | 11 798 | 502 | **33 905** |
| Operating expenses | (1 684) | (1 577) | (938) | (8 639) | **(12 838)** | (6 762) | (824) | **(20 424)** |
| **Income before tax** | 2 058 | 1 375 | 1 336 | 3 998 | **8 767** | 5 036 | (322) | **13 481** |
| Indirect tax | (35) | (44) | (18) | (303) | **(400)** | (35) | (1) | **(436)** |
| **Profit for the year before tax** | 2 023 | 1 331 | 1 318 | 3 695 | **8 367** | 5 001 | (323) | **13 045** |
| Income tax expense | (566) | (373) | (369) | (1 035) | **(2 343)** | (1 400) | 90 | **(3 653)** |
| **Profit for the year** | 1 457 | 958 | 949 | 2 660 | **6 024** | 3 601 | (233) | **9 392** |
| **Attributable to:** | | | | | | | | |
| Ordinary equityholders | 1 457 | 958 | 949 | 2 660 | **6 024** | 3 601 | (233) | **9 392** |
| NCNR preference shareholders | – | – | – | – | **–** | – | – | **–** |
| **Profit for the year** | 1 457 | 958 | 949 | 2 660 | **6 024** | 3 601 | (233) | **9 392** |
| **Attributable earnings to ordinary shareholders** | 1 457 | 958 | 949 | 2 660 | **6 024** | 3 601 | (233) | **9 392** |
| Headline earnings adjustments | – | – | – | – | **–** | – | – | **–** |
| **Headline earnings** | 1 457 | 958 | 949 | 2 660 | **6 024** | 3 601 | (233) | **9 392** |
| TRS adjustment | – | – | – | – | **–** | – | – | **–** |
| IAS 19 adjustment | – | – | – | – | **–** | – | – | **–** |
| **Normalised earnings** | 1 457 | 958 | 949 | 2 660 | **6 024** | 3 601 | (233) | **9 392** |

* *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 3) and are not reported in the bank.*

** *Refer to additional segmental disclosure on page 60.*

| RMB | | | | | | | |
|---|---|---|---|---|---|---|---|
| Investment banking | Corporate banking | **Total RMB** | **WesBank**** | FCC (including Group Treasury) and other | **FRB – normalised** | Normalised and headline adjustments | **FRB – IFRS** |
| 4 382 | 918 | **5 300** | **8 124** | 1 859 | **33 913** | (3 684) | **30 229** |
| (661) | (112) | **(773)** | **(2 413)** | 266 | **(4 993)** | 637 | **(4 356)** |
| 3 721 | 806 | **4 527** | **5 711** | 2 125 | **28 920** | (3 047) | **25 873** |
| 5 697 | 1 149 | **6 846** | **2 395** | (1 532) | **25 057** | 4 159 | **29 216** |
| 9 418 | 1 955 | **11 373** | **8 106** | 593 | **53 977** | 1 112 | **55 089** |
| (4 671) | (1 330) | **(6 001)** | **(5 006)** | (1 160) | **(32 591)** | (907) | **(33 498)** |
| 4 747 | 625 | **5 372** | **3 100** | (567) | **21 386** | 205 | **21 591** |
| (75) | 18 | **(57)** | **(239)** | (19) | **(751)** | – | **(751)** |
| 4 672 | 643 | **5 315** | **2 861** | (586) | **20 635** | 205 | **20 840** |
| (1 309) | (180) | **(1 489)** | **(772)** | 732 | **(5 182)** | (57) | **(5 239)** |
| 3 363 | 463 | **3 826** | **2 089** | 146 | **15 453** | 148 | **15 601** |
| 3 363 | 463 | **3 826** | **2 089** | (61) | **15 246** | 148 | **15 394** |
| – | – | **–** | **–** | 207 | **207** | – | **207** |
| 3 363 | 463 | **3 826** | **2 089** | 146 | **15 453** | 148 | **15 601** |
| 3 363 | 463 | **3 826** | **2 089** | (61) | **15 246** | 148 | **15 394** |
| – | – | **–** | **–** | – | **–** | (7) | **(7)** |
| 3 363 | 463 | **3 826** | **2 089** | (61) | **15 246** | 141 | **15 387** |
| – | – | **–** | **–** | – | **–** | (34) | **(34)** |
| – | – | **–** | **–** | – | **–** | (107) | **(107)** |
| 3 363 | 463 | **3 826** | **2 089** | (61) | **15 246** | – | **15 246** |

| R million | FNB | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Retail | | | | | Commercial | FNB Africa* | **Total FNB** |
| | Residential mortgages | Card | Personal loans | Retail other | **Retail** | | | |
| Cost-to-income ratio (%) | 43.7 | 50.2 | 31.4 | 64.6 | **54.9** | 55.8 | 163.2 | **56.8** |
| Diversity ratio (%) | 7.9 | 40.9 | 25.3 | 63.6 | **46.5** | 49.4 | 99.2 | **48.2** |
| Credit loss ratio (%) | 0.06 | 1.08 | 5.42 | 6.82 | **0.81** | 0.57 | 0.88 | **0.76** |
| NPLs as a percentage of advances (%) | 2.54 | 2.09 | 4.91 | 4.10 | **2.73** | 2.23 | 18.06 | **2.66** |
| **Income statement includes:** | | | | | | | | |
| Depreciation | (6) | (5) | (1) | (1 171) | **(1 183)** | (23) | (3) | **(1 209)** |
| Amortisation | – | – | – | (3) | **(3)** | – | – | **(3)** |
| 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** | 58 232 | 443 | **284 542** |
| Normal advances | 180 208 | 19 488 | 13 856 | 12 315 | **225 867** | 58 232 | 443 | **284 542** |
| Credit-related assets | – | – | – | – | **–** | – | – | **–** |
| NPLs net of ISP | 4 585 | 407 | 680 | 505 | **6 177** | 1 301 | 80 | **7 558** |
| Total deposits (including non-recourse deposits) | 155 | 1 467 | 1 | 156 676 | **158 299** | 152 912 | 409 | **311 620** |
| Total assets | 178 990 | 18 895 | 12 787 | 30 406 | **241 078** | 57 787 | 579 | **299 444** |
| Total liabilities | 178 393 | 18 171 | 12 120 | 22 194 | **230 878** | 54 841 | 903 | **286 622** |
| Capital expenditure | – | 3 | 7 | 2 640 | **2 650** | 32 | 23 | **2 705** |

* *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 3) and are not reported in the bank.*

** *Refer to additional segmental disclosure on page 60.*

| RMB | | | | | | | |
|---|---|---|---|---|---|---|---|
| Investment banking | Corporate banking | **Total RMB** | **WesBank**** | FCC (including Group Treasury) and other | **FRB – normalised** | Normalised and headline adjustments | **FRB – IFRS** |
| 46.3 | 64.3 | **49.4** | **47.6** | >100 | **55.3** | – | **56.4** |
| 56.5 | 55.6 | **56.4** | **22.8** | (>100) | **42.5** | – | **49.1** |
| 0.29 | 1.78 | **0.33** | **1.49** | (0.04) | **0.73** | – | **0.48** |
| 0.93 | 1.37 | **0.94** | **3.46** | – | **2.17** | – | **2.27** |
| (66) | (3) | **(69)** | **(411)** | (28) | **(1 717)** | – | **(1 717)** |
| (8) | – | **(8)** | **(36)** | (3) | **(50)** | – | **(50)** |
| – | – | **–** | **–** | (1) | **(4)** | – | **(4)** |
| 235 669 | 6 147 | **241 816** | **166 897** | 25 516 | **718 771** | (33 294) | **685 477** |
| 224 513 | 6 147 | **230 660** | **166 897** | 6 594 | **688 693** | (3 216) | **685 477** |
| 11 156 | – | **11 156** | **–** | 18 922 | **30 078** | (30 078) | **–** |
| 2 193 | 84 | **2 277** | **5 768** | – | **15 603** | (50) | **15 553** |
| 121 253 | 70 906 | **192 159** | **53** | 275 871 | **779 703** | – | **779 703** |
| 346 103 | 6 611 | **352 714** | **166 345** | 131 456 | **949 959** | – | **949 959** |
| 342 219 | 5 926 | **348 145** | **163 586** | 76 609 | **874 962** | – | **874 962** |
| 172 | 3 | **175** | **826** | 6 | **3 712** | – | **3 712** |

# SEGMENT REPORT

*for the year ended 30 June 2014*

| | FNB | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Retail | | | | | | | |
| R million | Residential mortgages | Card | Personal loans | Retail other | **Retail** | Commercial | FNB Africa* | **Total FNB** |
| **Net interest income before impairment of advances** | 3 418 | 1 517 | 2 216 | 3 839 | **10 990** | 5 146 | 2 | **16 138** |
| Impairment of advances | (158) | (101) | (980) | (581) | **(1 820)** | (262) | (99) | **(2 181)** |
| **Net interest income after impairment of advances** | 3 260 | 1 416 | 1 236 | 3 258 | **9 170** | 4 884 | (97) | **13 957** |
| Non-interest revenue | 312 | 1 280 | 848 | 7 447 | **9 887** | 5 569 | 379 | **15 835** |
| **Income from operations** | 3 572 | 2 696 | 2 084 | 10 705 | **19 057** | 10 453 | 282 | **29 792** |
| Operating expenses | (1 573) | (1 384) | (888) | (7 723) | **(11 568)** | (6 146) | (688) | **(18 402)** |
| **Income before tax** | 1 999 | 1 312 | 1 196 | 2 982 | **7 489** | 4 307 | (406) | **11 390** |
| Indirect tax | (36) | (38) | (33) | (347) | **(454)** | (34) | (1) | **(489)** |
| **Profit for the year before tax** | 1 963 | 1 274 | 1 163 | 2 635 | **7 035** | 4 273 | (407) | **10 901** |
| Income tax expense | (550) | (357) | (326) | (740) | **(1 973)** | (1 196) | 114 | **(3 055)** |
| **Profit for the year** | 1 413 | 917 | 837 | 1 895 | **5 062** | 3 077 | (293) | **7 846** |
| **Attributable to:** | | | | | | | | |
| Ordinary equityholders | 1 413 | 917 | 837 | 1 895 | **5 062** | 3 077 | (293) | **7 846** |
| NCNR preference shareholders | – | – | – | – | **–** | – | – | **–** |
| **Profit for the year** | 1 413 | 917 | 837 | 1 895 | **5 062** | 3 077 | (293) | **7 846** |
| **Attributable earnings to ordinary equityholders** | 1 413 | 917 | 837 | 1 895 | **5 062** | 3 077 | (293) | **7 846** |
| Headline earnings adjustments | – | – | – | – | **–** | – | – | **–** |
| **Headline earnings** | 1 413 | 917 | 837 | 1 895 | **5 062** | 3 077 | (293) | **7 846** |
| TRS adjustment | – | – | – | – | **–** | – | – | **–** |
| IAS 19 adjustment | – | – | – | – | **–** | – | – | **–** |
| **Normalised earnings** | 1 413 | 917 | 837 | 1 895 | **5 062** | 3 077 | (293) | **7 846** |

* *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 3) and are not reported in the bank.*

** *Refer to additional segmental disclosure on page 60.*

| RMB | | | | | | | |
|---|---|---|---|---|---|---|---|
| Investment banking | Corporate banking | **Total RMB** | **WesBank**** | FCC (including Group Treasury) and other | **FRB – normalised** | Normalised and headline adjustments | **FRB – IFRS** |
| 4 365 | 813 | **5 178** | **8 159** | 69 | **29 544** | (4 345) | **25 199** |
| (170) | (31) | **(201)** | **(2 060)** | (483) | **(4 925)** | 98 | **(4 827)** |
| 4 195 | 782 | **4 977** | **6 099** | (414) | **24 619** | (4 247) | **20 372** |
| 4 858 | 1 095 | **5 953** | **2 044** | (1 096) | **22 736** | 5 886 | **28 622** |
| 9 053 | 1 877 | **10 930** | **8 143** | (1 510) | **47 355** | 1 639 | **48 994** |
| (4 431) | (1 354) | **(5 785)** | **(4 848)** | (772) | **(29 807)** | (1 269) | **(31 076)** |
| 4 622 | 523 | **5 145** | **3 295** | (2 282) | **17 548** | 370 | **17 918** |
| (57) | (25) | **(82)** | **(253)** | 28 | **(796)** | – | **(796)** |
| 4 565 | 498 | **5 063** | **3 042** | (2 254) | **16 752** | 370 | **17 122** |
| (1 278) | (139) | **(1 417)** | **(852)** | 1 085 | **(4 239)** | (136) | **(4 375)** |
| 3 287 | 359 | **3 646** | **2 190** | (1 169) | **12 513** | 234 | **12 747** |
| 3 287 | 359 | **3 646** | **2 190** | (1 361) | **12 321** | 234 | **12 555** |
| – | – | **–** | **–** | 192 | **192** | – | **192** |
| 3 287 | 359 | **3 646** | **2 190** | (1 169) | **12 513** | 234 | **12 747** |
| 3 287 | 359 | **3 646** | **2 190** | (1 361) | **12 321** | 234 | **12 555** |
| – | – | **–** | **–** | – | **–** | 68 | **68** |
| 3 287 | 359 | **3 646** | **2 190** | (1 361) | **12 321** | 302 | **12 623** |
| – | – | **–** | **–** | – | **–** | (198) | **(198)** |
| – | – | **–** | **–** | – | **–** | (104) | **(104)** |
| 3 287 | 359 | **3 646** | **2 190** | (1 361) | **12 321** | – | **12 321** |

Segment report for the year ended 30 June 2014 *continued*

| R million | FNB | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Retail | | | | | Commercial | FNB Africa* | **Total FNB** |
| | Residential mortgages | Card | Personal loans | Retail other | **Retail** | | | |
| Cost-to-income ratio (%) | 42.2 | 49.5 | 29.0 | 68.4 | **55.4** | 57.4 | 180.6 | **57.6** |
| Diversity ratio (%) | 8.4 | 45.8 | 27.7 | 66.0 | **47.4** | 52.0 | 99.5 | **49.5** |
| Credit loss ratio (%) | 0.09 | 0.70 | 7.72 | 7.09 | **0.90** | 0.57 | 42.67 | **0.88** |
| NPLs as a percentage of advances (%) | 3.29 | 2.21 | 5.82 | 5.85 | **3.47** | 2.52 | 25.73 | **3.31** |
| **Income statement includes:** | | | | | | | | |
| Depreciation | (6) | (5) | (2) | (1 144) | **(1 157)** | (27) | (1) | **(1 185)** |
| Amortisation | – | – | – | (10) | **(10)** | (12) | – | **(22)** |
| Impairment charges | – | – | – | (17) | **(17)** | (10) | – | **(27)** |
| **Statement of financial position includes:** | | | | | | | | |
| Advances (after ISP – before impairments) | 171 173 | 15 761 | 12 516 | 9 470 | **208 920** | 49 903 | 241 | **259 064** |
| Normal advances | 171 173 | 15 761 | 12 516 | 9 470 | **208 920** | 49 903 | 241 | **259 064** |
| Credit-related assets | – | – | – | – | **–** | – | – | **–** |
| NPLs net of ISP | 5 625 | 348 | 729 | 554 | **7 256** | 1 259 | 62 | **8 577** |
| Total deposits (including non-recourse deposits) | 129 | 1 349 | 25 | 138 171 | **139 674** | 138 262 | 195 | **278 131** |
| Total assets | 169 776 | 15 216 | 11 448 | 24 683 | **221 123** | 49 382 | 260 | **270 765** |
| Total liabilities | 167 934 | 14 000 | 10 228 | 22 568 | **214 730** | 45 108 | 634 | **260 472** |
| Capital expenditure | 6 | 9 | 1 | 2 325 | **2 341** | 36 | 12 | **2 389** |

* *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 3) and are not reported in the bank.*

** *Refer to additional segmental disclosure on page 60.*

| RMB | | | | | | | |
|---|---|---|---|---|---|---|---|
| Investment banking | Corporate banking | **Total RMB** | **WesBank**** | FCC (including Group Treasury) and other | **FRB – normalised** | Normalised and headline adjustments | **FRB – IFRS** |
| 48.0 | 71.0 | **52.0** | **47.5** | (75.2) | **57.0** | – | **57.7** |
| 52.7 | 57.4 | **53.5** | **20.0** | >100 | **43.5** | – | **53.2** |
| 0.08 | 0.54 | **0.10** | **1.42** | 0.08 | **0.81** | – | **0.81** |
| 0.79 | 0.09 | **0.77** | **2.97** | – | **2.32** | – | **2.37** |
| (65) | (5) | **(70)** | **(375)** | (43) | **(1 673)** | – | **(1 673)** |
| (5) | – | **(5)** | **(25)** | (2) | **(54)** | – | **(54)** |
| (1) | – | **(1)** | **–** | 14 | **(14)** | (117) | **(131)** |
| 219 654 | 6 442 | **226 096** | **156 856** | 4 191 | **646 207** | (14 556) | **631 651** |
| 210 276 | 6 442 | **216 718** | **156 856** | 2 343 | **634 981** | (3 330) | **631 651** |
| 9 378 | – | **9 378** | **–** | 1 848 | **11 226** | (11 226) | **–** |
| 1 740 | 6 | **1 746** | **4 661** | – | **14 984** | – | **14 984** |
| 103 111 | 69 222 | **172 333** | **48** | 242 664 | **693 176** | – | **693 176** |
| 319 688 | 6 826 | **326 514** | **156 743** | 97 187 | **851 209** | – | **851 209** |
| 315 450 | 6 303 | **321 753** | **155 058** | 49 862 | **787 145** | – | **787 145** |
| 77 | 4 | **81** | **972** | 37 | **3 479** | – | **3 479** |

# ADDITIONAL SEGMENTAL DISCLOSURE – WESBANK

| | Year ended 30 June 2015 | | | | |
|---|---|---|---|---|---|
| | VAF | | | | |
| | Retail | | Corporate and commercial | Personal loans | Total WesBank |
| R million | South Africa | UK (MotoNovo) | | | |
| NII before impairment of advances | **4 118** | **933** | **1 035** | **2 038** | **8 124** |
| Impairment of advances | **(1 217)** | **(163)** | **(204)** | **(829)** | **(2 413)** |
| Normalised profit before tax | **1 516** | **455** | **385** | **505** | **2 861** |
| Normalised earnings | **1 091** | **328** | **306** | **364** | **2 089** |
| Advances | **95 759** | **20 923** | **39 743** | **10 472** | **166 897** |
| – Normal advances | **95 759** | **20 923** | **39 743** | **10 472** | **166 897** |
| – Securitised advances | **–** | **–** | **–** | **–** | **–** |
| NPLs | **4 163** | **75** | **627** | **903** | **5 768** |
| Advances margin (%) | **3.68** | **5.40** | **2.69** | **19.60** | **4.57** |
| NPLs (%) | **4.35** | **0.36** | **1.58** | **8.62** | **3.46** |
| Credit loss ratio (%) | **1.27** | **0.96** | **0.52** | **8.45** | **1.49** |

| | Year ended 30 June 2014 | | | | |
|---|---|---|---|---|---|
| | VAF | | | | |
| | Retail | | Corporate and commercial | Personal loans | Total WesBank |
| R million | South Africa | UK (MotoNovo) | | | |
| NII before impairment of advances | 4 139 | 1 147 | 1 111 | 1 762 | 8 159 |
| Impairment of advances | (1 204) | (135) | (119) | (602) | (2 060) |
| Normalised profit before tax | 1 481 | 650 | 411 | 500 | 3 042 |
| Normalised earnings | 1 066 | 468 | 296 | 360 | 2 190 |
| Advances | 95 863 | 13 185 | 38 659 | 9 149 | 156 856 |
| – Normal advances | 95 863 | 13 185 | 38 659 | 9 149 | 156 856 |
| – Securitised advances | – | – | – | – | – |
| NPLs | 3 387 | 37 | 578 | 659 | 4 661 |
| Advances margin (%) | 4.23 | 10.59 | 2.77 | 20.51 | 5.28 |
| NPLs (%) | 3.53 | 0.28 | 1.50 | 7.20 | 2.97 |
| Credit loss ratio (%) | 1.32 | 1.30 | 0.33 | 7.34 | 1.42 |

p62-74

# BALANCE SHEET ANALYSIS

# ECONOMIC VIEW OF THE BALANCE SHEET

The structure of the balance sheet has been further optimised following the bank's strategy over the last three years 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%), corporate and commercial (49%) and other (2%). Total NPLs were R15.6 billion (2.17% as a percentage of advances) with a credit loss ratio of 0.73% and 92% of advances were rated B or better.

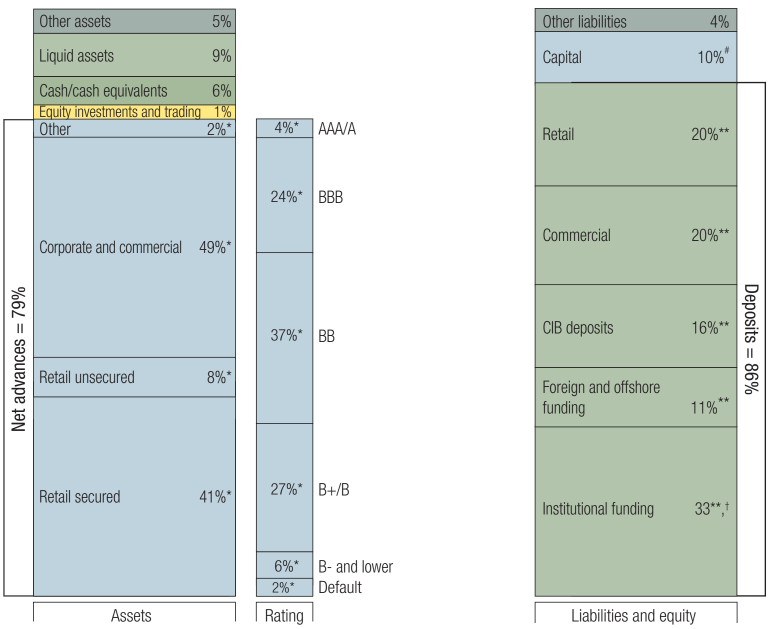
Cash and cash equivalents, and liquid assets represent 6% and 9% respectively of total assets. Only a small portion of assets relate to the investment and trading businesses. Market risk arising from trading activities has remained low.

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 in 2015.

The bank's capital ratios remained strong with the CET1 ratio 14.2%, Tier 1 ratio 14.6% and total capital adequacy ratio 16.9%. Gearing reduced to 12.9 times (June 2014: 13.3 times).

## ECONOMIC VIEW OF THE BALANCE SHEET

%




* *As a proportion of loans and advances.*

** *As a proportion of deposit franchise.*

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

† *Includes CIB institutional funding and the foreign branches platforms.*

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

# CAPITAL

Refer to pages 116 to 121 of the *risk and capital management report* for an overview of the bank's capital position and capital management practices.

# FUNDING AND LIQUIDITY

Refer to pages 185 to 202 of the *risk and capital management report* for an overview of the bank's funding and liquidity position and strategies.

# 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 assets which have been classified from investment securities to advances are included in the numbers presented below. A description of the impact of regulatory changes on advances and impairments is on pages 14 and 15.

## CREDIT HIGHLIGHTS AT A GLANCE

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

| | | As at 30 June | | |
|---|---|---|---|---|
| **R million** | **Notes** | **2015** | **2014** | **% change** |
| Total gross advances – including credit-related assets* | 1 | **718 771** | 646 207 | 11 |
| NPLs – including credit-related assets | 2 | **15 603** | 14 984 | 4 |
| NPLs as a % of advances – including credit-related assets | | **2.17** | 2.32 | |
| Impairment charge – total including credit-related assets | 3 | **4 993** | 4 925 | 1 |
| Impairment charge as a % of average advances – including credit-related assets | | **0.73** | 0.81 | |
| Total impairments* | 4 | **13 514** | 13 024 | 4 |
| – Portfolio impairments | | **7 109** | 6 963 | 2 |
| – Specific impairments | | **6 405** | 6 061 | 6 |
| Implied loss given default (coverage)** | 4 | **41.0** | 40.4 | |
| Total impairments coverage ratio# | | **86.6** | 86.9 | |
| Performing book coverage ratio† | | **1.01** | 1.10 | |

* *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 portfolio comparatives have been restated to reflect the current segmentation of the business.

The credit information in this section is presented on a normalised basis. The normalised basis differs from IFRS in that the credit fair value adjustments on fair value advances are reversed to reflect the advances and impairments as if accounted for on an accrual basis. The adjustments had the following impact:

- advances were adjusted (upwards) by the statement of financial position credit fair value adjustments of R3 424 million (June 2014: R3 485 million); and
- IFRS credit impairments in the statement of comprehensive income were adjusted to include the credit fair value adjustment impact of R637 million (June 2014: R98 million). Under IFRS, these are accounted for under NIR.

In addition, certain HQLA, securitisation notes and other corporate bonds, reflected as investment securities in terms of IFRS, have been reflected as advances – refer to pages 14 and 15 for additional information.

## NOTE 1: ANALYSIS OF ADVANCES

### SEGMENTAL VIEW OF ADVANCES

| | Advances | | | |
|---|---|---|---|---|
| | As at 30 June | | | 2015 |
| R million | 2015 | 2014 | % change | % composition |
| **Retail** | **353 021** | 327 117 | 8 | **49** |
| **Retail – secured** | **296 890** | 280 221 | 6 | **41** |
| Residential mortgages | **180 208** | 171 173 | 5 | **25** |
| VAF | **116 682** | 109 048 | 7 | **16** |
| – SA | **95 759** | 95 863 | – | **13** |
| – International | **20 923** | 13 185 | 59 | **3** |
| **Retail – unsecured** | **56 131** | 46 896 | 20 | **8** |
| Card | **19 488** | 15 761 | 24 | **3** |
| Personal loans | **24 328** | 21 665 | 12 | **3** |
| – FNB loans | **13 856** | 12 516 | 11 | **2** |
| – WesBank loans | **10 472** | 9 149 | 14 | **1** |
| Retail other | **12 315** | 9 470 | 30 | **2** |
| **Corporate and commercial** | **349 285** | 314 658 | 11 | **49** |
| FNB commercial | **58 232** | 49 903 | 17 | **8** |
| WesBank corporate | **39 743** | 38 659 | 3 | **6** |
| RMB investment banking | **235 669** | 219 654 | 7 | **33** |
| RMB corporate banking | **6 147** | 6 442 | (5) | **1** |
| HQLA corporate advances* | **9 494** | – | – | **1** |
| **FNB Africa**** | **443** | 241 | 84 | **–** |
| **FCC (including Group Treasury)** | **16 022** | 4 191 | >100 | **2** |
| Securitisation notes | **7 301** | – | – | **1** |
| Other | **8 721** | 4 191 | >100 | **1** |
| **Total advances** | **718 771** | 646 207 | 11 | **100** |
| Of which: | | | | |
| Accrual book | **507 608** | 453 653 | 12 | **71** |
| Fair value book# | **211 163** | 192 554 | 10 | **29** |

* *Managed by the Group Treasurer.*

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

\# *Including advances classified as available-for-sale.*

Fluctuations in assets under agreements to resell included in the RMB loan book can impact the analysis of total book growth significantly as illustrated in the table below.

| | As at 30 June | | | 2015 |
|---|---|---|---|---|
| R million | 2015 | 2014 | % change | % composition |
| **RMB advances** | **235 669** | 219 654 | 7 | **100** |
| Less: assets under agreements to resell | **(35 600)** | (32 753) | 9 | **(15)** |
| **RMB advances net of assets under agreements to resell** | **200 069** | 186 901 | 7 | **85** |

## SECTOR AND GEOGRAPHICAL ANALYSIS OF ADVANCES

| | As at 30 June | | | 2015 |
|---|---|---|---|---|
| **R million** | **2015** | **2014** | **% change** | **% composition** |
| Gross advances | **720 142** | 647 729 | 11 | **100** |
| Less: interest in suspense | **(1 371)** | (1 522) | (10) | **–** |
| **Advances net of interest in suspense** | **718 771** | 646 207 | 11 | **100** |
| **Sector analysis** | | | | |
| Agriculture | **25 216** | 20 345 | 24 | **4** |
| Banks | **16 651** | 8 434 | 97 | **2** |
| Financial institutions | **83 746** | 78 517 | 7 | **12** |
| Building and property development | **33 012** | 32 542 | 1 | **5** |
| Government, Land Bank and public authorities | **17 610** | 17 148 | 3 | **2** |
| Individuals | **341 998** | 327 268 | 5 | **48** |
| Manufacturing and commerce | **87 451** | 75 793 | 15 | **12** |
| Mining | **23 715** | 21 810 | 9 | **3** |
| Transport and communication | **16 806** | 18 867 | (11) | **2** |
| Other services | **72 566** | 45 483 | 60 | **10** |
| **Total advances** | **718 771** | 646 207 | 11 | **100** |
| **Geographic analysis** | | | | |
| South Africa | **647 514** | 599 769 | 8 | **90** |
| Other Africa | **29 801** | 19 229 | 55 | **4** |
| UK | **29 553** | 18 903 | 56 | **4** |
| Other Europe | **5 153** | 4 238 | 22 | **1** |
| North America | **308** | 714 | (57) | **–** |
| South America | **718** | – | – | **–** |
| Australasia | **2** | 2 | – | **–** |
| Asia | **5 722** | 3 352 | 71 | **1** |
| **Total advances** | **718 771** | 646 207 | 11 | **100** |

## NOTE 2: ANALYSIS OF NPLs

### SEGMENTAL ANALYSIS OF NPLs

| | NPLs | | | | NPLs as a % of advances | |
|---|---|---|---|---|---|---|
| | As at 30 June | | | 2015 | As at 30 June | |
| R million | 2015 | 2014 | % change | % composition | 2015 | 2014 |
| **Retail** | **11 318** | 11 339 | – | **72** | **3.21** | 3.47 |
| **Retail – secured** | **8 823** | 9 049 | (2) | **57** | **2.97** | 3.23 |
| Residential mortgages | **4 585** | 5 625 | (18) | **30** | **2.54** | 3.29 |
| VAF | **4 238** | 3 424 | 24 | **27** | **3.63** | 3.14 |
| – SA | **4 163** | 3 387 | 23 | **26** | **4.35** | 3.53 |
| – International | **75** | 37 | >100 | **1** | **0.36** | 0.28 |
| **Retail – unsecured** | **2 495** | 2 290 | 9 | **15** | **4.44** | 4.88 |
| Card | **407** | 348 | 17 | **2** | **2.09** | 2.21 |
| Personal loans | **1 583** | 1 388 | 14 | **10** | **6.51** | 6.41 |
| – FNB | **680** | 729 | (7) | **4** | **4.91** | 5.82 |
| – WesBank | **903** | 659 | 37 | **6** | **8.62** | 7.20 |
| Retail other | **505** | 554 | (9) | **3** | **4.10** | 5.85 |
| **Corporate and commercial** | **4 205** | 3 583 | 17 | **27** | **1.20** | 1.14 |
| FNB commercial | **1 301** | 1 259 | 3 | **8** | **2.23** | 2.52 |
| WesBank corporate | **627** | 578 | 8 | **4** | **1.58** | 1.50 |
| RMB investment banking | **2 193** | 1 740 | 26 | **14** | **0.93** | 0.79 |
| RMB corporate banking | **84** | 6 | >100 | **1** | **1.37** | 0.09 |
| HQLA corporate advances* | **–** | – | – | **–** | **–** | – |
| **FNB Africa**** | **80** | 62 | 29 | **1** | **18.06** | 25.73 |
| **FCC (including Group Treasury)** | **–** | – | – | **–** | **–** | – |
| Securitisation notes | **–** | – | – | **–** | **–** | – |
| Other | **–** | – | – | **–** | **–** | – |
| **Total NPLs** | **15 603** | 14 984 | 4 | **100** | **2.17** | 2.32 |
| Of which: | | | | | | |
| Accrual book | **13 726** | 13 344 | 3 | **88** | **2.70** | 2.94 |
| Fair value book | **1 877** | 1 640 | 14 | **12** | **0.89** | 0.85 |

* *Managed by the Group Treasurer.*

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

## SECTOR AND GEOGRAPHIC ANALYSIS OF NPLs

| | NPLs | | | | NPLs as a % of advances | |
|---|---|---|---|---|---|---|
| | As at 30 June | | | 2015 | As at 30 June | |
| R million | 2015 | 2014 | % change | % composition | 2015 | 2014 |
| **Sector analysis** | | | | | | |
| Agriculture | **220** | 174 | 26 | **1** | **0.87** | 0.86 |
| Financial services | **97** | 167 | (42) | **1** | **0.12** | 0.21 |
| Building and property development | **1 391** | 2 080 | (33) | **9** | **4.21** | 6.39 |
| Government, Land Bank and public authorities | **9** | 53 | (83) | **–** | **0.05** | 0.31 |
| Individuals | **10 992** | 11 323 | (3) | **70** | **3.21** | 3.46 |
| Manufacturing and commerce | **1 021** | 469 | >100 | **7** | **1.17** | 0.62 |
| Mining | **811** | 52 | >100 | **5** | **3.42** | 0.24 |
| Transport and communication | **125** | 65 | 92 | **1** | **0.74** | 0.34 |
| Other services | **937** | 601 | 56 | **6** | **1.29** | 1.32 |
| **Total NPLs** | **15 603** | 14 984 | 4 | **100** | **2.17** | 2.32 |
| **Geographic analysis** | | | | | | |
| South Africa | **14 726** | 14 886 | (1) | **94** | **2.27** | 2.48 |
| Other Africa | **674** | – | – | **5** | **2.26** | – |
| UK | **75** | 37 | >100 | **–** | **0.25** | 0.20 |
| Other Europe | **48** | – | – | **–** | **0.93** | – |
| North America | **–** | – | – | **–** | **–** | – |
| South America | **–** | – | – | **–** | **–** | – |
| Australasia | **–** | – | – | **–** | **–** | – |
| Asia | **80** | 61 | 31 | **1** | **1.40** | 1.82 |
| **Total NPLs** | **15 603** | 14 984 | 4 | **100** | **2.17** | 2.32 |

## SECURITY AND RECOVERABLE AMOUNTS BY PORTFOLIO

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| **R million** | **NPLs** | **Security held and expected recoveries** | **Specific impairment*** | **NPLs** | **Security held and expected recoveries** | **Specific impairment*** |
| **Retail** | **11 318** | **7 349** | **3 969** | 11 339 | 7 603 | 3 736 |
| **Retail – secured** | **8 823** | **6 523** | **2 300** | 9 049 | 6 886 | 2 163 |
| Residential mortgages | **4 585** | **3 662** | **923** | 5 625 | 4 504 | 1 121 |
| VAF | **4 238** | **2 861** | **1 377** | 3 424 | 2 382 | 1 042 |
| – SA | **4 163** | **2 833** | **1 330** | 3 387 | 2 376 | 1 011 |
| – International | **75** | **28** | **47** | 37 | 6 | 31 |
| **Retail – unsecured** | **2 495** | **826** | **1 669** | 2 290 | 717 | 1 573 |
| Card | **407** | **111** | **296** | 348 | 94 | 254 |
| Personal loans | **1 583** | **601** | **982** | 1 388 | 474 | 914 |
| – FNB | **680** | **175** | **505** | 729 | 159 | 570 |
| – WesBank | **903** | **426** | **477** | 659 | 315 | 344 |
| Retail other | **505** | **114** | **391** | 554 | 149 | 405 |
| **Corporate and commercial** | **4 205** | **1 831** | **2 374** | 3 583 | 1 320 | 2 263 |
| FNB commercial | **1 301** | **549** | **752** | 1 259 | 526 | 733 |
| WesBank corporate | **627** | **254** | **373** | 578 | 170 | 408 |
| RMB investment banking | **2 193** | **950** | **1 243** | 1 740 | 624 | 1 116 |
| RMB corporate banking | **84** | **78** | **6** | 6 | – | 6 |
| HQLA corporate advances** | **–** | **–** | **–** | – | – | – |
| **FNB Africa#** | **80** | **18** | **62** | 62 | – | 62 |
| **FCC (including Group Treasury)** | **–** | **–** | **–** | – | – | – |
| Securitisation notes | **–** | **–** | **–** | – | – | – |
| Other | **–** | **–** | **–** | – | – | – |
| **Total** | **15 603** | **9 198** | **6 405** | 14 984 | 8 923 | 6 061 |

* *Specific impairments include cumulative credit fair value adjustments.*

** *Managed by the Group Treasurer.*

# *Includes FNB's activities in India.*

## NOTE 3: INCOME STATEMENT CREDIT IMPAIRMENTS

The bad debt charge improved from 81 bps at June 2014 to 73 bps at June 2015.

### INCOME STATEMENT IMPAIRMENTS

| | Total impairment charge | | | As a % of average advances | |
|---|---|---|---|---|---|
| | As at 30 June | | | As at 30 June | |
| R million | 2015 | 2014 | % change | 2015 | 2014 |
| **Retail** | **3 969** | 3 761 | 6 | **1.17** | 1.21 |
| **Retail – secured** | **1 491** | 1 497 | – | **0.52** | 0.56 |
| Residential mortgages | **111** | 158 | (30) | **0.06** | 0.09 |
| VAF | **1 380** | 1 339 | 3 | **1.22** | 1.32 |
| – SA | **1 217** | 1 204 | 1 | **1.27** | 1.32 |
| – International | **163** | 135 | 21 | **0.96** | 1.30 |
| **Retail – unsecured** | **2 478** | 2 264 | 9 | **4.81** | 5.21 |
| Card | **191** | 101 | 89 | **1.08** | 0.70 |
| Personal loans | **1 544** | 1 582 | (2) | **6.71** | 7.57 |
| – FNB | **715** | 980 | (27) | **5.42** | 7.72 |
| – WesBank | **829** | 602 | 38 | **8.45** | 7.34 |
| Retail other | **743** | 581 | 28 | **6.82** | 7.09 |
| **Corporate and commercial** | **1 287** | 582 | >100 | **0.39** | 0.20 |
| FNB commercial | **310** | 262 | 18 | **0.57** | 0.57 |
| WesBank corporate | **204** | 119 | 71 | **0.52** | 0.33 |
| RMB investment banking | **661** | 170 | >100 | **0.29** | 0.08 |
| RMB corporate banking | **112** | 31 | >100 | **1.78** | 0.54 |
| HQLA corporate advances* | **–** | – | – | **–** | – |
| **FNB Africa**** | **3** | 99 | (97) | **0.88** | 42.67 |
| **FCC (including Group Treasury)#** | **(266)** | 483 | (<100) | **(0.04)** | 0.08 |
| Securitisation notes | **–** | – | – | **–** | – |
| Other† | **(266)** | 483 | (<100) | **(0.04)** | 0.08 |
| **Total impairment charge** | **4 993** | 4 925 | 1 | **0.73** | 0.81 |
| Of which: | | | | | |
| Portfolio impairment charge | **318** | 971 | (67) | **0.05** | 0.16 |
| Specific impairment charge | **4 675** | 3 954 | 18 | **0.68** | 0.65 |

* *Managed by the Group Treasurer.*

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

\# *Percentages calculated on total average advances.*

† *Including release of R325 million central portfolio overlays in the current year.*

## 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. The bank's NPLs coverage ratio is 41.0% (2014: 40.4%).

### 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 | 2015 | 2014 | % change | 2015 | 2014 |
| **Specific impairments*** | | | | | |
| **Retail** | **3 969** | 3 736 | 6 | **35.1** | 32.9 |
| **Retail – secured** | **2 300** | 2 163 | 6 | **26.1** | 23.9 |
| Residential mortgages | **923** | 1 121 | (18) | **20.1** | 19.9 |
| VAF** | **1 377** | 1 042 | 32 | **32.5** | 30.4 |
| – SA | **1 330** | 1 011 | 32 | **31.9** | 29.8 |
| – International | **47** | 31 | 52 | **62.7** | 83.8 |
| **Retail – unsecured** | **1 669** | 1 573 | 6 | **66.9** | 68.7 |
| Card | **296** | 254 | 17 | **72.7** | 73.0 |
| Personal loans | **982** | 914 | 7 | **62.0** | 65.9 |
| – FNB | **505** | 570 | (11) | **74.3** | 78.2 |
| – WesBank | **477** | 344 | 39 | **52.8** | 52.2 |
| Retail other | **391** | 405 | (3) | **77.4** | 73.1 |
| **Corporate and commercial** | **2 374** | 2 263 | 5 | **56.5** | 63.2 |
| FNB commercial | **752** | 733 | 3 | **57.8** | 58.2 |
| WesBank corporate | **373** | 408 | (9) | **59.5** | 70.6 |
| RMB investment banking | **1 243** | 1 116 | 11 | **56.7** | 64.1 |
| RMB corporate banking | **6** | 6 | – | **7.1** | 100.0 |
| HQLA corporate advances# | **–** | – | – | **–** | – |
| **FNB Africa†** | **62** | 62 | – | **77.5** | 100.0 |
| **FCC (including Group Treasury)** | **–** | – | – | **–** | – |
| Securitisation notes | **–** | – | – | **–** | – |
| Other | **–** | – | – | **–** | – |
| **Total specific impairments/implied loss given default‡** | **6 405** | 6 061 | 6 | **41.0** | 40.4 |
| **Portfolio impairments^** | **7 109** | 6 963 | 2 | **45.6** | 46.5 |
| **Total impairments/total impairment coverage ratio~** | **13 514** | 13 024 | 4 | **86.6** | 86.9 |

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

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

\# *Managed by the Group Treasurer.*

† *Includes FNB's activities in India.*

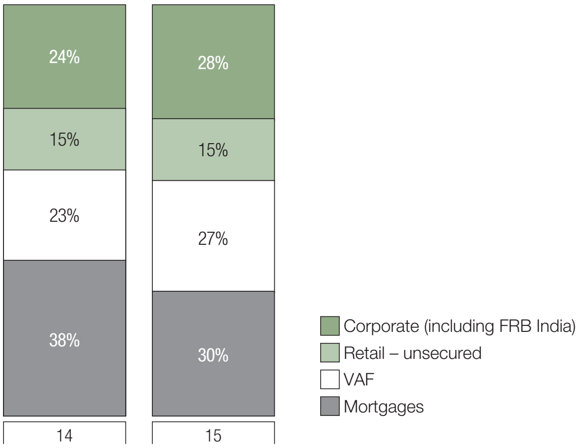
‡ *Amortised cost specific impairments and credit fair value adjustments as a percentage of NPLs.*

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

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

The graph below provides the NPL distribution across the portfolios, showing decreases in the proportion of residential mortgages and an increase in VAF and corporate NPLs since June 2014.

NPL DISTRIBUTION




## RECONCILIATION OF IMPAIRMENTS

The bank incorporates cumulative fair value adjustments to loans that are held at fair value through profit or loss in the calculation of total impairments.

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

BALANCE SHEET IMPAIRMENTS AND CREDIT FAIR VALUE ADJUSTMENTS

| | As at 30 June | | | | | |
|---|---|---|---|---|---|---|
| | **Amortised cost book** | | **Fair value book** | | **Total book** | |
| **R million** | **2015** | **2014** | **2015** | **2014** | **2015** | **2014** |
| Non-performing book | **5 239** | 4 995 | **1 166** | 1 066 | **6 405** | 6 061 |
| Performing book | **4 851** | 4 544 | **2 258** | 2 419 | **7 109** | 6 963 |
| **Total impairments** | **10 090** | 9 539 | **3 424** | 3 485 | **13 514** | 13 024 |

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

## BALANCE SHEET SPECIFIC IMPAIRMENTS – AMORTISED COST

| | As at 30 June | | |
|---|---|---|---|
| **R million** | **2015** | **2014** | **% change** |
| Opening balance | **4 995** | 5 228 | (4) |
| Reclassifications and transfers | **50** | (4) | >100 |
| Acquisitions | **12** | 22 | (45) |
| Exchange rate difference | **7** | 9 | (22) |
| Unwinding and discounted present value on NPLs | **(81)** | (128) | (37) |
| Bad debts written off | **(5 586)** | (5 547) | 1 |
| Net new impairments created | **5 842** | 5 415 | 8 |
| **Closing balance** | **5 239** | 4 995 | 5 |

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

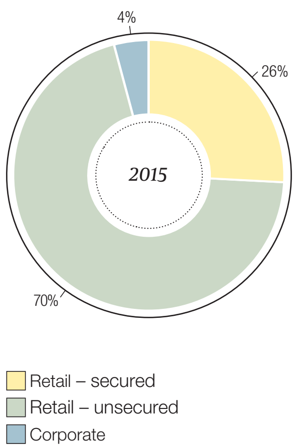
## INCOME STATEMENT IMPAIRMENTS

| | As at 30 June | | |
|---|---|---|---|
| **R million** | **2015** | **2014** | **% change** |
| Specific impairment charge | **5 842** | 5 415 | 8 |
| Recoveries of bad debts written off | **(1 826)** | (1 616) | 13 |
| Net specific impairment charge (amortised cost) | **4 016** | 3 799 | 6 |
| Portfolio impairment charge (amortised cost) | **340** | 1 028 | (67) |
| Credit fair value adjustments | **637** | 98 | >100 |
| – Non-performing book | **659** | 155 | >100 |
| – Performing book | **(22)** | (57) | (61) |
| **Total impairments** | **4 993** | 4 925 | 1 |

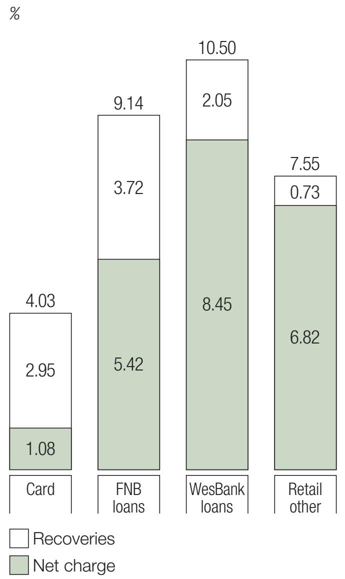
## IMPACT OF POST WRITE-OFF RECOVERIES

- Post write-off recoveries of R1.83 billion, primary emanating from the unsecured retail lending portfolio.
- Impairment charges were significantly reduced by the post write-off recoveries for FNB card and particularly FNB loans.

### POST WRITE-OFF RECOVERIES SPLIT




### RETAIL CREDIT LOSS RATIOS AND RECOVERIES




## RISK ANALYSIS

Refer to pages 153 to 156 of the *risk and capital management report* for selected risk analyses (e.g. balance-to-value and age distribution of residential mortgages and vintage analyses for selected retail portfolios).

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# ANNUAL
# FINANCIAL STATEMENTS

# DIRECTORS' RESPONSIBILITY STATEMENT

## TO THE SHAREHOLDER OF FIRSTRAND BANK LIMITED

The directors of FirstRand Bank Limited are responsible for the preparation of the annual financial statements in terms of the Companies Act 71 of 2008. In discharging this responsibility, the directors rely on management to prepare the annual financial statements in accordance with International Financial Reporting Standards (IFRS) and for keeping adequate accounting records in accordance with the bank's system of internal control. As such, the annual financial statements include amounts based on judgements and estimates made by management.

In preparing the annual financial statements, suitable accounting policies have been applied and reasonable estimates have been made by management. The directors approve significant changes to accounting policies. 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.

Based on the information and explanations given by management and the internal auditors, nothing has come to the attention of the directors to indicate that the internal controls are inadequate and that the financial records may not be relied on in preparing the annual financial statements in accordance with IFRS and maintaining accountability for the 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. Jaco van Wyk, CA(SA) supervised the preparation of the annual financial statements for the year.

The directors have reviewed the bank's budget and flow of funds forecast and considered the bank's ability to continue as a going concern in light of current and anticipated economic conditions. The directors have reviewed the assumptions underlying these budgets and forecasts based on currently available information. On the basis of this review, and in 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 79.

The annual financial statements of the bank, which appear on pages 80 to 81 and 215 to 383 and specified sections of the *risk and capital management report* were approved by the board of directors on 9 September 2015 and are signed on its behalf by:

| | |
|---|---|
| **SE Nxasana** | **HS Kellan** |
| Chief executive officer | Financial director |

Sandton

9 September 2015

# 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:

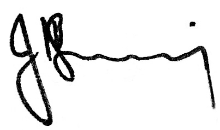
- the representations made by the auditors to the audit committee;
- the auditors do not, except as external auditors or in rendering permitted non-audit services, receive any remuneration or other benefits from the company;
- the auditors' independence was not impaired by any consultancy, advisory or 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 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 integrated report.

The audit committee has reviewed the annual report and recommended it to the board for approval.

On behalf of the group audit committee.



**JH van Greuning**
Chairman, audit committee

Sandton

9 September 2015

# INDEPENDENT AUDITORS' REPORT

**TO THE SHAREHOLDER OF FIRSTRAND BANK LIMITED**

We have audited the financial statements of FirstRand Bank Limited, set out on pages 215 to 383, which comprise the statement of financial position as at 30 June 2015, 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 2015, 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 2015, we have read the directors' report, the audit committee's report and the company secretary's certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements.

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

Deloitte & Touche

**Deloitte & Touche**
Registered auditor
Per: Darren Shipp
Partner

PricewaterhouseCoopers Inc.

**PricewaterhouseCoopers Inc.**
Registered auditor
Director: Francois Prinsloo

Sandton

9 September 2015

# 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 Intellectual Properties 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

9 September 2015

# DIRECTORS' REPORT

## NATURE OF BUSINESS

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

## SHARE CAPITAL

The issued ordinary share capital increased from 1 866 835 ordinary shares to 1 866 836 ordinary shares during the year.

Details of FirstRand Bank Limited's share capital are presented in note 27 of the financial statements.

## DIVIDENDS

Ordinary cash dividends R6 447 million were paid during the 2015 financial year (2014: R4 289 million).

Dividends of R207 million were paid on non-cumulative non-redeemable preference shares (2014: R192 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 R15 601 million (2014: R12 747 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 28 of the financial statements.

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# RISK AND CAPITAL MANAGEMENT REPORT

# OVERVIEW

Regulation 43 of the Regulations relating to Banks (Regulations) issued in terms of the Banks Act, 1990 (Act No. 94 of 1990), requires that a bank discloses in its annual financial statements and other disclosures to the public, reliable, relevant and timely qualitative and quantitative information that enables users to make an accurate assessment of the bank's financial condition, including its capital adequacy, financial performance, business activities, risk profile and risk management practices. This disclosure requirement is commonly known as Pillar 3 of the Basel Accord.

This risk and capital management report (Basel Pillar 3 disclosure) covers the operations of the bank and complies with the risk and capital disclosure requirements of the Regulations. Risk is managed on a group basis and, therefore, this report also covers FirstRand's risk philosophy and management practices (which also apply to the bank).

The Basel III additional capital, leverage and liquidity coverage ratio (LCR) disclosure templates (as required per South African Reserve Bank (SARB) directives 3/2015, 4/2014, 6/2014 and 11/2014) can be found on the group's website, www.firstrand.co.za/investorcentre/pages/commondisclosures.aspx.

Some differences exist between the practices, approaches, processes and policies of the bank and its fellow wholly-owned subsidiaries and these are highlighted by reference to the appropriate entity, where necessary. This report has been internally verified by the group's governance processes in line with the group's public disclosure policy. All information in this report is unaudited unless otherwise indicated. For all sections denoted as audited, refer to the unmodified audit opinion on page 79.

The group 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 its shareholders. These disciplines, are, therefore, deeply embedded in the group's tactical and strategic decision making.

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

Risk taking is an essential part of the group's business and the group explicitly recognises risk identification, assessment, monitoring and management as core competencies and important differentiators in the competitive environment in which it operates. Through its portfolio of leading operating franchises namely, FNB, RMB, WesBank and Ashburton Investments, FirstRand aims to be appropriately represented in significant financial services in its chosen markets.

## MANAGING THE RISK PROFILE

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

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

## EARNINGS RESILIENCE, GROWTH AND BALANCE SHEET STRENGTH

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. Ultimately the group seeks to create long-term sustainable franchise value and believes it is currently delivering this through its operating franchises, all of which have strong market positioning, unique customer value propositions, efficient platforms, a relentless focus on innovation and a proven entrepreneurial culture.

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 |
|---|---|---|
| • assess the impact of the cycle on the bank's portfolio;<br>• understand and price appropriately for risk; and<br>• originate within cycle-appropriate risk appetite and volatility parameters. | • allocate capital appropriately to capital-light or capital-intensive activities;<br>• ensure an efficient capital structure with appropriate/conservative gearing; and<br>• ensure earnings exceed cost of capital, i.e. positive net income after capital charge (NIACC). | • execute sustainable funding and liquidity strategies;<br>• protect the credit rating; and<br>• preserve a "fortress" balance sheet that can sustain shocks through the cycle. |

The consistent application of these financial strategies and frameworks has over time allowed the group to deliver the financial metrics it targets on behalf of shareholders, namely, earnings growth of nominal GDP plus 3% – 5% and an ROE of 18% – 22%.

## TOP AND EMERGING RISKS

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

### TOP AND EMERGING RISKS

| Risk | Description | Mitigant |
|---|---|---|
| **Global macroeconomic environment and political risk** | | |
| Global economic outlook | Slow economic growth in developed and emerging markets, normalisation of US monetary policy and dollar strength could result in a slowdown of foreign capital flows into South Africa. | Continue to monitor economic developments in key markets with appropriate planning and action as required. |
| Global debt | Positive growth in the West continues to be constrained by excessive debt burdens. | |
| Economic outlook in China | Slower economic growth in China impacts demand for a number of commodities. | |
| Low commodity prices | Severe price declines in a number of commodities including oil, iron ore and copper may impact the economies of particularly Nigeria, Zambia, Angola and South Africa and affect corporate credit counterparties. | |
| Political risk in the rest of Africa | Political instability and terrorism in a number of countries may have an impact on expansion strategies and regional economies. | Political risk in countries where the bank has a presence is closely monitored. |

| Risk | Description | Mitigant |
|---|---|---|
| **Local macroeconomic environment** | | |
| Local economic outlook | While economic growth in South Africa may be slightly higher than 2014's strike affected 1.5%, growth may be limited as the benefit of lower oil prices fade, and higher inflation and gradual monetary policy tightening weigh on domestic demand. | Credit origination and funding strategies are assessed in the light of economic conditions and market liquidity. |
| Current account deficit | South Africa's large current account deficit reflects the economy's dependence on foreign capital inflows to fund growth. The economy is vulnerable to any global or domestic economic developments that could affect foreign capital inflows. | |
| Sovereign rating | The risk of a sovereign rating downgrade in the medium to long term may impact foreign investment in South Africa and the cost of funding. | The impact of a sovereign downgrade on business continues to be assessed. |
| **Regulatory and legal risks** | | |
| Regulatory developments | The regulatory landscape requires the bank to deal with a number of changes and additional legal and regulatory requirements. These include market conduct, countering terrorist financing, twin peaks, anti-money laundering, treating customers fairly, the protection of personal information, IFRS 9, National Credit Amendment Act (NCA), 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 out of business operations could give rise to potential financial loss and reputational damage. | |
| **Risks related to business operations and internal control systems** | | |
| Electricity shortages | Constraints on national electricity supply leading to planned power outages by Eskom and the possibility of prolonged outages increase business resilience risk, despite contingency plans in place. | Contingency plans for current outages and future possible unplanned, more regular electricity interruptions. |
| Structural constraints | Operations are reliant on many elements of the national infrastructure, including water supply and telecommunication. Structural constraints, such as skills shortages, labour market unrest and parastatal financial issues, may have potential 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 bank's funding position and costs. | A number of actions are in place to ensure a resilient funding profile. |
| Cybercrime and fraud | Cybercrime and potential money laundering threats continue to increase globally. | Threats are continuously assessed and controls adapted to address possible control weaknesses and improve system security. |
| Data management | New regulatory requirements for more frequent, consistent, accurate and timely data submissions. | Projects for improved data management, aggregation and reporting are underway. |

## THE YEAR UNDER REVIEW AND FOCUS AREAS

| Year under review | Risk management focus areas |
|---|---|
| **Capital management** | |
| The Basel Committee on Banking Supervision (BCBS) issued a number of consultative documents that may impact capital levels:<br>• a revised set of standardised approaches for credit and operational risk;<br>• a capital floor based on the revised standardised approach for internal ratings-based accredited banks; and<br>• various papers impacting remaining Pillar 1 and 2 risk types.<br>These consultative documents are still under discussion and the impact, proposed calibration and implementation timelines remain outstanding. | • Maintain strong capital levels, with particular focus on the quality of capital and optimise the bank's risk-weighted assets (RWA) and capital mix during the transitional period of Basel III implementation.<br>• Continue to participate in the SARB quantitative impact studies to assess the impact of Basel III developments on capital adequacy and leverage.<br>The National Treasury, SARB and Financial Services Board (FSB) published a discussion document, *Strengthening South Africa's Resolution Framework for Financial Institutions*. Comments on this paper are due by 30 September 2015. |
| **Credit risk** | |
| • Aligned credit origination strategies to the bank's macroeconomic outlook with particular reference to consumer indebtedness, the rising interest rate cycle, low economic growth and a depressed commodity price cycle.<br>• Assessed credit portfolio performance considering stressed scenarios to the bank's outlook to confirm resilience of credit portfolios within risk appetite under stressed conditions.<br>• Assessed adequacy of impairments given current economic conditions.<br>• Conducted an impact analysis on initial expectations of migrating from IAS 39 to IFRS 9.<br>• Established a bank IFRS 9 steering committee and supporting work streams to discuss expected loss principles and associated modelling approaches.<br>• Initiated implementation of amendments for revised affordability assessment criteria of the NCA.<br>• Initiated implementation of directive 7/2015 requirements on restructured credit exposures. | • Continue to monitor the effect of economic conditions on consumer indebtedness, interest rates, growth and commodity prices.<br>• Ongoing reviews to ensure alignment of bottom-up and top-down risk appetite assessments.<br>• Continue to refine credit risk appetite approaches to inform the assessment of credit loss volatility.<br>• Assess implications and reactions to potential revisions of regulatory prescribed maximum credit-related pricing (National Credit Regulatory (NCR caps)).<br>• Focus on debt counselling trends as the South African consumer continues to experience strain on the back of low economic growth.<br>• Refine the impact analysis, establish key principles and modelling approaches, and develop prototype models for the IFRS 9 project to inform appropriate validation requirements.<br>• Continue to invest in people, systems and processes related to credit model risk management to ensure appropriate governance with increasing model complexity. |

| Year under review | Risk management focus areas |
|---|---|
| **Counterparty credit risk** | |
| • Focused on integrated assessment of credit, legal, liquidity and market risks of complex counterparty derivative portfolios.<br>• Performed impact assessment of upcoming liquidity, margin and capital regulations on derivative portfolio.<br>• Refined counterparty credit risk stress testing methodology. | • Improve the bank's internal counterparty credit risk exposure assessment methodology.<br>• Refine the counterparty credit risk economic capital model. |
| **Market risk in the trading book** | |
| • Overall diversified levels of market risk have remained fairly low over the last few years with this trend continuing during the current year, and no significant concentrations in the portfolios.<br>• Across the bank, the only activities where an increase in market risk has been noted are in the subsidiaries in the rest of Africa, but these remain low in the context of the size of the bank. | • Given the impending regulatory changes, and in particular 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 impending regulatory changes. |
| **Non-traded market risks** | |
| **Interest rate risk in the banking book** | |
| • The Monetary Policy Committee increased rates by 25 bps in July 2014. This has positively impacted the bank's earnings given the endowment impact. | • The extent and timing of rate normalisation in South Africa is impacted by various global macroeconomic factors. The bank continues to actively manage interest rate risk in the banking book (IRRBB).<br>• The BCBS, through the task force for interest rate risk in the banking book, continues to investigate the possibility of a Pillar 1 charge. Ongoing developments are monitored. |
| **Structural foreign exchange risk** | |
| • Continued to strengthen principles regarding the management of foreign exchange positions and funding of the bank's foreign entities.<br>• Monitored net open forward positions in foreign exchange (NOFP) 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. |
| **Equity investment risk** | |
| • Limited equity investments were added to the portfolio during the year and volatility in the commodity markets resulted in some losses. | • The bank will continue to focus on non-performing loans in the investment portfolio and realising value from the existing portfolio. |

| Year under review | Risk management focus areas |
|---|---|
| **Funding and liquidity risk** | |
| • During the year under review, the deposit franchise grew 12% and the liquidity weighted average remaining term profile of institutional funding was extended to 31 months (2014: 27 months).<br>• Innovative customer deposit products showed strong growth supporting the group's strategy to grow its deposit franchise.<br>• Available excess funding was allocated to liquidity resources, resulting in a significant increase in marketable instruments, in alignment with the group's strategy for LCR compliance. | • Continue to focus on the Basel III liquidity regime with emphasis on both funding and market liquidity risk management.<br>• Further optimise and diversify the funding profile on a risk-adjusted basis in line with Basel III requirements for the LCR.<br>• Continue to focus on growing the deposit franchise through innovative products and improve the risk profile of institutional funding.<br>• Continue to optimise market liquidity risk profile by developing execution platforms for additional funding sources. The bank's application for a committed liquidity facility (CLF) has been approved. |
| **Operational risk** | |
| • Increased use of the operational risk management system to obtain an integrated view of bank's operational risk profile.<br>• Improved efficiency in the validation of the integrity and quality of operational risk management information.<br>• Improved quality and value of key risk indicators and risk scenarios.<br>• Improved understanding of risks and controls in key business processes through embedding process-based risk and control identification and assessments.<br>• Streamlined operational risk governance reporting. | • Practical contingency plans to manage risks associated with the national electricity supply shortages.<br>• Enhance the quality and coverage of process-based risk and control identification and assessments.<br>• Refine scenario analysis and operational risk appetite setting process by appropriate linkages to risk mitigation plans.<br>• Embed and automate key risk drivers in the application of risk assessment and management tools.<br>• Continue to enhance risk measurement, capital calculation and allocation methods.<br>• Deliver on actions for compliance with Basel principles for risk data aggregation and reporting. |
| **Regulatory risk** | |
| • The second draft of the Financial Sector Regulation Bill was published in March 2015.<br>• The draft Financial Intelligence Centre Amendment Bill 2015 was published in April 2015.<br>• Significant investments in systems, processes and resources were made to ensure compliance with anti-money laundering and combating the financing of terrorism (AML/CFT) legislation.<br>• Substantial progress was made with remediation actions required in respect of matters identified by the SARB during its previous AML/CFT inspection. | • Continue to cooperate with regulatory authorities and other stakeholders.<br>• Continue to make significant investment in people, systems and processes to manage risks emanating from the large number of new local and international regulatory requirements. |

# 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:

- deliver 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.

## PROCESS FOR DETERMINING 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**<br>18% to 22% | **Capital**:<br>CET1: 10% – 11% | **Liquidity**<br>To exceed minimum regulatory requirements with appropriate buffers |
| | **Earnings growth**<br>Nominal GDP +3% to 5% | **Basel III leverage:**<br>> 5% | **Credit rating***<br>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 denotes the bank.*

### 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. | |

*audited*

## APPLICATION OF THE RISK/REWARD FRAMEWORK

Risk appetite, targets and limits are used to monitor the bank'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 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 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.

# STRESS TESTING AND SCENARIO PLANNING

## INTRODUCTION AND OBJECTIVES

Stress testing and scenario planning are used to assess whether the desired risk appetite profile can be delivered within set constraints. The group employs a group-wide comprehensive, consistent and integrated approach to stress testing and scenario planning. This programme is a vital part of the annual planning, budgeting and forecasting process and directly informs capital buffers and dividend policy. It also informs the board of the impact of potential risks and management of the group's likely position, level of earnings, material risks and capital adequacy in the future.

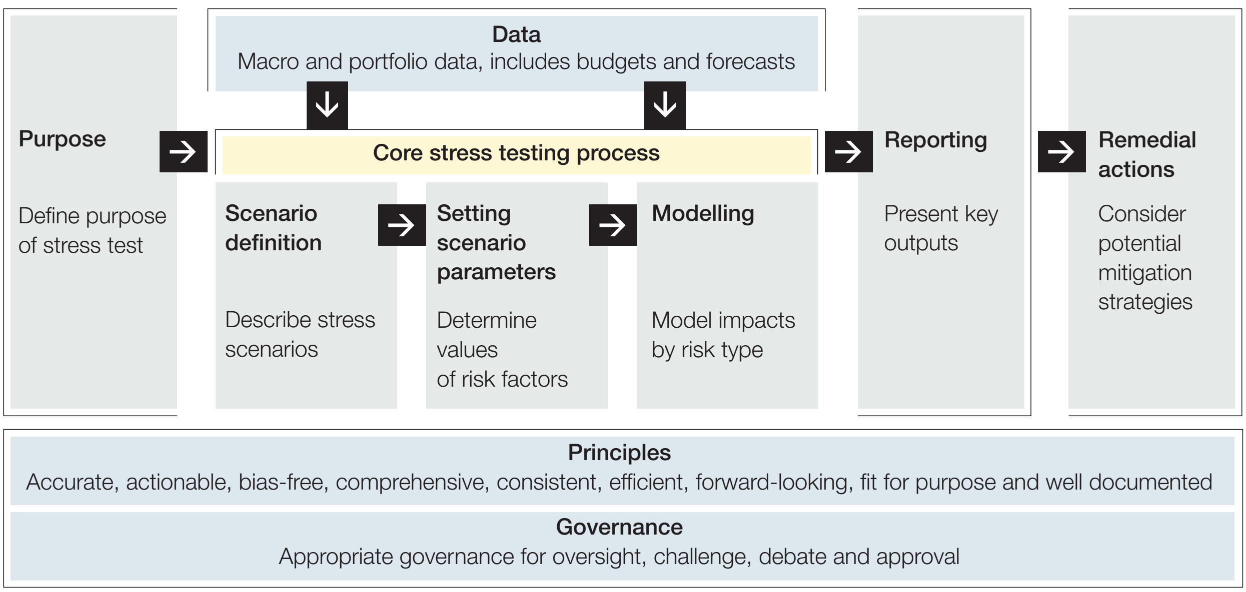
Stress testing and scenario analysis results are used to challenge and review certain of the group's risk appetite measures which will over time inform the basis of allocation of financial resources across franchises and business units. The programme includes all group and bank portfolios.

The group has also run a recovery plan process for a number of years and views this as an extension of the group's existing risk, capital management and business planning initiatives. Stress tests used in the recovery plan process are an extension of the existing stress testing programme and includes both systemic and idiosyncratic dimensions and considers both slow and fast moving events. The results of group-wide stress tests are submitted to the SARB as part of the annual internal capital adequacy assessment process (ICAAP) and recovery plan process.

## STRESS TESTING FRAMEWORK

The stress testing programme is supported by a comprehensive stress testing framework.

STRESS TESTING FRAMEWORK



The first step of the process is to determine the purpose of the stress test. Stress testing serves a variety of objectives, such as to inform business and strategic decisions or to meet a regulatory objective. The purpose then influences decisions regarding the severity and likelihood of scenarios, granularity of modelling and the type of reporting associated with the stress test. Inputs to the process include macroeconomic and internal bank-specific data as well as bottom-up financial budgets and forecasts.

Key risk factors not fully defined or captured during scenario definition are refined when scenario parameters are set. The impact of scenarios is modelled at individual material risk, balance sheet and income type level. Reporting of stress test results to various management and governance structures provides the basis by which management:

- interprets and debates scenarios and results; and
- considers and recommends remedial actions.

**Scenario definition** is primarily guided by the purpose of the stress test and is informed by a number of different dimensions, such as long or short term, single or multifactor, systemic or idiosyncratic, severe or less severe and historical or hypothetical. The group defines three types of scenarios in its stress testing process to ensure that all dimensions and aspects of stress testing are addressed. The following table describes the three types of scenarios and different dimensions considered.

## SCENARIOS AND DIMENSIONS

| Scenario characteristics | Dimensions |
|---|---|
| **Macroeconomic scenarios** | |
| ▸ macroeconomic scenarios are defined in order to capture the effects of the real economy on the group's financial position, risk, liquidity and capital profile;<br>▸ management's strategic and tactical decisions are based on their interpretation of the macroeconomic environment; and<br>▸ scenarios range from the most likely scenario to an extreme, but plausible, scenario. | ▸ long-term (three years);<br>▸ hypothetical but informed by historic data;<br>▸ systemic;<br>▸ multifactor; and<br>▸ range from non-severe to severe. |
| **Event scenarios** | |
| ▸ risk-specific scenarios, not directly related to the economic environment;<br>▸ complement the macroeconomic scenarios and highlight linkages and contagion between risk types;<br>▸ event scenarios aim to identify events that may:<br>– have a reputational impact;<br>– have secondary impacts, e.g. funding and liquidity;<br>– highlight key aspects of the risk profile, e.g. concentrations; and<br>– have a material impact. | ▸ hypothetical;<br>▸ single or multifactor;<br>▸ idiosyncratic; and<br>▸ range from non-severe to severe. |
| **Reverse stress scenario testing** | |
| ▸ can be a macroeconomic event or an event scenario or a combination of the two;<br>▸ aimed at identifying the level of risk factors required to result in a loss of confidence in the group; and<br>▸ the reverse stress testing methodology is also explored in the recovery plan process and used to indicate effectiveness of the group's recovery options. | ▸ short or long term;<br>▸ hypothetical;<br>▸ idiosyncratic or systemic;<br>▸ single- or multifactor; and<br>▸ very severe. |

A key characteristic of the stress testing programme is that the impact of scenarios is modelled at an individual material risk-, balance sheet- and income stream level. **Methodologies** range from:

- scenario analyses, e.g. credit risk regression analysis; to
- sensitivity analyses, e.g. market risk stresses based on specific shocks.

Balance sheet, income streams and risk types are analysed at individual franchise level, with credit risk models built and maintained at a more granular level to include segment and asset class levels. Results of all stress tests are aggregated at the bank and group level.

## ADDITIONAL STRESS TESTS

Additional *ad hoc* stress tests at risk type-, franchise- and business unit level are regularly run to assess changes impacting certain factors, including macroeconomic and risk parameter changes for risk, capital and financial planning purposes. The SARB has and will call for supervisory stress tests from time-to-time. FirstRand recently participated in the following supervisory stress tests:

- International Monetary Fund's financial stability assessment programme in May 2014; and
- SARB's assessment of a potential sovereign downgrade on the South African banking industry in June 2015.

## RECOVERY AND RESOLUTION REGIME

FSB member countries are required to have recovery and resolution plans in place for all systemically significant financial institutions, as per *Key Attributes of Effective Resolution Regimes*. The SARB has adopted this requirement and has, as part of the first phase, required South African domestically significant banking institutions to develop their own recovery plans. Improving the stability of the banking system by strengthening banks' ability to manage themselves through a potentially severe stress situation is of national importance. Guidance issued by the FSB and SARB has been incorporated into the group's comprehensive recovery plan.

### Recovery planning

The purpose of the recovery plan is to document how the board and management of FirstRand, including its franchises and key subsidiary, FirstRand Bank, will recover from a severe stress event/scenario that threatens the group's commercial viability. The recovery plan:

- analyses the potential for severe stress in the group that causes material disruption to the South African financial system;
- identifies the type of stress event/s that would be necessary to trigger its activation;
- analyses how the group might potentially be affected by these event/s;
- lists a menu of potential recovery actions available to the board and management to counteract the event/s; and
- assesses how the group might recover from the event/s as a result of those actions.

The recovery plan forces the group to perform an extensive self-assessment exercise to determine if there are any potential idiosyncratic vulnerabilities that it may be exposed to, and then reconcile these exposures to its own risk appetite and strategy. Strategies to optimise the balance sheet structure and preserve the group's critical functions to support the recovery from a severe stress event with the least negative impact are considered. This process enables banks to better understand what functions are critical for its customers and for the financial system as well as which assets are most marketable to facilitate recovery. Where inefficiencies are identified, these can be amended to make the group more stream-lined, adaptable and resilient to stress.

To date, SARB has focused on bedding down the recovery plans for South African banks and FirstRand has submitted two annual recovery plans, the most recent in December 2014.

### Resolution planning

The South African regulatory architecture is currently undergoing significant transformation in order to create a regulatory framework that will support an effective resolution regime. South Africa is in the process adopting a twin peaks supervisory framework model that will reduce the number of agencies involved in supervision with the establishment of two new regulatory agencies: the Prudential Regulation Authority (PRA), in the SARB; and a market conduct authority that will replace the FSB.

The PRA/SARB will be responsible for bank resolution but the exact details of the legislative framework that will support the resolution regime and the resolution authorities' respective powers, are still being finalised. Initial outlines of the resulting resolution planning requirements for the South African systemically important banks were issued in a draft proposal in August 2015. These resolution plans will allow the SARB to plan for an event from which the group will be unable to recover. It is assumed, based on global best practice, that the resolution plan will be owned and maintained by SARB, but will require a significant amount of resolution data to be submitted by the individual banks.

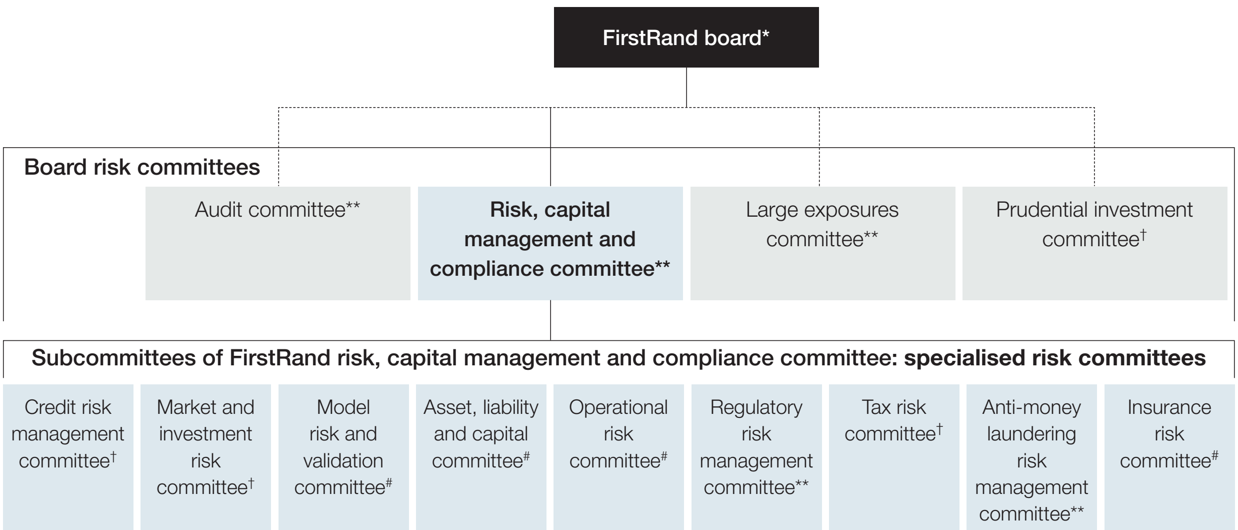
# RISK GOVERNANCE

**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.**

## RISK GOVERNANCE STRUCTURE

The risk management structure is set out in the group's business performance and risk management framework (BPRMF). As a policy of both the board and executive committee, it delineates the roles and responsibilities of key stakeholders in business, support and control functions across the various franchises and the group. The following diagram illustrates how the risk committees fit into the board committee structure. Other board committees also exist, with clearly defined responsibilities. One of these is the strategic executive committee, which 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 Limited is the bank controlling company and in accordance with South African banking regulations, FirstRand Limited and FirstRand Bank Limited share a common, unitary board, which oversees the performance and activities at the group and bank.*

** *Chairman is an independent non-executive director.*

\# *Chairman is a specialist consultant.*

† *Chairman is a member of senior executive management. The credit risk management committee has non-executive board representation.*

*audited*

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. The RCC committee submits its reports and findings to the board and highlights control issues to the audit committee.

The responsibilities of the board risk committees and RCC subcommittees are included in the following tables. Further detail on the roles and responsibilities of the RCC committee and its subcommittees relating to each particular risk type is provided in the major risk sections of this report.

## RESPONSIBILITIES OF BOARD RISK COMMITTEES

| Committee | Responsibility |
|---|---|
| **Audit committee** | ▸ assists the board with its duties relating to the safeguarding of assets, operation of adequate systems and controls, assessment of going concern status and ensuring that relevant compliance and risk management processes are in place;<br>▸ ensures that a combined assurance model is applied to provide a coordinated approach to all assurance activities (by management, internal and external assurance providers);<br>▸ oversees and reviews work performed by external auditors and the internal audit function; and<br>▸ oversees financial risks and internal financial controls including the integrity, accuracy and completeness of the annual integrated report, which is provided to shareholders and other stakeholders. |
| **Risk, capital management and compliance committee** | ▸ approves risk management policies, frameworks, strategies and processes;<br>▸ monitors containment of risk exposures within the risk appetite framework;<br>▸ reports assessment of the adequacy and effectiveness of the risk appetite, risk management, ICAAP and compliance processes to the board;<br>▸ monitors implementation of the risk management strategy and risk appetite limits, and the effectiveness of risk management;<br>▸ initiates and monitors corrective action, where appropriate;<br>▸ monitors that the group takes appropriate action to manage its regulatory and supervisory risks and complies with applicable laws, rules, codes and standards;<br>▸ approves regulatory capital models, risk and capital targets, limits and thresholds; and<br>▸ monitors capital adequacy and ensures that a sound capital management process exists. |
| **Large exposures committee (LEC)** | ▸ approves credit applications or renewals in excess of 10% of the group's qualifying capital and reserves; and<br>▸ delegates the mandate for the approval of group and individual facilities to the FirstRand wholesale credit approval committee, commercial credit approval committee and the FirstRand retail credit policy, risk appetite committee and mandate approval (subcommittees of LEC), as appropriate. |
| **Prudential investment committee (PIC)** | ▸ provides oversight to ensure that investment risk and transactions are carefully assessed prior to approval; and<br>▸ ensures investment exposures comply with group's prudential investment guidelines. |

## RESPONSIBILITIES OF THE SUBCOMMITTEES OF THE RCC COMMITTEE

| Committee | Responsibility |
|---|---|
| **Credit risk management committee** | • approves credit risk management and risk appetite policies as well as forward-looking credit risk indicators developed by the retail, commercial and corporate portfolio management;<br>• provides independent analysis, evaluation and ongoing oversight of credit portfolio quality and performance relative to credit risk appetite thresholds;<br>• monitors quality of the in-force business, business origination and underlying assets in the securitisation process;<br>• monitors scenario and sensitivity analysis, stress tests, credit economic capital utilisation, credit pricing and credit concentrations;<br>• ensures uniform interpretation of credit regulatory requirements and acceptable standards of credit reporting;<br>• monitors corrective actions in terms of non-adherence to the credit risk management framework based on reports by Group Internal Audit (GIA) and reports to the RCC committee; and<br>• reviews credit economic conditions outlook as described in the group's house view and ensures that business units align credit origination strategies accordingly. |
| **Market and investment risk committee** | • approves market and investment risk management policies, standards and processes;<br>• monitors the effectiveness of market and investment risk management processes;<br>• monitors the market and investment risk profile; and<br>• approves market and investment risk-related limits. |
| **Model risk and validation committee** | • approves or recommends for approval by the RCC committee, all material aspects of model validation work including credit ratings and estimations, internal models for market risk and advanced measurement operational risk models for the regulatory capital calculations. |
| **Asset, liability and capital committee (ALCCO)** | • approves and monitors effectiveness of management policies, assumptions, limits and processes for liquidity and funding risk, capital and market risk in the banking book (interest rate risk, and foreign exchange and translation risk);<br>• monitors the group's funding management;<br>• provides governance and oversight of the level and composition of capital, and considers the supply and demand of capital across the group;<br>• approves buffers over regulatory capital and monitors capital adequacy ratios; and<br>• approves frameworks and policies relating to internal funds transfer pricing for the group. |

*audited*

*audited*

| Committee | Responsibility |
|---|---|
| **Operational risk committee (ORC)** | ▸ provides governance, oversight and coordination of relevant operational risk management practices and initiates corrective action, where required;<br>▸ monitors the group and franchise operational risk profiles against operational risk appetite;<br>▸ mandates FirstRand ORC to approve operational risk-related methodologies, processes, guidelines and relevant documentation;<br>▸ reviews and recommends the group's operational risk appetite for approval by RCC committee;<br>▸ approves the operational risk management framework and all its subpolicies/frameworks used in the management of the different operational risk classes, including fraud risk, legal risk, business resilience, information governance, information technology and physical security;<br>▸ monitors the formal reports of the ORC subcommittees on the effectiveness of specific operational risk classes;<br>▸ ensures the maintenance of an independent and appropriately skilled operational risk management function;<br>▸ monitors the adequate and effective implementation of the operational risk management framework across the group and key corrective actions; and<br>▸ reports on material operational risk items to the RCC committee. |
| **Regulatory risk management committee** | ▸ approves regulatory risk management principles, frameworks, plans, policies and standards; and<br>▸ monitors the effectiveness of regulatory risk management across the group and initiates corrective action where required. |
| **Tax risk committee** | ▸ sets tax strategy and tax risk appetite;<br>▸ approves the tax management frameworks and policies; and<br>▸ monitors tax risk assessments and profiles, compliance tax risks, corrective actions and escalation to the RCC committee, where required. |
| **Anti-money laundering risk management committee** | ▸ approves the AML risk management framework, policies and procedures;<br>▸ monitors AML risk assessments, risk profile and compliance with relevant laws and regulations, and the adequacy of remedial actions; and<br>▸ reports and makes recommendations to the RCC committee on AML/CTF matters. |

## FRANCHISE RISK GOVERNANCE STRUCTURE

| | | | | | | |
|---|---|---|---|---|---|---|
| FNB audit committee | FNB risk and compliance committee | RMB audit committee | RMB proprietary board* | WesBank audit committee | WesBank risk and compliance committee | FCC audit, risk and compliance committee |

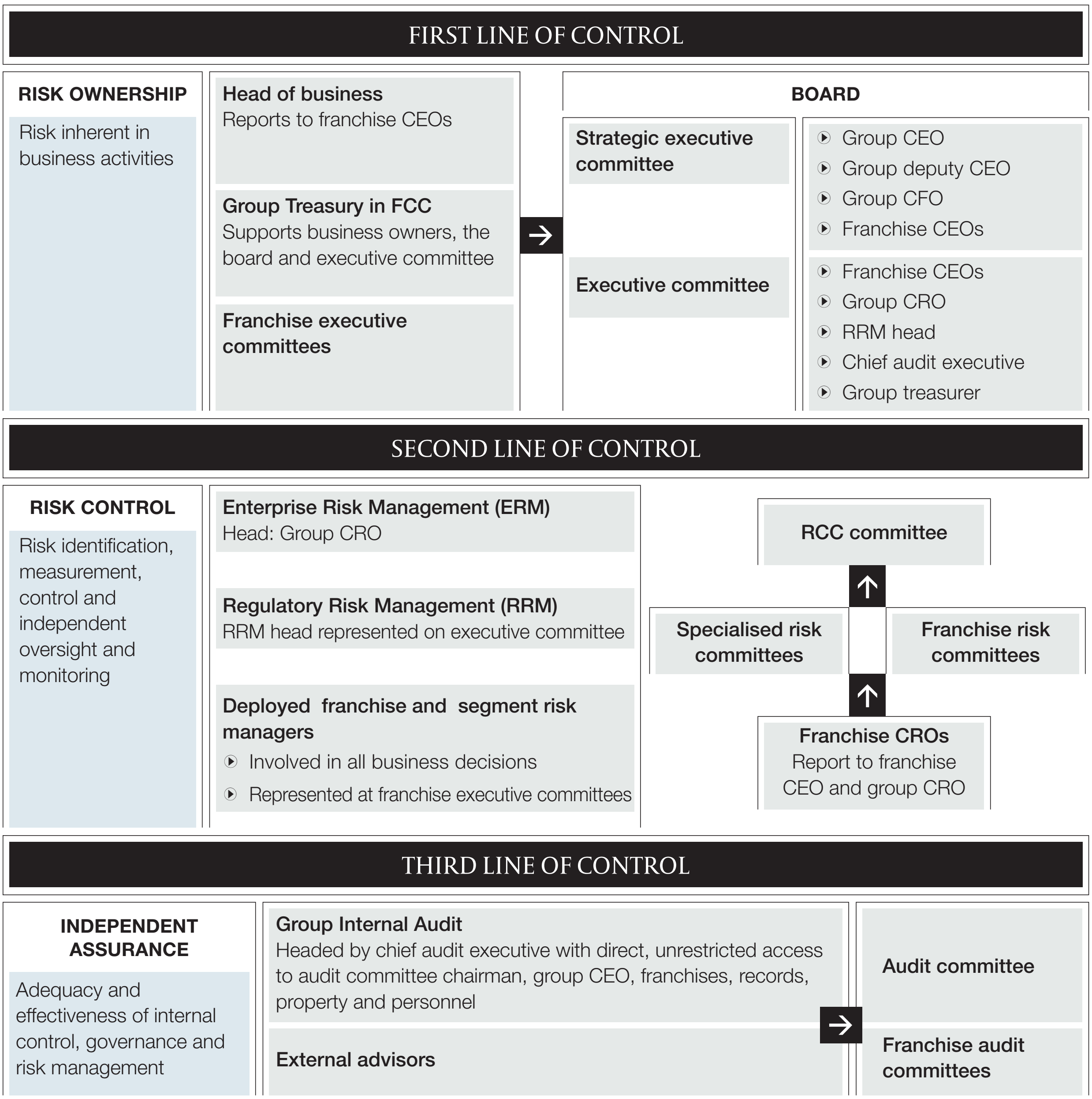
* *The RMB proprietary board is the risk and regulatory committee for RMB.*

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 97. 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.

## RISK GOVERNANCE FRAMEWORK

The group's BPRMF describes the group's approach to risk management. Effective risk management requires multiple points of control and 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 following diagram illustrates the three lines of risk control.

LINES OF RISK CONTROL



The following table lists the responsibilities of the different business areas in the operating franchises and FCC in the lines of risk control.

## RESPONSIBILITIES IN THE LINES OF RISK CONTROL

### FIRST LINE

#### Heads of business

- act in accordance with mandates approved by the board or its delegated authority;
- identify, quantify and monitor key risks to business under normal and stress conditions;
- implement strategy within approved risk appetite parameters;
- design business processes to appropriately manage risk;
- ensure that board-approved risk policies, frameworks, standards, processes, methodologies and risk tools are implemented;
- specify and implement early warning measures, associated reporting, management and escalation processes through governance structures;
- implement risk mitigation and response strategies;
- implement timeous corrective actions and loss control measures as required; and
- ensure staff understand and implement responsibilities for risk management.

#### Group Treasury

- provides an integrated approach to financial resource management;
- optimises the group's portfolio to deliver sustainable returns within an acceptable level of risk;
- performs scenario analysis and stress testing;
- manages the group's liquidity, funding, interest rate risk and market risk in the banking book and foreign exchange mismatch;
- performs capital management and planning; and
- advises senior management on potential capital actions, dividend strategy and other capital management developments.

### SECOND LINE

#### Deployed risk management

- supports management in identifying and quantifying key risks;
- ensures that board-approved risk policies, frameworks, standards, methodologies and tools are adhered to;
- approves design of business risk processes to ensure appropriate risk management;
- identifies process flaws and risk management issues and initiates and monitors corrective action;
- ensures timeous risk management and loss containment activities; and
- compiles, analyses and escalates risk reports on performance, risk exposures and corrective actions, through governance structures in appropriate format and frequency.

#### Enterprise Risk Management

- maintains the BPRMF and its ancillary risk frameworks, policies, standards and risk governance structures;
- develops and communicates risk management strategy and challenges risk profiles;
- monitors adequate and effective implementation of risk management processes;
- reports risk exposures and performance to management and governance structures;
- supports management with risk aspects of business decisions;
- ensures appropriate risk management skills and culture;
- performs risk measurement validation; and
- manages regulatory relationships for risk.

#### Regulatory Risk Management

- monitors that business practices, policies, frameworks and approaches are consistent with applicable laws and regulations.

### THIRD LINE

#### Group Internal Audit

- monitors risk management infrastructure and practices;
- reviews the reliability and integrity of financial and operational information;
- reviews the significant systems established by management to ensure compliance with laws and regulations;
- reviews safeguarding and existence of assets;
- assesses whether resources are acquired economically and used efficiently and effectively;
- reviews operations or programmes for consistency with established goals and objectives;
- evaluates and assesses significant changes in functions, systems, services, processes, operations and controls;
- provides an assessment of the adequacy and effectiveness of the system of internal controls (including financial controls) and risk management to audit committee; and
- conducts work in accordance with international internal audit practices, and its activities are considered annually by external auditors.

## COMBINED ASSURANCE

The audit committee oversees formal enterprise-wide governance structures for enhancing the practice of combined assurance at group and franchise levels. The primary objective is for the assurance providers to work together with management to deliver the appropriate assurance cost effectively. The assurance providers in this model include GIA, senior management, ERM, RRM and external auditors. The combined outcome of independent oversight, validation and audit tasks performed by the assurance providers ensure a high standard across methodological, operational and process components of the group's risk and financial resource management.

Combined assurance results in a more efficient assurance process through the elimination of duplication, more focused risk-based assurance against key control areas and heightened awareness of emerging issues, resulting in the implementation of appropriate preventative and corrective action plans.

## REGULAR RISK REPORTING AND CHALLENGE OF CURRENT PRACTICES

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

ERM and GIA, ensure that all pertinent risk information is accurately captured, evaluated and escalated appropriately and timeously. This enables the board and its designated committees to retain effective control over the group's risk position.

## RISK CULTURE

The group recognises that effective risk management requires the maintenance of an appropriate risk culture. ERM and the group's ethics office collaborate closely to identify and manage risk culture and the assessment methodologies conform to the *FSB framework for assessing risk culture* published in April 2014.

The group believes its risk culture is underpinned by the following:

- competent and ethical leadership in setting strategy, risk appetite and a positive attitude towards applying appropriate risk practices;
- robust risk governance structures to ensure risk policy frameworks are visible and implemented, and that appropriate committee memberships and structures exist;
- best practice risk identification, measurement, monitoring, management and reporting; and
- a broader organisational culture which drives appropriate business ethics practices and supports risk goals and provides a balance between skills and ethical values and ensures accountability for performance.

The group has established very clear parameters to assess the risk rating of its culture. This is outlined in the following diagram.

## RISK CULTURE ASSESSMENT FRAMEWORK

### THEMES

- Ethical and competent leadership
- Accurate and timely flow of information with appropriate disclosure
- Ethical treatment of clients and ethical clients

### PARAMETERS

### ACTIVITIES

| Tone from the top | Setting risk goals | Providing resources and sound platforms | Aligning measurement and rewards |
|---|---|---|---|
| • ensuring an ethical and competent leadership pipeline – recruitment, promotion and dismissal;<br>• develop management structures and forums that encourage openness; and<br>• zero tolerance for unethical conduct or whistle-blower victimisation. | • ensure risk management goals, policies and standards are set and communicated throughout the group; and<br>• ensure that ethics and accountability to risk management parameters are acknowledged as important as efficiency, innovation and profit. | • ensure risk management goals are attainable by adequately staffing risk management functions;<br>• apply fit and proper tests for key risk roles; and<br>• embed risk controls in business platforms. | • ensure accurate and relevant performance metrics; and<br>• ensure risk metrics are incorporated in the performance management framework. |

# BASIS OF PILLAR 3 DISCLOSURE

## SARB APPROACHES TO CALCULATION OF RWA

The following approaches are adopted by the group for the calculation of RWA.

| Risk type | FRB domestic operations | SARB approval date | Remaining FirstRand subsidiaries and FRB foreign operations | FRIHL entities |
|---|---|---|---|---|
| **Credit risk** | Advanced internal ratings-based (AIRB) approach and the standardised approach for certain portfolios | January 2008 | Standardised approach | Standardised approach |
| **Counterparty credit risk** | Standardised method | May 2012 | Current exposure method | Current exposure method |
| **Market risk** | Internal model approach | July 2007 | Standardised approach | Standardised approach |
| **Equity investment risk** | Market-based approach: Simple risk-weighted method | June 2011 | Market-based approach: Simple risk-weighted method | Market-based approach: Simple risk-weighted method |
| **Operational risk*** | Advanced measurement approach (AMA) | January 2009 | The standardised approach (TSA) | Basic indicator approach (BIA), TSA, AMA |
| **Other assets** | Standardised approach | January 2008 | Standardised approach | Standardised approach |

* *All entities on the AMA and TSA for operational risk were included in the approval for use of AMA and TSA from January 2009; some entities were moved to FRIHL with a subsequent legal entity restructure. All other entities in FRIHL remain on the BIA approach.*

## BASIS OF CONSOLIDATION

Consolidation of all group entities for accounting purposes is in accordance with IFRS and for regulatory purposes in accordance with the requirements of the Regulations. There are some differences in the manner in which entities are consolidated for accounting and regulatory purposes. The following table provides the basis on which the different types of entities are treated for regulatory purposes.

## REGULATORY CONSOLIDATION TREATMENT

<table>
<tr><th rowspan="2">Shareholding</th><th colspan="3">Regulatory</th><th rowspan="2">IFRS</th></tr>
<tr><th>Banking, security firm, financial</th><th>Insurance</th><th>Commercial</th></tr>
<tr><td>Less than 10%</td><td colspan="2">Aggregate of investments (CET1, AT1 and Tier 2):<br>• amount exceeding 10% CET1 capital – deduction against corresponding component of capital; and<br>• up to 10% – risk weight*.</td><td rowspan="2">Standardised approach:<br>• minimum risk weight of 100%.<br>Internal rating-based approach:<br>• maximum risk weight of 1250%.</td><td rowspan="2">Financial asset at fair value (held for trading, designated at fair value through profit or loss or available for sale). Where the substance of the transaction indicates that the bank is able to exercise significant influence or joint control over the entity, equity accounting is applied.</td></tr>
<tr><td>Between 10% and 20%</td><td colspan="2">CET1 capital:<br>• individual investments in excess of 10% CET1 – deduction against CET1 capital; and<br>• individual investments up to 10% apply threshold rules**.<br>AT1 and Tier 2:<br>• deduct against corresponding component of capital.</td></tr>
<tr><td>Between 20% and 50%</td><td>Legal or de facto support (other significant shareholder):<br>• proportionately consolidate.<br>No other significant shareholder:<br>• apply threshold rules**.</td><td rowspan="2">• Apply deduction methodology, with 100% derecognition of IFRS NAV.<br>• Cost of investment subject to threshold rules**.</td><td rowspan="2">Standardised and internal rating based approach:<br>• individual investment greater than 15% of CET1, AT1 and Tier 2: risk weight at 1250%;<br>• individual investment up to 15% of CET1, AT1 and Tier 2: risk weight at no less than 100%; and<br>• aggregate of investments exceeding 60% of CET1, AT1 and Tier 2: excess risk weighted at 1250% (standardised only).</td><td>Equity accounted where the substance of the transaction indicates that the bank has the ability to exercise significant influence or joint control, but does not control the entity.</td></tr>
<tr><td>Greater than 50%</td><td>Entity conducting trading activities/other bank, security firm or financial entity#:<br>• consolidate.</td><td>Consolidate, unless the substance of the transaction indicates that the bank does not control the entity, in which case equity accounting would be applied.</td></tr>
</table>

* *Risk weighting based on nature of instrument and measurement approach.*

** *As per Regulation 38(5), investments are aggregated as part of threshold deductions (significant investments, mortgage servicing rights and deferred tax asset relating to temporary differences). Aggregate investments up to 15% is risk weighted at 250%; and amounts exceeding 15% are deducted against CET1 capital.*

\# *Threshold rules would apply to financial entities acquired through realisation of security in respect of previously contracted debt (held temporarily), subject to materially different rules and regulations and non-consolidation required by law.*

## NEW PILLAR 3 DISCLOSURE REQUIREMENTS

The BCBS issued revised Pillar 3 disclosure requirements in January 2015 to address shortcomings in Pillar 3 of the Basel framework. The revised disclosure requirements will enable market participants to better compare banks' RWA disclosures. These form part of the BCBS's broader agenda to reform regulatory standards for banks in response to the global financial crisis. The revisions focus on improving the transparency of the internal model-based approaches used by banks to calculate minimum regulatory capital requirements.

The revised requirements will take effect from the end of 2016 and supersede the existing Pillar 3 disclosure requirements. The most significant revisions are templates for quantitative disclosure and definitions, some with a fixed format. This aims to enhance comparability of banks' disclosures. FirstRand is in the process of ensuring compliance with these new disclosure requirements.

### Basel III capital and leverage components

Directive 3/2015 (replaces directive 8/2013) and directive 4/2014 requires the following additional common disclosure in line with the Regulations:

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

### Basel III LCR disclosure

The BCBS' *Liquidity coverage ratio disclosure standards* propose consistent and transparent disclosure of banks' liquidity positions as measured by the Basel III regulations. Directive 6/2014 and directive 11/2014 require the bank to provide its LCR disclosure in a standardised template.

Refer to www.firstrand.co.za/investorcentre/pages/commondisclosures.aspx for further details on capital, leverage and LCR common disclosure.

*Scan with your smart device's QR code reader to access capital, leverage and LCR disclosures on the group's website.*

The following table summarises the main components of capital and leverage under Basel III.

## QUALIFYING CAPITAL AND LEVERAGE COMPONENTS

### TOTAL QUALIFYING CAPITAL AND RESERVES

=

**TIER 1 CAPITAL**

**CET1 CAPITAL**

- share capital and premium;
- retained earnings (appropriated);
- other reserves; and
- non-controlling interests.

**Deductions**

- goodwill and intangibles;
- deferred tax assets (other than temporary differences);
- investment in own shares;
- shortfall of expected losses over provisions;
- cash flow hedging reserve; and
- investments in financial, banking and insurance institutions.

**AT1 CAPITAL**

- NCNR preference shares; and
- instruments issued out of consolidated subsidiaries to third parties.

**Deductions**

- investments in financial, banking and insurance institutions (AT1 instruments).

+

**TIER 2 CAPITAL**

- subordinated debt instruments;
- general provisions under standardised approach;
- surplus of provisions over expected losses; and
- instruments issued out of consolidated subsidiaries to third parties.

**Deductions**

- investment in financial, banking and insurance institutions (Tier 2 instruments).

### LEVERAGE

=

**CAPITAL MEASURE**

**TIER 1 CAPITAL**

÷

**TOTAL EXPOSURE**

- accounting value for on-balance sheet, non-derivative exposures (net of provisions):
  – no netting of loans and deposits;
- derivative exposures using the replacement cost and potential future exposure;
- securities financing transaction exposures including a measure of counterparty credit risk; and
- adjusted off-balance sheet exposures.

*Note: The full deduction method is applied to insurance entities, i.e. NAV for insurance entities is derecognised from consolidated IFRS NAV.*

# STRATEGIC AND BUSINESS RISK

## INTRODUCTION AND OBJECTIVES

Any business runs the risk of choosing an inappropriate strategy or failing to execute its strategy appropriately. The group aims to minimise this risk in the normal course of business.

## ORGANISATIONAL STRUCTURE AND GOVERNANCE

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

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

## ASSESSMENT AND MANAGEMENT

### STRATEGIC AND BUSINESS RISK COMPONENTS

**1 Strategic risk**

Risk to current or prospective earnings arising from inappropriate business decisions or the improper implementation of such decisions.

- Not a readily quantifiable risk.
- Not a risk that an organisation can or should hold a protective capital buffer against.

**2 Business risk**

Risk to earnings and capital from potential changes in the business environment, client behaviour and technological progress.

- Considered in the strategic planning process and as part of stress testing and scenario analyses.
- Group's objective is to develop and maintain a portfolio that delivers sustainable earnings and minimises the chance of adverse outcomes.

**3 Volume and margin risk**

Business risk is often associated with volume and margin risk, which relates to the group's ability to generate sufficient levels of revenue to offset its costs.

- Considered part of strategic planning.
- Assessed through the group's management and governance processes, and ICAAP.

**4 Reputational risk**

Risk of reputational damage due to compliance failures, pending litigations, underperformance or negative media coverage.

The group's business is one inherently built on trust and close relationships with its clients. Its reputation is, therefore, built on the way in which it conducts business and the group protects its reputation by managing and controlling risks across its operations.

- Reputational risk can arise from environmental and social issues or as a consequence of financial or operational risk events.
- The group seeks to avoid large risk concentrations by establishing a risk profile that is balanced within and across risk types.
- Potential reputational risks are also taken into account as part of stress-testing exercises.
- The bank aims to establish a risk and earnings profile within the constraints of its risk appetite and seeks to limit potential stress losses from credit, market, liquidity or operational risks that may otherwise introduce an undesirable degree of volatility in its financial results and adversely affect its reputation.

**5 Environmental and social risk**

Relates to the environmental and social issues which impact the group's ability to successfully and sustainably implement business strategy.

- Formal governance processes for managing environmental and social risk that may affect the group's ability to successfully implement business strategy exist.
- Includes detailed environmental and social risk analysis (ESRA).

## EQUATOR PRINCIPLES AND ENVIRONMENTAL AND SOCIAL RISK ANALYSIS

FirstRand has formally integrated environmental and social risk management processes into its credit risk governance process, which is supported by enterprise-wide social and ethics committee structures. These processes include the following key measures:

- defining requirements for environmental and social risk assessment and monitoring approved transactions;
- developing and communicating environmental and social performance standards that clients will be expected to meet within an acceptable timeframe; and
- defining environmental and social roles and responsibilities for both FirstRand and its clients.

FirstRand became an Equator Principles (EP) finance institution in July 2009. The application of EP forms part of ESRA, and is a specific framework for determining, assessing, and managing environmental and social risk in affected transactions.

During 2014/2015, areas of focus included the expansion of the ESRA process into the group's subsidiaries in the rest of Africa. The rollout of this process is expected to take place over a three-year period, with priority of roll-out determined by the size and maturity of the subsidiary. The National Environmental Management Waste Act 59 of 2008 (the Act): Part 8 was promulgated on 1 May 2014 and relates to the management of contaminated land. This portion of the Act has increased the group's focus on the valuation and securitisation of contaminated property and credit approval in lending transactions. FirstRand included, as an initial step in identifying contaminated land in all property-related transactions, a review of contaminated land risk indicators as part of the property valuation process.

### ESRA TRANSACTION TYPE

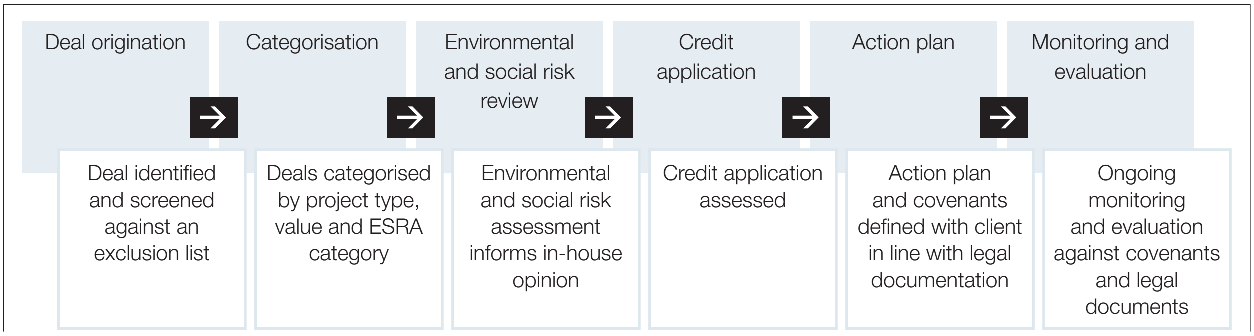
| Transaction type | Threshold amount after which an ESRA review is triggered |
|---|---|
| **Project finance transactions** | Total project capital costs at or above USD10 million: EP review.<br>All category A (high risk) and B (medium risk) transactions with a total project capital cost of less than USD10 million: in-house ESRA review. |
| **Project finance advisory** | Total project capital costs at or above USD10 million: EP review. |
| **Corporate loans** | No threshold applied, all corporate loans: in-house ESRA review. |
| **Corporate loans – project related** | Total aggregate loan amount is at least USD100 million of which member banks' individual commitment (before syndication or sell down) is at least USD50 million and loan tenor is at least two years: EP review. |
| **Bridge loans (subject to EP)** | Bridge loans with a tenor of less than two years that are intended to be refinanced by project finance (at or above USD10 million): EP review. |
| **Equity investment deals** | No threshold applied, all equity investment deals: in-house ESRA review. |
| **Affected commercial loans (including property finance)** | No threshold applied, all property finance or property securitised loans: in-house ESRA review.<br>Commercial loans (non-property related) – total facility amount above R7.5 million: in-house ESRA review. |

### ESRA review process

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

Each of the group's operating franchises have formalised credit and compliance processes for ESRA implementation, with oversight provided by franchise social and ethics committees, risk and compliance officers, and credit committees throughout the group. The ESRA process is incorporated in the group's credit risk management framework as an aspect of transaction risk management, and, in the group environmental sustainability risk framework (a subframework of the regulatory risk management framework), as an aspect of environmental and social risk management. Oversight is provided by RRM and franchise social and ethics committees. The ESRA review process is illustrated in the following chart.

ESRA REVIEW PROCESS




In the event that a transaction is identified as being a high environmental or social risk, or an exception to the defined process, the transactor, franchise chief risk officer and franchise head of credit are informed through a formalised escalation process. Transaction approval is provided by the relevant franchise chief risk officer and head of credit and reported to the relevant quarterly franchise social and ethics committee for discussion and noting.

FirstRand has formal governance processes for managing environmental and social risks affecting the group's ability to successfully implement business strategy. These processes involve the integration of environmental and social information into the relevant sections of risk reports at group and franchise level. Tolerances and mitigating actions are defined at group and franchise level, and progress in respect of these is tracked through existing risk reporting structures. Provision is made for the escalation of significant environmental and social issues to the board via the executive, RCC and audit committees.

### 2015 EP performance

The bank measures EP performance in line with the International Finance Corporation (IFC) performance standards as either category A (high risk), category B (medium risk) or category C (low to no risk), which are defined in the following table.

## DEFINITION OF EP PERFORMANCE CATEGORIES

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

### EP transactions

The projects reported are the structured EP-defined deals, which were reviewed by in-house environmental and social risk specialists. All category A and B transactions were subjected to independent EP review to establish environmental and social risks of projects and have reached financial close during the year. Financial close is assumed when all conditions precedent to initial drawing of the debt have been satisfied or waived. EP reporting is externally assured for public disclosure by an independent third party as per the requirements set out by the EP association.

The number of EP transactions screened per industry category and region is provided in the following tables.

## EP PROJECT FINANCE LOANS

| | 2015 | | | | 2014 | | | |
|---|---|---|---|---|---|---|---|---|
| **Transactions per category** | **Total** | **A high risk** | **B medium risk** | **C low risk** | **Total** | **A high risk** | **B medium risk** | **C low risk** |
| **By sector*** | | | | | | | | |
| Mining | **1** | **1** | **–** | **–** | 2 | 2 | – | – |
| Infrastructure | **1** | **–** | **1** | **–** | 1 | – | – | 1 |
| Power | **1** | **–** | **1** | **–** | 1 | – | 1 | – |
| Renewable energy | **1** | **–** | **1** | **–** | 2 | – | 2 | – |
| Retail | **8** | **–** | **–** | **8** | 8 | – | – | 8 |
| **By region*** | | | | | | | | |
| Asia Pacific | **2** | **1** | **1** | **–** | – | – | – | – |
| Europe, Middle East and Africa | **10** | **–** | **2** | **8** | 14 | 2 | 3 | 9 |
| **By country designation**** | | | | | | | | |
| Designated | **1** | **1** | **–** | **–** | – | – | – | – |
| Non-designated | **11** | **–** | **3** | **8** | 14 | 2 | 3 | 9 |
| **Independent review** | | | | | | | | |
| Yes# | **4** | **1** | **3** | **–** | 5 | 2 | 3 | – |
| No | **8** | **–** | **–** | **8** | 9 | – | – | 9 |
| **By EP category** | | | | | | | | |
| Total number of EP transactions | **12** | **1** | **3** | **8** | 14 | 2 | 3 | 9 |

* *No transactions in the oil and gas sector, or in the Americas region reached financial close during 2014 and 2015.*

** *A designated country is a high income country as per the Organisation for Economic Cooperation and Development (OECD) country list.*

# *An independent review is not required for category C projects.*

## Project-related corporate loans

The following table includes the detail breakdown of project-related corporate loans per category split by sector, region, country designation, independent review and total transactions. Only one project related corporate loan reached financial close during the year under review. Whilst there are more project-related corporate loans that were initiated during the 2014/2015 financial year, none of those reached financial close.

### EP PROJECT-RELATED CORPORATE LOANS

| | 2015 | |
|---|---|---|
| **Transactions per category*** | **Total** | **B medium risk** |
| **By sector**** | | |
| Infrastructure | **1** | **1** |
| **By region**** | | |
| Europe, Middle East and Africa | **1** | **1** |
| **By country designation** | | |
| Designated[#] | **–** | **–** |
| Non-designated | **1** | **1** |
| **Independent review** | | |
| Yes | **1** | **1** |
| No | **–** | **–** |
| **Total by EP category** | **1** | **1** |

* *No transactions in category A (high risk) or category C (low risk) reached financial close during 2015.*

** *No transactions in the mining, oil and gas, power, renewable energy and retail sector or in the Americas and Asia Pacific regions reached financial close during 2015.*

[#] *A designated country is a high-income country as per the OECD country list. No transactions in a designated country reached financial close during 2015.*

## EP PROJECT FINANCE ADVISORY TRANSACTIONS

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| **Transactions per category** | **Total** | **A high risk** | **B medium risk** | **Total** | **A high risk** | **B medium risk** |
| **By sector*** | | | | | | |
| Mining | **1** | **1** | **–** | 1 | 1 | – |
| Infrastructure | **1** | **–** | **1** | 1 | – | 1 |
| Renewable energy | **1** | **–** | **1** | 1 | – | 1 |
| **By region*** | | | | | | |
| Europe, Middle East and Africa | **3** | **1** | **2** | 3 | 1 | 2 |
| **Total by EP category** | **3** | **1** | **2** | 3 | 1 | 2 |

* *No transactions in the power, oil and gas, and retail sector, or in the Americas and Asia Pacific regions, or in category C (low risk) reached financial close during 2014 and 2015.*

### ESRA process going forward

The bank is currently in the seventh year of implementation of ESRA processes. Continued focus will be given to awareness training, effective application and continued improvement of the ESRA process.

# 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 bank, therefore, maintains capitalisation ratios aligned to its risk appetite and appropriate to safeguard operations and stakeholder interests.

The bank focuses on the following areas to safeguard operations and stakeholder interests.

### KEY FOCUS AREAS AND CONSIDERATIONS

**Optimal level and composition of capital**

Determined after taking into account:

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

**Effective allocation of resources (including capital and risk capacity)**

- aligned to risk appetite to maximise value for shareholders.

**Limited excesses above targets**

- medium-term growth plans and future regulatory changes considered.

**Dividend policy included in overall capital plan**

- sustainable dividend cover based on sustainable normalised earnings;
- dividend policy caters for the following factors:
  - volatile earnings brought on by fair value accounting;
  - anticipated earnings yield on capital employed;
  - organic growth requirements;
  - safety margin for unexpected fluctuations in business plans; and
  - current target range (1.8 x to 2.2 x) to protect shareholders from any unnecessary volatility in dividends.
- Annual assessment of appropriate level considers the following inputs:
  - actual performance;
  - forward-looking macroeconomic scenarios;
  - demand for capital; and
  - potential regulatory and accounting changes.

## CAPITAL ADEQUACY AND PLANNING

### 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 scenarios (including stress events), which includes ongoing regulatory developments, expansion initiatives and corporate transactions. The final Basel III leverage framework was implemented in 2014 and greater emphasis has been placed on monitoring leverage for the bank.

The bank operated above its capital and leverage targets during the year under review. The following table summarises the bank's capital and leverage ratios at 30 June 2015.

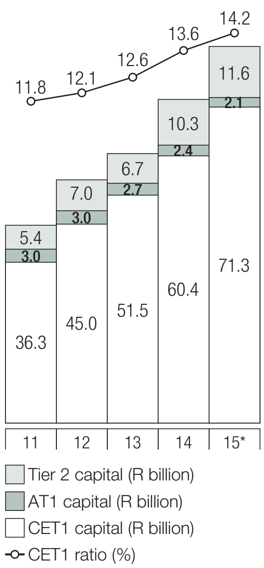
### CAPITAL ADEQUACY AND LEVERAGE POSITION

| | Capital | | | Leverage |
|---|---|---|---|---|
| % | CET1 | Tier 1 | Total | Total |
| Regulatory minimum* | 6.5 | 8.0 | 10.0 | 4.0 |
| Target | 10.0 – 11.0 | >12.0 | >14.0 | >5.0 |
| **Actual – bank excluding foreign branches** | | | | |
| Excluding unappropriated profits | **13.2** | **13.6** | **15.6** | **6.6** |
| Including unappropriated profits | **14.3** | **14.8** | **16.7** | **7.1** |
| **Actual – bank including foreign branches** | | | | |
| Excluding unappropriated profits | **13.1** | **13.5** | **15.8** | **6.7** |
| Including unappropriated profits | **14.2** | **14.6** | **16.9** | **7.2** |

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

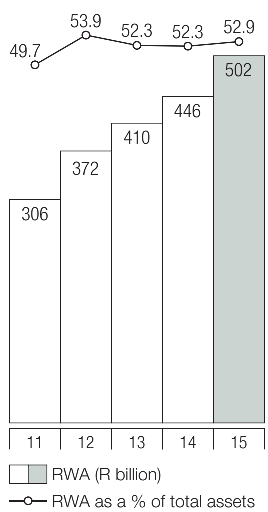
The following graphs show the historical overview of capital adequacy and RWA for the bank including foreign branches.

### CAPITAL ADEQUACY




* *Includes unappropriated profits.*

### RWA HISTORY



## REGULATORY UPDATE

The BCBS issued a number of consultative documents during the year under review. These papers are at different stages of testing, finalisation and implementation, and will be incorporated in the BCBS quantitative impact studies. The bank continues to participate in the quantitative impact studies to assess and incorporate, where relevant, the effect of these standards. The following table summarises the proposals that may impact the bank's capital levels.

### SUMMARY OF CONSULTATIVE DOCUMENTS

| | Objectives | Impact assessment |
|---|---|---|
| **Revised standardised approaches for credit and operational risk** | • Reduced variability in RWA and increased risk sensitivity. | • Impact not yet quantified.<br>• Incorporated in the December 2014 BCBS quantitative impact study. |
| **Capital floor based on standardised approaches for internal ratings based accredited banks** | • Address variability in capital ratios for banks using internal ratings based approaches.<br>• Enhanced comparability across jurisdictions. | • Impact not yet quantified.<br>• Proposed calibration and implementation timeline not clarified. |
| **Interest rate risk in the banking book** | • Appropriate capital to cover potential losses from exposure to changes in interest rates.<br>• Limit capital arbitrage between trading and banking book. | • Impact not yet quantified.<br>• Incorporated in the June 2015 BCBS quantitative impact study.<br>• Two possible options:<br>– Pillar 1 approach (minimum capital requirement); or<br>– enhanced Pillar 2 approach. |
| **Principles on loss absorbing and recapitalisation capacity of G-SIBs** | • Developed in consultation with BCBS.<br>• Forms a new minimum standard for total loss absorbing capacity and composition of a bank's capital structure. | • Discussion document issued for comment. |

The National Treasury, SARB and FSB published for public comment a discussion document, *Strengthening South Africa's Resolution Framework for Financial Institutions*. Comments on the paper are due by 30 September 2015.

### Internal capital adequacy assessment process

ICAAP is key to the bank's risk and capital management processes as it is an integral tool in meeting the capital management objectives of the bank. ICAAP allows and facilitates:

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

The board-approved capital plan is annually reviewed as part of the bank's ICAAP, with the stress-testing framework an extension of the process. ICAAP assists in the allocation of capital in proportion to risks inherent in the various businesses with reference to normal economic circumstances and times of potential stress, which may lead to the emergence of risks not previously considered. These processes are under continuous review and refinement, and continue to inform the targeted buffer over the minimum capital requirement.

The bank aims to back all economic risk with loss absorbing capital and remains well capitalised in the current environment. The bank continues to refine its approach to economic capital used across the bank which includes strategic capital planning, risk measurement and portfolio management.

## COMPOSITION OF CAPITAL

### Supply of capital

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

### COMPOSITION OF CAPITAL ANALYSIS

| R million | CET1 capital | Tier 1 capital | Total qualifying capital |
|---|---|---|---|
| **2015 – excluding unappropriated profits** | **65 876** | **67 976** | **79 594** |
| **2015 – including unappropriated profits** | **71 289** | **73 389** | **85 007** |
| 2014* | 60 415 | 62 815 | 73 098 |

* *All profits were appropriated at 30 June 2014.*

| Movement | | |
|---|---|---|
| **CET1** | **AT1** | **Tier 2** |
| ↑ | ↓ | ↑ |
| • Share capital issuance.<br>• Internal capital generation through earnings. | • Additional haircut on non-compliant Basel III NCNR preference shares. | • Issuance of Basel III compliant subordinated debt instrument (FRB15 – R2.0 billion) in March 2015.<br>• Redemption of FRB03 old-style Tier 2 instrument (R1.7 billion) in September 2014.<br>• Additional haircut on non-compliant Basel III Tier 2 instruments. |

## Demand for capital

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

### RWA AND CAPITAL REQUIREMENTS

| | 2015 | | | | 2014 |
|---|---|---|---|---|---|
| | RWA | | | | |
| R million | Advanced approach | Other approaches* | Total | Capital requirement** | RWA |
| Credit risk | 344 792 | 34 054 | 378 846 | 37 885 | 338 744 |
| – Corporate, banks and sovereigns | 152 924 | 10 945 | 163 869 | 16 387 | 149 771 |
| – Small and medium enterprises (SMEs) | 46 313 | 3 920 | 50 233 | 5 023 | 42 786 |
| – Residential mortgages | 51 745 | – | 51 745 | 5 175 | 48 203 |
| – Qualifying revolving retail | 22 082 | 4 309 | 26 391 | 2 639 | 20 030 |
| – Other retail | 66 627 | 14 163 | 80 790 | 8 079 | 75 999 |
| – Securitisation exposure | 5 101 | 666 | 5 767 | 577 | 1 913 |
| – Other | – | 51 | 51 | 5 | 42 |
| Counterparty credit risk (excludes default risk) | – | 7 306 | 7 306 | 731 | 1 238 |
| **Total credit risk** | 344 792 | 41 360 | 386 152 | 38 616 | 339 982 |
| Operational risk | 74 546 | 2 756 | 77 302 | 7 730 | 70 007 |
| Market risk | 9 320 | 2 203 | 11 523 | 1 152 | 12 037 |
| Equity investment risk | 5 409 | – | 5 409 | 541 | 6 567 |
| Other assets# | – | 21 992 | 21 992 | 2 199 | 17 000 |
| **Total RWA** | 434 067 | 68 311 | 502 378 | 50 238 | 445 593 |

* *Includes the standardised and current exposure method for counterparty credit risk.*

** *Capital requirement calculated at 10% of RWA (excluding the bank-specific individual capital requirement).*

# *Includes the investment in financial, banking and insurance entities, and deferred tax assets risk weighted at 250%.*

The following table analyses year-on-year movements.

## RWA ANALYSIS

| Risk type | Year-on-year movement | Analysis |
|---|---|---|
| Credit risk | ↑ | - organic growth, model recalibrations and regulatory refinement. |
| Counterparty credit risk | ↑ | - primarily a result of the withdrawal of the credit valuation adjustment (CVA) exemption for rand and local counterparty over-the-counter (OTC) derivatives. |
| Operational risk | ↑ | - recalibration of risk scenarios;<br>- increase in gross income for branches on standardised approach; and<br>- capital floor add-on for difference between AMA and standardised approaches. |
| Market risk | ↓ | - volume and mark-to-market movements; and<br>- refinement to internal and regulatory methodologies. |
| Equity investment risk | ↓ | - disposals of investments and fair value adjustments. |
| Other risks* | ↑ | - increase in assets subject to 250% risk weighting; and<br>- increase in property and equipment. |

* *Includes investment in financial, banking and insurance entities, and deferred tax assets risk weighted at 250%.*

Directive 3/2015 (replaces directive 8/2013) and directive 4/2014 (leverage) requires the following additional common disclosure in line with the Regulations:

- 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 page 107 for a link to the disclosure.

# CREDIT RISK

## INTRODUCTION AND OBJECTIVES

Credit risk is the risk of loss due to the non-performance of a counterparty in respect of any financial or other obligation. For fair value portfolios, the definition of credit risk is expanded to include the risk of losses through fair value changes arising from changes in credit spreads. Credit risk also includes credit default risk, pre-settlement risk, country risk, concentration risk and securitisation risk.

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

Credit risk is one of the core risks assumed as part of achieving the bank's business objectives. It is the most significant risk type in terms of regulatory and economic capital requirements. 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 bank'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 bank, therefore, spans the credit value chain, including credit origination strategy, risk appetite, risk quantification and measurement and collection, and recovery of delinquent accounts.

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, control and reporting of credit risk exposure.

Credit risk management across the bank is split into three distinct portfolios: retail, commercial and corporate. These portfolios are aligned to customer profiles. Retail credit is offered by FNB and WesBank to individuals and SMEs with a turnover of up to R7.5 million. Commercial credit focuses on relationship banking offered by FNB and WesBank to companies that are mainly single-banked and corporate credit is offered by RMB to large corporate multi-banked customers. As advances are split across the operating franchises, default risk is allocated to the income-receiving portfolio.

## ORGANISATIONAL STRUCTURE AND GOVERNANCE

### CREDIT RISK GOVERNANCE STRUCTURE

audited

**FirstRand board**

**LARGE EXPOSURES COMMITTEE**

Approves credit applications >10% of group's qualifying capital.

**RCC COMMITTEE**

Reviews reports on:

- adequacy and robustness of credit risk identification, management and control; and
- current and projected credit risk profile.

**MODEL RISK AND VALIDATION COMMITTEE**

Reviews credit risk capital models, credit ratings and estimations.

**CREDIT RISK MANAGEMENT COMMITTEE**

- oversight of credit risk exposures, profile and management across the group; and
- monitor implementation of the credit management framework (CRMF).

→ The CRMF (a subframework of BPRMF) prescribes the governance structures, roles, responsibilities and lines of accountability for credit risk management.

| | | | | | | |
|---|---|---|---|---|---|---|
| Retail and SME retail credit technical committee | Wholesale and SME corporate credit technical committee | Credit policy, risk appetite and mandates approval subcommittee | Credit impairments subcommittee | Retail credit portfolio committee | Commercial credit portfolio committee | Wholesale credit committee |

**ERM GROUP CREDIT RISK MANAGEMENT**

→ Independent oversight of credit risk management practices and monitor implementation of credit risk-related frameworks across the group.

- independent view of the credit risk profile;
- credit risk governance;
- oversees credit measurement process;
- independent validations of credit measurement processes and models;
- implements methodologies and capabilities; and
- facilitates the credit risk appetite processes.

**CREDIT RISK FUNCTIONS IN FRANCHISES**

**Portfolio heads (retail, commercial, corporate)**

- accountable to the group's governance forums;
- align to credit origination strategy and appetite;
- implement and assess frameworks/policy compliance; and
- calculate volatility profile for aggregate portfolios.

## ASSESSMENT AND MANAGEMENT

### Calculation of internal ratings and ratings process

The assessment of credit risk across the bank relies on internally-developed quantitative models for regulatory purposes under the Regulations and as addressing business needs.

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

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

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

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

| Probability of default | |
|---|---|
| **Definition** | The probability of a counterparty defaulting on any of its obligations over the next 12 months and is a measure of the counterparty's ability and willingness to repay facilities granted. |
| **Dimensions** | Time-driven: counterparty is in arrears for more than 90 days or three instalments.<br>Event-driven: there is reason to believe that the exposure will not be recovered in full and has been classified as such. |
| **Application** | • All credit portfolios.<br>• Recognition of NPLs for accounting. |
| **PD measures** | • Through-the-cycle (TTC) PD measures reflect long-term, average default expectations over the course of the economic cycle. TTC PDs are inputs in economic and regulatory capital calculations.<br>• Point-in-time (PIT) PD measures reflect default expectations in the current economic environment and thus tend to be more volatile than TTC PDs. PIT PDs are used in credit portfolio management, including risk appetite and portfolio monitoring. |
| **Measure application** | Management of credit risk exposure. |

The bank employs a granular, 100-point master rating scale, which has been mapped to the continuum of default probabilities, as illustrated in the following table. 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 Standard & Poor's. The group currently uses only mapping to Standard & Poor's rating scales.*

- 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.

| Exposure at default | |
|---|---|
| **Definition** | The expected exposure to a counterparty through a facility should the counterparty default over the next 12 months. It reflects commitments made and facilities granted that have not been paid out and that may be drawn over the period under consideration (i.e. off-balance sheet exposures). Its also a measure of potential future exposure on derivative positions. |
| **Application** | A number of EAD models, which are tailored to the respective portfolios and products employed, are in use across the bank. These have been developed internally and are calibrated to historical default experience. |

| Loss given default | |
|---|---|
| **Definition** | The economic loss on a particular facility upon default of the counterparty is expressed as a percentage of exposure outstanding at the time of default. |
| **Dependent on** | • Type, quality and level of subordination.<br>• Value of collateral held compared to the size of overall exposure.<br>• Effectiveness of the recovery process and timing of cash flows received during the workout or restructuring process. |
| **Application** | • All credit portfolios.<br>• Recognition of NPLs for accounting. |
| **Distinctions** | Long-run expected LGDs (long-run LGDs). |
| | LGDs reflective of downturn conditions include:<br>• more conservative assessment of risk, which incorporates a degree of interdependence between PD and LGD that can be found in a number of portfolios, e.g. instances where deteriorating collateral values are also indicative of higher default risk; and<br>• used in the calculation of regulatory capital estimates. |

### Expected loss (EL)

EL, the product of the primary risk measures PD, EAD and LGD, is a forward-looking measure of portfolio or transaction risk. It is used for a variety of purposes along with other risk measures. EL is not directly comparable to impairment levels, as EL calculations are based on regulatory parameters, TTC PD and downturn LGD, whilst impairment calculations are driven by IFRS requirements.

### Rating process

The bank 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.

## CREDIT PORTFOLIO RATING PROCESS

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

| Portfolio and type of exposures | Description of rating system |
|---|---|
| **Specialised lending portfolios**<br>(Corporate: RMB, FNB commercial and wealth (RMB Private Bank and FNB Private Wealth))<br>Exposures to private-sector counterparties for the financing of income-producing real estate. | Default definitions applied in rating systems are aligned to the Regulations.<br>**Rating process:**<br>• 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;<br>• the rating assessment is reviewed by the wholesale credit committee, commercial credit committee or delegated subcommittee and the rating (as well as the associated PD) is approved by these committees; and<br>• no overrides of the ratings or the PDs are possible after approval by these committees. |
| **Commercial portfolio**<br>(SME corporate and SME retail counterparties in FNB commercial and WesBank)<br>Exposures to SME clients.<br>A wide range of products give rise to credit exposure, including loan facilities, contingent products and term lending products. | Default definitions applied in rating systems are aligned to the Regulations.<br>**SME retail rating process:**<br>• 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;<br>• PDs are estimated for each subpool based on internal product level history associated with the respective homogeneous pools and subpools; and<br>• LGD and EAD estimates are applied on a portfolio level, estimated from internal historical default and recovery experience.<br>**SME corporate rating process:**<br>• PD: Counterparties are scored using Moody's RiskCalc™ in addition to other internal risk drivers, the output of which is calibrated to internal historical default data;<br>• LGD: Recovery rates are largely determined by collateral type and these have been set with reference to internal historical loss data, external data (Fitch Ratings) and Basel guidelines; and<br>• EAD: Portfolio level credit conversion factors are estimated on the basis of the bank's internal historical experience and benchmarked against international studies. |

<table>
<tr><th>Portfolio and type of exposures</th><th>Description of rating system</th></tr>
<tr><td>Residential mortgages<br>(FNB HomeLoans, FNB housing finance and wealth (RMB Private Bank and FNB Private Wealth))<br>Exposures to individuals for the financing of residential properties.</td><td rowspan="3">Default definition applied in rating systems is aligned to the Regulations.<br>Rating process and approach:<br>• retail portfolios are segmented into homogeneous pools and subpools through an automated scoring process using statistical models that incorporate product type, loan characteristics, customer behaviour, application data and delinquency status;<br>• PDs are estimated for each subpool based on internal product level history associated with the respective homogeneous pools and subpools;<br>• no overrides of the PDs are possible. The only potential override is not that of the PD, but rather of the automated decision to lend or not. Such overrides may be done on the basis of the credit manager's judgement in a structured process supported by valid business reasons; and<br>• LGD and EAD estimates are based on subsegmentation with reference to the collateral or product type as well as associated analyses and modelling of historical internal loss data.<br>Additional notes on qualifying revolving retail exposures:<br>• as these exposures are unsecured, only the efficiency of recovery processes impacts on the level of LGD; and<br>• 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.</td></tr>
<tr><td>Qualifying revolving retail exposures<br>(FNB card, FNB value banking solutions and wealth)<br>Exposures to individuals providing a revolving limit through a credit card or overdraft facility.</td></tr>
<tr><td>Other exposures<br>(FNB personal loans, WesBank vehicle and asset finance (VAF) and WesBank personal loans)</td></tr>
</table>

## Model validation

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

Independent validation of rating systems is carried out by the group credit risk management function in ERM. It is responsible for reviewing all rating systems and an annual comprehensive revalidation of all material rating systems. The model risk audit team in GIA carries out sample revalidations of rating systems. The results of these reviews are reported to and approved by the model risk and validation committee and RCC committee, depending on materiality. As part of this process, extensive documentation covering all steps of the model development lifecycle from inception through to validation is maintained, including:

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

## Credit risk mitigation

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

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 HomeLoans, FNB wealth 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.

*audited*

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 the 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 over collateral. For mortgage portfolios, collateral is revalued on an ongoing basis using an index model and physical inspection is performed in the event of default at the beginning of the recovery process.

Concentrations within credit risk mitigation types, such as property, are monitored and managed in the three credit portfolios. FNB HomeLoans, 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.

*audited*

## Monitoring of weak exposures

Credit exposures are actively monitored throughout the life of transactions. Portfolios are formally reviewed by portfolio committees either monthly or quarterly to assess levels of individual counterparty risk, portfolio risks and to act on any early warning indicators. The performance and financial condition of borrowers is monitored based on information from internal sources, credit bureaux, borrowers and publicly-available information. The frequency of monitoring and contact with the borrower is determined from the borrower's risk profile. Reports on the overall quality of the portfolio are monitored at a business unit level, portfolio level and in aggregate for the bank.

## Use of credit risk measures

The following credit risk management actions and measures are used extensively in the bank's credit risk processes:

- credit approval;
- pricing;
- limit setting/risk appetite;
- reporting;
- provisioning;
- capital calculations and allocation;
- profitability analysis;
- stress testing;
- risk management and credit monitoring; and
- performance measurement.

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

## USE OF CREDIT RISK MANAGEMENT ACTIONS AND MEASURES IN THE CREDIT LIFECYCLE

| | Corporate | Retail |
|---|---|---|
| **Determination of portfolio and client acquisition strategy** | • assessment of overall portfolio credit risk determined by PD, EAD and LGD; and<br>• acquisition and overall strategy set in terms of appropriate limits and group risk appetite. | • same measures as for corporate; and<br>• credit models determine loss thresholds used in setting of credit risk appetite. |
| **Determination of individual and portfolio limits** | • industry and geographical concentrations;<br>• ratings;<br>• risk-related limits on the composition of portfolio; and<br>• group credit risk appetite. | • same measures as for corporate; and<br>• modeled *versus* actual experience is evaluated in setting of risk appetite. |
| **Profitability analysis and pricing decisions** | • PD, EAD and LGD used to determine pricing; and<br>• economic profit used for profitability. | • same measures as for corporate. |
| **Credit approval** | • consideration of application's ratings;<br>• credit risk appetite limits; and<br>• projected risk-adjusted return on economic capital (PD, EAD and LGD are key inputs in these measures). | • automated based on application scorecards (scorecards are reflective of PD, EAD and LGD); and<br>• assessment of client's affordability. |
| **Credit monitoring and risk management** | • risk assessment based on PD, EAD and LGD;<br>• counterparty FR grades updated based on risk assessment; and<br>• additional capital for large transactions that will increase concentration risk. | • same measures as for corporate; and<br>• monthly analysis of portfolio and risk movements used in portfolio management and credit strategy decisions. |
| **Impairments** | • PD and LGD used in assessment of impairments and provisioning; and<br>• judgemental assessment to determine adequacy of provisions. | • loss identification period PD, LGD and roll rates used for specific, portfolio and incurred but not reported provisions. |
| **Regulatory and economic capital calculation** | • primary credit risk measures – PD, EAD and LGD are the most important inputs. | • primary credit risk measures – PD, EAD and LGD are the most important inputs. |
| **Reporting to senior management and board** | • portfolio reports discussed at franchise and business unit risk committee meetings; and<br>• quarterly portfolio reports submitted to credit risk management and RCC committees. | • portfolio reports discussed at franchise and business unit risk committee meetings; and<br>• quarterly portfolio reports submitted to credit risk management and RCC committees. |

## CREDIT RISK PORTFOLIO

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

### Credit portfolios

Credit impairments decreased 10%. The credit impairment ratio, however, reduced from 81 bps to 66 bps on the back of strong book growth.

Overall NPLs increased 4%, driven by strong book growth in card, other retail, India and WesBank loans. The downturn in the commodity cycle negatively impacted NPL formation in the corporate portfolio.

The total coverage ratio increased to 64.9 bps (2014: 63.7 bps), reflecting a change in NPL mix, and both specific and portfolio impairments increased during the year. Increased portfolio impairments were driven by higher arrears and strong book growth in WesBank loans, VAF, card, and in RMB, by the adverse commodity cycle (oil and gas, and mining and metals sectors). The performing book coverage ratio of 72 bps reduced from the prior year (2014: 74 bps) with NPL formation increasing in some of the underlying franchises and products during the year.

### Key drivers

- An 18% reduction in residential mortgage NPLs, reflecting continued strong cure rates of defaulted accounts and constrained levels of new inflows, reflecting disciplined origination strategies and effective workout strategies.
- A reduction of 7% in FNB personal loans NPLs, underpinned by a 22% reduction in NPLs in mass loans, reflecting more conservative origination strategies and tightening credit criteria.
- Higher NPLs in card, retail VAF and WesBank loans (which includes an increase in debt review clients), impacted by strong book growth and the worsening credit cycle.
- NPLs in FNB Africa increased, driven by strong book growth and in the case of some of the subsidiaries, cyclical macro pressures.
- NPLs in RMB's Investment Banking division increased 23%, primarily driven by the impact of the adverse commodity cycle on certain counters in the mining and metals sector.
- Post write-off recoveries remained robust at R1.83 billion, driven by card, the unsecured retail lending portfolios (personal loans) and VAF.

## Credit assets

The following table provides a breakdown of credit exposure (including off-balance sheet exposures) by type, segment and SARB approach. The figures are based on IFRS and differ from exposure figures used for regulatory capital calculation, which reflect the recognition of permissible adjustments such as netting of certain exposures. The bank makes use of on- and off-balance sheet netting when it determines credit risk for regulatory capital purposes.

### CREDIT ASSETS BY TYPE, SEGMENT AND SARB APPROACH

| | | AIRB approach | Standardised approach | |
|---|---|---|---|---|
| **R million** | **2015** | **FirstRand Bank (SA)** | **Foreign operations** | **2014** |
| **On-balance sheet exposures** | | | | |
| **Cash and short-term funds** | **46 369** | **45 872** | **497** | 46 770 |
| – Money at call and short notice | **28 184** | **27 737** | **447** | 30 636 |
| – Balances with central banks | **18 185** | **18 135** | **50** | 16 134 |
| Gross advances | **685 477** | **650 590** | **34 887** | 631 651 |
| FNB* | **284 542** | **284 098** | **444** | 259 064 |
| – FNB retail | **225 867** | **225 866** | **1** | 208 920 |
| – FNB commercial** | **58 232** | **58 232** | **–** | 49 903 |
| – FNB Africa# | **443** | **–** | **443** | 241 |
| WesBank | **166 897** | **145 974** | **20 923** | 156 856 |
| RMB investment banking | **221 297** | **211 836** | **9 461** | 206 916 |
| RMB corporate banking | **6 147** | **5 997** | **150** | 6 442 |
| FCC | **6 594** | **2 685** | **3 909** | 2 373 |
| Derivatives | **34 112** | **34 003** | **109** | 38 633 |
| Debt investment securities (excluding non-recourse investments) | **119 805** | **114 262** | **5 543** | 78 936 |
| Accounts receivable | **4 301** | **3 945** | **356** | 4 131 |
| Amounts due by holding company and fellow subsidiaries | **27 318** | **27 318** | **–** | 26 005 |
| **Off-balance sheet exposures** | **124 318** | **122 204** | **2 114** | 121 938 |
| Total contingencies | **38 813** | **38 742** | **71** | 37 970 |
| – Guarantees | **33 319** | **33 319** | **–** | 30 895 |
| – Letters of credit† | **5 494** | **5 423** | **71** | 7 075 |
| Irrevocable commitments | **80 044** | **78 001** | **2 043** | 77 806 |
| Credit derivatives | **5 461** | **5 461** | **–** | 6 162 |
| **Total** | **1 041 700** | **998 194** | **43 506** | 948 064 |

* *Certain portfolios have been restated to reflect the current segmentation of the business.*
** *Includes public sector.*
# *Includes FNB's activities in India.*
† *Includes acceptances.*

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## Credit quality

Advances are considered past due in the following circumstances:

- loans with a specific expiry date (e.g. term loans and VAF) and consumer loans repayable by regular instalments (e.g. mortgage loans and personal loans) are treated as overdue where one full instalment is in arrears for one day or more and remains unpaid as at the reporting date; or
- loans payable on demand (e.g. credit cards) are treated as overdue where a demand for repayment was served on the borrower but repayment has not been made in accordance with the stipulated requirements; or
- revolving facilities are treated as past due when the actual exposure is in excess of approved limits.

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

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

### AGE ANALYSIS OF ADVANCES

| | 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Neither past due nor impaired | | Past due but not specifically impaired | | | |
| R million/% | Current | Renegotiated but current | One full instalment past due | Two full instalments past due | Impaired | Total |
| FNB | 272 104 | 522 | 2 665 | 1 693 | 7 558 | 284 542 |
| – FNB retail | 214 991 | 482 | 2 602 | 1 615 | 6 177 | 225 867 |
| – FNB commercial* | 56 750 | 40 | 63 | 78 | 1 301 | 58 232 |
| – FNB Africa** | 363 | – | – | – | 80 | 443 |
| WesBank | 154 624 | – | 4 653 | 1 853 | 5 767 | 166 897 |
| RMB investment banking# | 220 191 | – | 126 | 3 | 977 | 221 297 |
| RMB corporate banking | 6 062 | – | – | – | 85 | 6 147 |
| FCC | 6 594 | – | – | – | – | 6 594 |
| **Total** | 659 575 | 522 | 7 444 | 3 549 | 14 387 | 685 477 |
| **Percentage of total book** | 96.2% | 0.1% | 1.1% | 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.*

*audited*

## AGE ANALYSIS OF ADVANCES continued

| | 2014 | | | | | |
|---|---|---|---|---|---|---|
| | Neither past due nor impaired | | Past due but not specifically impaired | | | |
| R million/% | Current | Renegotiated but current | One full instalment past due | Two full instalments past due | Impaired | Total |
| FNB* | 245 630 | 857 | 2 602 | 1 398 | 8 577 | 259 064 |
| – FNB retail | 196 980 | 769 | 2 548 | 1 367 | 7 256 | 208 920 |
| – FNB commercial** | 48 471 | 88 | 54 | 31 | 1 259 | 49 903 |
| – FNB Africa# | 179 | – | – | – | 62 | 241 |
| WesBank | 146 112 | – | 4 201 | 1 882 | 4 661 | 156 856 |
| RMB investment banking† | 205 571 | – | 100 | 571 | 674 | 206 916 |
| RMB corporate banking | 6 436 | – | – | – | 6 | 6 442 |
| FCC | 2 373 | – | – | – | – | 2 373 |
| **Total** | 606 122 | 857 | 6 903 | 3 851 | 13 918 | 631 651 |
| **Percentage of total book** | 96.0% | 0.1% | 1.1% | 0.6% | 2.2% | 100.0% |

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

** *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.*

### Renegotiated but current advances

Renegotiated but current financial assets would be past due or impaired were it not for the renegotiation, but are separately classified as neither past due nor impaired assets. Renegotiated but current advances include advances where, due to deterioration in the counterparty's financial condition, the bank grants a concession whereby the original terms and conditions of the facility are amended and the counterparty is within the new terms of the advance. Renegotiated but current advances are advances which have not been classified as defaulted.

Advances are only classified as renegotiated but current if the terms of the renegotiated contract have not yet expired and remain classified as such until the terms of the renegotiated contract expire. Adherence to the new terms and conditions for each product segment is closely monitored. Renegotiated but current advances exclude advances which are extended or renewed as part of the ordinary course of business on similar terms and conditions as the original advances.

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

As part of the risk management and recoveries approach, the bank enters into arrangements with clients where concessions are made on payment terms (e.g. a reduction in payments for a specified period, changes in the payment profile or debt counselling payment plans). There are formally defined eligibility criteria appropriate for individual products to determine when clients are eligible for such arrangements.

Retail NPL accounts which have been renegotiated cannot be reclassified to performing until all arrears have been paid up as per the group's policy.

The bank is in the process of implementing the directive 7/2015 requirements on restructured credit exposures.

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## Past due but not specifically impaired

Advances past due but not impaired in the previous tables include accounts in arrears by one or two full repayments. For the year ended 30 June 2015 exposures to technical and partial arrears of R5.4 billion (2014: R6.2 billion) were classified as neither past due nor impaired in accordance with FirstRand impairment methodology, primarily driven by retail exposures.

The following tables provide the credit quality of advances of the in-force portfolio. Detail information on the movements on an asset class level is provided in the PD, EAD and LGD profiles section.

### CREDIT QUALITY OF PERFORMING ADVANCES

| | 2015 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Total neither past due nor | FNB | | | | RMB | RMB | |
| R million | impaired* | 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 renegotiated but current advances.*
** *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.*

| | 2014 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Total neither past due nor | FNB* | | | | RMB | RMB | |
| R million | impaired** | Retail | Commercial# | Africa† | WesBank | investment banking | corporate banking | FCC |
| FR 1 – 25 | 170 865 | 43 260 | 2 817 | – | 2 970 | 117 867 | 1 698 | 2 253 |
| FR 26 – 90‡ | 426 871 | 147 285 | 45 239 | 179 | 142 154 | 87 178 | 4 737 | 99 |
| Above FR 90‡ | 9 243 | 7 204 | 503 | – | 988 | 526 | 1 | 21 |
| **Total** | 606 979 | 197 749 | 48 559 | 179 | 146 112 | 205 571 | 6 436 | 2 373 |

* *Certain portfolios have been restated to reflect the current segmentation of the business.*
** *Includes renegotiated but current advances.*
# *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.*
‡ *The mapping of the FR rating scale to the international rating scale was realigned in 2014. The impact is a misalignment affecting advances which fall into the FR 90 and 91 bands. The impact is considered to be insignificant.*

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

CREDIT QUALITY OF OTHER FINANCIAL ASSETS (EXCLUDING ADVANCES) NEITHER PAST DUE NOR IMPAIRED

| | 2015 | | | | |
|---|---|---|---|---|---|
| **R million** | **Debt investment securities*** | **Derivatives** | **Cash and short-term funds** | **Amounts due by fellow subsidiary companies** | **Total** |
| AAA to BBB | **113 147** | **27 864** | **46 015** | **27 318** | **214 344** |
| BB+ to B- | **6 534** | **6 243** | **328** | **–** | **13 105** |
| CCC | **124** | **5** | **–** | **–** | **129** |
| Unrated | **–** | **–** | **26** | **–** | **26** |
| **Total** | **119 805** | **34 112** | **46 369** | **27 318** | **227 604** |

* *Excludes non-recourse investments.*

| | 2014 | | | | |
|---|---|---|---|---|---|
| **R million** | **Debt investment securities*** | **Derivatives** | **Cash and short-term funds** | **Amounts due by fellow subsidiary companies** | **Total** |
| AAA to BBB | 73 099 | 30 869 | 46 638 | 26 005 | 176 611 |
| BB+ to B- | 5 836 | 7 762 | 14 | – | 13 612 |
| CCC | – | – | – | – | – |
| Unrated | 1 | 2 | 118 | – | 121 |
| **Total** | 78 936 | 38 633 | 46 770 | 26 005 | 190 344 |

* *Excludes non-recourse investments.*

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## Impairment of financial assets and NPLs

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

Refer to the accounting policy for impairment of financial assets, and the advances note and note of advances in the consolidated annual financial statements for the analysis of the movement in the impairment of advances and NPLs.

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

Specific impairments are created for NPLs where there is objective evidence that an incurred loss event will have an adverse impact on the estimated future cash flows from the asset. Potential recoveries from guarantees and collateral are incorporated into the calculation of impairment figures.

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

### Fair value sensitivity of corporate advances due to credit risk

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

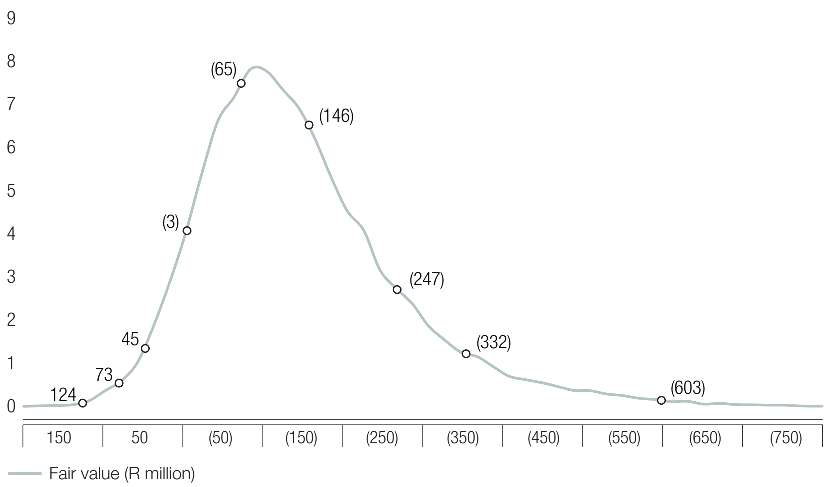
The main benefits of using the migration matrix to estimate the fair value impact of credit risk are:

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

The following graph sets out the fair value impact based on actual observed rating migrations from Standard & Poor's over the long term. Based on this scenario, the average fair value impact is a loss of approximately R92 million, while the median (50% probability of exceeding this value) is a loss of approximately R65 million. The fair value at the 75th percentile (i.e. there is a probability of 25% to exceed this value) of the distribution is a loss of approximately R146 million.

DISTRIBUTON: FAIR VALUE IMPACT – LONG TERM SCENARIO (EXCLUDING FOREIGN ENTITIES)*

*Probability %*




* *Fair value sensitivity is shown net of portfolio specific impairments.*

### Management of concentration risk

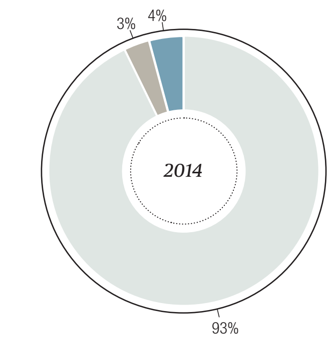
Credit concentration risk is the risk of loss to the bank arising from an excessive concentration of exposure to a single counterparty, industry, market, product, financial instrument or type of security, country or region, or maturity. This concentration typically exists when a number of counterparties 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 in the credit portfolios based on the nature of the credit concentration within each portfolio. The bank's credit portfolio is well diversified. Diversification is achieved through setting maximum exposure guidelines to individual counterparties. The bank constantly reviews its concentration levels and sets maximum exposure guidelines for these. Excesses are reported to the RCC committee.

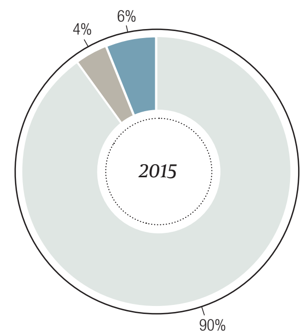
### Geographic and industry concentration risk

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

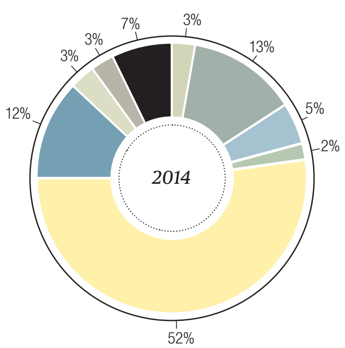
GEOGRAPHICAL SPLIT BY EXPOSURE



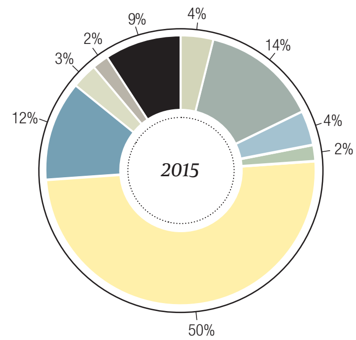

South Africa
Rest of Africa
Rest of the world




INDUSTRY SPLIT BY EXPOSURE




Agriculture
Banks and financial services
Building and property development
Government, Land Bank and public authorities
Individuals
Manufacturing and commerce
Mining
Transport and communication
Other services




audited

The bank seeks to establish a balanced portfolio profile and closely monitors credit concentrations. The following tables provide a breakdown of credit exposure across geographical areas.

## CONCENTRATION OF SIGNIFICANT EXPOSURE

| | 2015 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **R million** | **South Africa** | **Other Africa** | **United Kingdom** | **Other Europe** | **North America** | **South America** | **Australasia** | **Asia** | **Total** |
| Advances | **617 517** | **28 912** | **29 553** | **5 151** | **310** | **718** | **2** | **3 314** | **685 477** |
| Derivatives | **18 314** | **396** | **12 721** | **1 888** | **622** | **34** | **–** | **137** | **34 112** |
| Debt investment securities* | **106 338** | **725** | **2 898** | **108** | **2 426** | **–** | **–** | **7 310** | **119 805** |
| Guarantees, acceptances and letters of credit** | **33 306** | **2 623** | **288** | **384** | **97** | **1** | **436** | **1 678** | **38 813** |
| Irrevocable commitments** | **75 576** | **2 367** | **340** | **1 416** | **–** | **–** | **–** | **345** | **80 044** |

* *Excludes non-recourse investments.*

** *Significant off-balance sheet exposures. Refer to the note on contingencies and commitments in the notes to the annual financial statements.*

| | 2014 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **R million** | **South Africa** | **Other Africa** | **United Kingdom** | **Other Europe** | **North America** | **South America** | **Australasia** | **Asia** | **Total** |
| Advances | 586 999 | 19 192 | 18 794 | 4 238 | 714 | – | 2 | 1 712 | 631 651 |
| Derivatives | 21 559 | 189 | 14 120 | 1 961 | 706 | – | – | 98 | 38 633 |
| Debt investment securities* | 68 835 | 352 | 2 354 | 68 | 2 126 | – | – | 5 201 | 78 936 |
| Guarantees, acceptances and letters of credit** | 30 870 | 4 275 | 77 | 336 | 630 | – | 491 | 1 291 | 37 970 |
| Irrevocable commitments** | 71 400 | 4 451 | 805 | 556 | – | – | – | 594 | 77 806 |

* *Excludes non-recourse investments.*

** *Significant off-balance sheet exposures. Refer to the note on contingencies and commitments in the notes to the annual financial statements.*

*audited*

### Average advances

The average amount of gross credit exposure per major credit risk portfolio during the year is calculated on a monthly average basis.

## AVERAGE ADVANCES PER MAJOR RISK PORTFOLIOS

| R million | 2015 | 2014 |
|---|---|---|
| Retail | **380 029** | 348 117 |
| Corporate | **211 497** | 188 974 |
| Commercial* | **54 533** | 46 168 |

* *Includes FNB Africa.*

The following table provides a segmental breakdown of credit exposures.

## SEGMENTAL ANALYSIS OF ADVANCES

| | 2015 | | | | |
|---|---|---|---|---|---|
| **R million/%** | **Advances** | **NPLs** | **NPLs as a % of advances** | **Total impairment charge** | **Impairment as % of average advances** |
| FNB* | 284 542 | 7 558 | 2.66 | 2 073 | 0.76 |
| – FNB retail | 225 867 | 6 177 | 2.73 | 1 760 | 0.81 |
| – Residential mortgages | 180 208 | 4 585 | 2.54 | 111 | 0.06 |
| – Card | 19 488 | 407 | 2.09 | 191 | 1.08 |
| – Personal loans | 13 856 | 680 | 4.91 | 715 | 5.42 |
| – Other retail | 12 315 | 505 | 4.10 | 743 | 6.82 |
| – FNB commercial** | 58 232 | 1 301 | 2.23 | 310 | 0.57 |
| – FNB Africa# | 443 | 80 | 18.06 | 3 | 0.88 |
| WesBank | 166 897 | 5 768 | 3.46 | 2 413 | 1.49 |
| – WesBank asset-backed finance | 156 425 | 4 865 | 3.11 | 1 584 | 1.04 |
| – WesBank retail | 95 759 | 4 163 | 4.35 | 1 217 | 1.27 |
| – WesBank corporate | 39 743 | 627 | 1.58 | 204 | 0.52 |
| – WesBank international | 20 923 | 75 | 0.36 | 163 | 0.96 |
| – WesBank loans | 10 472 | 903 | 8.62 | 829 | 8.45 |
| RMB investment banking | 221 297 | 2 143 | 0.97 | 56 | 0.03 |
| RMB corporate banking | 6 147 | 84 | 1.37 | 112 | 1.78 |
| FCC | 6 594 | – | – | (298) | (0.05) |
| **Total** | **685 477** | **15 553** | **2.27** | **4 356** | **0.66** |

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

** *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.*

| 2014 | | | | |
|---|---|---|---|---|
| Advances | NPLs | NPLs as a % of advances | Total impairment charge | Impairment as % of average advances |
| 259 064 | 8 577 | 3.31 | 2 181 | 0.88 |
| 208 920 | 7 256 | 3.47 | 1 820 | 0.90 |
| 171 173 | 5 625 | 3.29 | 158 | 0.09 |
| 15 761 | 348 | 2.21 | 101 | 0.70 |
| 12 516 | 729 | 5.82 | 980 | 7.72 |
| 9 470 | 554 | 5.85 | 581 | 7.09 |
| 49 903 | 1 259 | 2.52 | 262 | 0.57 |
| 241 | 62 | 25.73 | 99 | 42.67 |
| 156 856 | 4 661 | 2.97 | 2 060 | 1.42 |
| 147 707 | 4 002 | 2.71 | 1 458 | 1.06 |
| 95 863 | 3 387 | 3.53 | 1 204 | 1.32 |
| 38 659 | 578 | 1.50 | 119 | 0.33 |
| 13 185 | 37 | 0.28 | 135 | 1.30 |
| 9 149 | 659 | 7.20 | 602 | 7.34 |
| 206 916 | 1 740 | 0.84 | 72 | 0.04 |
| 6 442 | 6 | 0.09 | 31 | 0.54 |
| 2 373 | – | – | 483 | 0.08 |
| 631 651 | 14 984 | 2.37 | 4 827 | 0.81 |

## REGULATORY DISCLOSURE

### PD, EAD and LGD profiles

FirstRand Bank SA (bank SA) uses the AIRB approach for its operations. A summary of credit risk parameters as reported for regulatory capital purposes is shown in the following tables for each significant AIRB asset class. The parameters reflect TTC PDs and downturn LGDs. The bank uses EAD-weighted PDs based on the FirstRand master rating scale which are then mapped to SARB rating buckets (1 – 25) for regulatory reporting purposes.

The tables provide a summary of the risk weights and EAD distribution by prescribed counterparty risk bands (SARB risk buckets). The EAD-weighted downturn LGD, EAD-weighted PD and average risk weight for the performing and total book are also shown as well as comparatives for the prior year. Year-on-year trends will be impacted by the risk migration in the existing book (reflecting changes in the economic environment), quality of new business originated and any model recalibrations implemented during the course of the year. The risk profile reflects the credit origination strategy that selectively targets segments providing an appropriate risk/return profile in the current economic environment.

The *risk-weight per SARB risk bucket* table must be read together with the *EAD% distribution per SARB risk bucket table* as the significant overall movements year-on-year are explained by the change in low volumes within individual rating buckets. The sovereign asset class includes public sector entities, local government and municipalities, and sovereign exposures (including central government and central bank exposures) and the specialised lending asset class includes high volatility commercial real estate, income-producing real estate, object finance, commodity finance and project finance.

### BANK'S RISK PROFILE PER ASSET CLASS: RISK-WEIGHT PER SARB RISK BUCKET

| | Risk weight | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Total FRB | | Corporate | | Sovereign | | Specialised lending | | Banks and securities firms | |
| % | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| 1 – 5 | **3.1** | 3.0 | **7.5** | 0.1 | **3.7** | 3.8 | **5.2** | 5.2 | **1.1** | 0.7 |
| 6 – 10 | **23.8** | 22.7 | **28.1** | 27.2 | **30.7** | 26.5 | **18.1** | 16.8 | **17.8** | 16.1 |
| 11 – 15 | **36.0** | 37.5 | **53.6** | 60.0 | **54.3** | 53.1 | **35.2** | 41.0 | **52.1** | 51.5 |
| 16 – 20 | **52.9** | 52.3 | **98.8** | 101.7 | **62.6** | 74.6 | **101.4** | 94.6 | **94.7** | 100.7 |
| 21 – 25 | **107.3** | 110.1 | **147.8** | 157.1 | **365.4** | 354.3 | **153.2** | 235.9 | **63.1** | 142.1 |
| NPLs | **58.6** | 69.0 | **9.1** | 0.9 | **–** | 5.8 | **–** | – | **–** | – |

| | Risk weight | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | SME corporate | | SME retail | | Retail mortgages | | Retail revolving | | Other retail | |
| % | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| 1 – 5 | **1.3** | 4.1 | **2.9** | 5.8 | **1.1** | 1.2 | **1.7** | 1.7 | **2.0** | 1.5 |
| 6 – 10 | **17.6** | 1.9 | **13.8** | 13.1 | **5.3** | 5.1 | **5.7** | 5.7 | **26.6** | 22.1 |
| 11 – 15 | **45.9** | 48.0 | **39.3** | 34.5 | **15.2** | 15.3 | **22.9** | 23.1 | **28.1** | 29.7 |
| 16 – 20 | **64.8** | 63.9 | **49.3** | 40.3 | **36.0** | 36.6 | **61.9** | 61.7 | **49.8** | 47.0 |
| 21 – 25 | **105.1** | 116.9 | **83.0** | 73.7 | **78.8** | 77.6 | **160.6** | 157.4 | **104.3** | 107.1 |
| NPLs | **26.5** | 13.6 | **208.2** | 245.5 | **1.3** | 14.8 | **7.3** | 12.1 | **104.2** | 133.4 |

## BANK'S RISK PROFILE PER ASSET CLASS: EAD% DISTRIBUTION PER SARB RISK BUCKETS

| | EAD | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Total FRB | | Corporate | | Sovereign | | Specialised lending | | Banks and securities firms | |
| % | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| 1 – 5 | **10.4** | 9.3 | **–** | – | **86.8** | 80.3 | **0.1** | 0.3 | **26.8** | 28.8 |
| 6 – 10 | **16.6** | 16.3 | **38.5** | 38.2 | **10.4** | 16.5 | **18.3** | 17.1 | **48.8** | 51.1 |
| 11 – 15 | **38.8** | 38.4 | **50.0** | 49.8 | **2.2** | 2.2 | **66.3** | 64.1 | **17.9** | 15.3 |
| 16 – 20 | **28.6** | 30.0 | **10.2** | 11.0 | **0.4** | 0.8 | **10.9** | 13.5 | **5.9** | 3.7 |
| 21 – 25 | **3.9** | 4.1 | **0.7** | 0.9 | **0.2** | 0.2 | **0.8** | 1.0 | **0.4** | 1.0 |
| NPLs | **1.7** | 1.8 | **0.5** | 0.2 | **–** | – | **3.7** | 4.0 | **0.1** | – |

| | EAD | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | SME corporate | | SME retail | | Retail mortgages | | Retail revolving | | Other retail | |
| % | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| 1 – 5 | **0.1** | 0.2 | **0.1** | 2.5 | **0.6** | 0.6 | **2.2** | 2.1 | **–** | – |
| 6 – 10 | **0.1** | – | **12.7** | 6.3 | **0.8** | 0.6 | **9.6** | 8.8 | **–** | – |
| 11 – 15 | **65.0** | 55.7 | **34.0** | 34.6 | **50.0** | 53.8 | **35.4** | 36.0 | **18.7** | 13.9 |
| 16 – 20 | **30.4** | 39.3 | **45.8** | 48.7 | **42.8** | 38.6 | **42.4** | 43.6 | **63.0** | 69.0 |
| 21 – 25 | **3.2** | 3.3 | **4.7** | 5.4 | **3.8** | 3.8 | **8.8** | 7.8 | **13.5** | 13.0 |
| NPLs | **1.3** | 1.4 | **2.8** | 2.6 | **2.0** | 2.6 | **1.6** | 1.7 | **4.7** | 4.1 |

## BANK'S RISK PROFILE PER ASSET CLASS: NOMINAL EAD PER SARB RISK BUCKETS

| | Nominal EAD | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Total FRB** | | **Corporate** | | **Sovereign** | | **Specialised lending** | | **Banks and securities firms** | |
| **R million** | **2015** | **2014** | **2015** | **2014** | **2015** | **2014** | **2015** | **2014** | **2015** | **2014** |
| 1 – 5 | **88 366** | 74 409 | **46** | 14 | **67 605** | 52 907 | **37** | 142 | **18 381** | 18 165 |
| 6 – 10 | **141 752** | 130 132 | **81 572** | 71 707 | **8 114** | 10 836 | **7 483** | 8 108 | **33 482** | 32 205 |
| 11 – 15 | **331 589** | 305 533 | **105 939** | 93 524 | **1 698** | 1 427 | **27 150** | 30 305 | **12 248** | 9 640 |
| 16 – 20 | **243 755** | 239 110 | **21 562** | 20 656 | **332** | 538 | **4 441** | 6 362 | **4 060** | 2 343 |
| 21 – 25 | **33 449** | 32 487 | **1 549** | 1 620 | **142** | 153 | **320** | 494 | **293** | 630 |
| NPLs | **14 664** | 14 275 | **1 013** | 405 | **1** | – | **1 499** | 1 873 | **84** | – |
| **Total** | **853 575** | 795 946 | **211 681** | 187 926 | **77 892** | 65 861 | **40 930** | 47 284 | **68 548** | 62 983 |

| | Nominal EAD | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **SME corporate** | | **SME retail** | | **Retail mortgages** | | **Retail revolving** | | **Other retail** | |
| **R million** | **2015** | **2014** | **2015** | **2014** | **2015** | **2014** | **2015** | **2014** | **2015** | **2014** |
| 1 – 5 | **38** | 111 | **55** | 980 | **1 169** | 1 211 | **1 009** | 853 | **26** | 26 |
| 6 –10 | **55** | 1 | **5 059** | 2 463 | **1 664** | 1 174 | **4 321** | 3 637 | **2** | 1 |
| 11 –15 | **33 446** | 24 936 | **13 566** | 13 523 | **99 235** | 100 707 | **15 926** | 14 933 | **22 381** | 16 538 |
| 16 –20 | **15 634** | 17 622 | **18 283** | 19 055 | **84 924** | 72 206 | **19 061** | 18 091 | **75 458** | 82 237 |
| 21 – 25 | **1 629** | 1 496 | **1 876** | 2 106 | **7 540** | 7 210 | **3 937** | 3 246 | **16 163** | 15 532 |
| NPLs | **685** | 624 | **1 114** | 1 013 | **3 892** | 4 784 | **716** | 720 | **5 660** | 4 856 |
| **Total** | **51 487** | 44 790 | **39 953** | 39 140 | **198 424** | 187 292 | **44 970** | 41 480 | **119 690** | 119 190 |

BANK'S PD%, LGD%, EL/EAD AND RWA/EAD RATIO PER ASSET CLASS

| % | Total FRB 2015 | Total FRB 2014 | Corporate 2015 | Corporate 2014 | Sovereign 2015 | Sovereign 2014 | Specialised lending 2015 | Specialised lending 2014 | Banks and securities firms 2015 | Banks and securities firms 2014 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Performing book** | | | | | | | | | | |
| Average PD | **2.3** | 2.4 | **1.0** | 0.9 | **0.2** | 0.2 | **1.2** | 1.2 | **0.6** | 0.4 |
| Average LGD | **29.3** | 28.9 | **33.0** | 34.6 | **29.7** | 29.4 | **20.0** | 22.9 | **31.2** | 28.2 |
| EL/EAD | **0.8** | 0.8 | **0.3** | 0.3 | **0.1** | 0.1 | **0.3** | 0.4 | **0.1** | 0.1 |
| RWA/EAD | **38.2** | 39.3 | **49.1** | 52.9 | **8.5** | 10.0 | **40.4** | 46.2 | **24.2** | 21.5 |
| **Total book** | | | | | | | | | | |
| Average PD | **4.0** | 4.1 | **1.4** | 1.0 | **0.2** | 0.2 | **4.8** | 5.1 | **0.7** | 0.4 |
| Average LGD | **29.5** | 29.1 | **33.0** | 34.6 | **29.7** | 29.4 | **21.0** | 23.7 | **31.8** | 28.2 |
| EL/EAD | **1.4** | 1.5 | **0.4** | 0.4 | **0.1** | 0.1 | **2.0** | 2.3 | **0.1** | 0.1 |
| RWA/EAD | **38.6** | 39.8 | **48.9** | 52.8 | **8.5** | 10.0 | **38.9** | 44.4 | **24.2** | 21.5 |

| % | SME corporate 2015 | SME corporate 2014 | SME retail 2015 | SME retail 2014 | Retail mortgages 2015 | Retail mortgages 2014 | Retail revolving 2015 | Retail revolving 2014 | Other retail 2015 | Other retail 2014 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Performing book** | | | | | | | | | | |
| Average PD | **2.3** | 2.3 | **2.7** | 3.0 | **2.8** | 2.8 | **3.9** | 3.8 | **6.4** | 6.1 |
| Average LGD | **26.0** | 27.0 | **36.2** | 32.0 | **13.8** | 13.8 | **65.4** | 65.5 | **34.1** | 33.3 |
| EL/EAD | **0.6** | 0.6 | **1.0** | 1.0 | **0.4** | 0.4 | **2.6** | 2.5 | **2.7** | 2.5 |
| RWA/EAD | **53.5** | 56.6 | **42.8** | 37.5 | **26.6** | 26.0 | **49.8** | 48.9 | **53.3** | 52.6 |
| **Total book** | | | | | | | | | | |
| Average PD | **3.5** | 3.6 | **5.4** | 5.5 | **4.7** | 5.3 | **5.4** | 5.5 | **10.9** | 9.9 |
| Average LGD | **26.1** | 27.2 | **37.1** | 32.6 | **13.9** | 13.9 | **65.4** | 65.5 | **34.7** | 33.9 |
| EL/EAD | **1.4** | 1.6 | **2.2** | 1.9 | **0.9** | 0.9 | **3.7** | 3.7 | **4.5** | 4.1 |
| RWA/EAD | **53.2** | 56.0 | **47.4** | 42.8 | **26.1** | 26.1 | **49.1** | 48.3 | **55.7** | 55.9 |

## BANK'S NOMINAL CREDIT EXTENDED, DRAWN EXPOSURE AND EAD PER ASSET CLASS

| Total book R million | Total FRB 2015 | Total FRB 2014 | Corporate 2015 | Corporate 2014 | Sovereign 2015 | Sovereign 2014 | Specialised lending 2015 | Specialised lending 2014 | Banks and securities firms 2015 | Banks and securities firms 2014 |
|---|---|---|---|---|---|---|---|---|---|---|
| Credit extended | **1 064 010** | 1 009 673 | **264 395** | 236 559 | **90 967** | 72 449 | **48 529** | 47 704 | **157 199** | 180 870 |
| Drawn exposure | **724 007** | 690 972 | **166 111** | 151 431 | **74 998** | 62 698 | **40 347** | 46 397 | **48 471** | 55 274 |
| Nominal EAD | **853 575** | 795 946 | **211 681** | 187 926 | **77 892** | 65 861 | **40 930** | 47 284 | **68 548** | 62 983 |

| Total book R million | SME corporate 2015 | SME corporate 2014 | SME retail 2015 | SME retail 2014 | Retail mortgages 2015 | Retail mortgages 2014 | Retail revolving 2015 | Retail revolving 2014 | Other retail 2015 | Other retail 2014 |
|---|---|---|---|---|---|---|---|---|---|---|
| Credit extended | **61 167** | 52 456 | **42 353** | 42 594 | **218 380** | 200 502 | **61 075** | 56 850 | **119 945** | 119 689 |
| Drawn exposure | **43 558** | 37 333 | **31 478** | 32 611 | **173 208** | 162 651 | **27 285** | 24 491 | **118 551** | 118 086 |
| Nominal EAD | **51 487** | 44 790 | **39 953** | 39 140 | **198 424** | 187 292 | **44 970** | 41 480 | **119 690** | 119 190 |

### Slotting exposures

The slotting approach is applied to exposures where:

- the bank finances an entity created to finance and/or operate physical assets;
- the primary source of repayment of the obligation is the income generated by the assets; and
- deals originate under the specialised lending asset classes of project finance, commodity finance and income-producing real estate.

In the bank, these exposures include, but are not limited to, deals originated in FNB business and RMB and are only applicable to entities in bank SA with SARB AIRB approval. In the slotting approach, the exposures are assessed based on the risks and mitigations applied to reduce the credit risk and then classified in one of four SARB categories: strong, good, satisfactory or weak, with predetermined risk weights. The output of this assessment is therefore used to determine the specified risk weight applicable for each exposure.

The following table provides a breakdown of these exposures by risk weight.

## CREDIT EXPOSURE RATED THROUGH THE SLOTTING APPROACH FOR BANK EXCLUDING FOREIGN BRANCHES*

| | 2015 | | | | |
|---|---|---|---|---|---|
| | **Specific risk weight** | | | | |
| **R million** | **70%** | **90%** | **115%** | **250%** | **Total** |
| Exposure | **10 360** | **4 235** | **76** | **186** | **14 857** |

* *New disclosure included by the bank from June 2015, comparative information will be provided from June 2016.*

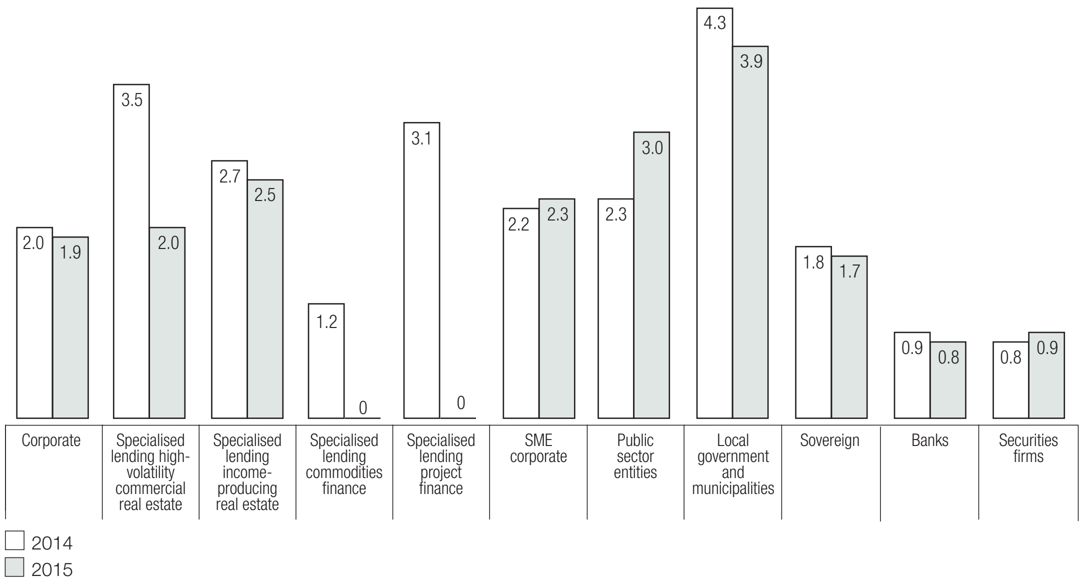
## Maturity breakdown

Maturity is the average time at which a bank will receive its contractual payments (cash flows), calculated for each account or exposure weighted by the size of each of the cash flows.

Maturity is used as an input in the AIRB regulatory capital calculation for corporate portfolios. These are aggregated on an asset class basis for review and reporting purposes. The longer the maturity of a deal, the greater the uncertainty and all else being equal, the larger the regulatory capital requirement. A maturity breakdown of AIRB asset classes within the corporate credit portfolio is disclosed in the following chart.

MATURITY BREAKDOWN PER CORPORATE AIRB ASSET CLASS

*Maturity in years*



## Actual versus expected loss analysis

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

Expected loss here refers to regulatory expected loss. This provides a one-year forward looking view, based on information available at the beginning of the year, i.e. 1 July 2014. Risk parameters include:

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

Actual losses during the year consist of the level of specific impairments at the start of the financial year (1 July 2014) and the net specific impairment charge recorded through the income statement for the year as determined by IFRS. It excludes the effect of post-write off recoveries which would reduce the actual loss number. The calculation is based on the assumption that the specific provisions raised are a fair estimate of what final losses on defaulted exposures would be, although the length of the workout period creates uncertainty in this assumption.

The measure of actual losses includes specific impairments raised for exposures which defaulted during the year, but which did not exist at 1 July 2014. These exposures are not reflected in the expected loss value described. As a result, significant volumes of new business can distort the analysis by inflating the actual loss figure.

The following table provides the comparison of actual loss to regulatory expected loss for each significant AIRB asset class of the group. PDs used for regulatory capital purposes are based on long-run experience and are expected to underestimate actual defaults at the top of the credit cycle and overestimate actual defaults at the bottom of the credit cycle, under normal circumstances.

The regulatory expected loss shown is based on the expected loss derived from the regulatory capital models that were applied as at 30 June 2014. This comparison is supplemented with more detailed analyses on the following page, comparing actual and expected outcomes for each risk parameter (PD, LGD and EAD) during the year under review.

### ACTUAL VERSUS EXPECTED LOSS PER PORTFOLIO SEGMENT

| | 2015 | | 2014 | | 2013 | |
|---|---|---|---|---|---|---|
| **R million*** | **Expected loss** | **Actual loss** | **Expected loss** | **Actual loss** | **Expected loss** | **Actual loss** |
| Corporate (corporate, banks and sovereign)** | **1 660** | **123** | 1 977 | 59 | 1 621 | 70 |
| SME (SME corporate and SME retail)# | **1 186** | **1 021** | 1 125 | 998 | 1 146 | 989 |
| Residential mortgages# | **1 928** | **1 953** | 2 422 | 1 913 | 2 674 | 2 470 |
| Qualifying revolving retail# | **1 599** | **1 427** | 1 434 | 1 512 | 1 126 | 973 |
| Other retail | **1 693** | **1 785** | 1 981 | 2 336 | 1 718 | 2 413 |
| WesBank† | **3 717** | **4 527** | 3 076 | 3 825 | 2 780 | 3 236 |
| **Total** | **11 783** | **10 836** | 12 015 | 10 643 | 11 065 | 10 151 |

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

** *Expected losses for the corporate portfolio are much higher than the actual losses due to it being a low default portfolio. As a result, the models use conservative data inputs.*

\# *Actual losses are at similar levels to expected losses which is expected given the turning point in the economic cycle.*

† *WesBank experienced high levels of new business written during the year, although it is not reflected in the expected losses which are based on accounts that are in-force at the start of the year. These new accounts will, however, contribute to the actual losses as a result of additional provisions raised. As a result, actual losses are inflated.*

For the following analysis, estimated values are based on regulatory capital models applied as at 30 June 2014. For PDs, this is applied to the total performing book as at 30 June 2014. For LGDs and EADs, it is applied to all facilities that defaulted over the subsequent 12 months.

Actual values are based on actual outcomes over the 12-month period, July 2014 to June 2015. Due to the length of the workout period, there is uncertainty in the measure provided for actual LGDs as facilities defaulting during the year would only have between one and twelve months to recover – depending on when the default event occurred. The estimated EAD to actual EAD ratio is derived as the ratio of expected nominal exposure at default (for all accounts defaulting during the year under review) to the actual nominal exposure at default for the same accounts.

## RISK PARAMETERS USED TO DETERMINE REGULATORY EXPECTED LOSS

| | 2015 | | | | |
|---|---|---|---|---|---|
| | PD | | LGD | | Estimated EAD to actual EAD ratio |
| **Asset class** | **Estimated %** | **Actual %** | **Estimated %** | **Actual %** | **%** |
| Corporate, banks and sovereign* | **0.6** | **0.9** | **25.7** | **16.8** | **91.4** |
| Specialised lending – property finance | **1.2** | **0.3** | **25.6** | **30.0** | **170.3** |
| SME corporate | **2.0** | **1.8** | **25.5** | **26.3** | **145.1** |
| SME retail | **3.1** | **2.9** | **37.1** | **41.6** | **108.3** |
| Residential mortgages | **2.8** | **1.8** | **15.3** | **10.4** | **102.5** |
| Qualifying revolving retail | **4.1** | **3.1** | **70.5** | **63.7** | **146.3** |
| Other retail | **6.1** | **5.8** | **39.0** | **36.9** | **105.3** |
| **Total** | **2.4** | **2.1** | **28.3** | **23.4** | **106.5** |

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

| | 2014 | | | | |
|---|---|---|---|---|---|
| | PD | | LGD | | Estimated EAD to actual EAD ratio |
| **Asset class** | **Estimated %** | **Actual %** | **Estimated %** | **Actual %** | **%** |
| Corporate, banks and sovereign* | 0.8 | 0.2 | 18.7 | 28.2 | 101.9 |
| Specialised lending – property finance | 2.3 | 0.5 | 16.9 | 2.0 | 133.7 |
| SME corporate | 2.4 | 1.2 | 26.6 | 20.9 | 111.3 |
| SME retail | 2.8 | 2.3 | 32.4 | 34.2 | 109.3 |
| Residential mortgages | 2.9 | 2.0 | 15.4 | 8.8 | 103.2 |
| Qualifying revolving retail | 4.4 | 2.8 | 65.2 | 71.8 | 106.8 |
| Other retail | 6.0 | 6.1 | 42.6 | 43.6 | 106.9 |
| **Total** | 2.6 | 1.9 | 24.9 | 26.0 | 106.3 |

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

## RISK PARAMETERS USED TO DETERMINE REGULATORY EXPECTED LOSS continued

| | 2013 | | | | |
|---|---|---|---|---|---|
| | **PD** | | **LGD** | | **Estimated EAD to actual EAD ratio** |
| **Asset class** | **Estimated %** | **Actual %** | **Estimated %** | **Actual %** | **%** |
| Corporate, banks and sovereign* | 0.9 | 0.3 | 15.8 | 34.6 | 107.9 |
| Specialised lending – property finance | 2.1 | 1.2 | 31.0 | 3.3 | 102.7 |
| SME corporate | 2.3 | 1.3 | 29.3 | 28.4 | 109.9 |
| SME retail | 2.9 | 2.8 | 32.1 | 26.3 | 111.6 |
| Residential mortgages | 3.5 | 2.6 | 15.6 | 12.6 | 104.7 |
| Qualifying revolving retail | 3.6 | 2.6 | 67.6 | 63.3 | 91.9 |
| Other retail | 6.3 | 5.6 | 33.4 | 33.3 | 104.1 |
| **Total** | 2.7 | 2.0 | 22.2 | 28.5 | 106.0 |

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

Differences between the actual and expected LGDs for corporates, banks and sovereigns as well as specialised lending property finance are due to the low default volumes where individual defaults' loss experience can dominate the result. The difference in the outputs compared to prior years is primarily as a result of the actual and expected LGD being based only on counterparties which have defaulted during the respective years. Differences in the loss characteristics of accounts which default over time can be significant, particularly in the wholesale and commercial portfolios where there are few defaults.

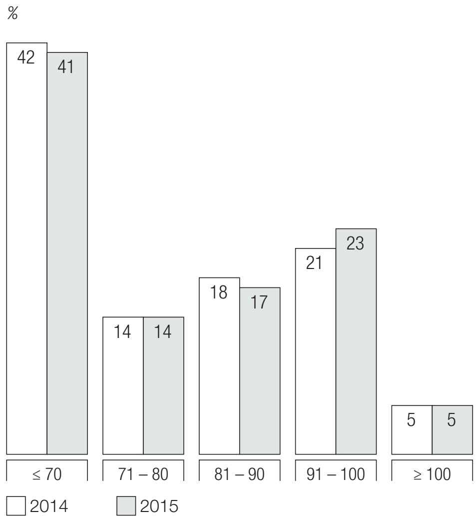
The qualifying revolving retail asset class EAD models applied for regulatory capital at June 2014 significantly overestimated EADs and reflect the model in use at the time. An updated model is in the process of development and will predict EADs for this asset class at a more appropriate level.

## SELECTED RISK ANALYSES

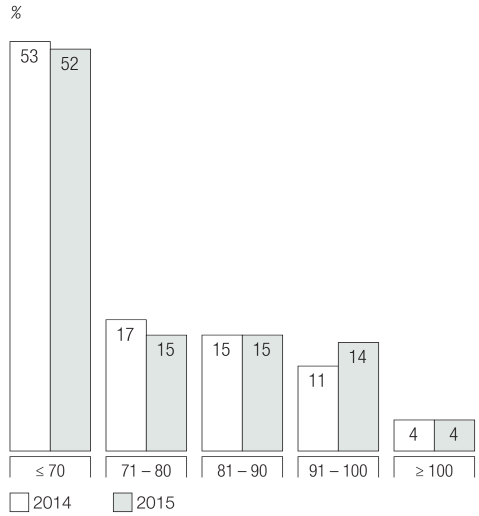
The following graphs provide loan balance-to-value ratios and age distributions of residential mortgages.

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 rather than relying only on the underlying security.

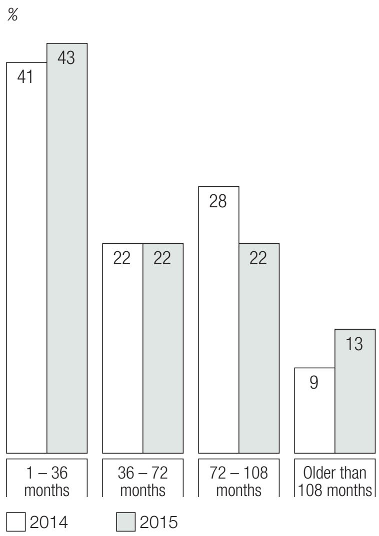
RESIDENTIAL MORTGAGES BALANCE-TO-ORIGINAL VALUE




RESIDENTIAL MORTGAGES BALANCE-TO-MARKET VALUE

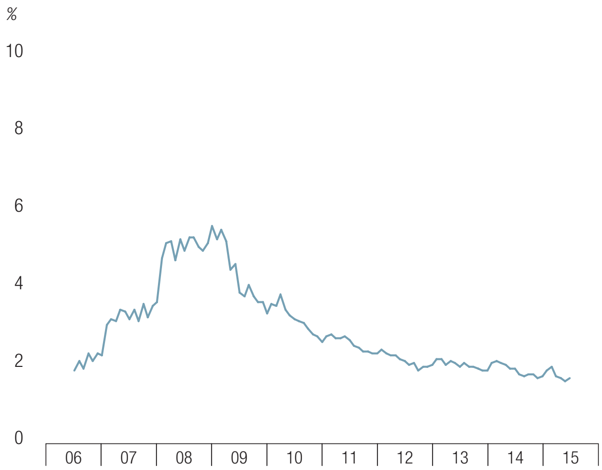



RESIDENTIAL MORTGAGES AGE DISTRIBUTION



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.

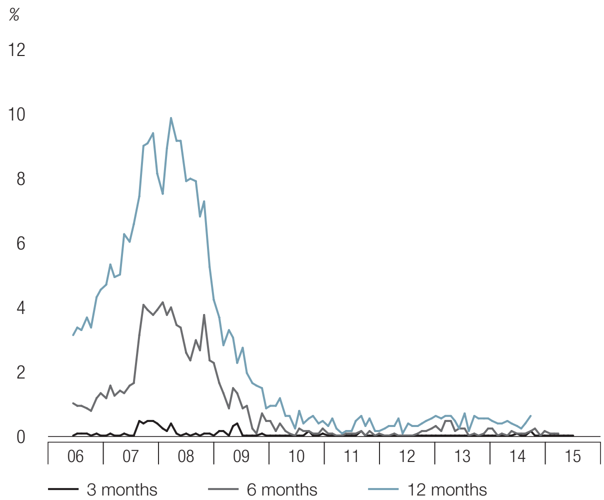
## FNB HOMELOANS ARREARS




The following graphs provide the vintage analyses for FNB HomeLoans and WesBank retail VAF. 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.

FNB HomeLoans vintages continue to perform at record lows even when considering the pre-2008 period. This can be attributed to risk mitigation actions taken across all residential mortgage portfolios as well as a continued lower interest rate environment supporting customer affordability.

## FNB HOMELOANS VINTAGE ANALYSIS

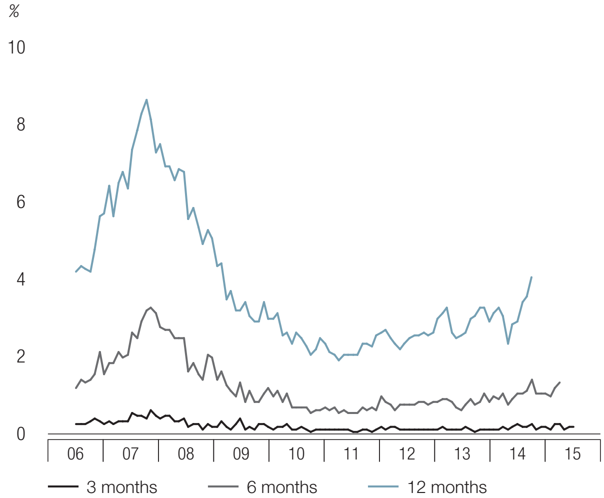


The WesBank retail cumulative vintage analysis continues to show a noticeable improvement in the quality of business written since mid-2007. This is due to improved customer profiles and enhanced collection strategies.

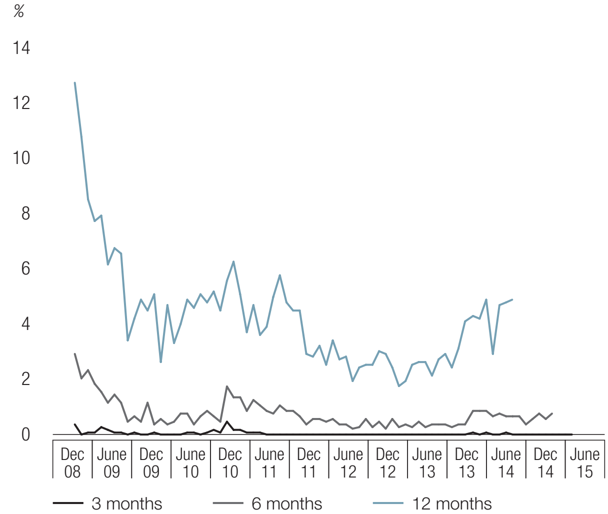
As expected, default rates in the retail VAF portfolio are gradually increasing. The uptick in VAF vintages is due, in part, to strong new business volumes in recent years as well as increased debt review applications. The bank actively adjusts risk appetite and credit parameters to ensure that vintages continue to perform in line with expectations considering the credit cycle.

FNB card default rates remain at very 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 reviewed and adjusted downwards again in April 2014. These actions are reflected in the reduction default rates in the six-month default vintage. The twelve-month default vintage is expected to follow. In the bank's view, default rates have bottomed and moderate increases are expected from this level.

## WESBANK RETAIL VAF VINTAGE ANALYSIS




## FNB CARD VINTAGE ANALYSIS



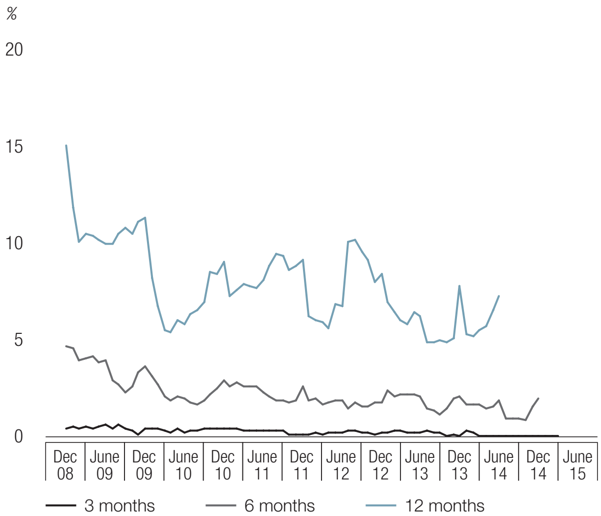
The default experience of the FNB and WesBank personal loans portfolios is within risk appetite.

There is continued action to ensure these portfolios remain within risk appetite. FNB personal loans vintages reflect improvement since December 2008 levels. This positive outcome is the result of active management of risk appetite and parameters even as risk levels within the unsecured lending market remain high.

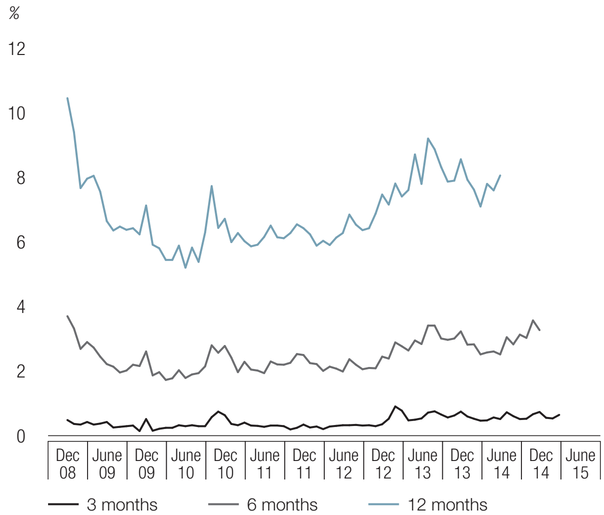
As expected, WesBank personal loans vintages have shown a marginal deterioration from 2010 levels. This is expected given the challenging macroeconomic conditions and increased debt review applications.

To counter this, credit parameters are continuously adjusted to ensure performance remains in line with expectations. Recent adjustments to credit appetite are proving effective and enhancing portfolio performance, particularly for business written less than six months ago.

## FNB PERSONAL LOANS VINTAGE ANALYSIS




## WESBANK PERSONAL LOANS VINTAGE ANALYSIS



# SECURITISATIONS AND CONDUITS

## INTRODUCTION AND OBJECTIVES

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

Asset securitisations enable the bank to access funding markets at ratings higher than its own corporate credit rating, which generally provides access to broader funding sources at more favourable rates. The removal of the assets and supporting funding from the balance sheet enables the bank to reduce some of the costs of on-balance sheet financing and manage potential asset-liability mismatches and credit concentrations.

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

- improve the bank's liquidity position through the diversification of funding sources;
- match the cash flow profile of assets and liabilities;
- reduce balance sheet credit risk exposure; and
- manage credit concentration risk.

## ORGANISATIONAL STRUCTURE AND GOVERNANCE

### BANK'S ROLE IN SECURITISATION AND CONDUIT STRUCTURES

| Transaction | Originator | Sponsor | Servicer | Investor | Liquidity provider | Credit enhancement provider | Swap counterparty |
|---|---|---|---|---|---|---|---|
| **Own securitisations** | | | | | | | |
| Nitro 4 | ✓ | ✓ | ✓ | ✓ | | | ✓ |
| Nitro 5 | ✓ | ✓ | ✓ | ✓ | | | ✓ |
| Turbo Finance 2 | ✓ | ✓ | ✓ | ✓ | | | |
| Turbo Finance 3 | ✓ | ✓ | ✓ | ✓ | | | |
| Turbo Finance 4 | ✓ | ✓ | ✓ | ✓ | | | |
| Turbo Finance 5 | ✓ | ✓ | ✓ | ✓ | | | |
| **Conduit structures** | | | | | | | |
| iNdwa* | | ✓ | ✓ | | ✓ | ✓ | ✓ |
| iVuzi* | | ✓ | ✓ | | ✓ | | ✓ |
| iNkotha** | | | ✓ | | | | |
| iNguza** | | | ✓ | | | | |
| **Third party** | | | | | | | |
| – Homes Obligor Mortgage Enhanced Securities | | | | | ✓ | | |
| – Private Residential Mortgages 2 | | | | | ✓ | | |
| – Superdrive Investments | | | | ✓ | | | |
| – Torque Securitisation | | | | | ✓ | | |
| – Velocity Finance | | | | ✓ | | | ✓ |

* *Conduits incorporated under regulations relating to securitisation scheme.*

** *Conduits incorporated under regulations relating to commercial paper.*

Ultimate responsibility for determining risk limits and appetite for the bank vests with the board. Independent oversight for monitoring is done through the RCC committee, who, in turn, has delegated the responsibility for securitisations to group ALCCO. ALCCO also maintains responsibility on behalf of the board for the allocation of sublimits and remedial action to be taken in the event of limit breaches. The FirstRand wholesale credit committee approves individual retained securitisation exposures per special purpose vehicle (SPV).

## ASSESSMENT AND MANAGEMENT

### Oversight and risk mitigation

The bank's role in securitisation transactions, both bank-originated and group-sponsored transactions, as well as third-party securitisations, results in various financial and operational risks, including:

- compliance risk;
- credit risk;
- currency risk;
- interest rate risk;
- liquidity and funding risk;
- operational risk; and
- reputational risk.

For securitisations originated by the bank, exposures are managed from a credit perspective by the originating business units as if the securitisation had never occurred. Resultant risks from retained exposures and the overall origination and maintenance of securitisation structures are covered as part of the day-to-day management of the various risk types. This includes risk mitigation and management actions depending on risk limits and appetite per risk area. Securitisation performance is monitored on an ongoing basis and reported to management and governance forums.

Some of the governance and management processes in place to monitor securitisation-related risks are outlined below:

- there are rigorous internal approval processes in place for proposed securitisations and transactions are reviewed by ALCCO, the RCC committee and the board against approved board limits;
- changes to retained exposures (as result of ratings changes, reviews, note redemptions and credit losses) are reflected in the monthly BA 500 regulatory return; and
- transaction investor reports, alignment with special purpose vehicle financial reporting and the impact of underlying asset performance are reflected on the quarterly BA 501 regulatory return.

The bank does not employ credit risk mitigation techniques to hedge credit risk on retained securitisation tranches.

### Securitisation accounting policies

From an accounting perspective, traditional securitisations are treated as sales transactions. At inception, the assets are sold to a SPV at carrying value and no gains or losses are recognised. For synthetic securitisations, credit derivatives used in the transaction are recognised at fair value, with any fair value adjustments reported in profit or loss.

Securitisation entities are consolidated into FRIHL for financial reporting purposes. Any retained notes are accounted for as available-for-sale investment securities within the banking book. Liabilities as a result of securitisation vehicles are accounted for in line with group accounting policies for liabilities, provisions and contingent liabilities.

The bank does not currently employ any form of warehousing prior to structuring a new securitisation transaction.

## YEAR UNDER REVIEW

| Turbo Finance 2 | Turbo Finance 3 | Turbo Finance 4 |
|---|---|---|
| Following the redemption of the class A notes and subsequent purchase of the outstanding class B notes from the market, FirstRand was left as the sole investor in Turbo 2 via FirstRand Bank (London branch) and FirstRand International (Guernsey). Consequently, the transaction was early redeemed in full at the end of August 2014, with the underlying assets repurchased by MotoNovo (UK). | Turbo Finance 3 is performing as expected. | The 12-month revolving period ended in November 2014, with the notes amortising sequentially in order of seniority after that date. |

## Turbo Finance 5

Mandated arrangers, HSBC and JP Morgan, assisted FirstRand Bank (London branch) and MotoNovo (UK) in structuring a fifth securitisation under the Turbo Finance programme. As with Turbo 4, Turbo 5 was structured to include a 12-month revolving period. Timing of the transaction was opportune as the repurchased Turbo 2 assets assisted in upsizing Turbo 5 to GBP420 million.
The following table summarises the note issuance.

| Tranche | Final rating (Moody's/Fitch) | Credit enhancement | Amount (GBP million) | Spread |
|---|---|---|---|---|
| Class A | Aaa(sf)/AAA(sf) | 12.80% | 371.6 | 1m Libor + 0.47% |
| Class B | A+/Aa3(sf) | 3.80% | 37.7 | 1m Libor + 1.00% |
| Class C | BBB/Ba1 | 1.30% | 10.7 | 5.00% |
| Class D | Unrated | 0% | 5.5 | 15.00% |
| **Total** | | | **425.5** | |

FirstRand Bank (London branch) retained a portion of the class A tranche for the Bank of England funding for lending scheme. The London branch also retained GBP24.7 million of the class B tranche due to reduced investor appetite. GBP8 million of the class B tranche was subsequently sold to investors.

## Nitro 4

Launched in August 2011, Nitro 4 represented the bank's fourth domestic traditional auto loan securitisation of assets originated by its vehicle finance business, WesBank. Strong asset performance together with good prepayment levels resulted in the full redemption of the investor-held tranches. With the remaining underlying assets representing less than 10% of the assets sold at inception, the clean-up call option was exercised. The legal process to repurchase the outstanding assets was completed in April 2015, with all notes fully redeemed on 14 May 2015.

## Nitro 5

In June 2015, the bank closed its fifth domestic traditional auto loan securitisation, Nitro 5. Nitro 5 is a cash securitisation of auto loans extended to obligors by WesBank. Nitro 5 was set up as an insolvency remote trust and issued R2 232 million of notes, rated by Standard & Poor's, to acquire the asset pool. The bank used this opportunity to introduce some additional transaction features, such as a short-dated money market eligible tranche and full capital pass-through. The bank (acting through RMB), was the arranger, manager and sponsor for the transaction. The interest rate swap is provided by the bank with deal administration by RMB. The assets will continue to be serviced by WesBank.

The following table provides further detail regarding the notes issued.

| Tranche | Final rating (S&P) | Credit enhancement | Amount (R million) | Spread |
|---|---|---|---|---|
| Class A | zaA-1 (sf)/A-2 (sf) | 77.0% | 600 | 3m JIBAR + 0.90% |
| Class B | zaAAA (sf)/BBB (sf) | 39.5% | 900 | 3m JIBAR + 1.40% |
| Class C | zaAAA (sf)/BBB (sf) | 19.5% | 480 | 3m JIBAR + 1.50% |
| Class D | zaB (sf)/B (sf) | 9.0% | 252 | 3m JIBAR + 2.59% |
| Class E | zaCCC (sf)/CCC (sf) | 5.5% | 84 | 3m JIBAR + 3.50% |
| Class F | Unrated | 2.0% | 84 | 3m JIBAR + 4.25% |
| Class G | Unrated | 0.0% | 57 | 3m JIBAR + 5.00% |
| **Total** | | | **2 457** | |

The class A to D notes have all been placed with investors, whereas classes E and F have been retained by the bank.

### Exposures intended to be securitised or resecuritised in the future

The bank uses securitisation primarily as a funding tool. The ability to securitise assets depends on the availability of assets to securitise, investor appetite for securitisation paper and comparison with alternative funding sources. All assets on the bank's balance sheet are considered as possible exposures that could be securitised within the market constraints mentioned above. The bank obtains SARB approval of the structure and limits imposed by the board on the size of assets that may be securitised.

Resecuritisation results from portfolio management actions and the size of the exposure is dependent on future market factors. This exposure is reported as part of the investor reporting process.

## SECURITISATIONS AND CONDUITS PROFILE

### Traditional securitisations

The following tables show the traditional securitisations currently in issue and the rating distribution of retained exposures. Whilst national scale ratings have been used in this table, global scale equivalent ratings are used for internal risk management purposes and regulatory capital reporting.

SECURITISATION TRANSACTIONS

| R million | Asset type | Year initiated | Expected close | Rating agency | |
|---|---|---|---|---|---|
| **Traditional securitisations** | | | | | |
| Nitro 4 | Retail: Auto loans | 2007 | Closed | Moody's | |
| Nitro 5 | Retail: Auto loans | 2015 | 2018 | S&P | |
| Turbo Finance 2 | Retail: Auto loans | 2012 | 2015 | Moody's and Fitch | |
| Turbo Finance 3 | Retail: Auto loans | 2013 | 2015 | Moody's and Fitch | |
| Turbo Finance 4 | Retail: Auto loans | 2013 | 2017 | Moody's and Fitch | |
| Turbo Finance 5 | Retail: Auto loans | 2014 | 2018 | Moody's and Fitch | |
| **Total** | | | | | |

* *Includes transactions that have been structured by the bank and therefore excludes third-party transactions.*

RATING DISTRIBUTION OF RETAINED AND PURCHASED SECURITISATION EXPOSURES*

| R million | AAA | AA+ | AA | AA- | A+ | A | BBB+ | BBB | BB | B+ | CCC | Not Rated | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Traditional** | | | | | | | | | | | | | |
| **2015** | **2 534** | **–** | **–** | **–** | **331** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **2 865** |
| 2014 | 1 463 | – | – | – | 247 | – | – | 30 | – | – | – | – | 1 740 |
| **Third party** | | | | | | | | | | | | | |
| **2015** | **–** | **–** | **252** | **–** | **101** | **–** | **–** | **–** | **–** | **–** | **–** | **7 379** | **7 732** |
| 2014 | 504 | – | – | – | – | – | – | – | – | – | – | – | 504 |

* *Ratings by external credit assessment institutions.*

### Resecuritisations

A resecuritisation exposure is a structure where the risk associated with an underlying pool of exposures is tranched and at least one of the underlying exposures is a securitisation. The bank's asset backed commercial paper conduits occasionally acquires securitisation paper, which is managed as part of the underlying portfolio. This makes up a minimal portion of the total portfolio and is accounted for as a resecuritisation exposure for regulatory capital purposes.

### RESECURITISATION EXPOSURE

| | Resecuritisation exposure (R million) | | % of total programme | |
|---|---|---|---|---|
| **Programme*** | **2015** | **2014** | **2015** | **2014** |
| iVuzi | **11.0** | 47.5 | **0.3** | 1.1 |

* *Excludes distributions relating to iNguza underlying exposure as this is driven by note holders and does not impact third parties.*

| | Assets outstanding* | | Notes outstanding | | Retained exposure | |
|---|---|---|---|---|---|---|
| **Assets securitised** | **2015** | **2014** | **2015** | **2014** | **2015** | **2014** |
| 3 982 | **–** | 576 | **–** | 717 | **–** | 38 |
| 2 399 | **2 349** | – | **2 469** | – | **–** | – |
| 4 037 | **–** | 1 067 | **–** | 1 189 | **–** | – |
| 4 570 | **732** | 1 907 | **833** | 2 108 | **–** | – |
| 6 095 | **4 749** | 6 516 | **5 083** | 6 881 | **1 016** | 1 701 |
| 7 790 | **7 688** | – | **8 137** | – | **1 849** | – |
| 28 873 | **15 518** | 10 066 | **16 522** | 10 895 | **2 865** | 1 739 |

## Capital market programmes

The bank has capital market programmes incorporated under both securitisation scheme and commercial paper regulations. The iNdwa and iVuzi conduit programmes are incorporated under securitisation scheme regulations. These are debt capital market vehicles, which provide investment-grade corporate South African counterparties with an alternative funding source to capital markets issuance via their own domestic medium-term debt programmes or traditional bank funding. It also provides institutional investors with highly-rated, short-term alternative investments. The call-loan vehicle, iNkotha, offers overnight borrowers and lenders an alternative to traditional overnight bank borrowings or overnight deposits.

The commercial paper programme, iNguza, issues bespoke notes to investors. These notes use the credit risk of separate and distinct transactions of a different underlying borrower or obligor. Note holders will have recourse only to the assets of the underlying transaction and will not have recourse to any other assets. Risk relating to the underlying transactions is transferred directly to note holders and managed by them according to their own risk appetite levels. Notes can either be unlisted or listed on the JSE and may be traded through JSE members.

Both the call-loan vehicle and the commercial paper programme have been incorporated under commercial paper regulations. All assets originated for the conduit programmes are rigorously evaluated as part of the bank's credit approval processes which are applicable to any other corporate exposure held by the bank.

The conduit programmes have seen lower issuance volumes and assets under management in the past six months after the failure of ABIL. Issuance volumes are expected to remain low whilst the money market industry reassesses credit product appetite.

The following tables show the conduit programmes currently in place, rating distribution of the underlying assets and the role played by the bank in each of these programmes.

## CONDUIT PROGRAMMES*

| | | | | | Non-recourse investments | | Credit enhancement provided | |
|---|---|---|---|---|---|---|---|---|
| **R million** | **Underlying assets** | **Year initiated** | **Rating agency** | **Programme size** | **2015** | **2014** | **2015** | **2014** |
| **Securitisations**** | | | | | | | | |
| iNdwa | Corporate and structured finance term loans | 2003 | Fitch | 15 000 | **2 322** | 4 420 | **–** | – |
| iVuzi | Corporate and structured finance term loans | 2007 | Fitch | 15 000 | **3 395** | 3 871 | **1 022** | 1 044 |
| **Total** | | | | 30 000 | **5 717** | 8 291 | **1 022** | 1 044 |
| **Fixed income fund#** | | | | | | | | |
| iNkotha | Overnight corporate loans | 2006 | GCR† | 10 000 | **2 160** | 2 937 | **–** | – |
| **Total** | | | | 10 000 | **2 160** | 2 937 | **–** | – |
| **Commercial paper programme#** | | | | | | | | |
| iNguza | Corporate and structured finance term loans | 2008 | GCR† | 15 000 | **10 071** | 9 482 | **–** | – |
| **Total** | | | | 15 000 | **10 071** | 9 482 | **–** | – |

* *Conduit programmes are consolidated into FRIHL for financial reporting purposes.*

** *Conduits incorporated under regulations relating to securitisation scheme.*

# *Conduits incorporated under regulations relating to commercial paper.*

† *Global credit rating.*

## RATING DISTRIBUTION OF CONDUITS*

| R million | AAA(zaf) | AA+(zaf) | AA(zaf) | AA-(zaf) | A+(zaf) | A(zaf) | A-(zaf) | Credit opinion | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Securitisations** | | | | | | | | | |
| **2015** | **–** | **1 652** | **1 229** | **–** | **204** | **–** | **–** | **2 632** | **5 717** |
| 2014 | 674 | 1 054 | 2 744 | 250 | 1 247 | 1 533 | 789 | – | 8 291 |
| **Fixed income funds** | | | | | | | | | |
| **2015** | **–** | **–** | **207** | **439** | **544** | **495** | **475** | **–** | **2 160** |
| 2014 | – | 270 | 367 | 422 | 798 | 610 | 470 | – | 2 937 |

* *Excludes distributions relating to iNguza underlying exposure as this is driven by note holders and does not impact third parties. Includes both public ratings as well as credit opinions. Where the rating is public it is shown in its rating bucket. Credit opinions are for the benefit of the issuer and not intended for distribution*

## Liquidity facilities

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

### LIQUIDITY FACILITIES

| R million | Transaction type | 2015 | 2014 |
|---|---|---|---|
| **Own transactions** | | **4 599** | 4 363 |
| iNdwa | Conduit | **2 274** | 3 204 |
| iVuzi | Conduit | **2 325** | 1 159 |
| **Third party transactions** | Securitisations | **175** | 214 |
| **Total** | | **4 774** | 4 577 |

All liquidity facilities granted to the transactions in the table above rank senior in terms of payment priority in the event of a drawdown. Economic capital is allocated to the liquidity facility extended to iNdwa and iVuzi as if the underlying assets were held by the bank.

## Securitisation risk and regulatory capital

Capital against securitisation exposures is based on the appropriate approach under the Regulations. The supervisory formula is used for conduits and the ratings-based approach has been selected for remaining exposures. Capital calculated under both of these approaches is limited to the capital that would have been held had the assets remained on-balance sheet. The following table provides the securitisation exposures retained or purchased as well as the associated capital requirement per risk band.

### RETAINED OR PURCHASED SECURITISATION EXPOSURE AND ASSOCIATED REGULATORY CAPITAL CHARGES

| | Exposure | | RWA | | Capital* | |
|---|---|---|---|---|---|---|
| **R million** | **2015** | **2014** | **2015** | **2014** | **2015** | **2014** |
| Risk weighted bands | | | | | | |
| ≤10% | **101** | 3 464 | **11** | 671 | **1** | 67 |
| >10% ≤20% | **2 973** | 2 167 | **586** | 423 | **59** | 42 |
| >20% ≤50% | **2 275** | – | **1 064** | – | **106** | – |
| >50% ≤100% | **319** | 30 | **160** | 23 | **16** | 2 |
| Look through | **10 726** | 2 303 | **3 947** | 1 087 | **395** | 109 |
| **Total** | **16 394** | 7 964 | **5 768** | 2 204 | **577** | 220 |

* *Capital is calculated at the SARB transitional minimum requirement of 10% (excluding the bank-specific individual capital requirement) and includes a 6% capital scalar.*

The bank did not securitise any exposures that were impaired or past due at the time of securitisation.

# COUNTERPARTY CREDIT RISK

## INTRODUCTION AND OBJECTIVES

Counterparty credit risk is the risk of a counterparty to a contract, transaction or agreement defaulting prior to the final settlement of the transaction's cash flows.

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

Counterparty credit risk is a risk taken mainly in the bank's trading and securities financing businesses. The objective of counterparty credit risk management is to ensure that this risk is appropriately measured, analysed and reported on, and is only taken within specified limits in line with the bank's risk appetite framework as mandated by the board.

## ORGANISATIONAL STRUCTURE AND GOVERNANCE

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

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

In this respect, counterparty credit risk governance aligns closely with the group's credit risk governance framework, with mandates and responsibilities cascading from the board through the RCC committee to the respective credit committees and subcommittees as well as deployed and central risk management functions. Refer to the *risk governance* section and organisational structure and governance in the *credit risk* section for more details.

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

## ASSESSMENT AND MANAGEMENT

The measurement of counterparty credit risk aligns closely with credit risk measurement practices and is focused on establishing appropriate limits at a counterparty level and ongoing portfolio risk management. The quantification of risk exposure is described in the following diagram.

QUANTIFICATION OF COUNTERPARTY CREDIT RISK EXPOSURE

**QUANTIFICATION OF EXPOSURE**

Quantification methodologies:

- over the life of a product;
- under distressed market conditions; and
- used to determine risk limits.

Individual counterparty risk limits

Overall limits allocated to products

**ASSESSMENT AND APPROVAL**

Relevant technical committees

Derivative counterparty risk management committee

**BUSINESS AND RISK MANAGEMENT RESPONSIBILITIES**

- quantify exposure and risk;
- manage facility utilisation within approved credit limits;
- monitor counterparty creditworthiness to ensure early identification of high-risk exposures;
- review facilities at certain intervals;
- manage collateral;
- manage high-risk (watch list) exposures;
- manage collections and workout process for defaulted assets; and
- report counterparty credit risk.

**RISK FUNCTIONS**

- review limits annually;
- monitor exposures daily; and
- prepare desk level reports to ensure sufficient limit available prior to additional trades.

*audited*

## Counterparty credit risk mitigation

Where appropriate, various instruments are used to mitigate the potential exposure to certain counterparties. These include financial or other collateral in line with common credit risk practices, as well as netting agreements, guarantees and credit derivatives. In addition, the bank has set up a function to clear OTC derivatives centrally as part of risk mitigation.

The bank uses international swaps and derivatives association (ISDA) and international securities market association agreements for the purpose of netting derivative transactions and repurchase transactions, respectively. These master agreements as well as associated credit support annexes (CSA) set out internationally accepted valuation and default covenants, which are evaluated and applied daily, including daily margin calls based on the approved CSA thresholds.

## Credit valuation adjustment

CVA refers to the fair value adjustment to reflect counterparty credit risk in the valuation of non-cleared OTC derivative contracts. In essence the mark-to-market adjustment required to account for credit quality deterioration experienced by a derivative counterparty. Under Basel III regulations, banks are required to hold capital for CVA risk. South African banks have in the past been from holding capital for CVA risk as there was no suitably scaled rand derivative OTC clearing house. This CVA capital exemption has, however, lapsed effective 1 April 2015, which has increased counterparty credit risk RWA.

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

In rare instances, the bank has signed ISDA agreements where both parties would be required to post additional collateral in the event of a rating downgrade. The additional collateral to be provided by the bank in the event of a credit rating downgrade is not material and would not adversely impact its financial position. The bank is phasing out ISDA agreements with these provisions. The number of trades (and associated risk) with counterparties with these types of agreements is also immaterial.

When assessing the portfolio in aggregate, the collateral that the bank would need to provide in the event of a rating downgrade is subject to many factors, including market moves in the underlying traded instruments and netting of existing positions.

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

## COUNTERPARTY CREDIT RISK PROFILE

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

### COMPOSITION OF COUNTERPARTY CREDIT EXPOSURE

| R million | 2015 | 2014 |
|---|---|---|
| Gross positive fair value* | **81 839** | 97 647 |
| Netting benefits | **(15 619)** | (11 661) |
| Netted current credit exposures before mitigation | **66 220** | 85 986 |
| Collateral value | **(56 975)** | (76 248) |
| Netted potential future exposure | **13 848** | 11 607 |
| Exposure at default** | **31 031** | 24 333 |

* *The decrease in the gross positive fair value from 2014 to 2015 is due to new interpretation of gross repurchase agreement exposure.*

** *Includes exposures calculated under both the standardised and current exposure method. The bank implemented the standardised method in June 2012. EAD under the standardised method is quantified by scaling either the current credit exposure less collateral or the net potential future exposure by a factor of 1.4. The latter explains why the summation of the netted current exposure, collateral value and netted potential future exposure in the table above differs from the EAD computed.*

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

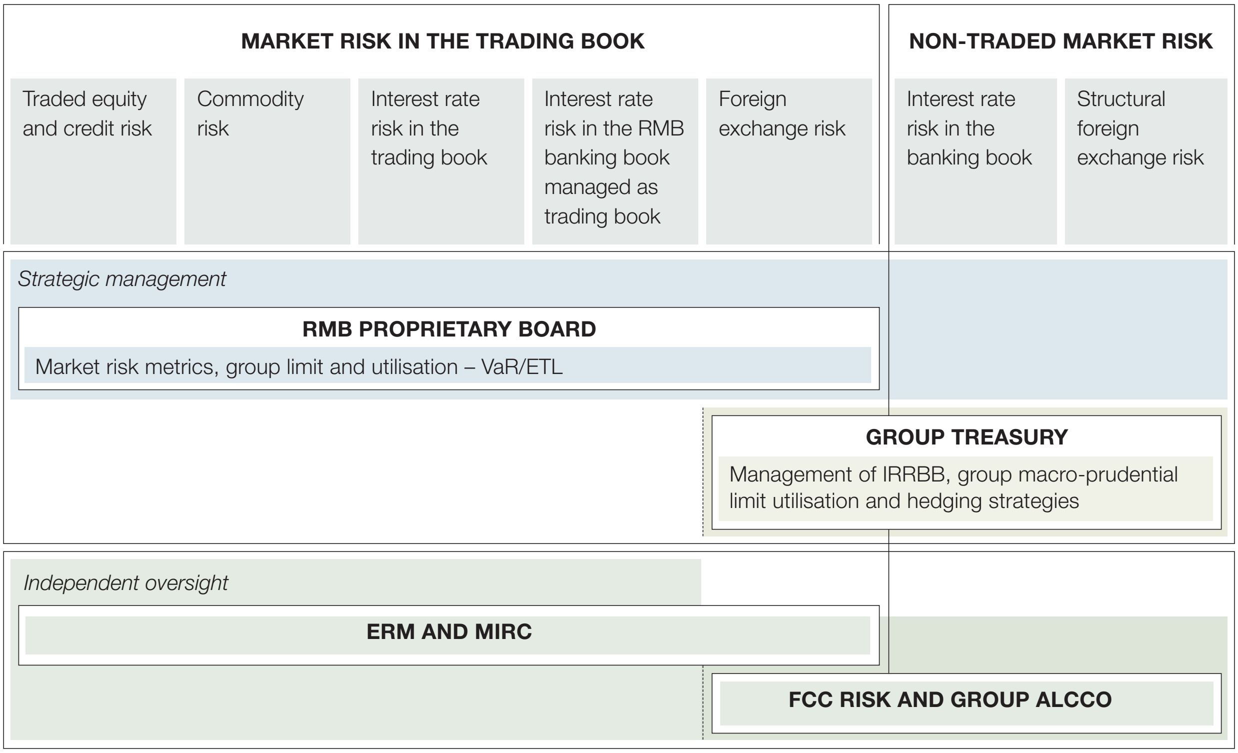
### CREDIT DERIVATIVES EXPOSURE

| | 2015 | | | |
|---|---|---|---|---|
| R million | Credit default swaps | Total return swaps | Other | Total |
| **Own credit portfolio** | | | | |
| – protection bought | **–** | **–** | **–** | **–** |
| – protection sold | **105** | **–** | **–** | **105** |
| **Intermediation activities** | | | | |
| – protection bought | **13 624** | **–** | **–** | **13 624** |
| – protection sold | **5 356** | **–** | **–** | **5 356** |

| | 2014 | | | |
|---|---|---|---|---|
| R million | Credit default swaps | Total return swaps | Other | Total |
| **Own credit portfolio** | | | | |
| – protection bought | – | – | – | – |
| – protection sold | 127 | – | – | 127 |
| **Intermediation activities** | | | | |
| – protection bought | 3 555 | – | – | 3 555 |
| – protection sold | 5 787 | – | – | 5 787 |

# MARKET RISK IN THE TRADING BOOK

The bank distinguishes between market risk in the trading book and non-traded market risk. The following diagram describes the traded and non-traded market risks and the governance bodies responsible for managing them.




## INTRODUCTION AND OBJECTIVES

Market risk in the trading book is the risk of adverse revaluation of any financial instrument as a consequence of changes in market prices or rates.

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

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

Management and monitoring of the FirstRand domestic banking book is split between the RMB book and the remaining domestic banking book. RMB manages the majority of its banking book under the market risk framework, with risk measured and monitored in conjunction with the trading book and management oversight provided by the market and investment risk committee. The RMB banking book interest rate risk exposure for the bank excluding foreign branches was R47.8 million on a 10-day ETL basis at 30 June 2015 (2014: R35.2 million). Interest rate risk in the remaining domestic banking book is discussed in the *interest rate risk in the banking book* section.

## ORGANISATIONAL STRUCTURE AND GOVERNANCE

### MARKET RISK IN THE TRADING BOOK GOVERNANCE STRUCTURE

**FirstRand board**

**RCC COMMITTEE**

Reviews reports on:

- adequacy and robustness of market risk identification, management and control; and
- current and projected credit risk profile.

**MODEL RISK AND VALIDATION COMMITTEE**

- validation and approval of changes to internal VaR models for regulatory and economic capital.

**MARKET AND INVESTMENT RISK COMMITTEE**

- oversight of market risk exposures, profile and management across the group; and
- monitors implementation of the market and investment risk framework.

The market and investment risk framework (a subframework of BPRMF) prescribes the governance structures, roles, responsibilities and lines of accountability for market risk management.

**ERM**

- independent view of the market risk profile;
- oversight of market risk management practices;
- monitors implementation of the market and investment risk framework.

**RMB PROPRIETARY BOARD**

- RMB's risk and regulatory committee and a subcommittee of the RMB divisional board;
- defines RMB's portfolio and risk/reward appetite;
- ensures that business remains within the approved appetite levels;
- approves strategies and allocates limits for business unit market risk position taking across the group; and
- monitors implementation of the RMB market investment risk framework.

**RMB RISK AND OVERSIGHT COMMITTEE (ROC)**

- the independent oversight of all risk types within RMB's South African and foreign operations; and
- receives input from the business unit and in-country risk committees as appropriate.

## ASSESSMENT AND MANAGEMENT

### Quantification of risk exposures

Market risk-taking activities is measured as the higher of the bank's internal expected tail loss (ETL) measure (as a proxy for economic capital) 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.<br>The 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. For regulatory capital purposes this is supplemented with a sVaR, calculated using a pre-defined static stress period (2008/2009). VaR calculations over a holding period of one day are used as an additional tool in the assessment of market risk.<br>The bank's VaR number should be interpreted in light of the limitations of this methodology, namely:<br>• historical simulation VaR may not provide an accurate estimate of future market moves;<br>• the use of a 99% confidence level does not reflect the extent of potential losses beyond that percentile – the ETL is a better measure to quantify losses beyond that percentile (but still subject to similar limitations as stated for VaR);<br>• the use of a 1-day time horizon is not a fair reflection of profit or loss for positions with low trading liquidity, which cannot be closed out or hedged within one day;<br>• as exposures and risk factors can change during daily trading, exposures and risk factors are not necessarily captured in the VaR calibration which uses end-of-day trading data; and<br>• where historical data is not available, time series data is approximated or backfilled using appropriate quantitative methodologies. Use of proxies is, however, limited.<br>These limitations mean that the bank cannot guarantee that losses will not exceed VaR. Recognising its VaR's limitations VaR is supplemented with stress testing to evaluate the potential impact on portfolio values of more extreme, though plausible, events or movements in a set of financial variables. |

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

*audited*

### Stress testing

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

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

### Earnings volatility

A key element of the bank's risk appetite framework is an assessment of potential earnings volatility that may arise from underlying activities. Earnings volatility for market risk is quantified by subjecting key market risk exposures to predetermined stress conditions, ranging from business-as-usual stress through severe stress and event risks.

In addition to assessing the maximum acceptable level of earnings volatility, stress testing is used to understand sources of earnings volatility and highlight unused capacity within the bank's risk appetite. Market risk earnings volatility is calculated and assessed on a quarterly basis.

### Back testing

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

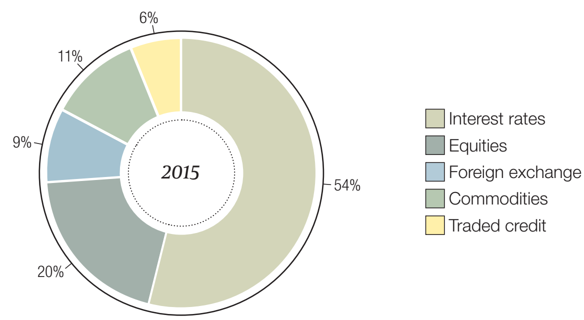
### Regulatory and economic capital for market risk

The internal VaR model for general market risk was approved by the SARB for local trading units and is consistent with the methodologies stipulated in the Basel III framework. For all international entities, the standardised approach is used for regulatory market risk capital purposes. Economic capital for market risk is calculated using liquidity-adjusted ETL plus an assessment of specific risk.

## MARKET RISK IN THE TRADING BOOK PROFILE

The following chart shows the distribution of exposures per asset class across the bank's trading activities at 30 June 2015 based on the VaR methodology. The overall asset class mix has remained consistent with the prior year. The interest rate asset class represented the most significant exposure at year end.

VaR EXPOSURE PER ASSET CLASS




audited

### VaR analysis by risk type

The following table reflects VaR over a 1-day holding period at a 99% confidence level. Results indicate that overall levels of market risk reduced between June 2014 and June 2015. The most notable change when compared to the prior year relates to the interest rate component. This is attributed to a combination of disciplined risk and inventory management by the portfolio managers.

Over the last financial year, improvements have been made to the commodities business by growing the investment product and hedge products offerings along the commodity value chain.

1-DAY 99% VAR ANALYSIS BY INSTRUMENT FOR THE BANK EXCLUDING FOREIGN BRANCHES

| | 2015 | | | | 2014 |
|---|---|---|---|---|---|
| **R million** | **Min*** | **Max*** | **Average** | **Period end** | **Period end** |
| **Risk type** | | | | | |
| Equities | **2.8** | **24.0** | **9.8** | **10.9** | 4.8 |
| Interest rates** | **18.7** | **54.9** | **33.2** | **30.3** | 46.9 |
| Foreign exchange | **2.0** | **25.6** | **8.0** | **5.0** | 6.3 |
| Commodities | **2.0** | **10.4** | **5.2** | **6.0** | 3.3 |
| Traded credit | **1.6** | **6.6** | **3.3** | **3.6** | 2.6 |
| Diversification effect | **–** | **–** | **–** | **(20.8)** | (20.8) |
| **Diversified total** | **17.0** | **70.6** | **35.2** | **35.0** | 43.0 |

* *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.*

1-DAY 99% VAR ANALYSIS BY INSTRUMENT FOR THE BANK INCLUDING FOREIGN BRANCHES

| | 2015 | | | | 2014 |
|---|---|---|---|---|---|
| **R million** | **Min*** | **Max*** | **Average** | **Period end** | **Period end** |
| **Risk type** | | | | | |
| Equities | **2.8** | **24.0** | **9.8** | **10.9** | 4.8 |
| Interest rates** | **20.4** | **56.9** | **34.9** | **31.8** | 49.1 |
| Foreign exchange | **2.2** | **25.8** | **8.3** | **5.2** | 6.4 |
| Commodities | **2.0** | **10.4** | **5.2** | **6.0** | 3.3 |
| Traded credit | **1.6** | **6.6** | **3.3** | **3.6** | 2.6 |
| Diversification effect | **–** | **–** | **–** | **(20.8)** | (20.8) |
| **Diversified total** | **18.4** | **72.5** | **37.0** | **36.7** | 45.3 |

* *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.*

*audited*

The following table reflects 10-day VaR and stress VaR (sVaR) at the 99% confidence level at 30 June 2015. 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. The results reflected in the following table are consistent with those mentioned above.

## 10-DAY 99% VaR AND sVaR ANALYSIS BY INSTRUMENT FOR THE BANK EXCLUDING FOREIGN BRANCHES

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | **Period end** | | **Period end** | |
| **R million** | **VaR** | **sVaR** | **VaR** | **sVaR** |
| **Risk type** | | | | |
| Equities | **34.9** | **86.5** | 11.6 | 29.3 |
| Interest rates* | **61.3** | **78.9** | 74.1 | 136.9 |
| Foreign exchange | **5.4** | **15.6** | 16.3 | 24.3 |
| Commodities | **13.8** | **42.2** | 6.9 | 12.9 |
| Traded credit | **13.0** | **13.4** | 4.6 | 5.5 |
| Diversification effect | **(73.0)** | **(170.4)** | (29.7) | (57.5) |
| **Diversified total** | **55.4** | **66.3** | 84.0 | 151.5 |

* *Interest rate risk in the trading book.*

## 10-DAY 99% VaR AND sVaR ANALYSIS BY INSTRUMENT FOR THE BANK INCLUDING FOREIGN BRANCHES

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | **Period end** | | **Period end** | |
| **R million** | **VaR** | **sVaR** | **VaR** | **sVaR** |
| **Risk type** | | | | |
| Equities | **34.9** | **86.5** | 11.6 | 29.3 |
| Interest rates* | **75.2** | **78.9** | 77.5 | 136.9 |
| Foreign exchange | **5.8** | **15.6** | 16.7 | 24.3 |
| Commodities | **13.8** | **42.2** | 6.9 | 12.9 |
| Traded credit | **13.0** | **13.4** | 4.6 | 5.5 |
| Diversification effect | **(73.1)** | **(170.4)** | (29.8) | (57.5) |
| **Diversified total** | **69.6** | **66.3** | 87.7 | 151.5 |

* *Interest rate risk in the trading book.*

### Other risk measures

Other risk factors are considered in the assessment and management of market risk. These include interest rate and equity specific risk. Specific risk accurately measures idiosyncratic risk not captured by general market risk measures for interest rate and equity risk, such as default, credit migration and event risks, and identifies concentrations in a portfolio. The following table represents the bank's specific risk. The increase in interest rate specific risk emanates from the local balance sheet and is mainly a result of an increase in bond exposures to Indian financial institutions.

## SPECIFIC RISK CAPITAL*

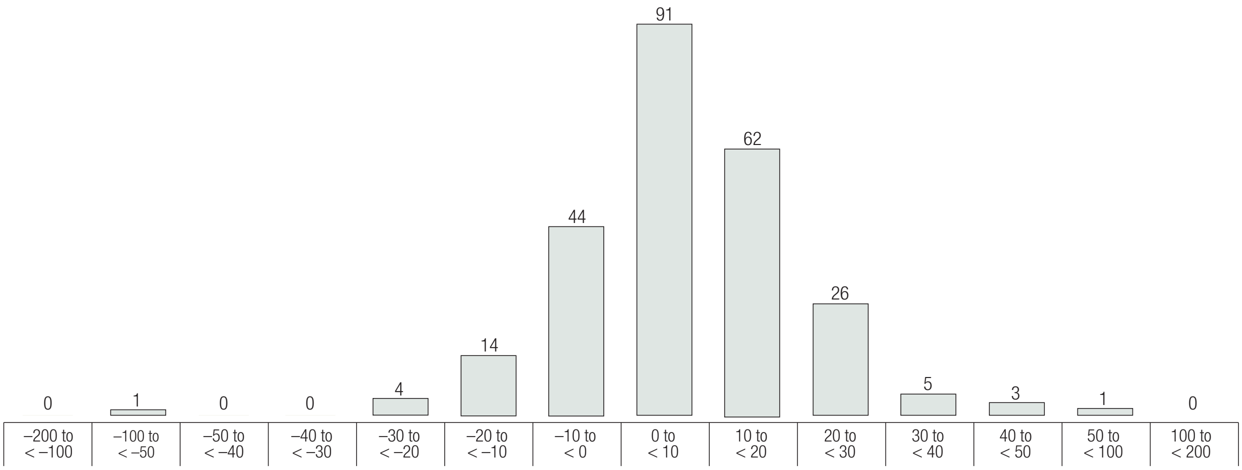
| **R million** | **2015** | **2014** |
|---|---|---|
| Interest rate specific risk | **104** | 80 |
| Equity specific risk | **28** | 43 |
| **Total** | **132** | 123 |

* *Capital calculated at the SARB transitional minimum requirement of 10% (excluding the bank-specific individual capital requirement).*

### Distribution of daily trading earnings from trading units

The following histogram shows the daily revenue for the bank's local trading units for the year. The results are skewed towards profitability.

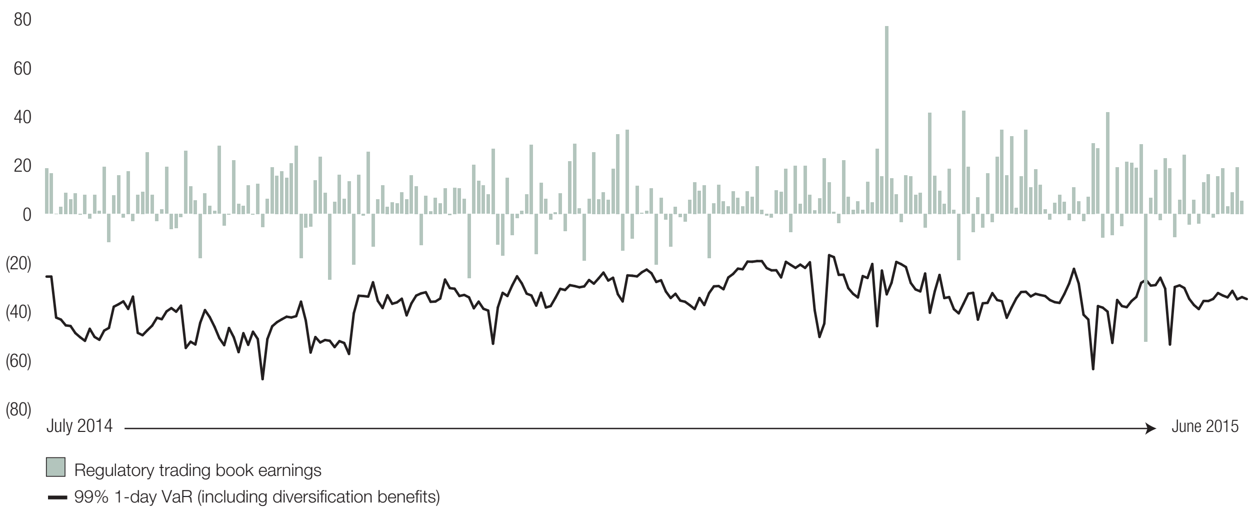
DISTRIBUTION OF DAILY EARNINGS – FREQUENCY
*Days in a period*




### Back testing: daily regulatory trading book earnings and VaR

The bank tracks its daily local earnings profile as illustrated in the following chart. The earnings and 1-day VaR relate to the bank's internal VaR model. Exposures were contained within risk limits during the trading period.

BACK TESTING: DAILY REGULATORY TRADING BOOK EARNINGS VERSUS 1-DAY 99% VaR
*R million*




Trading book earnings exceeded 1-day VaR on one occasion during the year under review. This indicates a reasonably good quantification of market risk provided by the bank's internal model.

# NON-TRADED MARKET RISK

## INTRODUCTION AND OBJECTIVES

For non-traded market risk, the bank distinguishes between interest rate risk in the banking book and structural foreign exchange risk. The following table describes how these risks are measured, managed and governed.

| Risk and jurisdiction | Risk measure | Managed by | Oversight |
|---|---|---|---|
| **Interest rate risk in the banking book** | | | |
| Domestic – FNB, WesBank and FCC balance sheet | • 12-month earnings sensitivity; and<br>• economic sensitivity of open risk position. | Group Treasury | FCC risk management and group ALCCO |
| International branches | • 12-month earnings sensitivity; and<br>• economic sensitivity of open risk position. | In-country management | Group Treasury<br>FCC Risk Management<br>International ALCCO |
| **Structural foreign exchange** | | | |
| Bank | • total capital in a functional currency other than ZAR;<br>• impact of translation back to rand reflected in bank; and<br>• foreign currency translation reserve value. | Group Treasury | ALCCO |

## INTEREST RATE RISK IN THE BANKING BOOK

IRRBB relates to sensitivity of a bank's financial position and earnings to unexpected, adverse movements in interest rates.

Interest rate risk in the banking book originates from the differing repricing characteristics of balance sheet transactions, yield curve risk, basis risk and client optionality embedded in banking book products.

The endowment effect, which results from a large proportion of non- and low-rate liabilities that fund variable-rate assets, remains the primary driver of IRRBB and results in the bank's earnings being vulnerable to interest rate cuts, or conversely benefiting from a hiking cycle.

IRRBB is an inevitable risk associated with banking and can be an important source of profitability and shareholder value. FirstRand continues to manage IRRBB on an earnings approach, with the aim to protect and enhance the bank's earnings and economic value through the cycle within approved risk limit and appetite levels. The endowment hedge portfolio is managed dynamically taking into account the continuously changing macroeconomic environment.

At the beginning of 2014, the SARB communicated that South Africa was entering a hiking cycle. The subsequent increase in the repo rate positively impacted margins as a result of the endowment effect.

Strategic hedge positions are in place to protect the bank's net interest margin against macroeconomic uncertainty which can impact the timing and extent of the hiking cycle, and protects bank earnings should rates remain lower for longer. These hedges are actively monitored along with macroeconomic factors impacting rates in the domestic economy, as well as the foreign entities.

## Organisational structure and governance

INTEREST RATE IN THE BANKING BOOK GOVERNANCE STRUCTURE

**FirstRand board**

*First line of control*

**STRATEGIC EXECUTIVE COMMITTEE**

**FINANCIAL RESOURCE MANAGEMENT EXECUTIVE COMMITTEE**

**GROUP TREASURY**

- manages the IRRBB for FNB, WesBank and the Group Treasury positions;
- manages structural foreign exchange risk as a result of investment in foreign subsidiaries and branches; and
- oversight and reporting of bank utilisation of foreign currency macro prudential and regulatory limits.

*IRRBB and structural foreign exchange risk are managed on a strategic basis in line with macroeconomic outlook and available hedging instruments in the market.*

*Second line of control*

**RCC COMMITTEE**

**GROUP ALCCO**

- oversight of asset and liability management functions and ALCCOs in South African and foreign entities; and
- monitor implementation of market risk in the framework banking book (MRBB).

The MRBB (subframework of BPRMF) prescribes the standards, principles and policies for effective interest rate and foreign exchange risk in the banking book.

**INTERNATIONAL ALCCO**

Oversight of liquidity risk management at foreign entities.

**FCC RISK MANAGEMENT**

- supports management in identifying and quantifying key ALM risks;
- ensures that board-approved risk policies, frameworks, standards, methodologies and tools are adhered to; and
- compiles, analyses and escalates risk reports on performance, risk exposures and corrective actions.

## 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.

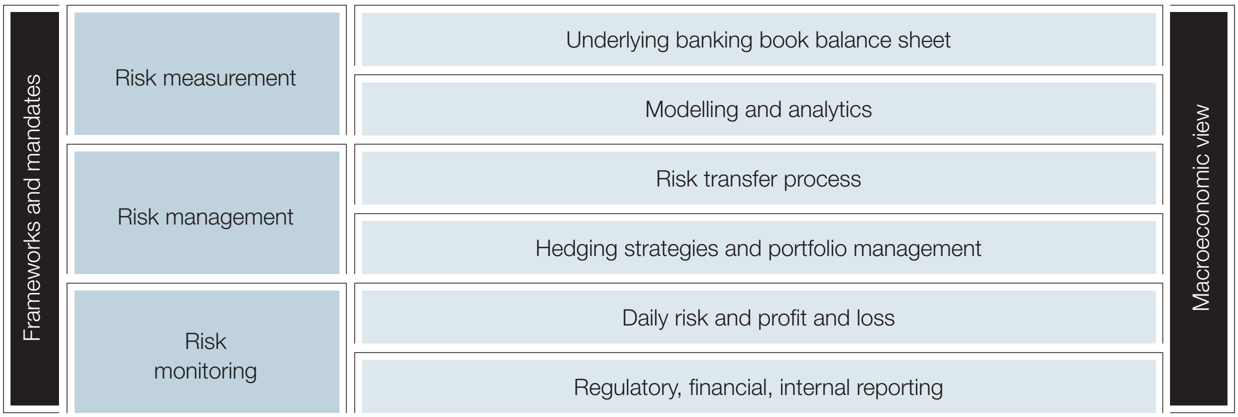
The internal funds transfer pricing process is used to transfer interest rate risk from the franchises to Group Treasury. This process allows risk to be managed centrally and holistically in line with the group's macroeconomic outlook. Management of the resultant risk position is achieved by balance 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.

*audited*

### Foreign branches

Management of the foreign branches is performed by in-country management teams with oversight provided by Group Treasury and FCC Risk Management. Where applicable, PV01 and ETL risk limits are also used for endowment hedges.

## INTEREST RATE RISK MANAGEMENT AND ASSESSMENT




### 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 long-term economic value. To achieve this, both earnings sensitivity and economic sensitivity measures are monitored and managed within appropriate risk limits and appetite levels, considering the macroeconomic environment and factors which would cause a change in rates.

### Earnings sensitivity

Earnings models are run on a monthly basis to provide a measure of the NII sensitivity of the existing banking book balance sheet to shocks in interest rates. Underlying transactions are modelled on a contractual basis, assuming a constant balance sheet size and mix. No adjustments are made for prepayments in the underlying book, however, prepayment assumptions are factored into the calculation of hedges for fixed rate lending. Rollover assumptions are not applied to off-balance sheet positions. A pass-through assumption is applied in relation to non-maturing deposits, which reprice at the bank's discretion. This assumption is based on historical product behaviour.

*audited*

The following tables show the 12-month NII sensitivity for a sustained, instantaneous parallel 200 bps downward and upward shock to interest rates. The increased sensitivity is attributable to strategic hedges in place to manage the margin impact of the capital and deposit endowment books through the cycle. At June 2015, endowment hedges were being allowed to roll off to benefit from a hiking cycle. Given current uncertainty on the length and extent of the hiking cycle, the endowment book is actively managed. The bulk of the sensitivity relates to the endowment book mismatch. The bank's average endowment book was R126 billion for the year. Total sensitivity in the bank is measured to rand rate moves.

## PROJECTED NII SENSITIVITY TO INTEREST RATE MOVEMENTS*

| | Change in projected 12-month NII | |
|---|---|---|
| **R million** | **2015** | **2014** |
| Downward 200 bps | **(2 517)** | (2 254) |
| Upward 200 bps | **2 343** | 2 214 |

* *The earnings modelling process and roll-over assumptions applied are not subject to the scope of reasonable assurance.*

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

### Economic value of equity

An EVE sensitivity measure is used to assess the impact on the total NAV of the bank as a result of a shock to underlying rates. Unlike the trading book, where a change in rates will impact fair value income and reportable earnings of an entity when a rate change occurs, the realisation of a rate move in the banking book will impact the distributable and non-distributable reserves of the entity to varying degrees and is reflected in the NII margin more as an opportunity cost/benefit over the life of the underlying instruments/positions. As a result, a purely forward-looking EVE measure applied to the banking book, be it a 1 bps shock or a full stress shock, is monitored relative to total risk limit and appetite levels.

The EVE shock applied is based on regulatory guidelines and is a sustained, instantaneous parallel 200 bps downward and upward shocks to interest rates. This is applied to risk portfolios 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 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 can change significantly in a short space of time; and
- excludes the banking book managed by RMB and the foreign branches' banking books, which are separately managed.

## BANKING BOOK NAV SENSITIVITY TO INTEREST RATE MOVEMENTS AS A PERCENTAGE OF TOTAL BANK CAPITAL

| **%** | **2015** | **2014** |
|---|---|---|
| Downward 200 bps | **0.71** | 0.35 |
| Upward 200 bps | **(0.79)** | (0.39) |

The increase in NAV sensitivity in the year under review is attributable to active management of strategic hedges. In June 2015, hedges were being allowed to roll off in anticipation of a hiking cycle. This disclosure differs from previous EVE sensitivity disclosures as it looks at the economic sensitivity of the banking book as a whole as opposed to only the sensitivity of products impacting the cash flow and available-for-sale reserves.

*audited*

## STRUCTURAL FOREIGN EXCHANGE RISK

### Introduction and objectives

Foreign exchange risk is the risk of an adverse impact on the banks financial position and earnings as a result of movements in foreign exchange rates impacting balance sheet exposures.

Structural foreign exchange risk arises as a result of the bank's offshore operations with a functional currency other than 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 functional currency (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 an unavoidable consequence of having offshore operations and can be a source both of investor value through diversified earnings, as well as unwanted volatility as a result of rand fluctuations. Group Treasury is responsible for actively monitoring the net capital invested in foreign entities, as well as the rand value of any capital investments and dividend distributions.

### Organisational structure and governance

Reporting and management for the group's foreign exchange exposure and macro prudential limit utilisation is centrally owned by Group Treasury as the clearer of all currency positions in the group. Group Treasury is also responsible for oversight of structural foreign exchange risk, reporting through to group ALCCO, a subcommittee of RCC committee. Refer to the governance structure in the *interest rate risk in the banking book* section.

### 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 in relation to this exposure. The impact of any residual on balance positions is managed as part of market risk reporting (see the *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 comprise of 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 done where viable, given market constraints and within risk appetite levels. Where possible, hedge accounting is applied. Any open hedges are included as part of *market risk in the trading book*.

### Foreign exchange and translation risk profile

The following table provides an overview of the bank's exposure to entities with functional currencies other than rand. There were no significant structural hedging strategies in the current financial year.

NET STRUCTURAL FOREIGN EXPOSURES

| | Functional currency | |
|---|---|---|
| **R million** | **2015** | **2014** |
| United States dollar | **1 689** | 1 321 |
| Sterling | **974** | 999 |
| Indian rupees | **715** | 568 |
| Common monetary area (CMA) countries* | **–** | – |
| **Total** | **3 378** | 2 888 |

* *Currently Namibia, Swaziland and Lesotho are part of the CMA. Unless these entities decide to exit, rand volatility will not impact these entities' rand reporting values.*

audited

# EQUITY INVESTMENT RISK

## INTRODUCTION AND OBJECTIVES

Equity investment risk is the risk of an adverse change in the fair value of an investment in a company, fund or any other financial instrument, whether listed, unlisted or bespoke.

Equity investment risk arises primarily from equity exposures from investment banking activities in RMB, e.g. exposures to equity risk arising from principal investments or structured lending.

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

The bank continues to monitor regulatory developments and assesses the impact on its equity investment risk processes and profile. The overall quality of the investment portfolio remains acceptable and within risk appetite.

## ORGANISATIONAL STRUCTURE AND GOVERNANCE

EQUITY INVESTMENT RISK GOVERNANCE STRUCTURE

**FirstRand board**

**LARGE EXPOSURES COMMITTEE**

Approves senior debt in investment structures as appropriate.

**RELEVANT CREDIT COMMITTEES**

**RCC COMMITTEE**

Responsible for equity investment risk appetite.

**PRUDENTIAL INVESTMENT COMMITTEE**

Oversight and approval of portfolio investment transactions in equity, quasi-equity or quasi-debt instruments.

**MARKET AND INVESTMENT RISK COMMITTEE (MIRC)**

- oversight of investment risk measures and management across the group;
- monitors implementation of the market and investment risk framework (subframework of BPRMF); and
- receives reports of investment activities from franchise risk and management structures.

**FRANCHISE RISK AND MANAGEMENT STRUCTURE**

**RMB proprietary board**

- independent oversight of RMB's investment activities; and
- supported by RMB CRO and deployed risk managers.

**FNB Exco** | **WesBank Exco** | **FCC Exco**

Monitor and manage investments through financial reporting process.

**Investment risk oversight committee**

- assesses quality, size and performance of RMB's investment portfolio.

*audited*

## ASSESSMENT AND MANAGEMENT

### Management of exposures

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

For each transaction, an appropriate structure is put in place which aligns the interests of all parties involved through the use of incentives and constraints for management and the selling party. Where appropriate, the bank seeks to take a number of seats on the company's board and maintains close oversight through monitoring of 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 carried out for each investment and crucial parts of these reviews, such as valuation estimates, are independently peer reviewed.

*audited*

### Recording of exposures – accounting policies

IAS 39 requires equity investments to be classified as financial assets at fair value through profit or loss, or available-for-sale financial assets.

Consistent with the group's accounting policies, the consolidated financial statements include the assets, liabilities and results of operations of all equity investments over which the bank has control over the relevant activities and the ability to use that control to affect the variable returns received from the entity.

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

### Measurement of risk exposures and stress testing

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

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

### Regulatory and economic capital

The simple risk weighted method under the market-based approach, 250% (Basel III investments in financial entities), 300% (listed) or 400% (unlisted) is applied with the scalar for the quantification of regulatory capital. Under the Regulations, the risk weight applied to investments in financial, banking and insurance institutions is subject to the aggregate and individual value of the bank's shareholding in these investments and also in relation to the bank's qualifying CET1 capital. Shareholdings in investments are bucketed depending on percentage held.

For economic capital purposes, an approach using market value shocks to the underlying investments is used to assess economic capital requirements for unlisted investments after taking any unrealised profits into account.

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

## EQUITY INVESTMENT RISK PROFILE

The following table includes the investment risk exposure and the sensitivity of investment risk exposure. The 10% sensitivity movement is calculated on the carrying value of investments excluding investments subject to the ETL process and the carrying value of investments in associates and joint ventures. The decrease in listed investment risk exposure included in the ETL process from 2014 to 2015 is due to the realisation of a significant investment. The cumulative gain on this realisation was offset by losses in other unlisted equity realisations, noted in the low cumulative gains realised as at 30 June 2015.

### BANK'S INVESTMENT RISK EXPOSURE AND SENSITIVITY OF INVESTMENT RISK EXPOSURE

| R million | 2015 | 2014 |
|---|---|---|
| Listed investment risk exposure included in the equity investment risk ETL process | **49** | 266 |
| ETL on above equity investment risk exposures | **3** | 14 |
| **Estimated sensitivity of remaining investment balances** | | |
| Sensitivity to 10% movement in market value on investment fair value* | **155** | 162 |
| Cumulative gains realised from sale of positions in the banking book during the year | **7** | 265 |

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

The following tables include the investment valuations and regulatory capital requirements.

## INVESTMENT VALUATIONS AND ASSOCIATED REGULATORY CAPITAL REQUIREMENTS

| | 2015 | | |
|---|---|---|---|
| **R million** | **Publicly quoted investments** | **Privately held** | **Total** |
| Carrying value of investments* | **49** | **1 546** | **1 595** |
| **Per risk bucket** | | | |
| 250% – Basel III investments in financial entities | **–** | **308** | **308** |
| 300% – listed investments | **49** | **–** | **49** |
| 400% – unlisted investments | **–** | **1 238** | **1 238** |
| Latent revaluation gains not recognised in the balance sheet** | **138** | **5** | **143** |
| Fair value | **187** | **1 551** | **1 738** |
| Total unrealised gains recognised directly in balance sheet through equity instead of the income statement** | **–** | **234** | **234** |
| Capital requirement# | **16** | **531** | **547** |

* *The decrease in the carrying value from 2014 to 2015 relates to disposal of investments and decreased market prices.*

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

# *Capital requirement calculated at 10% of RWA (excluding the bank-specific individual capital requirement) and includes capital on investments in financial entities. The investments in financial entities are included as other assets in the RWA table in the capital section.*

| | 2014 | | |
|---|---|---|---|
| **R million** | **Publicly quoted investments** | **Privately held** | **Total** |
| Carrying value of investments | 266 | 1 623 | 1 889 |
| **Per risk bucket** | | | |
| 250% – Basel III investments in financial entities | 3 | 272 | 275 |
| 300% – listed investments | 263 | – | 263 |
| 400% – unlisted investments | – | 1 351 | 1 351 |
| Latent revaluation gains not recognised in the balance sheet* | 183 | 11 | 194 |
| Fair value | 449 | 1 634 | 2 083 |
| Total unrealised gains recognised directly in balance sheet through equity instead of the income statement* | – | 191 | 191 |
| Capital requirement** | 86 | 587 | 673 |

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

** *Capital requirement calculated at 10% of RWA (excluding the bank-specific individual capital requirement), and includes capital on investments in financial entities. The investments in financial entities are included as other assets in the RWA table in the capital section.*

# FUNDING AND LIQUIDITY RISK

## INTRODUCTION AND OBJECTIVES

The bank 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 bank with a natural liquidity buffer.

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

Compliance with the Basel III LCR influences the bank's funding strategy, as it particularly seeks to restore the correct risk-adjusted pricing of deposits. 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 its risk appetite for the year under review. The bank utilised new market structures, platforms and the SARB committed liquidity facility to efficiently increase the available liquidity holdings.

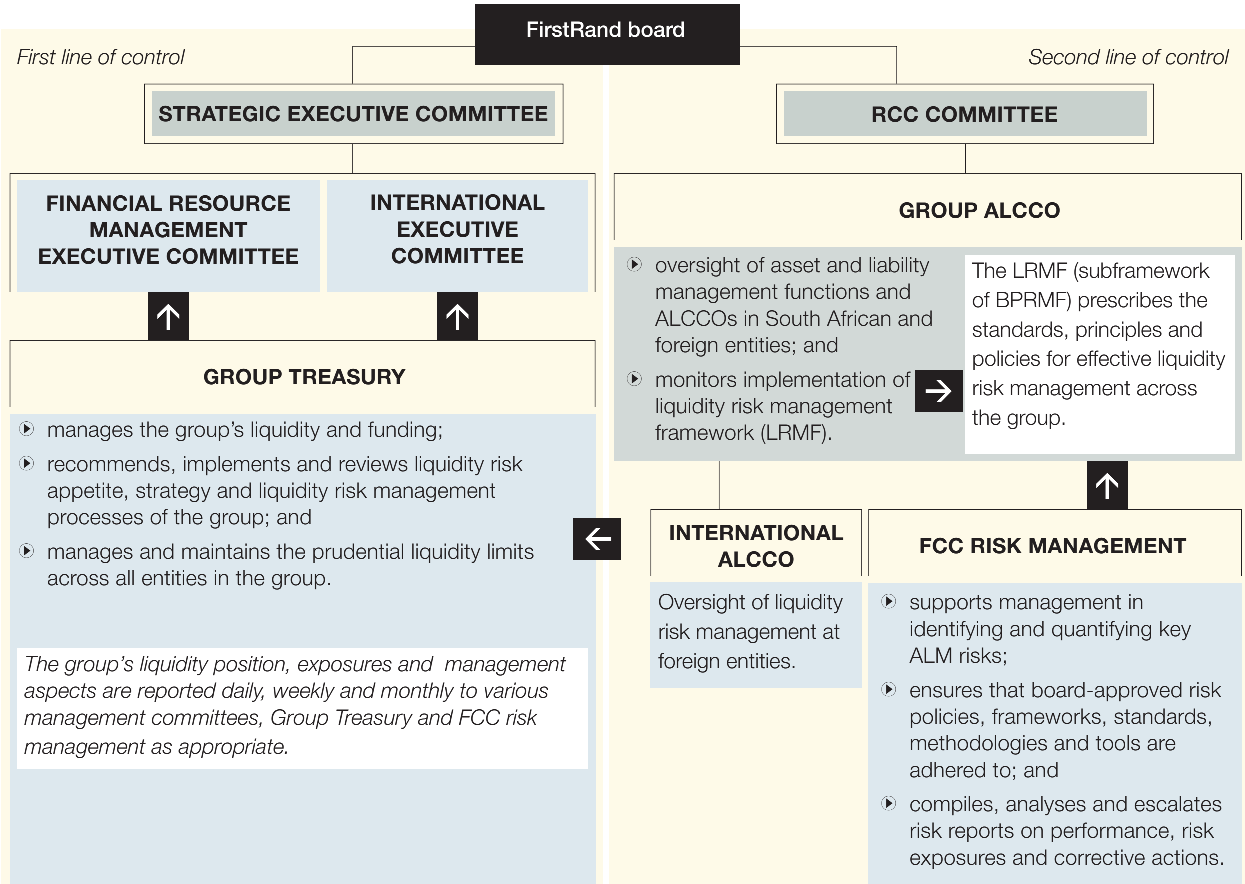
At 30 June 2015, the bank exceeded the 60% minimum LCR requirement with a LCR measurement of 84%. The BCBS' *liquidity coverage ratio disclosure standards* propose consistent and transparent disclosure of banks' liquidity positions as measured by the Basel III regulations. Directives 6/2014 and 11/2014 require the bank to provide its LCR disclosure in a standardised template.

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

At 30 June 2015, the bank's available sources of liquidity per the BCBS LCR were R119 billion, with an additional R11 billion of management liquidity available.

## ORGANISATIONAL STRUCTURE AND GOVERNANCE

BANK




*audited*

## FOREIGN OPERATIONS

**GROUP TREASURY PROVIDES:**

- overall funding and liquidity risk management frameworks and mandates;
- dedicated resources to assist with technical expertise in asset/liability management and fund raising activities; and
- alignment to international best practices and latest regulatory environment.

**GROUP ALCCO**

*Branches are part of the bank.*

**INTERNATIONAL ALCCO**

- meets quarterly to discuss region specific liquidity issues.

**INDIVIDUAL ALCCOs IN SUBSIDIARIES (FREMA)**

- manages liquidity in line with group principles;
- meets monthly; and
- includes Group Treasury representation.

**IN-COUNTRY TREASURY FUNCTIONS**

- day-to-day management of foreign subsidiary funding and liquidity risk;
- managed within country capital base; and
- focus on developing deposit franchise.

audited

FirstRand has dispensation from the PRA for a waiver on a whole-firm liquidity modification application basis where the PRA considers local risk reporting and compliance of the parent bank sufficient to waive PRA requirements for the London branch. The PRA has instituted a new regulatory regime under *Capital Requirements Directive IV policy statement PS11/15*, which becomes effective from 1 October 2015. The policy statement outlines the phasing out of the prudential sourcebook for banks, building societies and investment firms (BIPRU12), and the introduction of the European Banking Authority liquidity standards. As a UK branch of a developing country firm, FirstRand will be required to submit a specified branch return and provide liquidity information in line with the home regulators liquidity return requirements.

## FUNDING MANAGEMENT

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

**Structural features**

- Low discretionary savings.
- Higher degree of contractual savings:
  - pension funds;
  - provident funds; and
  - asset managers.
- Corporates and public sector make use of financial intermediaries for bulking and maturity transformation services.

a portion of these funds translate into →

**Liquidity needs of banks**

Deposit franchise

\+

Institutional funding

**Higher structural liquidity risk in SA banks than in most other financial markets** ↑

Risk mitigated to some extent by:

- Closed rand system – rand transactions are cleared and settled through registered banks and clearing institutions domiciled in SA.
- Concentration of customer current accounts with the four largest banks.
- Prudential exchange control framework.
- Low dependency of SA banks on foreign currency funding.

↓

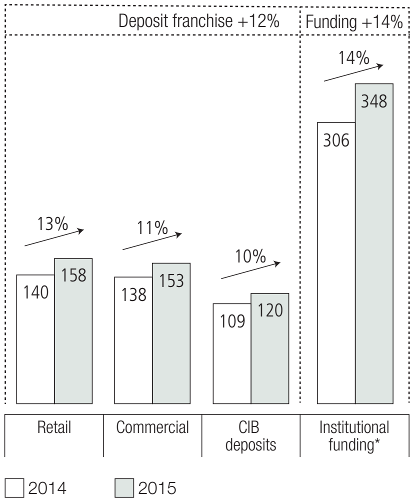
During the year under review, there has been increased liquidity demand by banks as a consequence of the money supply constraints introduced by LCR and central bank's open market operations. In light of the structural features discussed above, focus is currently placed on achieving a risk-adjusted diversified funding profile which also supports the Basel III requirements.

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, for the bank, comprised 66% of domestic funding liabilities at 30 June 2015. During the year under review, the bank has continued to focus on growing its deposit franchise across all segments with increasing emphasis on savings and investment products. Progress has been 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 has, over the course of the year, accessed capital markets. The bank has frequently issued various capital and funding instruments within the capital markets on an auction and reverse enquiry basis with strong support from investors, both domestically and internationally. Institutional funding has increased faster than in prior periods based on the bank's strategy to improve diversification in terms of maturity and investor base.

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

FUNDING BY SEGMENT OF THE BANK EXCLUDING FOREIGN BRANCHES

*R billion*




* *Includes CIB institutional funding and foreign branch platforms.*

## Funds transfer pricing

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

- preserve and improve 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.

## Funding measurement and activity

FirstRand Bank, the group's wholly-owned subsidiary and debt issuer, generates a larger proportion of its funding from the deposit franchise in comparison to the South African aggregate, however, its funding profile also reflects the structural features described in the diagram on page 188. The following table provides an analysis of the bank's funding sources.

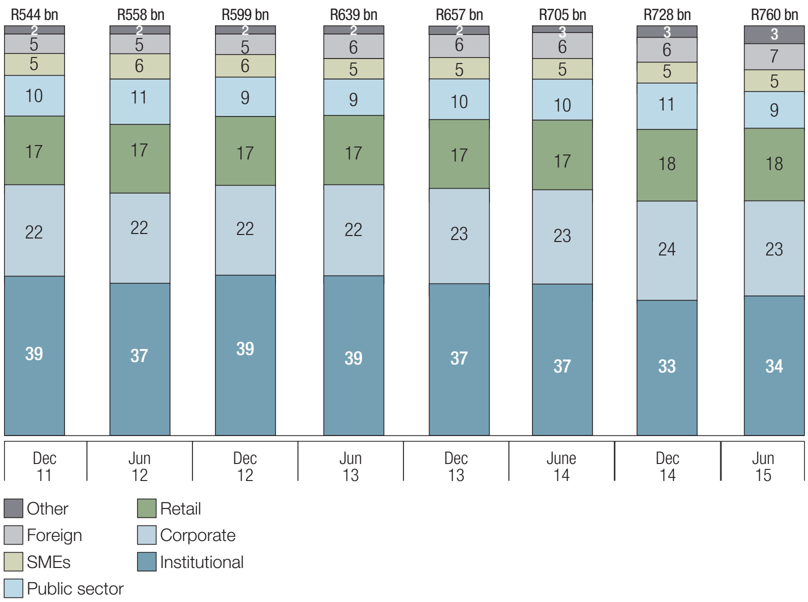
FUNDING SOURCES OF THE BANK EXCLUDING FOREIGN BRANCHES

| | 2015 | | | | 2014 |
|---|---|---|---|---|---|
| **% of funding liabilities** | **Total** | **Short term** | **Medium term** | **Long term** | **Total** |
| **Institutional funding** | **34.1** | **9.9** | **7.4** | **16.8** | 37.0 |
| **Deposit franchise** | **65.9** | **48.5** | **7.8** | **9.6** | 63.0 |
| Corporate | **23.4** | **19.9** | **1.8** | **1.7** | 22.7 |
| Retail | **17.7** | **13.6** | **2.8** | **1.3** | 17.0 |
| SMEs | **5.4** | **4.7** | **0.4** | **0.3** | 5.2 |
| Governments and parastatals | **9.2** | **6.9** | **1.7** | **0.6** | 9.6 |
| Foreign | **7.5** | **3.2** | **1.0** | **3.3** | 6.1 |
| Other | **2.7** | **0.2** | **0.1** | **2.4** | 2.4 |
| **Total** | **100.0** | **58.4** | **15.2** | **26.4** | 100.0 |

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

FUNDING ANALYSIS BY SOURCE OF THE BANK EXCLUDING FOREIGN BRANCHES

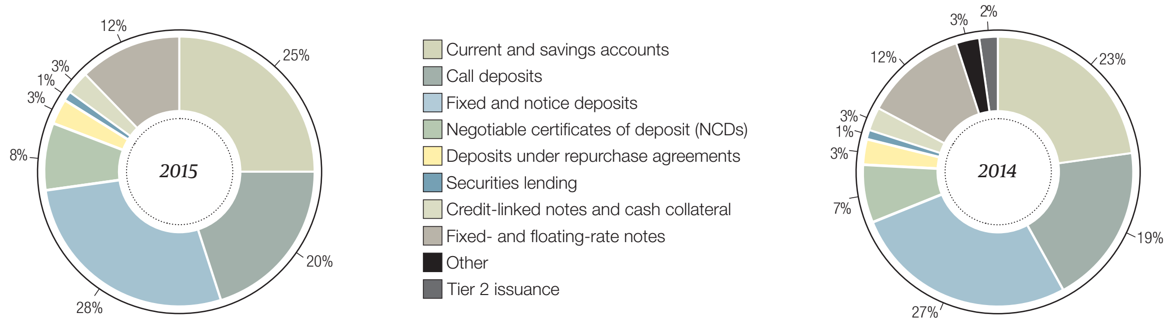
%




*Source: SARB BA900 returns, June 2015.*

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

FUNDING ANALYSIS BY INSTRUMENT TYPE OF THE BANK EXCLUDING FOREIGN BRANCHES

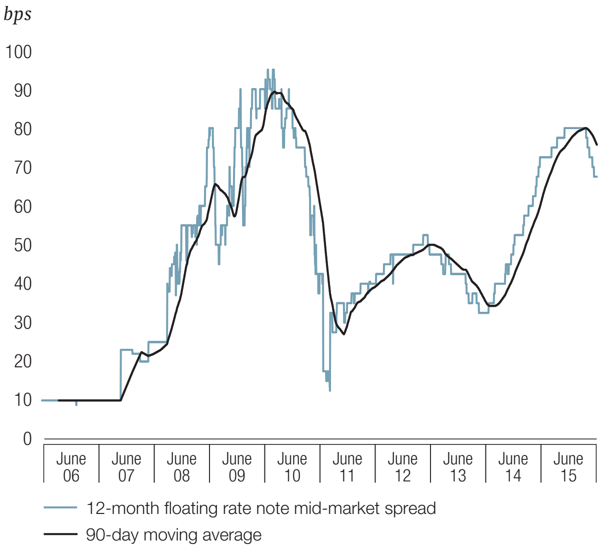



The bank's aim is to fund the balance sheet in the most efficient manner, taking into account the liquidity risk management framework, as well as regulatory and rating agency requirements.

To ensure maximum efficiency and flexibility in accessing funding opportunities, a range of debt programmes has been established. 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 while ensuring a good understanding of market liquidity.

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

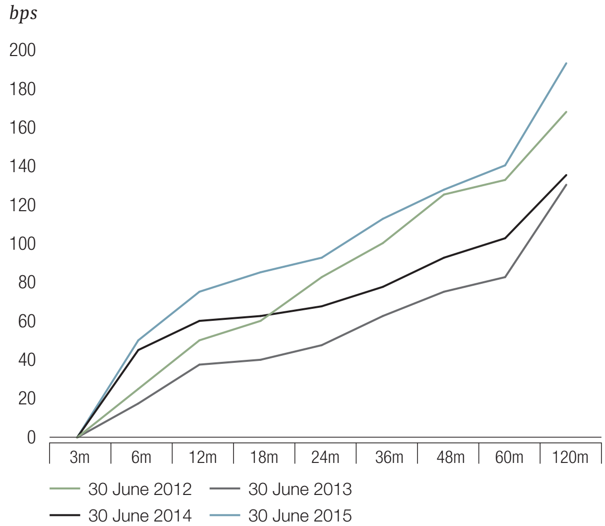
## 12-MONTH LIQUIDITY SPREAD




*Source: Bloomberg (RMBP screen) and Reuters.*

The following graph shows that long-term funding spreads are elevated from a historical perspective. On the basis of the bank's improved risk profile, higher capital adequacy and greater predictability of earnings, the credit risk component of the funding spreads should be lower. Long-term funding spreads, therefore, still appear to be reflecting a high liquidity premium. The bank is consistently able to raise funds in the capital markets in line with its funding curve, which it views as an important test as the bank's asset origination is linked to its funding curve.

## LONG-TERM FUNDING SPREADS



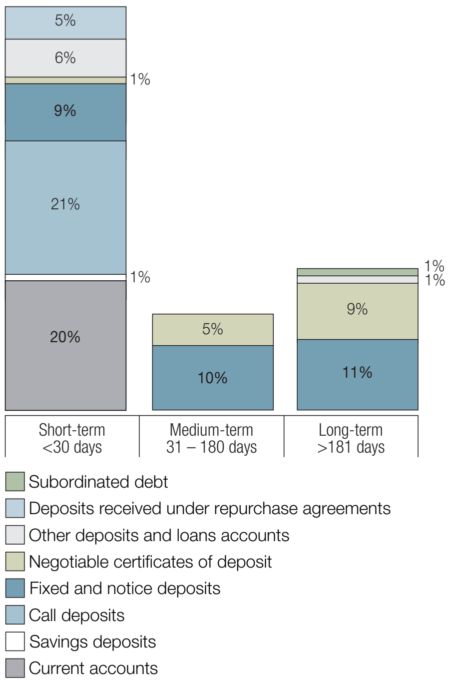

*Source: Bloomberg (RMBP screen) and Reuters.*

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.

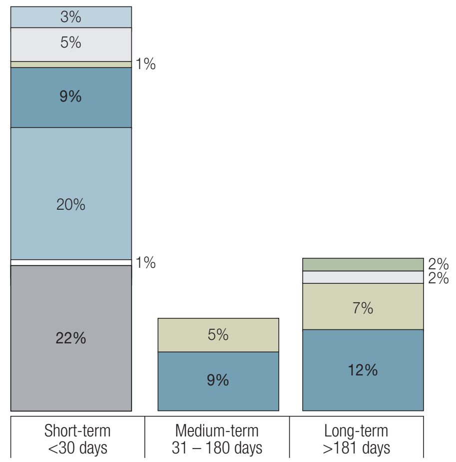
The following chart illustrates a breakdown of the bank's funding liabilities by instrument type and term.

## FUNDING LIABILITIES BY INSTRUMENT TYPE AND TERM OF THE BANK EXCLUDING FOREIGN BRANCHES

*at 30 June 2015*



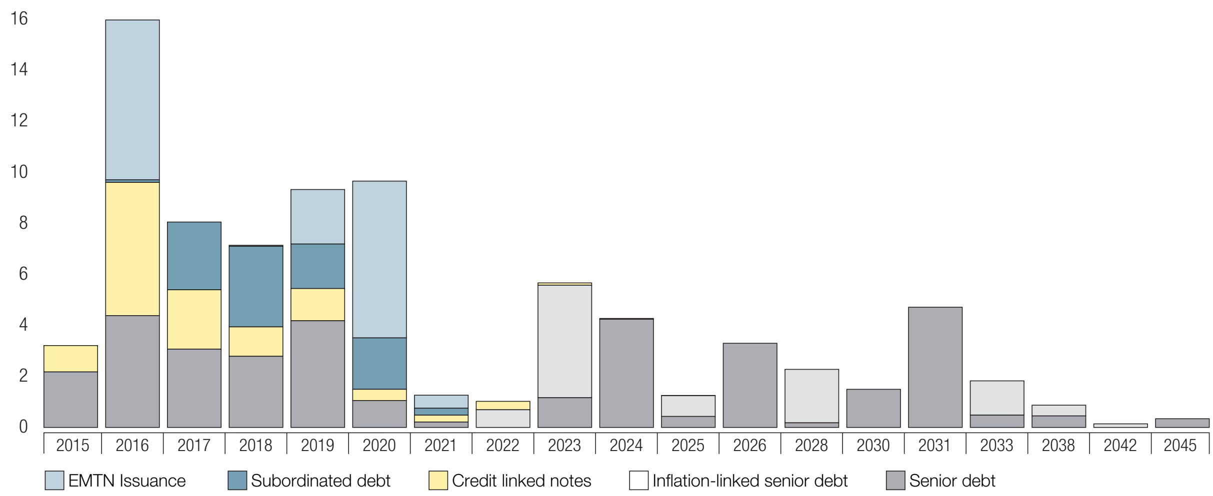

*at 30 June 2014*




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*



### Funding structure of foreign operations

In line with the group's strategy to build strong deposit franchises in all its operations, foreign operations are categorised in terms of their stage of development from greenfields start-ups to mature subsidiaries and can be characterised from a funding perspective as follows:

- Mature deposit franchises – all assets are largely funded in-country. The pricing of funding is determined via in-country funds transfer pricing, which is already in place.
- Growing deposit franchises – assets are first funded in-country at attendant funds transfer pricing rates. Any excess over and above in-country capacity would be funded by the bank's USD funding platforms. This is a temporary arrangement, which allows these entities to develop adequate in-country deposit bases.
- No deposit franchises – all activities would be funded by the bank's USD funding platforms.

In all categories, the pricing of funding is determined from established in-country funds transfer pricing.

### Bank funding support

Any funding provided by the bank is constrained by the appetite set independently by the credit risk management committee or the board. In arriving at limits, the credit risk management committee considers the operating jurisdiction and any sovereign risk limits that should apply. Group Treasury, therefore, has to ensure that any resources availed to foreign entities are priced appropriately.

## FOREIGN CURRENCY BALANCE SHEET

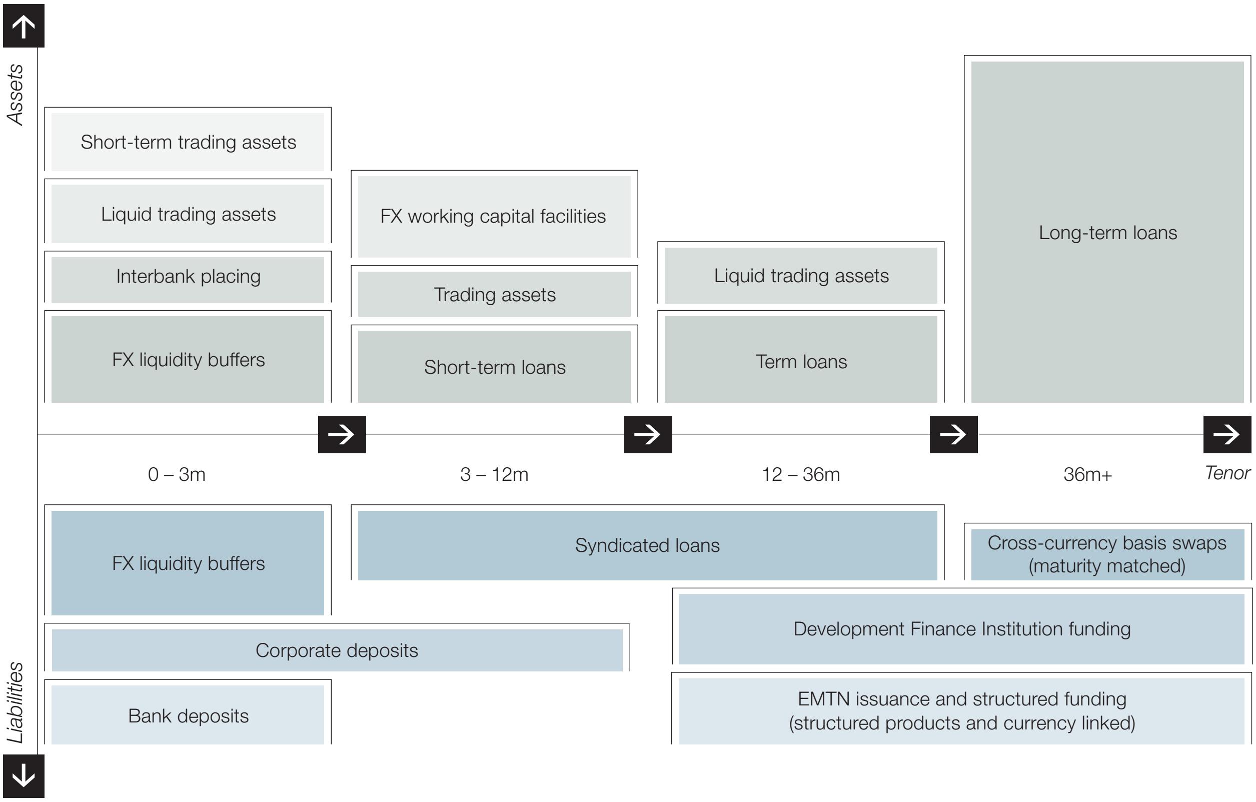
Given the bank's objective to grow its franchise in the rest of Africa, India and the corridors, and given the size of MotoNovo, the active management of foreign currency liquidity risk continues to be a strategic focus. The bank seeks to avoid exposing itself to undue liquidity risk within the risk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

FirstRand's expansion strategy means that its foreign currency activities, specifically lending and trade finance, have increased. It is, therefore, important to have a sound framework for the assessment and management of foreign currency external debt, given the inherent vulnerabilities and liquidity risks associated with cross-border financing. This limit includes 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. The bank considers risks arising from unsustainable debt path, liquidity, exchange rate and macroeconomic crises. To determine South Africa's foreign currency funding capacity, the bank considers the external debt of all South African entities (private and public sector, financial institutions) as all these entities utilise the South African system's capacity – confidence and export receipts.

GRAPHICAL REPRESENTATION OF THE FOREIGN CURRENCY BALANCE SHEET



## LIQUIDITY RISK MANAGEMENT

### Overview

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

The bank recognises two types of liquidity risk:

**Funding 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.
**Market liquidity risk** – the risk that market disruptions or lack of market liquidity will cause a bank to be unable (or able, but with difficulty) to trade in specific markets without affecting market prices significantly.

Mitigation of market and funding liquidity risks is achieved via contingent liquidity risk management. Buffer stocks of 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 bank'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 as illustrated in the following table.

### LIQUIDITY RISK MANAGEMENT APPROACHES

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

*audited*

## Stress testing and scenario analysis

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

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

## Liquidity contingency planning

Frequent volatility in funding markets and the fact that financial institutions can, and have, experienced liquidity problems even during benign economic conditions, highlight the importance of quality liquidity risk and contingency management processes.

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

The objective of liquidity contingency planning is to achieve and maintain funding levels in a manner that allows the bank to emerge from a potential funding crisis with its reputation intact and to maintain its financial condition for continuing operations. The plan is expected to:

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

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

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

## REGULATORY UPDATE

### 1 Basel III

The BCBS framework for sound and prudent liquidity risk management seeks to address the aspects below:

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

The BCBS released an update on the NSFR in January 2014, proposing better alignment between the LCR and NSFR. The group believes that the calibration and alignment has improved the NSFR, however, some concerns remain with respect to the treatment of secured funding transactions, such as repurchase agreements and the application of the calibration to derivative transactions. The group will continue to participate in the consultative process on NSFR.

### 2 Liquidity coverage ratio

The LCR has been fully adopted by the SARB with the inclusion of a committed liquidity facility, and will be phased in from 2015 to 2019. The minimum LCR requirement was 60% at 1 January 2015, with 10% incremental step-ups each year to 100% on 1 January 2019.

In addition to level 1 assets, eligible collateral will include levels 2A and 2B with qualifying criteria and ratings requirements referenced to national scale ratings for liquidity risk in that local currency.

### 3 Disclosure requirements

The BCBS published the *Liquidity coverage ratio disclosure standards* in March 2014. The objective of the document is to reduce market uncertainty around liquidity positions.

- Effective from 1 January 2015.
- Will follow the capital quarterly disclosures.
- Standardised template for available sources of liquidity by level of liquidity, cash outflows attributable by customer, category type and relationship and cash inflows attributable by source.

### 4 Net stable funding ratio

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

### 5 Resolution recovery framework

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 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 G-SIBs 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 management's assessment.

### THE COMPOSITION OF LIQUIDITY OF THE BANK EXCLUDING FOREIGN BRANCHES

| | 2015 | | | |
|---|---|---|---|---|
| | Basel III | | | Management view |
| | | After haircut | | |
| R billion | High quality liquid assets | Level 1 | Level 2 | After SARB haircut |
| Cash and deposits with central banks | **26** | **–** | **–** | **26** |
| Government bonds and bills | **82** | **82** | **–** | **77** |
| Corporate bonds | **11** | **–** | **6** | **6** |
| Other liquid assets | **–** | **–** | **–** | **11** |
| **Total** | **119** | **82** | **6** | **120** |

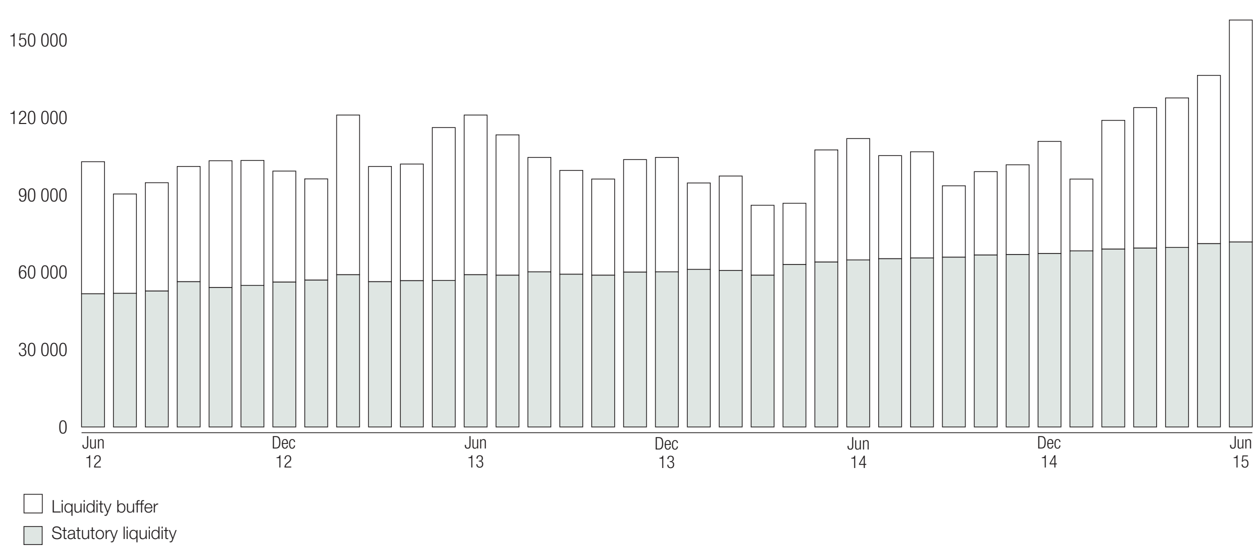
| | 2014 | | | |
|---|---|---|---|---|
| | Basel III | | | Management view |
| | | After haircut | | |
| R billion | High quality liquid assets | Level 1 | Level 2 | After SARB haircut |
| Cash and deposits with central banks | 21 | – | – | 21 |
| Government bonds and bills | 68 | 68 | – | 66 |
| Corporate bonds | 4 | – | 3 | 3 |
| Other liquid assets | – | – | – | 22 |
| **Total** | 93 | 68 | 3 | 112 |

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 the 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 bank's net cash outflows as measured under the LCR at nearly 30%, which is reflective of the South African market structure. Other significant contributors to the cash outflows are corporate funding and off-balance sheet facilities granted to clients, specifically those related to corporate clients. The bank has strategies in place to increase funding sourced through its deposit franchise and to reduce reliance on institutional funding, as well as to offer utilised facilities more efficiently.

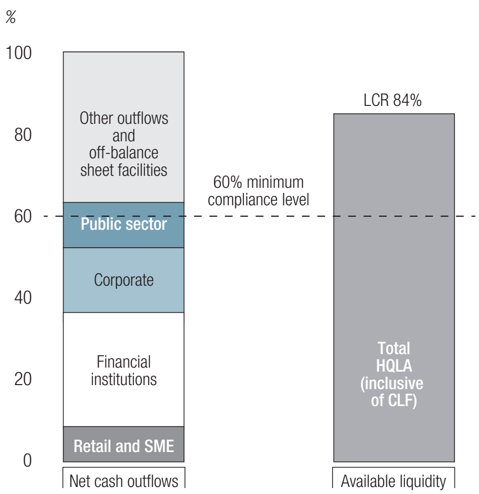
The following graph presents a historical view of the SARB's qualifying liquid assets. The bank has sought to hold buffers in excess of regulatory minimums based on its own risk assessment and operational liquidity requirements.

## THE LIQUIDITY BUFFER AND STATUTORY LIQUIDITY REQUIREMENTS OF THE BANK EXCLUDING FOREIGN BRANCHES




The following graph gives an indication of the bank's LCR position of 84% at 30 June 2015 and demonstrates the bank's compliance with the 60% minimum requirement.

## LCR OF THE BANK EXCLUDING FOREIGN BRANCHES



## CASH FLOW ANALYSIS

### Undiscounted cash flows

The following table presents the bank's undiscounted cash flows of liabilities 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 balance sheet is prepared using discounted amounts;
- the table includes cash flows not recognised on the balance sheet;
- 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.

LIQUIDITY CASH FLOWS (UNDISCOUNTED CASH FLOWS) – MATURITY ANALYSIS OF LIABILITIES BASED ON THE UNDISCOUNTED AMOUNT OF THE EXPECTED PAYMENT

| | 2015 | | | |
|---|---|---|---|---|
| | | Term to maturity | | |
| R million | Carrying amount | Call – 3 months | 4 – 12 months | > 12 months |
| 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 and accruals | **12 417** | **9 675** | **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 subsidiary companies* | **13 467** | **10 847** | **99** | **2 521** |
| 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** | **–** |

* *Includes intergroup contingencies and commitments.*

| | 2014** | | | |
|---|---|---|---|---|
| | | Term to maturity | | |
| R million | Carrying amount | Call – 3 months | 4 – 12 months | > 12 months |
| Deposits and current accounts | 748 669 | 489 442 | 107 367 | 151 860 |
| Short trading positions | 5 397 | 5 397 | – | – |
| Derivative financial instruments | 41 813 | 39 040 | 795 | 1 978 |
| Creditors and accruals | 10 382 | 9 521 | 307 | 554 |
| Tier 2 liabilities | 16 219 | 1 818 | – | 14 401 |
| Other liabilities | 5 074 | 267 | 556 | 4 251 |
| Amounts due to holding and fellow subsidiary companies* | 13 305 | 11 894 | 63 | 1 348 |
| Financial and other guarantees | 37 231 | 35 932 | 756 | 543 |
| Operating lease commitments | 1 886 | 207 | 536 | 1 143 |
| Other contingencies and commitments | 840 | 233 | 566 | 41 |
| Facilities not drawn | 73 409 | 72 881 | 508 | 20 |

* *Includes intergroup contingencies and commitments.*

** *Additional line items were included in 2014 table to ensure comparability with 2015 disclosure.*

*audited*

## Discounted cash flow analysis

The following table represents the bank's expected discounted cash flows of 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), which are used to fund long-term assets, e.g. mortgages.

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

### DISCOUNTED CASH FLOW ANALYSIS FOR THE BANK - MATURITY ANALYSIS OF ASSETS AND LIABILITIES ON THE PRESENT VALUE OF EXPECTED PAYMENT

| | 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)** | **–** |

| | 2014 | | | |
|---|---|---|---|---|
| | | Term to maturity | | |
| R million | Carrying amount | Call – 3 months | 4 – 12 months | > 12 months |
| Total assets | 851 209 | 299 386 | 76 973 | 474 850 |
| Total equity and liabilities | 851 209 | 560 253 | 106 058 | 184 898 |
| Net liquidity gap | – | (260 867) | (29 085) | 289 952 |
| Cumulative liquidity gap | – | (260 867) | (289 952) | – |

As illustrated in this table, the negative liquidity short-term gap increased slightly 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 internationally, taking into account prevailing economic and market conditions.

*audited*

# OPERATIONAL RISK

## INTRODUCTION AND OBJECTIVES

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people, or systems, or from external events. The bank 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.

## OPERATIONAL RISK OBJECTIVES AND PROGRAMME

| KEY OBJECTIVES<br>• The bank's objective is to focus on building an effective and forward-looking operational risk management programme. | OPERATIONAL RISK MANAGEMENT PROGRAMME COMPONENTS |
|---|---|
| Embed the use of automated risk tool outputs for an integrated operational risk profile view. | • technology and information risks; |
| Refine operational risk appetite limits at various levels in the group. | • internal fraud; |
| Enhance AMA component and methodology maturity. | • external fraud; |
| Make greater use of risk information and analysis outcomes in:<br>• day-to-day risk management; and<br>• strategic decision making. | • legal risks; |
| Improve control environment to support business strategy achievements. | • people risks; |
| Assess operational risk-related regulatory developments and ensure compliance. | • business resilience risk; and |
| Enhance risk measurement, capital calculation and allocation methods. | • process risks. |
| Scenario analysis and contingency planning in light of national electricity supply shortages. | |

## The year under review

A number of control improvement initiatives, aimed at addressing key operational risk themes and improving operational risk maturity, gained momentum in the year under review. The progress on these initiatives is tracked and reported on regularly at group level through the management and risk governance process and is also considered as part of the operational risk appetite setting and risk scenario processes.

The principal operational risks currently facing the bank are:

- **commercial and violent crime** (including internal fraud) as economic growth slows;
- **information security risk** (risk of loss or theft of information), given the growing sophistication of cyberattacks globally;
- **business disruption** due to the national electricity supply shortage and its 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.

Process automation projects continue to reduce manual processes and improve controls thereby mitigating associated risks and increasing efficiencies. Critical data and system links between franchises have been identified for heightened attention by risk management.

There has been increased use of the bank's operational risk management system which facilitates easy access to risk information and an integrated view of the business's operational risk profile based on the risk tool outputs. There are ongoing system and process changes to proactively manage risk data quality.

Operational risk appetite setting enables the group and its franchises to measure and monitor operational risk profiles against approved operational risk appetite levels, and to set boundaries for operational risk within which business decisions should be made. Operational risk appetite at group, franchise and segment levels was reviewed during the year and further refinements are ongoing.

The introduction of the use of common key risk drivers in the risk scenario analysis process saw greater refinement in scenario assessment across the bank.

Cybercrime was an area of focus and is perceived to be the dominant future threat in financial services globally. Risk mitigation strategies to combat cybercrime are being reviewed to ensure that controls are adequate and effective.

Power supply, management equipment and infrastructure were upgraded for key facilities. A third redundant data centre is being implemented to improve the bank's business resilience capability. IT risk and governance functions have been integrated in ERM, with relevant governance forums in place to ensure continued monitoring and mitigation of IT risk across the bank. IT and related frameworks are in place and continue to be reviewed to ensure alignment with changing business models and the technology landscape.

During the year under review the bank:

- refined processes and improved data quality and records management practices; and
- established information governance committees in all franchises and information governance now forms an integral part of the bank's overall risk management framework.

Looking ahead, the bank will continue to focus on improving its information management capabilities by embedding governance structures, improve the information control environment and roll out awareness programmes on records management, data quality and data privacy management.

## ORGANISATIONAL STRUCTURE AND GOVERNANCE

**FirstRand board**

**RCC COMMITTEE**

**OPERATIONAL RISK COMMITTEE (ORC)**

- monitors implementation of the operational risk management framework (ORMF); and
- oversight over the management of operational risk across the group.

The ORMF (subframework of BPRMF) prescribes the authorities, governance and monitoring structures, duties and responsibilities, processes, methodologies, policies and standards which have to be implemented and adhered to when managing operational risk.

**ERM CENTRAL OPERATIONAL RISK MANAGEMENT TEAM**

Embeds the operational risk governance structure across the group

**SPECIALISED TEAMS MANAGE KEY OPERATIONAL RISKS**

| Fraud and physical security | Business resilience | Legal | Information governance | Information technology |
|---|---|---|---|---|

*Provide oversight and are integrated in broader operational risk management and governance processes.*

## MEASUREMENT OF OPERATIONAL RISK

### Basel approaches

FirstRand applies the **AMA** for its domestic operations. Offshore subsidiaries and operations continue to use the **TSA** for operational risk and all previously unregulated entities that now form part of FRIHL use the **BIA**. FirstRand continuously assesses the feasibility of migrating TSA and BIA entities to AMA (subject to internal and regulatory constraints).

Under **AMA**, FirstRand uses a sophisticated statistical model for the calculation of capital requirements, which enables more accurate risk-based measures of capital for business units on AMA. Operational risk scenarios (covering key risks that, although low in probability, may result in severe losses) and internal loss data are direct inputs into this model.

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

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

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

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

**TSA** and **BIA** capital calculations are based on a multiplication factor applied to gross income, as specified by Basel and SARB regulations. No risk-based information is used in these capital calculations and allocations.

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

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

## ASSESSMENT AND MANAGEMENT

### Operational risk assessment and management tools

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

### OPERATIONAL RISK ASSESSMENT AND MANAGEMENT TOOLS

| Process-based risk and control identification and assessment | Key risk indicators |
|---|---|
| • the risk and control assessment per product/service based on key business processes;<br>• integrated in the day-to-day business and risk management processes; and<br>• used by business and risk managers to identify and monitor key risks and assess the effectiveness of existing controls. | • used across the bank in all businesses as an early warning risk measure;<br>• highlight changing trends in exposures to specific key operational risks; and<br>• inform operational risk profiles which are reported periodically to the appropriate management and risk committees and are monitored on a continuous basis. |
| **Internal/external loss data** | **Risk scenarios** |
| • the capturing of internal loss data is a well-entrenched discipline within the bank;<br>• internal loss data reporting and analyses occur at all levels with specific focus on root causes and process analysis and corrective action; and<br>• external loss databases are used to learn from the loss experience of other organisations and are also an input into the risk scenario process. | • risk scenarios are widely used to identify and quantify low-frequency, extreme loss events;<br>• senior management participates in the biannual reviews; and<br>• results are tabled at the appropriate risk committees and are used as input into the capital modelling process. |

The bank uses an integrated and reputable operational risk system where all the operational risk assessment and management tools have been automated to provide a holistic view of the business's operational risk profile.

### Operational risk events

As operational risk cannot be avoided or mitigated entirely, frequent events resulting in small losses are expected as part of business operations (e.g. external card fraud) and are budgeted for appropriately. Business units minimise these losses through continuously monitoring and improving relevant business and control practices and processes. Operational risk events resulting in substantial losses occur much less frequently and the bank strives to minimise these and contain the frequency and severity of these within its risk appetite levels through appropriate controls. For the year under review, operational losses were within the bank's operational risk appetite levels.

### Operational risk management programme

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 as described in the following diagram.

## OPERATIONAL RISK MANAGEMENT PROCESSES

### 1 Business resilience

**Management**

- Operations should be resilient to severe disruptions from internal failures or external events.
- Business continuity strategies include regular review of business continuity plans and testing.
- Disruptions or incidents are assessed and reported to the relevant risk stakeholders.

**Committees and frameworks**

- Business resilience steering committee (a subcommittee of the ORC).
- Practices are documented in the business resilience policy and standards.

### 2 Legal risk

**Management**

- Creation and ongoing management of contractual relationships.
- Management of disputes.
- Protection and enforcement of property rights (including intellectual property).
- Failure to account for the impact of change in legislation or decisions by the courts.
- Compliance with legislation managed by RRM.

**Committees and frameworks**

- Legal risk committee (subcommittee of ORC).
- Legal risk management framework.

### 3 IT risks

**Management**

- Protection of information systems against unauthorised access, destruction, modification and use.
- Ensure confidentiality, availability and integrity of systems that maintain, process and disseminate this information.

**Committees and frameworks**

- IT risk committee (subcommittee of ORC).
- IT risk management framework and information security policy.

### 4 Information governance

**Management**

- Information is a valuable asset.
- Focus on quality and protection of information against unauthorised access, destruction, modification, use and disclosure.
- Ensure confidentiality, availability, integrity, sensitivity and accountability of all information.

**Committees and frameworks**

- Information governance committee (a subcommittee of the ORC).
- Information governance framework and acceptable use of information resources policy.

### 5 Fraud and security risks

**Management**

- Covers internal (staff) and external fraud.
- Contain external fraud losses with enhanced controls and introduction of improved real time detection models.
- Address the growing cybercrime threat with measures to improve resilience against weaknesses.

**Committees and frameworks**

- Fraud risk management function reporting to FNB CRO with a group mandate.
- Fraud risk management framework.

### 6 Risk insurance

**Management**

- Structured insurance risk financing programme in place for material losses from first party risks.
- Annual review and renewal.
- Insurance refined through risk profile assessment, change in group strategy or markets.
- Cover for professional indemnity, directors' and officers' liability, crime, public and general liability, assets, etc.
- Insurance not a mitigant in calculation of capital for operational risk.

**Committees and frameworks**

- Cover through FirstRand Insurance Services Company (FRISCOL) (wholly-owned first-party insurance company).

# REGULATORY RISK

## INTRODUCTION AND OBJECTIVES

Regulatory risk is the risk of statutory or regulatory sanction or material financial loss or reputational damage as a result of failure to comply with any applicable laws, regulations or supervisory requirements.

The bank fosters an ethical culture in its operations 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. The compliance culture also embraces broader standards of integrity and ethical conduct which affects all employees.

### RRM OBJECTIVE AND APPROACH

| OBJECTIVE | APPROACH |
|---|---|
| Ensure business practices, policies, frameworks and approaches across the group are consistent with applicable laws and that regulatory risks are identified and proactively managed. | • Maintain an effective and efficient regulatory risk management framework with sufficient operational capacity to promote and oversee compliance with legislative and best practice requirements.<br>• Training of staff ensures a high level of understanding and awareness of applicable legal and regulatory frameworks pertaining to the group's business activities. |

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

- Banks Act, 1990 and related Regulations;
- Competition Act, 1998;
- Financial Intelligence Centre Act, 2001;
- Long-term Insurance Act, 1998;
- Financial Advisory and Intermediary Services Act, 2002;
- National Credit Act, 2005;
- Consumer Protection Act, 2008;
- JSE rules and directives;
- Foreign Account Tax Compliance Act; and
- Protection of Personal Information Act, 2013.

RRM assists senior management in effectively and expeditiously resolving all compliance issues identified in this context. This requires close cooperation with and interaction between RRM, other bank and franchise functions, and various regulatory authorities.

## The year under review

### Banking legislation

As a member of the BCBS, SARB is committed to ensuring that the South African regulatory and legislative framework relating to the regulation and supervision of banks remains fully compliant with international standards and market best practice. Accordingly, and in order to further strengthen and enhance South Africa's regulatory framework, a large volume of regulatory changes are being implemented and/or phased in, which usually results in amendments to the Regulations, such as the amendments which were published in the Government Gazettes of March and April 2015.

In addition to the above, various other documents, frameworks and requirements that impact materially on the regulation and supervision of banks, are being issued by the international standard-setting bodies on an ongoing basis, resulting in revised, additional and/or new regulatory requirements. These, together with the Basel III phase in arrangements, largely resulted in the recent large volume of prudential regulatory changes and new and/or amended requirements and standards in this regard.

### Twin peaks

Twin peaks refers to the government policy paper which was published in February 2011, entitled *A safer financial sector to serve South Africa better*. The paper, commonly referred to as the *Red Book*, sets out initial proposals to reform South Africa's financial sector regulatory system and provides information on a wide-ranging set of reforms and proposals relating to, amongst others, the implementation of a twin peaks model of financial regulation in South Africa. National Treasury published a revised draft of the Financial Sector Regulation Bill and a discussion document *Treating Customers Fairly in the Financial Sector: A Market Conduct Policy Framework for South Africa*. The second draft of the Financial Sector Regulation Bill was published in March 2015.

The twin peaks approach will place equal focus on prudential and market conduct supervision with a separate focus on financial stability. In order to minimise the risks associated with the change, a phased-in approach will be followed in respect of the implementation of the twin peaks system of financial regulation in South Africa. The bank continues to work closely with regulators in this regard. The policy priorities identified in order to reform the financial sector, desired outcomes of the approach and phased-in implementation are shown in the following diagram.

TWIN PEAKS POLICY PRIORITIES AND IMPLEMENTATION

**Policy priorities**

- Financial stability
- Consumer protection and market conduct
- Expanding access of financial services through inclusion
- Combating financial crime

**Desired outcomes**

- Financial systemic stability
- Strengthened financial regulatory system and structures
- Sound market conduct, micro- and macro-prudential regulation
- Strengthened operational independence, governance and accountability of regulators

**Twin peaks implementation**

**Phase 1**

- enactment of the Financial Sector Regulation Bill; and
- establishment of the required regulatory architecture.

**Phase 2**

- establishment of a target framework, which will include the development of the required legal frameworks for prudential and market conduct regulation; and
- introduction of new legislation and licencing procedures, where required.

Other regulatory developments and focus areas during the year under review are described in the following diagram.

## REGULATORY DEVELOPMENTS AND RRM FOCUS AREAS

### Protection of Personal Information Act (PoPI)

- PoPI provides for privacy and protection of personal information held by the bank in respect of employees, customers and suppliers.
- Funding for the establishment of an information regulator was announced in May 2015 by the Department of Justice.
- The bank continues to devote attention and resources to security safeguards, processing and purpose specification of personal information, quality of personal information held, customer notification and consent, third party processors of personal information and complaints handling.

### Anti-money laundering and combating terrorist financing (AML/CFT) measures

- The bank's objective is to ensure compliance with the provisions of AML/CFT legislation and other requirements pertaining thereto.
- The Financial Intelligence Centre Act (FICA) will be amended to align more closely with revised Financial Action Task Force recommendations.
- The draft Financial Intelligence Centre Amendment Bill, 2015 was published in April 2015.

### National Environmental Management: Waste Act

- The group is participating in relevant industry forums focusing on problematic areas relating to certain provisions of Part 8 of the Waste Act.

### Group ethics office

- Responsible for the group's ethics framework.
- Maintained focus on the promotion of responsible business and market conduct.
- Provides training on whistle-blowing, conflict of interests avoidance, antibribery and corruption.
- Convey market conduct regulations and related industry best practice to business.

### The National Credit Amendment Act (the Amendment Act)

- The Amendment Act came into effect on 13 March 2015.
- Focus is on implementation of the governance arrangements aligned to the revised requirements.

## ORGANISATIONAL STRUCTURE AND GOVERNANCE

### REGULATORY RISK GOVERNANCE STRUCTURE

**FirstRand board**

**RCC COMMITTEE** | **AUDIT COMMITTEE** | **DIRECTORS' AFFAIRS COMMITTEE**

- receives regular reports on levels of compliance and instances of material non-compliance.

**SOCIAL AND ETHICS COMMITTEE**

- oversight of governance and functioning of the group-wide ethics programme; and
- the code of ethics is the cornerstone of the group's ethics management framework.

**RRM COMMITTEE**

- oversight of RRM function; and
- monitors implementation of the regulatory risk management framework.

**AML COMMITTEE**

- oversight of AML function.

**FRANCHISE COMPLIANCE OFFICERS**

- implement and monitor compliance policies and procedures related to the relevant franchise.

**RRM FUNCTION**

*RRM has an independent reporting line to the group CEO as well as to the board through its designated committees.*

- coordinates management of group regulatory risk;
- monitors, assesses and reports on the level of compliance to senior management and the board; and
- fulfils duties and responsibilities in line with requirements prescribed in regulation 49.

## 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 bank;
- 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, RRM works closely with the bank's business units, the public policy and regulatory affairs office, GIA, ERM, external audit, internal and external legal advisors, and the company secretary's office to ensure effective functioning of compliance processes.

### Public policy and regulatory affairs office

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

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

# REMUNERATION AND COMPENSATION

FirstRand's compensation policies and practices observe international best practice and comply with the requirements of the Banks Act, 1990 (Act No. 94 of 1990) and *FSB Principles for Sound Compensation Practices.* In accordance with the requirements of regulation 43 of the Regulations, full disclosure of the group's compensation policies, practices and performance are included in the remuneration committee report that forms part of the group's annual integrated report, which is published on FirstRand's website, www.firstrand.co.za.

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# ACCOUNTING POLICIES, ANNUAL FINANCIAL STATEMENTS AND NOTES

# ACCOUNTING POLICIES

## 1 INTRODUCTION

The bank adopts the following accounting policies in preparing its financial statements. These policies have been consistently applied to all years presented, unless otherwise stated.

## 2 BASIS OF PRESENTATION

The bank's financial statements have been prepared in accordance with IFRS.The principal accounting policies are consistent in all material aspects with those adopted in the previous year. The following new and revised IFRS which did not have an impact on the bank's accounting policies were adopted in the current year:

- The amendments to *IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in other Entities and IAS 27 Separate Financial Statements* provide an exemption to the consolidation requirement for entities that meet the definition of an investment entity in terms of IFRS 10. If the exemption is applied, the amendments allow investment entities to account for investments in subsidiaries at fair value through profit or loss. These amendments have no impact on the bank, as it does not prepare consolidated financial statement nor is it an investment entity.
- *IAS 19 Employee Benefits* was amended to clarify the requirements relating to how contributions from employees or third parties that are linked to service should be attributed to periods of service. The amendment permits contributions that are independent of the number of years of service to be recognised as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to periods of service. Other contributions by employees or third parties that are not linked to service should be attributed to periods of service using the plan's contribution formula or on a straight-line basis. The amendments did not have an impact on the bank.
- The amendments to *IAS 32 Financial Instruments: Presentation* clarify the existing requirements relating to the offsetting of financial assets and financial liabilities. It specifically clarifies that the right of set-off must not be contingent on a future event and must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The bank's interpretation of the offsetting requirements has always been in line with this, therefore the clarification and adoption of the amended standard did not have an impact on the bank's financial statements.
- Amendments to *IAS 36 Impairment of Assets* remove the unintended consequences of *IFRS 13 Fair Value Measurement* on the disclosures required under IAS 36. The amendments reduce the circumstances in which the recoverable amount of assets or cash-generating units (CGU) is required to be disclosed. The amendments clarify the disclosures required and introduce an explicit requirement to disclose the discount rate used in determining impairment or impairment reversals when the recoverable amount is determined using a present value technique. The amendments do not impact the amounts reported in the bank's financial statements, but additional disclosures will be provided when applicable in terms of the new disclosure requirements.
- *Under IAS 39 Financial instruments: Recognition and Measurement* the novation of derivatives to central counterparties would result in the discontinuance of hedge accounting. The amendments to this standard provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments have no impact on the bank as the bank has not novated any derivatives used as hedging instruments during the current or prior periods.
- *IFRIC 21 Levies* is a new interpretation that provides guidance on when to recognise a liability for a levy imposed by a government. The interpretation clarifies that an entity should recognise a liability for a levy when the activity that triggers the payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability is recognised until the specified minimum threshold is reached. This interpretation has no impact on the bank's financial statements as it has applied the requirements of *IAS 37 Provisions, Contingent Liabilities and Contingent Assets* in prior years which are consistent with the requirements of IFRIC 21.
- As part of its *Annual Improvements Project,* the IASB made amendments to a number of accounting standards. The annual improvements for the 2010 – 2012 and 2011 – 2013 cycles issued in December 2013 were adopted in the current financial year. These amendments did not have a significant impact on the bank's results nor have they resulted in the restatement of prior year numbers.

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

- financial assets and financial liabilities held for trading;
- financial assets classified as available-for-sale;
- derivative financial instruments;
- financial instruments designated as at fair value through profit or loss;
- cash-settled share-based payment liabilities; and
- employee benefit liabilities, valued using the projected unit credit method.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its 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 financial statements are outlined in note 39.

The bank does not prepare consolidated financial statements as there are no material differences between the amounts reported in the separate and consolidated financial statements. This has been agreed by the various stakeholders. The bank is a wholly owned subsidiary of FirstRand Limited, who prepares consolidated financial statements.

All monetary information and figures presented in these financial statements are stated in millions of South African rand (R million), unless otherwise indicated.

## 3 SUBSIDIARY COMPANIES

Subsidiaries are all companies and structured entities in which the bank is exposed, or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. When assessing whether control exists the bank considers all existing substantive rights that result in the current ability to direct relevant activities. Investments in subsidiary companies are recognised at cost less impairment losses.

## 4 ASSOCIATES

Associates are entities over which the bank has significant influence but does not control or jointly control. The bank is presumed to have significant influence where it has power over between 20% and 50% of the voting rights.

Investments in associates acquired and held exclusively with the view to dispose of in the near future (within 12 months) are measured at fair value less costs to sell in terms of *IFRS 5 Non-current Assets held for Sale and Discontinued Operations*.

The bank recognises its interest in associates at cost less impairment losses.

## 5 JOINT ARRANGEMENTS

Joint arrangements are arrangements over which the bank has joint control in terms of a contractual agreement with the other parties to the arrangement. Joint control exists only when decisions about the relevant activities of the arrangement require the unanimous consent of the parties sharing control.

A joint arrangement may either be a joint operation or a joint venture depending on the rights and obligations of the parties to that arrangement and the classification is based on the substance of the arrangement at inception. A joint operation exists when the bank and the other contracting parties have rights to the assets and assume responsibility for the liabilities of that arrangement. A joint venture is when the bank and other contracting parties have rights to the net assets of the arrangement.

Investments in joint ventures acquired and held exclusively with the view to dispose of in the near future (within 12 months) are measured at fair value less costs to sell in terms of IFRS 5.

The bank recognises its interest in joint ventures at cost less impairment losses.

## 6 INTEREST INCOME AND EXPENSE

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

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

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

- the bank's funding operations;
- items to which hedge accounting is applied; and
- interest on intercompany balances.

Instruments with characteristics of debt, such as redeemable preference shares, are included in loans and advances or long-term liabilities, as appropriate. Where these instruments 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.

## 7 FAIR VALUE GAINS AND LOSSES

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

## 8 NET FEE AND COMMISSION INCOME

### 8.1 Fee and commission income

The bank generally recognises fee and commission income within non-interest revenue on an accrual basis when the service is rendered.

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

Fees and transaction costs that do not form an integral part of the effective interest rate are recognised as income when the outcome of the transaction involving the rendering of services can be reliably estimated as follows:

- fees for services rendered are recognised as fee and commission income 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 lives of the relevant instruments on a time apportionment basis.

### 8.2 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 in non-interest revenue.

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

## 9 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.

## 10 FOREIGN CURRENCY TRANSLATION

### 10.1 Functional and presentation currency

These financial statements are presented in South African rand (R), which is the functional and presentation currency of the bank.

### 10.2 Transactions and balances

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

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

Translation differences on both monetary and non-monetary items that are recognised at fair value through profit or loss are reported as part of fair value gains or losses in non-interest revenue.

Translation differences on non-monetary items, such as equities classified as available-for-sale, are reported as part of the fair value adjustment and are included in other comprehensive income. Changes in the fair value of monetary debt securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost and other changes in the fair value of the security. Translation differences relating to changes in the amortised cost are recognised in profit or loss and other changes in fair value are recognised in other comprehensive income.

Foreign exchange gains or losses on monetary items measured at amortised cost are recognised in profit or loss as part of foreign exchange differences within fair value income in non-interest revenue.

### 10.3 Foreign operations

The results and financial position of all the bank's foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency of the bank are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of the statement of financial position;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the actual rates at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of other comprehensive income.

Exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are recognised in other comprehensive income.

When a foreign operation is sold or partially disposed of and control is lost, including partial disposals where the entity retains an interest in the operation, the bank's portion of the cumulative amount of the exchange differences relating to the foreign operation which were recognised in other comprehensive income, are reclassified from other comprehensive income to profit or loss when the gain or loss on disposal is recognised.

For partial disposals where control is retained, the bank reattributes the proportionate share of the cumulative exchange differences in other comprehensive income to the non-controlling interests of the foreign operation.

Fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

## 11 BORROWING COSTS

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

## 12 TAXATION

### 12.1 Indirect tax

Indirect tax is disclosed separately from income tax in the income statement. Indirect tax includes other taxes paid to central and local governments including value added and securities transfer tax.

### 12.2 Income tax

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

## 13 RECOGNITION OF ASSETS

### 13.1 Assets

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

### 13.2 Contingent assets

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

### 13.3 Managed funds and trust activities

Certain divisions within the bank engage in trust or other fiduciary activities that result in the managing of assets on behalf of clients. The bank excludes these assets and liabilities from the statement of financial position as these are not assets and liabilities of the bank but of the client.

The fee income earned and fee expenses incurred by the bank relating to these activities are recognised in fee and commission income and fee and commission expenses within non-interest revenue in the period to which the service relates.

## 14 LIABILITIES, PROVISIONS AND CONTINGENT LIABILITIES

### 14.1 Liabilities and provisions

The bank recognises liabilities, including provisions, when:

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

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

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

An onerous contract is considered to exist where the bank has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract. Present obligations arising under onerous contracts are recognised and measured as provisions.

### 14.2 Contingent liabilities

The bank discloses a contingent liability when:

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

## 15 CASH AND CASH EQUIVALENTS

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

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

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

## 16 FINANCIAL INSTRUMENTS

### 16.1 General

Financial instruments carried on the statement of financial position include all assets and liabilities, including derivative but exclude investments in associates and joint ventures, commodities, property and equipment, assets and liabilities of insurance operations, deferred income tax, tax payable, intangible assets, post-employment liabilities and certain non-current assets. The bank recognises a financial asset or a financial liability on its statement of financial position when it becomes a party to the contractual provisions of the instrument.

The bank classifies its financial assets in the following categories:

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

Financial liabilities are classified in the following categories:

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

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

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

Available-for-sale financial assets and financial instruments at fair value through profit or loss are subsequently measured at fair value. Loans and receivables and held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

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.

### 16.1.1 Financial instruments at fair value through profit or loss

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

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

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

- results in the reduction of a measurement inconsistency (or accounting mismatch) that would arise as a result of measuring assets and liabilities and the associated gains and losses on a different basis;
- the group of financial assets and/or financial liabilities is managed and evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and this is the basis on which information about the assets and/or liabilities is provided internally to the entity's key management personnel; or
- is a financial asset or liability containing significant embedded derivatives that clearly require bifurcation.

The main financial assets and financial liabilities designated at fair value through profit or loss under the first criteria are various advances to customers, structured notes and other investments held by the investment banking division. These financial instruments have been designated at fair value through profit or loss to eliminate the accounting mismatch between these assets and the underlying derivatives used to manage the risk arising from these assets. If the assets were not designated at fair value through profit or loss, a mismatch would arise as a result of the assets being recognised at amortised cost and the related derivatives being recognised at fair value.

Financial instruments designated under the second criteria, include certain private equity and other investment securities.

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

### 16.1.2 Loans and receivables

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

- those that the bank intends to sell immediately or in the near term, which shall be classified as held for trading and those that the entity upon initial recognition designates as at fair value through profit or loss;
- those that the bank upon initial recognition designates as available-for-sale; or
- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which are classified as available-for-sale.

This category also includes purchased loans and receivables, where the bank has not designated such loans and receivables in any of the other financial asset categories.

### 16.1.3 Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the bank's management has the positive intention and ability to hold to maturity. If the bank sells more than an insignificant amount of held-to-maturity investments, the entire category is considered to be tainted and reclassified as available-for-sale.

The bank measures held-to-maturity investments at amortised cost using the effective interest method, less any impairment losses.

### 16.1.4 Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

The bank recognises gains and losses arising from changes in the fair value of available-for-sale financial assets in other comprehensive income. It recognises interest income on these assets as part of interest income, based on the instrument's original effective interest rate using the effective interest method. Dividends on available-for-sale equity instruments are recognised in profit or loss when the entity's right to receive payment is established and are included in gains less losses from investing activities within non-interest revenue.

When the available-for-sale assets are disposed of or impaired, the related accumulated fair value adjustments are reclassified from other comprehensive income and included in profit or loss as gains less losses from investing activities within non-interest revenue.

Treasury bills, debt securities and equity shares intended to be held on a continuing basis, other than those designated at fair value through profit or loss, are classified as available-for-sale.

#### 16.1.5 Classification of financial liabilities, equity instruments 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. If a financial instrument includes a contractual obligation to deliver cash or another financial asset or to exchange financial assets or financial liabilities on potentially unfavourable terms, such as redeemable preference shares, the financial instrument is classified as a financial liability. An instrument is classified as equity if it evidences a residual interest in the assets of the bank after the deduction of liabilities.

Compound instruments are those financial instruments that have components of both financial liabilities and equity. At initial recognition the compound financial instruments are split into their separate components and accounted for as financial liabilities or equity as appropriate. The bank separately measures and recognises the fair value of the debt component of an issued convertible bond as a financial liability, with the residual value allocated to equity.

The initial fair value of the debt component is recognised at the fair value of a similar non-convertible instrument. The equity component is recognised initially as the difference between the fair value of the compound instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their carrying values.

#### 16.1.6 Measurement of financial liabilities

Financial liabilities are measured at amortised cost, except for certain liabilities that are designated as at fair value through profit or loss or held for trading. Interest expense is recognised in profit or loss over the period of the borrowing using the effective interest method. Refer to accounting policies 6 and 7 for the accounting treatment applied to interest expense and fair value gains or losses respectively.

The bank calculates interest on the liability component of compound financial instruments based on the market rate for a similar non-convertible instrument at the inception thereof.

### 16.2 Offsetting of financial instruments

The bank offsets financial assets and financial liabilities and reports the net balance in the statement of financial position where:

- there is a currently enforceable legal right to set off; and
- there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

The right of set-off is considered to be currently enforceable if the following conditions are met:

- the right is not contingent on a future event; and
- it is legally enforceable in all of the following circumstances:
  - the normal course of business;
  - the event of default; and
  - in the event of insolvency or bankruptcy of the entity and all of the counterparties.

### 16.3 Embedded derivatives

The bank treats derivatives embedded in other financial or non-financial instruments, such as the conversion option in a convertible bond that is held by the bank, as separate derivatives when:

- risks and characteristics are not closely related to those of the host contract;
- the definition of a derivative is met; and
- the host contract is not carried at fair value through profit or loss.

Where embedded derivatives meet the criteria for hedge accounting, these are accounted for in terms of the applicable hedge accounting rules.

### 16.4 Derecognition

The bank derecognises a financial asset when:

- the contractual rights to the asset expires; or
- there is a transfer of the contractual rights to receive the cash flows of the financial asset and substantially all of the risks and rewards related to the ownership of the financial asset are transferred; or
- the bank retains the contractual rights of the assets but assumes a corresponding liability to transfer these contractual rights to another party and consequently transfers substantially all the risks and rewards associated with the asset.

Where the bank retains substantially all the risks and rewards of ownership of the financial asset, the bank continues to recognise the financial asset in its entirety and recognises a financial liability for the consideration received. These financial assets and the related financial liabilities may not be offset.

Where the bank neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the bank determines whether it has retained control of the financial asset. In this case:

- if the bank has not retained control, it derecognises the financial asset and recognises separately as assets or liabilities any rights and obligations created or retained in the transfer; or
- if the bank has retained control, it continues to recognise the financial asset to the extent of its continuing involvement in the financial asset.

The bank derecognises a financial liability, or part of a financial liability, when it is extinguished, i.e. when the obligation is discharged or cancelled or expired. A substantial modification to the terms and conditions of an existing financial liability or part of an existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new one. 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.

Where the bank purchases its own debt, the debt is derecognised from the statement of financial position and any difference between the carrying amount of the liability and the consideration paid is included in fair value income within non-interest revenue.

## 16.5 Sale and repurchase agreements and securities lending

The financial statements reflect securities sold subject to a linked repurchase agreement (repos) as investment securities. The associated liability to the counterparty is included in deposits held under repurchase agreements. These financial liabilities are either measured at fair value or amortised cost in line with IAS 39.

The underlying securities purchased under agreements to resell (reverse repos) are not recorded. The related advances relating to the repurchase transactions are recognised as advances under agreements to resell. These financial assets are either measured at fair value or amortised cost in line with IAS 39. The difference between the purchase and resale price is in substance interest and is recognised in accordance with the bank's policy for net interest income.

Securities lent to counterparties under securities lending arrangements are retained as trading and investment securities. Any deposits arising from cash collateral provided by the counterparties are recognised as deposits under securities lending arrangements and are measured at either fair value or amortised cost in accordance with IAS 39.

The bank does not recognise securities borrowed in the financial statements, unless these have been onsold to third parties, in which case the obligation to return these securities is recognised as a financial liability at fair value with any gains or losses included in fair value income within non-interest revenue.

## 16.6 Impairments of financial assets

### 16.6.1 General

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount.

### 16.6.2 Assets carried at amortised cost

The bank assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event(s) has an adverse impact on the estimated future cash flows of the financial asset or group of financial assets and the impact can be reliably estimated.

Objective evidence that a financial asset or group of financial assets is impaired includes observable data that comes to the attention of the bank about the following events:

- significant financial difficulty of the issuer or debtor;
- a breach of contract, such as a default or delinquency in payments of principal or interest;
- it becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be allocated to the individual financial assets in the group, including:
  - adverse changes in the payment status of issuers or debtors in the group; or
  - national or local economic conditions that correlate with defaults on the assets in the group.

The bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and performs a collective assessment for impairment. 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.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the financial asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether the bank elects to foreclose or not.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics, i.e. on the basis of the bank's grading process that considers asset type, industry, geographical location, collateral type, past due status and other relevant factors. Those characteristics are relevant to the estimation of future cash flows for groups of such financial assets by being indicative of the debtors' ability to pay all amounts due in accordance with the contractual terms of the financial assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with similar credit risk characteristics. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of financial assets reflect and are directionally consistent with changes in related observable data from period to period (e.g. changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are regularly reviewed by the bank to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowance account. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in profit or loss.

#### *16.6.2.1 Past due advances*

Advances are considered past due in the following circumstances:

- loans with a specific expiry date (e.g. term loans etc.) and consumer loans repayable by regular instalments (e.g. mortgage loans and personal loans) are treated as overdue where one full instalment is in arrears for one day or more and remains unpaid at the reporting date; or
- loans payable on demand (e.g. overdrafts) are treated as overdue where a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instruction. In these instances, the full outstanding amount is considered overdue even if part of it is not yet due.

The past due analysis is only performed for advances with specific expiry or instalment repayment dates or demand loans that have been demanded. The analysis is not applicable to overdraft products or products where no specific due date is determined. The level of risk on these types of products is assessed with reference to the counterparty ratings of the exposures and reported as such.

#### *16.6.2.2 Renegotiated but current advances*

Renegotiated but current financial assets that would otherwise be past due or impaired that have been renegotiated are separately classified as neither past due nor impaired assets. Renegotiated advances include advances where, due to a deterioration in the counterparty's financial condition, the bank granted a concession where the original terms and conditions of the facility were amended and the counterparty is within the new terms of the advance. Advances are only classified as renegotiated but current if the terms of the renegotiated contract have not yet expired and remain classified as such until the terms of the renegotiated contract expire. Where the advances are reclassified as neither past due nor impaired, the adherence to the new terms and conditions is closely monitored.

Renegotiated advances exclude advances extended or renewed as part of the ordinary course of business for similar terms and conditions as the original. Non-performing advances cannot be reclassified as renegotiated but current and therefore performing unless the arrears balance has been repaid. Renegotiated but current financial assets are considered as part of the collective evaluation of impairment where financial assets are grouped on the basis of similar credit risk characteristics.

#### *16.6.2.3 Repossessed assets*

In certain circumstances, assets are repossessed following the foreclosure on loans that are in default. Repossessed assets are measured at the lower of cost or net realisable value. The bank recognises repossessed assets as part of accounts receivable in the statement of financial position.

### 16.6.3 Available-for-sale financial assets

The bank assesses at each reporting date whether there is objective evidence that an available-for-sale financial asset or a group of available-for-sale financial assets is impaired.

In the case of equity investments classified as available-for-sale, objective evidence of impairment includes information about significant changes with an adverse effect on the environment in which the issuer operates and indicates that the cost of the investment in the equity instrument may not be recovered and a significant or prolonged decline in the fair value of the security below its cost. If any such objective evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value less any previously recognised impairment loss on that financial asset is reclassified from other comprehensive income and recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments are not subsequently reversed.

In the case of a debt instrument classified as available-for-sale the same objective evidence of impairment as for financial assets measured at amortised cost is considered in determining if an impairment exists. The difference between the acquisition cost and the current fair value less any previous impairment losses recognised in profit or loss is removed from other comprehensive income and recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

## 16.7 Derivative financial instruments and hedging

The bank initially recognises derivative financial instruments, including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options (both written and purchased) and other derivative financial instruments, in the statement of financial position at fair value. Derivatives are subsequently measured at fair value with all movements in fair value recognised in profit or loss, unless it is a designated and effective hedging instrument.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The bank designates certain derivatives as either:

- hedge of the fair value of recognised assets, liabilities or firm commitments (fair value hedge); or
- hedge of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge).

The hedge of a foreign currency firm commitment can either be accounted for as a fair value or a cash flow hedge.

Hedge accounting is used for derivatives designated in this way, provided certain criteria are met.

The bank documents 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.

### 16.7.1 Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as hedging instruments in fair value hedges are recorded in profit or loss, together with any changes in the fair value of the hedged item that are attributable to the hedged risk. The interest accrued or paid relating to interest rate swaps and the hedged items are reflected in interest income or interest expense. Effective changes in fair value of currency futures are reflected in non-interest revenue. Other gains or losses, including the ineffective portion of all fair value hedges, are recorded as fair value gains or losses in non-interest revenue.

If the hedge of an instrument carried at amortised cost no longer meets the criteria for hedge accounting, the cumulative adjustment to the carrying amount of the hedged item is amortised to profit or loss based on a recalculated effective interest rate over the residual period to maturity, unless the hedge item has been derecognised, in which case it is released to profit or loss immediately. However, if the hedge of an equity instrument carried at fair value no longer meets the criteria for hedge accounting, the cumulative adjustment of the carrying amount of a hedged equity instrument remains in retained earnings until disposal.

### 16.7.2 Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated as hedging instruments in effective cash flow hedges is recognised in the cash flow hedge reserve in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately as part of fair value gains or losses in non-interest revenue in profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss recognised in the cash flow hedge reserve at that time remains in other comprehensive income and is recognised when the forecast transaction is recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately reclassified to profit or loss.

Amounts accumulated in other comprehensive income are reclassified to profit or loss in the periods in which the hedged item affects profit or loss. Where the forecast transaction or a foreign currency firm commitment results in the recognition of a non-financial asset or liability, the gains and losses previously deferred in other comprehensive income are reclassified from other comprehensive income and included in the initial measurement of the cost of the non-financial asset or liability.

For financial assets and financial liabilities, if the risk being hedged is interest rate risk, the amounts are included in interest income or interest expense when reclassified to profit or loss. The amount recognised in profit or loss for other risks relating to financial assets and financial liabilities is recognised in non-interest revenue as fair value gains or losses.

## 17 COMMODITIES

When the bank acquires commodities and has a short-term trading purpose, the commodities are measured at fair value less costs to sell in accordance with the broker trader exemption in *IAS 2 Inventories*. Changes in fair value are recognised in non-interest revenue as fair value gains or losses.

Where the bank has a longer term investment intention, commodities are measured at the lower of cost or net realisable value. Cost is determined using the weighted average method and excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. The cost of commodities includes the amount of gains or losses on qualifying cash flow hedges previously recognised in other comprehensive income.

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 measured at fair value through profit or loss.

## 18 PROPERTY AND EQUIPMENT

The bank carries property and equipment at historical cost less accumulated depreciation and impairment losses, except for land which is carried at cost less impairment losses. Historical cost includes expenses that are directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the bank and the cost of the item can be reliably measured. The carrying amount of any replacement part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which incurred.

Leasehold improvements are all improvements made to property which the bank leases under an operating lease in order to prepare the property for its intended use and from which the bank is expected to benefit for more than one year. Leasehold improvements are capitalised as property and equipment.

Property and equipment is depreciated on a straight line basis at rates calculated to reduce the book value of these assets to estimated residual values over their expected useful lives.

Freehold properties and properties held under finance leases are broken down into significant components and depreciation calculated based on the expected useful lives of these components.

The assets' residual values and expected useful lives are reviewed, and adjusted if appropriate, at each reporting date. Assets subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset is immediately written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains or losses on disposals are determined by reference to the carrying amount of the asset and the net proceeds received, and are recorded in profit or loss on disposal.

## 19 LEASES

### 19.1 The bank is the lessee

#### 19.1.1 Finance leases

The bank classifies leases as finance leases where it assumes substantially all the risks and rewards of ownership. Finance leases are capitalised as assets at the fair value of the leased asset at the inception of the lease, or, if lower, at the estimated present value of the underlying lease payments. The bank allocates each lease payment between the liability and finance charges to achieve a constant rate of interest on the balance outstanding. The interest component of the finance charge is recognised in profit or loss over the lease period in interest expense. The property and equipment acquired are depreciated over the useful life of the assets, unless it is not probable that the bank will take ownership of the assets, in which case the assets are depreciated over the shorter of the useful life of the asset or the lease period, on a basis consistent with similar owned property and equipment.

#### 19.1.2 Operating 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 recognises operating lease payments as an operating expense in profit or loss on a straight line basis over the period of the lease. Contingent rentals are expensed in the period incurred. Minimum rentals due after year end are disclosed as commitments.

The bank recognises as an expense any penalty payment to the lessor for early termination of an operating lease in the period in which termination takes place.

### 19.2 The bank is the lessor

#### 19.2.1 Finance leases

The bank recognises assets sold under a finance lease as advances at the present value of the lease payments receivable. The difference between the gross receivable and the present value of the receivable represents unearned finance income. Unearned finance income is recognised as interest income over the term of the lease using the effective interest rate method, which reflects a constant periodic rate of return.

#### 19.2.2 Operating leases

The bank includes assets held under operating lease as a separate category of property and equipment. The bank depreciates these assets over their expected useful lives on a basis consistent with similar owned property and equipment. Rental income is recognised as other non-interest revenue on a straight line basis over the lease term.

### 19.3 Instalment credit agreements

The bank regards instalment credit agreements as financing transactions and includes the total rentals and instalments receivable, less unearned finance charges, in advances.

The bank calculates finance charges using the effective interest rates as detailed in the contracts and credits finance charges to interest income in proportion to capital balances outstanding.

## 20 INTANGIBLE ASSETS

### 20.1 Goodwill

Goodwill that arises in a business combination transaction is included as part of the bank's intangible assets. IFRS 3 defines a business as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants. The bank measures goodwill that arises on the acquisition of a business as the excess of any consideration transferred over the bank's share of the fair value of the net assets of the acquired business. The bank carries goodwill at cost less accumulated impairment losses.

### 20.2 Computer software development costs

The bank expenses computer software development costs in the financial period incurred. However, where computer software development costs can be clearly associated with a strategic and unique system which will result in a benefit for the bank exceeding the costs incurred for more than one financial period, the bank capitalises such costs and recognises an intangible asset.

The bank carries capitalised software assets at cost less accumulated amortisation and any impairment losses. It amortises these assets on a straight line basis at a rate applicable to the expected useful life of the asset, but not exceeding three years.

Internally generated software and development costs are only capitalised and recognised as intangible asset if the requirements in *IAS 38 Intangible Assets* relating to the recognition of internally generated assets have been met.

### 20.3 Other intangible assets

The bank expenses the costs incurred on internally generated intangible assets, such as trademarks, patents and similar rights and assets, to profit or loss in the period in which the costs are incurred. The costs incurred on the development of separately identifiable internally generated intangible assets, are capitalised by the bank if:

- the bank is able to demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- it is the bank's intention to complete the intangible asset and use or sell it;
- the bank will be able to use or sell the intangible asset;
- it is probable that the intangible asset will generate future economic benefits;
- adequate technical, financial and other resources are available to complete the development and to use or sell the intangible asset; and
- the expenditure attributable to the intangible asset can be reliably measured.

The bank capitalises material acquired trademarks, patents and similar rights where it will receive a benefit from these intangible assets for more than one financial period.

The bank carries capitalised trademarks, patents and similar assets at cost less accumulated amortisation and any impairment losses. It amortises these assets on a straight line basis at a rate applicable to the expected useful life of the asset.

### 20.4 Impairment of intangible assets

Management reviews the carrying value of intangible assets whenever objective evidence of impairment exists. An impairment loss is immediately recognised in profit or loss as part of operating expenses when the carrying value is greater than the recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use.

### 20.5 Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

## 21 DEFERRED INCOME TAX

Deferred income tax is provided in full, using the liability method on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is not provided on temporary differences that arise on the initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting profit or loss nor taxable income. Deferred income tax is determined using 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. The bank recognises deferred income tax assets if it is probable that future taxable income will be available against which the unused tax losses can be utilised.

Temporary differences arise primarily from depreciation of property and equipment, revaluation of certain financial assets and liabilities including derivative contracts, provisions, impairment losses and tax losses carried forward. 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.

Deferred income tax is provided on temporary differences arising from investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference is controlled by the bank and it is probable that the difference will not reverse in the foreseeable future.

Deferred income tax related to fair value remeasurement of available-for-sale financial assets and derivatives designated as hedging instruments in effective cash flow hedges, which are recognised directly in other comprehensive income, is also recognised directly in other comprehensive income. Deferred income tax recognised directly in other comprehensive income is subsequently reclassified to profit or loss at the same time as the related gain or loss.

Current and deferred income tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and these relate to income tax levied by the same tax authority on the same taxable entity. If the balances relate to the same tax authority but different tax entities, the bank will offset only if it has a legally enforceable right and the entities intend to settle on a net basis or the tax assets and liabilities will be realised simultaneously.

## 22 EMPLOYEE BENEFITS

### 22.1 Post-employment 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.

A defined contribution plan is one under which the bank pays a fixed contribution and has no legal or constructive obligation to pay further contributions. All post-employment plans that do not meet the definition of a defined contribution plan are defined benefit plans.

For defined contribution plans the bank recognises the contributions 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 reduction in the future payments is available.

The defined benefit plans are funded by contributions from employees and the bank, taking into account the recommendations of independent qualified actuaries.

The amount recognised in the statement of financial position in respect of defined benefit plans is 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.

The present value of the defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future payments required to settle the obligation resulting from employee service in current and prior periods. 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 that have terms to maturity approximating the terms of the related pension liability. In the absence of a deep and liquid bond market the rates on government bonds are used.

The fair value of the plan assets is calculated using the bank's accounting policies and estimates and assumptions for similar assets. 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.

The following items are included in profit or loss as part of staff costs:

- current service costs calculated on the projected unit credit method;
- past service costs relating to plan amendments made in the current period;
- gains or losses on curtailments that took place in the current period; and
- net interest income calculated by applying the discount rate at the beginning of the period to the net asset or liability.

All other remeasurements in respect of the obligation and the plan assets, including actuarial gains or losses are recognised in other comprehensive income. The remeasurements recognised in other comprehensive income will not be reclassified to profit or loss.

### 22.2 Termination benefits

The bank recognises termination benefits as a liability in the statement of financial position and as an expense 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 and when the bank recognises any related restructuring costs.

### 22.3 Leave pay provision

The bank recognises a liability for the employees' rights to annual leave in respect of past service.

### 22.4 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.

## 23 SHARE CAPITAL

### 23.1 Share issue costs

Instruments issued by the bank are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly related to the issue of new shares or options are shown as a deduction from equity, net of any related tax benefit.

### 23.2 Dividends paid

Dividends on ordinary shares and non-cumulative non-redeemable (NCNR) preference shares are recognised against equity and a corresponding liability is recognised when the dividends have been appropriately approved by the company's shareholders and are no longer at the discretion of the entity. Dividends declared after the reporting date are not recognised but disclosed as a post-reporting date event.

### 23.3 Distributions of non-cash assets to owners

The bank measures the liability to distribute non-cash assets as a dividend to owners at the fair value of the asset to be distributed. The carrying amount of the dividend payable is remeasured at the end of each reporting period and on settlement date, with changes recognised in equity as an adjustment to the distribution. The difference between the carrying amount of the assets distributed and the fair value of the assets on the date of settlement is recognised in profit or loss for the period.

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

### 23.4 Treasury shares

Where the bank purchases its own equity share capital, the consideration paid, including any directly attributable incremental costs, is deducted from total shareholders' equity as treasury shares until they are reissued or sold. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental costs, is included in shareholders' equity.

## 24 SEGMENT REPORTING

An operating segment is a component of the bank that engages in business activities from which the bank may earn revenue and incur expenses. An operating segment is also a component of the bank whose operating results are regularly reviewed by the chief operating decision maker in allocating resources, assessing its performance and for which discrete financial information is available. The CEO of the bank has been identified as the bank's chief operating decision maker. The bank's identification and measurement of operating segments is consistent with the internal reporting provided to the CEO. The operating segments have been identified and classified in a manner that reflects the risks and rewards related to the segments' specific products and services offered in their specific markets.

Operating segments whose total revenue, absolute profit or loss for the period or total assets are 10% or more of all the segments' revenue, profit or loss or total assets, are reported separately.

Assets, liabilities, revenue or expenses that are not directly attributable to a particular segment are allocated between segments where there is a reasonable basis for doing so. The bank accounts for the intersegment revenues and transfers as if the transactions were with third parties at current market prices.

Funding is provided to business units and segments based on internally derived transfer pricing rates taking into account the funding structures of the bank.

## 25 SHARE-BASED PAYMENT TRANSACTIONS

The bank operates equity settled and cash settled share-based compensation plans for employees and historically disadvantaged individuals and organisations.

For share-based payment transactions that are settled in the equity of the parent or another group company or settled in cash where the amount is based on the equity of the parent or another group company, the bank measures the goods or services received as either an equity settled or cash settled share-based payment transaction by assessing the nature of the awards and its own rights and obligations.

The bank measures the goods or services received as an equity settled share-based payment transaction when:

- the awards granted are its own equity instruments; or
- the entity has no obligation to settle the share-based payment transaction.

In all other circumstances, the bank measures the goods or services received as a cash settled share-based payment transaction.

Where group transactions involve repayment arrangements that require the bank to pay another group entity for the provision of a share-based payment, the intragroup repayment arrangements do not affect the classification of the share-based payment transaction as cash or equity settled.

### 25.1 Equity settled share-based compensation plans

The bank expenses the fair value of the employee services received in exchange for the grant of options over the vesting period of the options as employee costs, with a corresponding credit to a share-based payment reserve in the statement of changes in equity. The total value of services received is calculated with reference to the fair value of the options on grant date.

The fair value of the options is determined excluding non-market vesting conditions. These vesting conditions are included in the assumptions of the number of options expected to vest. At each reporting date, the bank revises its estimate of the number of options expected to vest. The bank recognises the impact of the revision of original estimates, if any, in profit or loss, with a corresponding adjustment to the share-based payment reserve.

If the options granted do not vest because of failure to satisfy a vesting condition, amounts recognised for services rendered are reversed through profit or loss. If options are forfeited after the vesting date, an amount equal to the value of the options forfeited is debited against the share-based payment reserve and credited against retained earnings in the statement of changes in equity.

The proceeds received net of any attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised. The share-based payment reserve is reclassified to retained earnings upon vesting.

### 25.2 Cash settled share-based payment compensation plans

The bank measures the services received and liability incurred in respect of cash settled share-based payment plans at the current fair value of the liability. The bank remeasures the fair value of the liability at each reporting date until settlement. The liability is recognised over the vesting period and any changes in the liability are recognised in profit or loss.

## 26 NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than continuing use. This classification is only used if the sale is highly probable and the non-current assets or disposal groups are available for immediate sale.

Immediately before classification as held for sale, the carrying amount of the non-current assets and liabilities included in the disposal group are measured in accordance with the appropriate IFRS. On initial recognition as held for sale, the non-current assets and liabilities that are in the measurement scope of IFRS 5 are recognised at the lower of carrying amount and fair value less costs to sell.

The following assets are excluded from the measurement scope of IFRS 5:

- deferred income tax assets;
- assets arising from employee benefits;
- financial assets;
- investment properties measured at fair value; and
- contractual rights under insurance contracts.

When these assets are classified as non-current assets held for sale or form part of a disposal group held for sale they continue to be measured in accordance with the appropriate IFRS. The IFRS 5 presentation and disclosure requirements are applied to these assets.

Any impairment losses on initial classification as held for sale are recognised in profit or loss. 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.

After initial recognition as held for sale, the non-current assets are measured at fair value less costs to sell. Where the fair value less costs to sell is less than the carrying value, any additional impairment losses are recognised in profit or loss. Any increases in fair value less costs to sell are only recognised when realised.

The non-current assets and disposal groups held for sale will be reclassified immediately when there is a change in intention to sell. Subsequent measurement of the asset or disposal group at that date will be the lower of:

- its carrying amount before the asset or disposal group was classified as held for sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset or disposal group not been classified as held for sale; and
- its recoverable amount at the date of the subsequent decision not to sell.

## 27 DISCONTINUED OPERATIONS

The bank classifies a component of the business as a discontinued operation when that component has been disposed of, or is classified as held for sale, and:

- it represents a separate major line of business or geographical area of operations;
- is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

A component of the bank comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes from the rest of the bank.

## 28 CUSTOMER LOYALTY PROGRAMMES

The bank operates a customer loyalty programme in terms of which it undertakes to provide goods and services to certain customers. The reward credits are accounted for as a separately identifiable component of the fee and commission income transactions. The consideration allocated to the reward credits is measured at the fair value of the reward credit and recognised over the period in which the customer utilises the reward credits.

Expenses relating to the provision of the reward credits are recognised as fee and commission expenses as incurred.

## 29 SERVICE CONCESSION ARRANGEMENTS

Service concession arrangements are recognised if the bank acts as an operator in the provision of public services. Where the bank has a contractual right to recover the amount receivable in respect of the arrangements from the government organisation, the amount receivable is classified as a financial asset and is accounted for in terms of the bank's accounting policy for financial assets. Alternatively, where the bank is entitled to collect monies for usage from the public, the bank recognises an intangible asset. The intangible asset is measured in accordance with the bank's accounting policy for intangible assets and amortised over its useful life. Fee income earned from public usage is included in fee and commission income within non-interest revenue as it is receivable.

# INCOME STATEMENT
*for the year ended 30 June*

| R million | Notes | 2015 | 2014 |
|---|---|---|---|
| Interest and similar income | 1.1 | **51 882** | 44 757 |
| Interest expense and similar charges | 1.2 | **(21 653)** | (19 558) |
| **Net interest income before impairment of advances** | | **30 229** | 25 199 |
| Impairment of advances | 11 | **(4 356)** | (4 827) |
| **Net interest income after impairment of advances** | | **25 873** | 20 372 |
| Non-interest revenue | 2 | **29 216** | 28 622 |
| **Income from operations** | | **55 089** | 48 994 |
| Operating expenses | 3 | **(33 498)** | (31 076) |
| **Income before tax** | | **21 591** | 17 918 |
| Indirect tax | 4.1 | **(751)** | (796) |
| **Profit before tax** | | **20 840** | 17 122 |
| Income tax expense | 4.2 | **(5 239)** | (4 375) |
| **Profit for the year** | | **15 601** | 12 747 |
| **Attributable to** | | | |
| Ordinary equityholders | | **15 394** | 12 555 |
| NCNR preference shareholders | | **207** | 192 |
| **Profit for the year** | | **15 601** | 12 747 |

# STATEMENT OF COMPREHENSIVE INCOME

*for the year ended 30 June*

| R million | 2015 | 2014 |
|---|---|---|
| **Profit for the year** | **15 601** | 12 747 |
| **Items that may subsequently be reclassified to profit or loss** | | |
| **Cash flow hedges** | **(271)** | 361 |
| Losses arising during the year | **(569)** | (111) |
| Reclassification adjustments for amounts included in profit or loss | **193** | 613 |
| Deferred income tax | **105** | (141) |
| **Available-for-sale financial assets** | **(35)** | (149) |
| Losses arising during the year | **(40)** | (149) |
| Reclassification adjustments for amounts included in profit or loss | **(20)** | (67) |
| Deferred income tax | **25** | 67 |
| **Exchange differences on translating foreign operations** | **290** | 193 |
| Gains arising during the year | **290** | 193 |
| **Items that may not subsequently be reclassified to profit or loss** | | |
| **Remeasurements on defined benefit post-employment plans** | **1** | (207) |
| Gains/(losses) arising during the year | **2** | (287) |
| Deferred income tax | **(1)** | 80 |
| **Other comprehensive (loss)/income for the year** | **(15)** | 198 |
| **Total comprehensive income for the year** | **15 586** | 12 945 |
| **Attributable to** | | |
| Ordinary equityholders | **15 379** | 12 753 |
| NCNR preference shareholders | **207** | 192 |
| **Total comprehensive income for the year** | **15 586** | 12 945 |

# STATEMENT OF FINANCIAL POSITION
*as at 30 June*

| R million | Notes | 2015 | 2014 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | 6 | **53 725** | 51 788 |
| Derivative financial instruments | 7 | **34 112** | 38 633 |
| Commodities | 8 | **7 354** | 7 904 |
| Accounts receivable | 9 | **4 301** | 4 131 |
| Advances | 10 | **675 387** | 622 112 |
| Amounts due by holding company and fellow subsidiary companies | 12 | **27 318** | 26 005 |
| Investment securities and other investments | 14 | **133 543** | 88 783 |
| Investments in subsidiary companies | 15 | ***** | * |
| Investments in associates | 16 | ***** | * |
| Property and equipment | 17 | **12 821** | 11 369 |
| Intangible assets | 18 | **71** | 84 |
| Deferred income tax asset | 13 | **1 202** | 400 |
| Non-current assets and disposal groups held for sale | 20 | **125** | – |
| **Total assets** | | **949 959** | 851 209 |
| **EQUITY AND LIABILITIES** | | | |
| **Liabilities** | | | |
| Short trading positions | 21 | **5 270** | 5 398 |
| Derivative financial instruments | 7 | **40 811** | 41 628 |
| Creditors and accruals | 22 | **12 166** | 10 380 |
| Current tax liability | | **69** | 53 |
| Deposits | 23 | **779 703** | 693 176 |
| Provisions | 24 | **299** | 386 |
| Employee liabilities | 19 | **8 848** | 8 080 |
| Other liabilities | 25 | **3 977** | 4 268 |
| Amounts due to holding company and fellow subsidiary companies | 12 | **11 836** | 12 292 |
| Tier 2 liabilities | 26 | **11 983** | 11 484 |
| **Total liabilities** | | **874 962** | 787 145 |
| **Equity** | | | |
| Ordinary shares | 27 | **4** | 4 |
| Share premium | 27 | **16 804** | 15 304 |
| Reserves | | **55 189** | 45 756 |
| **Capital and reserves attributable to ordinary equityholders** | | **71 997** | 61 064 |
| NCNR preference shares | 27 | **3 000** | 3 000 |
| **Total equity** | | **74 997** | 64 064 |
| **Total equity and liabilities** | | **949 959** | 851 209 |

* *Denotes amounts less than R500 000.*

# 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 2013** | | 4 | 15 304 | **15 308** | (559) | 100 |
| Movement in other reserves | | – | – | **–** | – | – |
| Equity transactions with fellow subsidiaries | | – | – | **–** | – | – |
| Ordinary dividends | | – | – | **–** | – | – |
| Preference dividends | | – | – | **–** | – | – |
| Total comprehensive income for the year | | – | – | **–** | (207) | 361 |
| **Balance as at 30 June 2014** | | 4 | 15 304 | **15 308** | (766) | 461 |
| Issue of share capital | 27 | * | 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 |

* *Denotes amounts less than R500 000.*

| 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 equityholders** | **NCNR preference shares** | **Total equity** |
| 439 | 579 | (7) | 1 345 | 34 202 | **36 099** | **3 000** | **54 407** |
| 26 | – | – | – | – | **26** | **–** | **26** |
| – | – | – | – | 1 167 | **1 167** | **–** | **1 167** |
| – | – | – | – | (4 289) | **(4 289)** | **–** | **(4 289)** |
| – | – | – | – | – | **–** | **(192)** | **(192)** |
| – | (149) | 193 | – | 12 555 | **12 753** | **192** | **12 945** |
| 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** |

# STATEMENT OF CASH FLOWS

*for the year ended 30 June*

| R million | Notes | 2015 | 2014 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash receipts from customers | 29.2 | **74 575** | 67 634 |
| Cash paid to customers, suppliers and employees | 29.3 | **(46 198)** | (41 379) |
| Dividends received | 29.4 | **2 128** | 1 982 |
| Dividends paid | 29.5 | **(6 654)** | (4 481) |
| **Cash generated from operating activities** | 29.1 | **23 851** | 23 756 |
| Increase in income-earning assets | 29.6 | **(96 632)** | (66 796) |
| Increase in deposits and other liabilities | 29.7 | **83 000** | 53 558 |
| Taxation paid | 29.8 | **(6 663)** | (5 342) |
| **Net cash generated from operating activities** | | **3 556** | 5 176 |
| **Cash flows from investing activities** | | | |
| Acquisition of property and equipment | | **(3 600)** | (3 318) |
| Proceeds on disposal of property and equipment | | **424** | 683 |
| Acquisition of intangible assets | | **(36)** | (105) |
| Proceeds on disposal of intangible assets | | **–** | 7 |
| **Net cash outflow from investing activities** | | **(3 212)** | (2 733) |
| **Cash flows from financing activities** | | | |
| (Repayment of)/proceeds from other liabilities | | **(460)** | 3 180 |
| Proceeds from Tier 2 liabilities | | **499** | 3 859 |
| Proceeds from issue of ordinary shares | | **1 500** | – |
| **Net cash inflow from financing activities** | | **1 539** | 7 039 |
| **Net increase in cash and cash equivalents** | | **1 883** | 9 482 |
| Cash and cash equivalents at the beginning of the year | | **51 788** | 42 296 |
| Effect of exchange rate changes on cash and cash equivalents | | **54** | 10 |
| **Cash and cash equivalents at the end of the year** | 6 | **53 725** | 51 788 |

# 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

| | 2015 | | | | |
|---|---|---|---|---|---|
| **R million** | **Fair value** | **Amortised cost** | **Hedging instruments** | **Non-financial instruments** | **Total** |
| Advances | **–** | **46 844** | **–** | **–** | **46 844** |
| Cash and cash equivalents | **–** | **700** | **–** | **–** | **700** |
| Investment securities and other investments | **2 807** | **–** | **–** | **–** | **2 807** |
| Unwinding of discounted present value on NPLs | **–** | **81** | **–** | **–** | **81** |
| Amounts due by holding company and fellow subsidiary companies | **213** | **757** | **–** | **–** | **970** |
| Other | **–** | **8** | **467** | **5** | **480** |
| **Interest and similar income** | **3 020** | **48 390** | **467** | **5** | **51 882** |

| | 2014 | | | | |
|---|---|---|---|---|---|
| **R million** | **Fair value** | **Amortised cost** | **Hedging instruments** | **Non-financial instruments** | **Total** |
| Advances | – | 40 004 | – | – | 40 004 |
| Cash and cash equivalents | – | 885 | – | – | 885 |
| Investment securities and other investments | 2 325 | – | – | – | 2 325 |
| Unwinding of discounted present value on NPLs | – | 129 | – | – | 129 |
| Amounts due by holding company and fellow subsidiary companies | 389 | 680 | – | – | 1 069 |
| Other | – | 9 | 327 | 9 | 345 |
| **Interest and similar income** | 2 714 | 41 707 | 327 | 9 | 44 757 |

## 1 ANALYSIS OF INTEREST INCOME AND INTEREST EXPENSE continued

### 1.2 Interest expense and similar income

| | 2015 | | | | |
|---|---|---|---|---|---|
| **R million** | **Fair value** | **Amortised cost** | **Hedging instruments** | **Non-financial instruments** | **Total** |
| Current accounts | **–** | **(3 554)** | **–** | **–** | **(3 554)** |
| Savings deposits | **(2)** | **(112)** | **–** | **–** | **(114)** |
| Call deposits | **–** | **(5 867)** | **–** | **–** | **(5 867)** |
| Fixed and notice deposits | **(445)** | **(8 820)** | **–** | **–** | **(9 265)** |
| Negotiable certificates of deposit | **(122)** | **(2 846)** | **–** | **–** | **(2 968)** |
| Repurchase agreements | **–** | **(726)** | **–** | **–** | **(726)** |
| Securities lending | **–** | **(417)** | **–** | **–** | **(417)** |
| Cash collateral and credit linked notes | **–** | **(443)** | **–** | **–** | **(443)** |
| Fixed and floating rate notes | **(119)** | **(6 494)** | **–** | **–** | **(6 613)** |
| Tier 2 liabilities | **(15)** | **(869)** | **–** | **–** | **(884)** |
| Amounts due to holding company and fellow subsidiary companies | **(19)** | **(522)** | **–** | **–** | **(541)** |
| Other | **–** | **(555)** | **(660)** | **(3)** | **(1 218)** |
| **Gross interest expense and similar charges** | **(722)** | **(31 225)** | **(660)** | **(3)** | **(32 610)** |
| Less: interest reallocated to fair value income* | **–** | **10 957** | **–** | **–** | **10 957** |
| **Interest expense and similar charges** | **(722)** | **(20 268)** | **(660)** | **(3)** | **(21 653)** |

* *Interest expense reallocated to fair value income relates to interest paid on liabilities that fund the bank's fair value activities. In line with the bank's accounting policies this interest expense is reallocated to fair value income to appropriately reflect the results of the underlying business.*

## 1 ANALYSIS OF INTEREST INCOME AND INTEREST EXPENSE continued

### 1.2 Interest expense and similar charges continued

| | 2014 | | | | |
|---|---|---|---|---|---|
| **R million** | **Fair value** | **Amortised cost** | **Hedging instruments** | **Non-financial instruments** | **Total** |
| Current accounts | – | (2 684) | – | – | (2 684) |
| Savings deposits | – | (83) | – | – | (83) |
| Call deposits | – | (4 783) | – | – | (4 783) |
| Fixed and notice deposits | (397) | (6 827) | – | – | (7 224) |
| Negotiable certificates of deposit | (116) | (2 134) | – | – | (2 250) |
| Repurchase agreements | – | (431) | – | – | (431) |
| Securities lending | – | (363) | – | – | (363) |
| Cash collateral and credit linked notes | – | (406) | – | – | (406) |
| Fixed and floating rate notes | (136) | (5 563) | – | – | (5 699) |
| Tier 2 liabilities | (72) | (612) | – | – | (684) |
| Amounts due to holding company and fellow subsidiary companies | (24) | (443) | – | – | (467) |
| Other | (24) | (531) | (940) | (1) | (1 496) |
| **Gross interest expense and similar charges** | (769) | (24 860) | (940) | (1) | (26 570) |
| Less: interest reallocated to fair value income* | – | 7 012 | – | – | 7 012 |
| **Interest expense and similar charges** | (769) | (17 848) | (940) | (1) | (19 558) |

* *Interest expense reallocated to fair value income relates to interest paid on liabilities that fund the bank's fair value activities. In line with the bank's accounting policies this interest expense is reallocated to fair value income to appropriately reflect the results of the underlying business.*

## 2 NON-INTEREST REVENUE

| R million | 2015 | 2014 |
|---|---|---|
| **Fee and commission income** | **23 403** | 21 970 |
| – Instruments at amortised cost | **19 218** | 18 021 |
| – Instruments at fair value | **182** | 189 |
| – Non-financial instruments | **4 003** | 3 760 |
| **Fee and commission expenses** | **(3 394)** | (3 158) |
| **Net fee and commission income** | **20 009** | 18 812 |
| **Fair value gains or losses** | | |
| Held for trading | **3 808** | 2 629 |
| Designated at fair value through profit or loss | **1 185** | 2 171 |
| Other | **(24)** | 5 |
| **Fair value gains or losses*** | **4 969** | 4 805 |
| **Gains less losses from investing activities** | | |
| Designated at fair value through profit or loss | **886** | 951 |
| Available-for-sale | **59** | 92 |
| Other | **(44)** | (98) |
| **Gains less losses from investing activities** | **901** | 945 |
| **Other non-interest revenue** | **3 337** | 4 060 |
| **Total non-interest revenue** | **29 216** | 28 622 |

* *Included in fair value gains or losses is interest expense reallocated to fair value income which relates to interest paid on liabilities that fund the bank's fair value activities. In line with the bank's accounting policies this interest expense is reallocated to fair value income to appropriately reflect the results of the underlying business.*

## 2 NON-INTEREST REVENUE continued

Fee and commission income is derived from the bank's banking, asset management, insurance and other non-banking activities. Insurance-related income includes commissions earned on the sale of insurance products to customers of the bank on behalf of an insurer. 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.

| R million | 2015 | 2014 |
|---|---|---|
| **Fee and commission income** | | |
| Banking fee and commission income | **20 292** | 18 970 |
| – Card commissions | **3 342** | 3 149 |
| – Cash deposit fees | **1 724** | 1 664 |
| – Commitment fees | **823** | 672 |
| – Commissions: bills, drafts and cheques | **707** | 740 |
| – Exchange commissions | **1 020** | 870 |
| – Brokerage income | **101** | 68 |
| – Bank charges | **12 575** | 11 807 |
| Knowledge-based fee and commission income | **976** | 1 137 |
| Management, trust and fiduciary fees | **577** | 557 |
| Insurance-related income, including commission | **1 045** | 1 009 |
| Other non-banking fee and commission income* | **513** | 297 |
| **Fee and commission income** | **23 403** | 21 970 |
| **Fee and commission expenses** | | |
| Transaction processing fees | **(820)** | (839) |
| Commission paid | **(265)** | (254) |
| Customer loyalty programmes | **(981)** | (735) |
| Cash sorting, handling and transportation charges | **(583)** | (526) |
| Card and cheque book related | **(279)** | (218) |
| ATM commissions paid | **(26)** | (26) |
| Other | **(440)** | (560) |
| **Fee and commission expenses** | **(3 394)** | (3 158) |
| **Net fee and commission income** | **20 009** | 18 812 |
| **Fair value gains or losses** | | |
| Dividend income | **2 089** | 1 956 |
| Other fair value gains or losses | **2 880** | 2 849 |
| **Fair value gains or losses** | **4 969** | 4 805 |

* *Other non-banking fee and commission income which better relates to other fee and commission categories were reallocated from other non-banking fee and commission income to the relevant fee and commission categories for both the current and prior years.*

## 2 NON-INTEREST REVENUE continued

| R million | Notes | 2015 | 2014 |
|---|---|---|---|
| **Gains less losses from investing activities** | | | |
| Gain/(loss) on investment securities and other investments | | **46** | (7) |
| Reclassification from other comprehensive income on the derecognition/sale of available-for-sale-assets | | **20** | 67 |
| Preference share dividends | | **13** | 18 |
| Dividends from subsidiaries | | **1** | – |
| Other dividends received | | **25** | 8 |
| Gain on disposal of investments in associates | 16.1 | **–** | 13 |
| Other gains from investing activities | | **796** | 846 |
| **Gains less losses from investing activities** | | **901** | 945 |
| **Other non-interest revenue** | | | |
| Loss on disposal of property and equipment | | **(14)** | (20) |
| Recoveries from holding company and fellow subsidiary companies | | **1 749** | 2 695 |
| Rental income | | **111** | 93 |
| Other income | | **1 491** | 1 292 |
| **Other non-interest revenue** | | **3 337** | 4 060 |
| **Total non-interest revenue** | | **29 216** | 28 622 |

## 3 OPERATING EXPENSES

| R million | Notes | 2015 | 2014 |
|---|---|---|---|
| **Auditors' remuneration** | | | |
| Audit fees | 24 | **(179)** | (143) |
| Fees for other services | | **(60)** | (46) |
| Prior year under-provision | | **(5)** | (1) |
| **Auditors' remuneration** | | **(244)** | (190) |
| **Operating lease charges** | | | |
| Property | | **(950)** | (888) |
| Equipment | | **(127)** | (120) |
| Motor vehicles | | **(16)** | (15) |
| **Operating lease charges** | | **(1 093)** | (1 023) |
| **Staff costs** | | | |
| Salaries, wages and allowances | | **(11 558)** | (10 374) |
| Contributions to employee benefit funds | | **(2 046)** | (1 584) |
| – Defined contribution schemes | | **(1 929)** | (1 501) |
| – Defined benefit schemes | 19.2 | **(117)** | (83) |
| Social security levies | | **(299)** | (232) |
| Share-based payments | 28 | **(2 288)** | (2 335) |
| Movement in staff-related provisions | 19.1 | **(3 496)** | (3 487) |
| Other | | **(392)** | (289) |
| **Staff costs** | | **(20 079)** | (18 301) |
| **Other operating costs** | | | |
| Amortisation of intangible assets | 18 | **(50)** | (54) |
| Depreciation of property and equipment | 17 | **(1 717)** | (1 673) |
| Impairments incurred | 3.1 | **(4)** | (131) |
| Impairment loss reversed | 3.1 | **3** | – |
| Insurance | | **(209)** | (206) |
| Advertising and marketing | | **(1 044)** | (1 020) |
| Maintenance | | **(871)** | (662) |
| Property | | **(763)** | (678) |
| Computer | | **(1 388)** | (1 407) |
| Stationery | | **(158)** | (160) |
| Telecommunications | | **(264)** | (289) |
| Professional fees | | **(1 259)** | (1 156) |
| Expenses paid to holding company and fellow subsidiary companies | 38 | **(850)** | (785) |
| Other operating expenditure | | **(3 508)** | (3 341) |
| **Other operating costs** | | **(12 082)** | (11 562) |
| **Total operating expenses** | | **(33 498)** | (31 076) |

## 3 OPERATING EXPENSES continued

### Directors' emoluments

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | Services as directors | | | Services as directors | | |
| R thousand | FSR | Group | Total | FSR | Group | Total |
| **Non-executive directors** | | | | | | |
| LL Dippenaar (chairman) | **4 463** | **237** | **4 700** | 3 833 | 158 | 3 991 |
| VW Bartlett[1] | **952** | **185** | **1 137** | 855 | 254 | 1 109 |
| JJH Bester[1] (retired December 2014) | **638** | **1 269** | **1 907** | 1 504 | 2 235 | 3 739 |
| MS Bomela | **798** | **232** | **1 030** | 754 | 79 | 833 |
| P Cooper (alternate to PK Harris) | **291** | **195** | **486** | 293 | 30 | 323 |
| L Crouse | **972** | **97** | **1 069** | 911 | 74 | 985 |
| JJ Durand | **621** | **93** | **714** | 581 | 50 | 631 |
| GG Gelink[1] | **972** | **325** | **1 297** | 915 | 117 | 1 032 |
| PM Goss[1] | **810** | **269** | **1 079** | 742 | 199 | 941 |
| NN Gwagwa[1] | **623** | **220** | **843** | 582 | 91 | 673 |
| PK Harris | **486** | **48** | **534** | 455 | 50 | 505 |
| WR Jardine[1] | **637** | **111** | **748** | 553 | 61 | 614 |
| RM Loubser[1] (appointed September 2014) | **1 151** | **876** | **2 027** | – | – | – |
| EG Mantenge-Sebesho[1] | **740** | **495** | **1 235** | 679 | 353 | 1 032 |
| AT Nzimande | **690** | **195** | **885** | 645 | 91 | 736 |
| D Premnarayen[1,2] | **972** | **161** | **1 133** | 910 | 122 | 1 032 |
| KB Schoeman | **555** | **78** | **633** | 535 | 61 | 596 |
| BJ van der Ross[1] | **774** | **726** | **1 500** | 669 | 755 | 1 424 |
| JH van Greuning[1,3] | **2 695** | **2 800** | **5 495** | 1 251 | 3 965 | 5 216 |
| **Total non-executive directors** | **19 840** | **8 612** | **28 452** | 16 667 | 8 745 | 25 412 |

1. *Independent non-executive director.*
2. *Foreign-domiciled director paid in USD. 2015: $97 720 (2014: $99 416).*
3. *Foreign-domiciled director paid in USD. 2015: $495 519 (2014: $502 476).*

## 3 OPERATING EXPENSES continued

### Prescribed officers' emoluments

| R thousand | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|
| **SE Nxasana[1]** | | | | | | | |
| Cash package paid during the year | 4 427 | 5 101 | 6 220 | 6 614 | 7 037 | 7 522 | **8 056** |
| Retirement contributions paid during the year | 617 | 617 | 616 | 786 | 834 | 891 | **955** |
| Other allowances[2] | – | 93 | 97 | 81 | 68 | 75 | **82** |
| **Subtotal: guaranteed package** | 5 044 | 5 811 | 6 933 | 7 481 | 7 939 | 8 488 | **9 093** |
| Performance related in respect of the year[3] | 4 860 | 5 820 | 8 190 | 9 600 | 11 460 | 10 000 | **12 915** |
| Portion of performance related deferred in share awards[4] | – | 5 180 | 4 460 | 5 400 | 6 640 | 11 000 | **11 415** |
| **Subtotal: variable pay** | 4 860 | 11 000 | 12 650 | 15 000 | 18 100 | 21 000 | **24 330** |
| **Total: guaranteed and variable pay** | 9 904 | 16 811 | 19 583 | 22 481 | 26 039 | 29 488 | **33 423** |
| **JP Burger[1]** | | | | | | | |
| Cash package paid during the year | 4 258 | 4 699 | 5 503 | 5 776 | 6 103 | 6 591 | **7 040** |
| Retirement contributions paid during the year | 692 | 698 | 679 | 866 | 915 | 981 | **1 056** |
| Other allowances[2] | – | 62 | 74 | 118 | 156 | 98 | **119** |
| **Subtotal: guaranteed package** | 4 950 | 5 459 | 6 256 | 6 760 | 7 174 | 7 670 | **8 215** |
| Performance related in respect of the year[3] | 4 590 | 5 520 | 7 470 | 8 760 | 10 440 | 9 000 | **11 770** |
| Portion of performance related deferred in share awards[4] | – | 4 480 | 3 980 | 4 840 | 5 960 | 10 000 | **10 270** |
| **Subtotal: variable pay** | 4 590 | 10 000 | 11 450 | 13 600 | 16 400 | 19 000 | **22 040** |
| **Total: guaranteed and variable pay** | 9 540 | 15 459 | 17 706 | 20 360 | 23 574 | 26 670 | **30 255** |
| **A Pullinger** | | | | | | | |
| Cash package paid during the year | 1 286 | 1 571 | 1 743 | 1 981 | 2 037 | 2 174 | **2 322** |
| Retirement contributions paid during the year | 333 | 298 | 330 | 339 | 407 | 556 | **464** |
| Other allowances[2] | – | 100 | 110 | 99 | 122 | 13 | **133** |
| **Subtotal: guaranteed package** | 1 619 | 1 969 | 2 183 | 2 419 | 2 566 | 2 743 | **2 919** |
| Performance related in respect of the year[3] | 1 050 | 11 280 | 13 416 | 11 400 | 13 200 | 15 000 | **11 750** |
| Portion of performance related deferred in share awards[4] | – | 6 520 | 7 944 | 6 600 | 7 800 | 9 000 | **10 250** |
| **Subtotal: variable pay** | 1 050 | 17 800 | 21 360 | 18 000 | 21 000 | 24 000 | **22 000** |
| **Total: guaranteed and variable pay** | 2 669 | 19 769 | 23 543 | 20 419 | 23 566 | 26 743 | **24 919** |

*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 provisions relating to removal. Benefits derived by executive directors in terms of their long-term incentive schemes are disclosed on pages 250 to 253.*

*Cash package, retirement contributions and other allowances reflect what was paid to the prescribed officers during the year ended 30 June 2015 although the FirstRand remuneration cycle runs from 1 August to 31 July.*

*The cash variable pay and variable pay deferred in CIP awards for 2015 reflect the amounts that were allocated to the prescribed officer in respect of the year ended 30 June 2015, however, the cash portion will be paid in future periods in terms of the group's deferral structure.*

1. *These prescribed officers in terms of the Companies Act 71 of 2008 are also executive directors. FirstRand defines its prescribed officers as members of the group strategic executive committee: group CEO, group deputy CEO, financial director and the CEOs of the group's operating franchises (FNB, RMB and WesBank).*
2. *Other allowances include travel and medical.*
3. *Variable compensation paid in cash in respect of the year ended 30 June, is paid (with an interest factor) in three tranches, during the following year ending 30 June.*
4. *Performance payments deferred as a conditional award in terms of the FirstRand conditional incentive plan vest two years after the award date. Refer to note 28 in the annual financial statements.*

## 3 OPERATING EXPENSES continued

### Prescribed officers' emoluments continued

| R thousand | 2015 | 2014 |
|---|---|---|
| **Prescribed officers (effective 1 October 2013)** | | |
| **H Kellan[1,5]** | | |
| Cash package paid during the year | **4 493** | 4 046 |
| Retirement contributions paid during the year | **402** | 362 |
| Other allowances[2] | **108** | 98 |
| **Subtotal: guaranteed package** | **5 003** | 4 506 |
| Performance related in respect of the year[3] | **4 500** | 4 416 |
| Portion of performance related deferred in share awards[4] | **3 000** | 1 944 |
| **Subtotal: variable pay** | **7 500** | 6 360 |
| **Total: guaranteed and variable pay** | **12 503** | 10 866 |
| **Prescribed officers (effective 1 October 2013)** | | |
| **J Celliers[5]** | | |
| Cash package paid during the year | **5 513** | 4 901 |
| Retirement contributions paid during the year | **551** | 490 |
| Other allowances[2] | **108** | 122 |
| **Subtotal: guaranteed package** | **6 172** | 5 513 |
| Performance related in respect of the year[3] | **5 950** | 5 400 |
| Portion of performance related deferred in share awards[4] | **4 450** | 2 600 |
| **Subtotal: variable pay** | **10 400** | 8 000 |
| **Total: guaranteed and variable pay** | **16 572** | 13 513 |
| **C De Kock[5]** | | |
| Cash package paid during the year | **3 098** | 2 778 |
| Retirement contributions paid during the year | **291** | 266 |
| Other allowances[2] | **69** | 71 |
| **Subtotal: guaranteed package** | **3 458** | 3 115 |
| Performance related in respect of the year[3] | **4 250** | 4 200 |
| Portion of performance related deferred in share awards[4] | **2 750** | 1 800 |
| **Subtotal: variable pay** | **7 000** | 6 000 |
| **Total: guaranteed and variable pay** | **10 458** | 9 115 |

*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 provisions relating to removal. Benefits derived by executive directors in terms of their long-term incentive schemes are disclosed on pages 250 to 253.*

*Cash package, retirement contributions and other allowances reflect what was paid to the prescribed officers during the year ended 30 June 2015 although the FirstRand remuneration cycle runs from 1 August to 31 July.*

*The cash variable pay and variable pay deferred in CIP awards for 2015 reflect the amounts that were allocated to the prescribed officer in respect of the year ended 30 June 2015, however, the cash portion will be paid in future periods in terms of the group's deferral structure.*

1. *These prescribed officers in terms of the Companies Act 71 of 2008 are also executive directors. FirstRand defines its prescribed officers as members of group strategic executive committee: group CEO, group deputy CEO, financial director and the CEOs of the group's operating franchises (the FNB, RMB, WesBank).*
2. *Other allowances include travel and medical.*
3. *Variable compensation paid in cash in respect of the year ended 30 June, is paid (with an interest factor) in three tranches, during the following year ending 30 June.*
4. *Performance payments deferred as a conditional award in terms of the FirstRand conditional incentive plan vest two years after the award date. Refer to note 28 in the annual financial statements.*
5. *Prescribed officer appointed 1 October 2013. Emoluments include earnings in prior role from 1 July 2013 to 30 September 2013.*

## 3 OPERATING EXPENSES continued

### Prescribed officers' emoluments continued

#### Co-investment scheme

In addition to contractual and performance remuneration, 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 the employee.

| R thousand | 2015 | 2014 |
|---|---|---|
| JP Burger | **5 387** | 6 222 |
| SE Nxasana | **1 064** | 1 376 |
| A Pullinger | **6 384** | 8 255 |

## 3 OPERATING EXPENSES continued

### Prescribed officers' outstanding long-term incentives

| | FY2005 | | FY2012 (CSP allocation made in September 2011) | FY2013 (CIP allocation made in September 2012) | |
|---|---|---|---|---|---|
| | **FirstRand black non-executive directors scheme** | **FirstRand black employee share scheme** | **CSP** | **Bonus deferral CIP** | **CIP** |
| **SE Nxasana** | | | | | |
| Opening balance (number of shares) | 1 000 000 | 1 000 000 | 576 567 | 194 325 | 432 604 |
| Strike price (cents) | 12.28 | 14.91 | – | – | – |
| Vesting date | 31/12/2014 | 31/12/2014 | 13/09/2014 | 11/09/2014 | 11/09/2015 |
| Granted/taken up this year (number of shares) | (1 000 000) | (1 000 000) | (576 567) | (194 325) | – |
| Closing balance (number of shares) | – | – | – | – | 432 604 |
| Benefit derived during the year (rand) | 39 415 004 | 35 629 735 | 25 357 417 | 9 661 191 | – |
| **JP Burger** | | | | | |
| Opening balance (number of shares) | – | – | 461 870 | 174 173 | 346 545 |
| Strike price (cents) | – | – | – | – | – |
| Vesting date | – | – | 13/09/2014 | 11/09/2014 | 11/09/2015 |
| Granted/taken up this year (number of shares) | – | – | (461 870) | (174 173) | – |
| Closing balance (number of shares) | – | – | – | – | 346 545 |
| Benefit derived during the year (rand) | – | – | 20 313 043 | 8 659 301 | – |
| **A Pullinger** | | | | | |
| Opening balance (number of shares) | – | – | 359 232 | 237 508 | 269 895 |
| Strike price (cents) | – | – | – | – | – |
| Vesting date | – | – | 13/09/2014 | 11/09/2014 | 11/09/2015 |
| Granted/taken up this year (number of shares) | – | – | (359 232) | (237 508) | – |
| Closing balance (number of shares) | – | – | – | – | 269 895 |
| Benefit derived during the year (rand) | – | – | 15 799 023 | 11 808 106 | – |

| FY2014 (CIP allocation made in September 2013) | | | FY2015 (CIP allocation made in September 2014) | | |
|---|---|---|---|---|---|
| **Bonus deferral CIP** | **CIP** | **CIP** | **2 year bonus deferral CIP** | **3 year bonus deferral CIP** | **CIP** |
| 214 916 | 435 820 | – | **–** | **–** | **–** |
| – | – | | **–** | **–** | **–** |
| 10/09/2015 | 15/09/2016 | – | **13/09/2016** | **12/09/2017** | **12/09/2017** |
| – | – | – | **243 051** | **15 909** | **324 363** |
| 214 916 | 435 820 | – | **243 051** | **15 909** | **324 363** |
| – | – | – | **–** | **–** | **–** |
| 192 907 | 349 563 | 87 895 | **–** | **–** | **–** |
| – | – | – | **–** | **–** | **–** |
| 10/09/2015 | 15/09/2016 | 01/10/2016 | **13/09/2016** | **12/09/2017** | **12/09/2017** |
| – | – | – | **220 956** | **15 025** | **260 728** |
| 192 907 | 349 563 | 87 895 | **220 956** | **15 025** | **260 728** |
| – | – | – | **–** | **–** | **–** |
| 252 462 | 242 752 | – | **–** | **–** | **–** |
| – | – | – | **–** | **–** | **–** |
| 10/09/2015 | 15/09/2016 | – | **13/09/2016** | **–** | **12/09/2017** |
| – | – | – | **198 860** | **–** | **204 384** |
| 252 462 | 242 752 | – | **198 860** | **–** | **204 384** |
| – | – | – | **–** | **–** | **–** |

## 3 OPERATING EXPENSES continued

### Prescribed officers' outstanding long-term incentives continued

| | FY2005 | | FY2012 (CSP allocation made in September 2011) |
|---|---|---|---|
| | **FirstRand black non-executive directors scheme** | **FirstRand black employee share scheme** | **CSP** |
| **New prescribed officers (effective 1 October 2013)** | | | |
| **H Kellan[1]** | | | |
| Opening balance (number of shares) | – | 1 197 500 | 174 484 |
| Strike price (cents) | – | 17.71 | – |
| Vesting date | – | 31/12/2014 | 13/09/2014 |
| Granted/taken up this year (number of shares) | – | (1 197 500) | (174 484) |
| Closing balance (number of shares) | – | – | – |
| Benefit derived during the year (rand) | – | 38 980 992 | 7 673 806 |
| **J Celliers[1]** | | | |
| Opening balance (number of shares) | – | – | 82 111 |
| Strike price (cents) | – | – | – |
| Vesting date | – | – | 13/09/2014 |
| Granted/taken up this year (number of shares) | – | – | (82 111) |
| Closing balance (number of shares) | – | – | – |
| Benefit derived during the year (rand) | – | – | 3 611 242 |
| **C De Kock[1]** | | | |
| Opening balance (number of shares) | – | – | 184 748 |
| Strike price (cents) | – | – | – |
| Vesting date | – | – | 13/09/2014 |
| Granted/taken up this year (number of shares) | – | – | (184 748) |
| Closing balance (number of shares) | – | – | – |
| Benefit derived during the year (rand) | – | – | 8 125 217 |

*1. Prescribed officer appointed 1 October 2013.*

**Definitions:**

APR – share appreciation rights

CIP – conditional incentive plan

CSP – conditional share plan

| FY2013 (CIP allocation made in September 2012) | | FY2014 (CIP allocation made in September 2013) | | | FY2015 (CIP allocation made in September 2014) | |
|---|---|---|---|---|---|---|
| **Bonus deferral CIP** | **CIP** | **Bonus deferral CIP** | **CIP** | **CIP** | **Bonus deferral CSP** | **CIP** |
| 26 000 | 136 747 | 49 198 | 67 700 | 161 835 | **–** | **–** |
| – | – | – | – | – | **–** | **–** |
| 11/09/2014 | 11/09/2015 | 10/09/2015 | 01/06/2016 | 15/09/2016 | **13/09/2016** | **12/09/2017** |
| (26 000) | – | – | – | – | **42 954** | **121 526** |
| – | 136 747 | 49 198 | 67 700 | 161 835 | **42 954** | **121 526** |
| 1 292 633 | – | – | – | – | **–** | **–** |
| 28 789 | 143 944 | 45 314 | 135 400 | 226 569 | **–** | **–** |
| – | – | – | – | – | **–** | **–** |
| 11/09/2014 | 11/09/2015 | 10/09/2015 | 01/06/2016 | 15/09/2016 | **13/09/2016** | **12/09/2017** |
| (28 789) | – | – | – | – | **57 449** | **181 184** |
| – | 143 944 | 45 314 | 135 400 | 226 569 | **57 449** | **181 184** |
| 1 431 293 | – | – | – | – | **–** | **–** |
| 37 786 | 134 948 | 40 135 | – | 145 651 | **–** | **–** |
| – | – | – | – | – | **–** | **–** |
| 11/09/2014 | 11/09/2015 | 10/09/2015 | – | 15/09/2016 | **13/09/2016** | **12/09/2017** |
| (37 786) | – | – | – | – | **39 772** | **154 669** |
| – | 134 948 | 40 135 | – | 145 651 | **39 772** | **154 669** |
| 1 878 594 | – | – | – | – | **–** | **–** |

## 3 OPERATING EXPENSES continued

### 3.1 Impairment of assets

| R million | Notes | 2015 | Description |
|---|---|---|---|
| **Impairments reversed/(incurred):** | | | |
| **Included in operating expenses** | | | |
| **Impairments reversed** | | | |
| Property and equipment | 17 | **3** | Previously recognised impairments of repossessed vehicles were reversed in the current year, as they were sold. |
| **Impairments incurred** | | | |
| Other | | **(4)** | There were no individually material impairments or reversal of impairments in the other category. This category includes the impairment of accounts receivable. |
| **Total included in operating expenses** | 3 | **(1)** | |

| R million | Notes | 2014 | Description |
|---|---|---|---|
| **Impairments incurred:** | | | |
| **Included in operating expenses** | | | |
| Property and equipment | 17 | (4) | Certain fleet vehicles were repossessed early in the life of the relevant finance contracts and were therefore impaired by R3 million to their recoverable amount. There were no reversals of previously recognised impairments. |
| Intangible assets | 18 | (114) | A customer book ceased to generate income and was impaired by R10 million to its recoverable amount. There were no reversals of previously recognised impairments. The full goodwill balance of R104 million relating to the business of First Auto was impaired. The recoverable amount was determined as being the value in use. |
| Other | | (13) | There were no individually material impairments or reversal of impairments in the other category. This category includes the impairment of accounts receivable. |
| **Total included in operating expenses** | 3 | (131) | |

## 4 INDIRECT TAX AND INCOME TAX EXPENSE

| R million | 2015 | 2014 |
|---|---|---|
| **4.1 Indirect tax** | | |
| Value added tax (net) | **(751)** | (796) |
| **Total indirect tax** | **(751)** | (796) |
| **4.2 Income tax expense** | | |
| **South African income tax** | | |
| Current | **(5 903)** | (4 819) |
| – Current year | **(5 917)** | (4 936) |
| – Prior year adjustment | **14** | 117 |
| Deferred income tax | **691** | 445 |
| – Current year | **725** | 380 |
| – Prior year adjustment | **(34)** | 65 |
| **Total South African income tax** | **(5 212)** | (4 374) |
| **Capital gains tax** | **(18)** | – |
| – Deferred income tax | **(18)** | – |
| **Total capital gains tax** | **(18)** | – |
| Customer tax adjustment account | **(9)** | (1) |
| **Total income tax expense** | **(5 239)** | (4 375) |

| % | 2015 | 2014 |
|---|---|---|
| **Tax rate reconciliation** | | |
| **Standard rate of income tax** | **28.0** | 28.0 |
| Total tax has been affected by: | | |
| Non-taxable income | **(3.6)** | (4.4) |
| Prior year adjustments | **0.1** | (1.1) |
| Other non-deductible items | **0.6** | 3.1 |
| **Effective rate of tax** | **25.1** | 25.6 |

## 5 ANALYSIS OF ASSETS AND LIABILITIES

Financial assets and financial liabilities are measured either at fair value or at amortised cost. The principal accounting policies on pages 220 to 226 describe how the classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised.

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

| | | 2015 | | | |
|---|---|---|---|---|---|
| **R million** | **Notes** | **Held for trading** | **Designated at fair value through profit or loss** | **Held-to-maturity** | **Loans and receivables** |
| **ASSETS** | | | | | |
| Cash and cash equivalents | 6 | – | – | – | **53 725** |
| Derivative financial instruments | 7 | **33 419** | – | – | – |
| Commodities | 8 | – | – | – | – |
| Accounts receivable | 9 | – | – | – | **2 715** |
| Advances | 10 | – | **194 437** | **16** | **480 915** |
| Amounts due by holding company and fellow subsidiary companies | 12 | **295** | – | – | **27 023** |
| Investment securities and other investments | 14 | **33 962** | **57 454** | – | **192** |
| Investments in subsidiary companies | 15 | – | – | – | – |
| Investments in associates | 16 | – | – | – | – |
| Property and equipment | 17 | – | – | – | – |
| Intangible assets | 18 | – | – | – | – |
| Deferred income tax asset | 13 | – | – | – | – |
| Non-current assets and disposal groups held for sale | 20 | – | – | – | – |
| **Total assets** | | **67 676** | **251 891** | **16** | **564 570** |
| **LIABILITIES** | | | | | |
| Short trading positions | 21 | **5 270** | – | – | – |
| Derivative financial instruments | 7 | **40 317** | – | – | – |
| Creditors and accruals | 22 | – | – | – | – |
| Current tax liability | | – | – | – | – |
| Deposits | 23 | – | **96 980** | – | – |
| Provisions | 24 | – | – | – | – |
| Employee liabilities | 19 | – | – | – | – |
| Other liabilities | 25 | – | **3 348** | – | – |
| Amounts due by holding company and fellow subsidiary companies | 12 | **135** | – | – | – |
| Tier 2 liabilities | 26 | – | – | – | – |
| **Total liabilities** | | **45 722** | **100 328** | – | – |

* *Denotes amount less than R500 000.*

The *risk and capital management report* contains further information about the risk associated with various financial assets and financial liabilities recognised in the statement of financial position.

Refer to note 33 for information about changes in the bank's own credit risk and the impact on the financial liabilities of the bank.

Refer to note 35 for additional information relating to the fair value of financial assets and financial liabilities carried at fair value.

| 2015 | | | | | | |
|---|---|---|---|---|---|---|
| Available-for-sale financial assets | Financial liabilities at amortised cost | Derivatives designated as hedging instruments | Non-financial instruments | Total carrying value | Current | Non-current |
| – | – | – | – | 53 725 | 53 725 | – |
| – | – | 693 | – | 34 112 | 31 903 | 2 209 |
| – | – | – | 7 354 | 7 354 | 7 354 | – |
| – | – | – | 1 586 | 4 301 | 3 122 | 1 179 |
| 19 | – | – | – | 675 387 | 232 371 | 443 016 |
| – | – | – | – | 27 318 | 14 112 | 13 206 |
| 41 935 | – | – | – | 133 543 | 64 686 | 68 857 |
| – | – | – | – | * | – | – |
| – | – | – | – | * | – | – |
| – | – | – | 12 821 | 12 821 | – | 12 821 |
| – | – | – | 71 | 71 | – | 71 |
| – | – | – | 1 202 | 1 202 | – | 1 202 |
| – | – | – | 125 | 125 | 125 | – |
| 41 954 | – | 693 | 23 159 | 949 959 | 407 398 | 542 561 |
| – | – | – | – | 5 270 | 5 270 | – |
| – | – | 494 | – | 40 811 | 36 854 | 3 957 |
| – | 5 236 | – | 6 930 | 12 166 | 10 041 | 2 125 |
| – | – | – | 69 | 69 | 69 | – |
| – | 682 723 | – | – | 779 703 | 645 824 | 133 879 |
| – | – | – | 299 | 299 | 128 | 171 |
| – | – | – | 8 848 | 8 848 | 5 071 | 3 777 |
| – | 629 | – | – | 3 977 | 835 | 3 142 |
| – | 11 701 | – | – | 11 836 | 10 327 | 1 509 |
| – | 11 983 | – | – | 11 983 | 101 | 11 882 |
| – | 712 272 | 494 | 16 146 | 874 962 | 714 520 | 160 442 |

## 5 ANALYSIS OF ASSETS AND LIABILITIES continued

| | | 2014 | | | |
|---|---|---|---|---|---|
| **R million** | **Notes** | **Held for trading** | **Designated at fair value through profit or loss** | **Held-to-maturity** | **Loans and receivables** |
| **ASSETS** | | | | | |
| Cash and cash equivalents | 6 | – | – | – | 51 788 |
| Derivative financial instruments | 7 | 37 615 | – | – | – |
| Commodities | 8 | – | – | – | – |
| Accounts receivable | 9 | – | – | – | 2 851 |
| Advances | 10 | – | 177 851 | 30 | 444 209 |
| Amounts due by holding company and fellow subsidiary companies | 12 | 305 | – | – | 25 700 |
| Investment securities and other investments | 14 | 24 806 | 39 146 | – | 505 |
| Investments in subsidiary companies | 15 | – | – | – | – |
| Investments in associates | 16 | – | – | – | – |
| Property and equipment | 17 | – | – | – | – |
| Intangible assets | 18 | – | – | – | – |
| Deferred income tax asset | 13 | – | – | – | – |
| Non-current assets and disposal groups held for sale | 20 | – | – | – | – |
| **Total assets** | | 62 726 | 216 997 | 30 | 525 053 |
| **LIABILITIES** | | | | | |
| Short trading positions | 21 | 5 398 | – | – | – |
| Derivative financial instruments | 7 | 41 228 | – | – | – |
| Creditors and accruals | 22 | – | – | – | – |
| Current tax liability | | – | – | – | – |
| Deposits | 23 | – | 83 181 | – | – |
| Provisions | 24 | – | – | – | – |
| Employee liabilities | 19 | – | – | – | – |
| Other liabilities | 25 | – | 3 287 | – | – |
| Amounts due by holding company and fellow subsidiary companies | 12 | 226 | – | – | – |
| Tier 2 liabilities | 26 | – | 1 030 | – | – |
| **Total liabilities** | | 46 852 | 87 498 | – | – |

* *Denotes amount less than R500 000.*

| 2014 | | | | | | |
|---|---|---|---|---|---|---|
| Available-for-sale financial assets | Financial liabilities at amortised cost | Derivatives designated as hedging instruments | Non-financial instruments | Total carrying value | Current | Non-current |
| – | – | – | – | 51 788 | 51 788 | – |
| – | – | 1 018 | – | 38 633 | 36 766 | 1 867 |
| – | – | – | 7 904 | 7 904 | 7 904 | – |
| – | – | – | 1 280 | 4 131 | 3 767 | 364 |
| 22 | – | – | – | 622 112 | 207 521 | 414 591 |
| – | – | – | – | 26 005 | 15 954 | 10 051 |
| 24 326 | – | – | – | 88 783 | 52 659 | 36 124 |
| – | – | – | – | * | – | – |
| – | – | – | – | * | – | – |
| – | – | – | 11 369 | 11 369 | – | 11 369 |
| – | – | – | 84 | 84 | – | 84 |
| – | – | – | 400 | 400 | – | 400 |
| – | – | – | – | – | – | – |
| 24 348 | – | 1 018 | 21 037 | 851 209 | 376 359 | 474 850 |
| – | – | – | – | 5 398 | 5 398 | – |
| – | – | 400 | – | 41 628 | 39 598 | 2 030 |
| – | 4 655 | – | 5 725 | 10 380 | 9 826 | 554 |
| – | – | – | 53 | 53 | – | 53 |
| – | 609 995 | – | – | 693 176 | 591 743 | 101 433 |
| – | – | – | 386 | 386 | 314 | 72 |
| – | – | – | 8 080 | 8 080 | 5 640 | 2 440 |
| – | 981 | – | – | 4 268 | 802 | 3 466 |
| – | 12 066 | – | – | 12 292 | 11 200 | 1 092 |
| – | 10 454 | – | – | 11 484 | 1 790 | 9 694 |
| – | 638 151 | 400 | 14 244 | 787 145 | 666 311 | 120 834 |

## 6 CASH AND CASH EQUIVALENTS

| R million | 2015 | 2014 |
|---|---|---|
| Coins and bank notes | **7 356** | 5 018 |
| Money at call and short notice | **28 184** | 30 636 |
| Balances with central banks | **18 185** | 16 134 |
| **Cash and cash equivalents** | **53 725** | 51 788 |
| **Mandatory reserve balances included above** | **18 173** | 16 040 |

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

Money at short notice constitutes amounts withdrawable in 32 days or less.

## 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 hedge the bank's own risk. For accounting purposes, derivative instruments are classified as either held for trading or hedging.

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 latter includes derivatives managed in conjunction with financial instruments designated at fair value.

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.

The bank's detailed risk management strategy, including the use of hedging instruments in risk management, is set out in the *risk and capital management report* of the annual report.

### Credit risk mitigation

Collateral is an important mitigant of credit risk and the bank holds cash collateral on its net derivative position. The table below sets out the cash collateral held against the net derivative position.

| R million | 2015 | 2014 |
|---|---|---|
| Cash collateral held | **5 152** | 6 098 |

### 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.

## 7 DERIVATIVE FINANCIAL INSTRUMENTS continued

The following amounts were recognised in profit or loss for the year.

| R million | 2015 | 2014 |
|---|---|---|
| **(Losses)/gains for the year arising from the change in fair value of fair value hedges** | | |
| On hedging instruments | **(552)** | (229) |
| On hedged items attributable to the hedged risk | **530** | 233 |
| **Total** | **(22)** | 4 |

### 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 (e.g. 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 | 2015 | 2014 |
|---|---|---|
| Hedge ineffectiveness recognised in profit or loss (net of tax) | **10** | 43 |

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

| | 2015 | | 2014 | |
|---|---|---|---|---|
| **R million** | **Assets** | **Liabilities** | **Assets** | **Liabilities** |
| 0 – 3 months | **31** | **5** | 49 | 16 |
| 4 – 12 months | **100** | **(87)** | 195 | (142) |
| 1 – 5 years | **128** | **(430)** | (1) | (759) |
| Over 5 years | **84** | **(93)** | 5 | (35) |
| **Total** | **343** | **(605)** | 248 | (920) |

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

| | 2015 | | 2014 | |
|---|---|---|---|---|
| **R million** | **Assets** | **Liabilities** | **Assets** | **Liabilities** |
| 0 – 3 months | **(5)** | **26** | (30) | 40 |
| 4 – 12 months | **(87)** | **106** | (127) | 216 |
| 1 – 5 years | **(433)** | **123** | (733) | 9 |
| Over 5 years | **(78)** | **83** | (20) | 5 |
| **Total** | **(603)** | **338** | (910) | 270 |

## 7 DERIVATIVE FINANCIAL INSTRUMENTS continued

| | 2015 | | | |
|---|---|---|---|---|
| | Assets | | Liabilities | |
| R million | Notional | Fair value | Notional | Fair value |
| **Qualifying for hedge accounting** | | | | |
| **Cash flow hedges** | | | | |
| Interest rate derivatives | 45 003 | 528 | 58 423 | 350 |
| – Forward rate agreements | 1 150 | 1 | 900 | – |
| – Swaps | 43 853 | 527 | 57 523 | 350 |
| **Total cash flow hedges** | 45 003 | 528 | 58 423 | 350 |
| **Fair value hedges** | | | | |
| Interest rate derivatives | 17 298 | 165 | 14 543 | 144 |
| – Swaps | 17 298 | 165 | 14 543 | 144 |
| Commodity derivatives | 2 516 | – | – | – |
| – Futures | 2 516 | – | – | – |
| **Total fair value hedges** | 19 814 | 165 | 14 543 | 144 |
| **Total qualifying for hedge accounting** | 64 817 | 693 | 72 966 | 494 |
| **Not qualifying for hedge accounting** | | | | |
| **Held for trading** | | | | |
| Currency derivatives | 240 466 | 5 954 | 294 361 | 11 893 |
| – Swaps | 184 425 | 4 288 | 236 227 | 9 680 |
| – Options | 32 493 | 1 067 | 24 650 | 532 |
| – Futures | 23 548 | 599 | 33 484 | 1 681 |
| Interest rate derivatives | 6 790 281 | 23 889 | 6 977 995 | 24 096 |
| – Forward rate agreements | 4 547 956 | 2 769 | 4 578 058 | 2 783 |
| – Swaps | 1 939 860 | 20 515 | 1 912 216 | 20 446 |
| – Options | 295 943 | 541 | 465 223 | 841 |
| – Futures | 6 522 | 64 | 22 498 | 26 |
| Equity derivatives | 68 761 | 2 885 | 50 105 | 4 092 |
| – Swaps | 3 037 | 2 201 | – | – |
| – Options | 31 455 | 219 | 33 990 | 3 884 |
| – Futures | 34 269 | 465 | 16 115 | 208 |
| Commodity derivatives | 14 176 | 601 | 24 303 | 164 |
| – Swaps | 4 764 | 274 | 763 | 75 |
| – Options | 995 | 44 | 344 | 33 |
| – Futures | 8 417 | 283 | 23 196 | 56 |
| Energy derivatives | 38 | – | 764 | 3 |
| – Swaps | 38 | – | 77 | 2 |
| – Futures | – | – | 687 | 1 |
| Credit derivatives | 15 264 | 90 | 3 728 | 69 |
| **Total held for trading** | 7 128 986 | 33 419 | 7 351 256 | 40 317 |
| **Total not qualifying for hedge accounting** | 7 128 986 | 33 419 | 7 351 256 | 40 317 |
| **Total** | 7 193 803 | 34 112 | 7 424 222 | 40 811 |

## 7 DERIVATIVE FINANCIAL INSTRUMENTS continued

| | 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Assets: Derivative instruments | | | | | |
| | Exchange traded | | Over the counter | | Total | |
| R million | Notional | Fair value | Notional | Fair value | Notional | Fair value |
| **Qualifying for hedge accounting** | | | | | | |
| **Cash flow hedges** | – | – | 45 003 | 528 | 45 003 | 528 |
| – Interest rate derivatives | – | – | 45 003 | 528 | 45 003 | 528 |
| **Fair value hedges** | 2 516 | – | 17 298 | 165 | 19 814 | 165 |
| – Interest rate derivatives | – | – | 17 298 | 165 | 17 298 | 165 |
| – Commodity derivatives | 2 516 | – | – | – | 2 516 | – |
| **Not qualifying for hedge accounting** | | | | | | |
| **Held for trading** | 11 532 | 85 | 7 117 454 | 33 334 | 7 128 986 | 33 419 |
| – Currency derivatives | – | – | 240 466 | 5 954 | 240 466 | 5 954 |
| – Interest rate derivatives | 4 068 | – | 6 786 213 | 23 889 | 6 790 281 | 23 889 |
| – Equity derivatives | 517 | – | 68 244 | 2 885 | 68 761 | 2 885 |
| – Commodity derivatives | 6 947 | 85 | 7 229 | 516 | 14 176 | 601 |
| – Energy derivatives | – | – | 38 | – | 38 | – |
| – Credit derivatives | – | – | 15 264 | 90 | 15 264 | 90 |
| **Total** | 14 048 | 85 | 7 179 755 | 34 027 | 7 193 803 | 34 112 |

| | 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Liabilities: Derivative instruments | | | | | |
| | Exchange traded | | Over the counter | | Total | |
| R million | Notional | Fair value | Notional | Fair value | Notional | Fair value |
| **Qualifying for hedge accounting** | | | | | | |
| **Cash flow hedges** | – | – | 58 423 | 350 | 58 423 | 350 |
| – Interest rate derivatives | – | – | 58 423 | 350 | 58 423 | 350 |
| **Fair value hedges** | – | – | 14 543 | 144 | 14 543 | 144 |
| – Interest rate derivatives | – | – | 14 543 | 144 | 14 543 | 144 |
| **Not qualifying for hedge accounting** | | | | | | |
| **Held for trading** | 52 261 | 42 | 7 298 995 | 40 275 | 7 351 256 | 40 317 |
| – Currency derivatives | 411 | – | 293 950 | 11 893 | 294 361 | 11 893 |
| – Interest rate derivatives | 21 565 | – | 6 956 430 | 24 096 | 6 977 995 | 24 096 |
| – Equity derivatives | 6 930 | – | 43 175 | 4 092 | 50 105 | 4 092 |
| – Commodity derivatives | 22 668 | 41 | 1 635 | 123 | 24 303 | 164 |
| – Energy derivatives | 687 | 1 | 77 | 2 | 764 | 3 |
| – Credit derivatives | – | – | 3 728 | 69 | 3 728 | 69 |
| **Total** | 52 261 | 42 | 7 371 961 | 40 769 | 7 424 222 | 40 811 |

*Refer to note 38 for information on related party derivatives.*

## 7 DERIVATIVE FINANCIAL INSTRUMENTS continued

| | 2014 | | | |
|---|---|---|---|---|
| | Assets | | Liabilities | |
| **R million** | **Notional** | **Fair value** | **Notional** | **Fair value** |
| **Qualifying for hedge accounting** | | | | |
| **Cash flow hedges** | | | | |
| Interest rate derivatives | 83 888 | 852 | 49 786 | 306 |
| – Forward rate agreements | 27 405 | 5 | 5 805 | 5 |
| – Swaps | 56 483 | 847 | 43 981 | 301 |
| **Total cash flow hedges** | 83 888 | 852 | 49 786 | 306 |
| **Fair value hedges** | | | | |
| Interest rate derivatives | 14 086 | 166 | 12 492 | 94 |
| – Swaps | 14 086 | 166 | 12 492 | 94 |
| Commodity derivatives | 1 769 | – | – | – |
| – Futures | 1 769 | – | – | – |
| **Total fair value hedges** | 15 855 | 166 | 12 492 | 94 |
| **Total qualifying for hedge accounting** | 99 743 | 1 018 | 62 278 | 400 |
| **Not qualifying for hedge accounting** | | | | |
| **Held for trading** | | | | |
| Currency derivatives | 303 501 | 6 254 | 295 760 | 8 553 |
| – Swaps | 261 785 | 4 572 | 257 456 | 7 123 |
| – Options | 19 073 | 1 144 | 18 568 | 754 |
| – Futures | 22 643 | 538 | 19 736 | 676 |
| Interest rate derivatives | 8 324 679 | 29 026 | 7 997 023 | 29 472 |
| – Forward rate agreements | 6 153 870 | 3 918 | 6 017 726 | 3 910 |
| – Swaps | 1 743 283 | 24 652 | 1 765 866 | 24 887 |
| – Options | 422 878 | 428 | 207 986 | 660 |
| – Futures | 4 648 | 28 | 5 445 | 15 |
| Equity derivatives | 56 142 | 1 908 | 49 881 | 2 925 |
| – Swaps | 3 442 | 1 023 | – | – |
| – Options | 25 314 | 500 | 40 339 | 2 446 |
| – Futures | 27 386 | 385 | 9 542 | 479 |
| Commodity derivatives | 18 996 | 344 | 6 692 | 221 |
| – Swaps | 2 835 | 154 | 5 065 | 147 |
| – Options | 415 | 18 | 486 | 18 |
| – Futures | 15 746 | 172 | 1 141 | 56 |
| Credit derivatives | 3 488 | 83 | 5 853 | 57 |
| **Total held for trading** | 8 706 806 | 37 615 | 8 355 209 | 41 228 |
| **Total not qualifying for hedge accounting** | 8 706 806 | 37 615 | 8 355 209 | 41 228 |
| **Total** | 8 806 549 | 38 633 | 8 417 487 | 41 628 |

## 7 DERIVATIVE FINANCIAL INSTRUMENTS continued

| | 2014 | | | | | |
|---|---|---|---|---|---|---|
| | Assets: Derivative instruments | | | | | |
| | Exchange traded | | Over the counter | | Total | |
| **R million** | **Notional** | **Fair value** | **Notional** | **Fair value** | **Notional** | **Fair value** |
| **Qualifying for hedge accounting** | | | | | | |
| **Cash flow hedges** | – | – | 83 888 | 852 | 83 888 | 852 |
| – Interest rate derivatives | – | – | 83 888 | 852 | 83 888 | 852 |
| **Fair value hedges** | 1 769 | – | 14 086 | 166 | 15 855 | 166 |
| – Interest rate derivatives | – | – | 14 086 | 166 | 14 086 | 166 |
| – Commodity derivatives | 1 769 | – | – | – | 1 769 | – |
| **Not qualifying for hedge accounting** | | | | | | |
| **Held for trading** | 22 895 | 15 | 8 683 911 | 37 600 | 8 706 806 | 37 615 |
| – Currency derivatives | 1 993 | – | 301 508 | 6 254 | 303 501 | 6 254 |
| – Interest rate derivatives | 2 118 | – | 8 322 561 | 29 026 | 8 324 679 | 29 026 |
| – Equity derivatives | 4 518 | – | 51 624 | 1 908 | 56 142 | 1 908 |
| – Commodity derivatives | 14 266 | 15 | 4 730 | 329 | 18 996 | 344 |
| – Credit derivatives | – | – | 3 488 | 83 | 3 488 | 83 |
| **Total** | 24 664 | 15 | 8 781 885 | 38 618 | 8 806 549 | 38 633 |

| | 2014 | | | | | |
|---|---|---|---|---|---|---|
| | Liabilities: Derivative instruments | | | | | |
| | Exchange traded | | Over the counter | | Total | |
| **R million** | **Notional** | **Fair value** | **Notional** | **Fair value** | **Notional** | **Fair value** |
| **Qualifying for hedge accounting** | | | | | | |
| **Cash flow hedges** | – | – | 49 786 | 306 | 49 786 | 306 |
| – Interest rate derivatives | – | – | 49 786 | 306 | 49 786 | 306 |
| **Fair value hedges** | – | – | 12 492 | 94 | 12 492 | 94 |
| – Interest rate derivatives | – | – | 12 492 | 94 | 12 492 | 94 |
| **Not qualifying for hedge accounting** | | | | | | |
| **Held for trading** | 3 709 | 5 | 8 351 500 | 41 223 | 8 355 209 | 41 228 |
| – Currency derivatives | 22 | 5 | 295 738 | 8 548 | 295 760 | 8 553 |
| – Interest rate derivatives | 3 580 | – | 7 993 443 | 29 472 | 7 997 023 | 29 472 |
| – Equity derivatives | – | – | 49 881 | 2 925 | 49 881 | 2 925 |
| – Commodity derivatives | 107 | – | 6 585 | 221 | 6 692 | 221 |
| – Credit derivatives | – | – | 5 853 | 57 | 5 853 | 57 |
| **Total** | 3 709 | 5 | 8 413 778 | 41 623 | 8 417 487 | 41 628 |

*Refer to note 38 for information on related party derivatives.*

## 8 COMMODITIES

| R million | 2015 | 2014 |
|---|---|---|
| Agricultural commodities | **1 406** | 2 077 |
| Gold | **5 948** | 5 827 |
| **Total commodities** | **7 354** | 7 904 |

Certain commodities are subject to option agreements whereby the counterparty may acquire the commodity at a future date. The price risk in these commodities 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.

## 9 ACCOUNTS RECEIVABLE

| R million | 2015 | 2014 |
|---|---|---|
| Items in transit | **1 807** | 1 963 |
| Interest and commission accrued | **118** | 49 |
| Prepayments | **754** | 598 |
| Sundry debtors | **743** | 696 |
| Other accounts receivable | **879** | 825 |
| **Total accounts receivable** | **4 301** | 4 131 |
| **Analysis of accounts receivable** | | |
| Financial | **2 715** | 2 851 |
| Non-financial | **1 586** | 1 280 |
| **Total accounts receivable** | **4 301** | 4 131 |

## 9 ACCOUNTS RECEIVABLE continued

The credit quality of the financial instruments included in accounts receivable is provided in the table below.

| | 2015 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | Past due but not impaired | | | | |
| **R million** | **Neither past due nor impaired** | **Re-negotiated but current** | **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** |

| | 2014 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | Past due but not impaired | | | | |
| **R million** | **Neither past due nor impaired** | **Re-negotiated but current** | **1 – 30 days** | **31 – 60 days** | **61 – 90 days** | **Impaired** | **Total** |
| Items in transit | 1 900 | – | 38 | – | – | – | 1 938 |
| Interest and commission accrued | 49 | – | – | – | – | – | 49 |
| Sundry debtors | 532 | – | 50 | 7 | 7 | – | 596 |
| Other accounts receivable | 229 | – | 24 | 9 | 6 | – | 268 |
| **Total financial accounts receivable** | 2 710 | – | 112 | 16 | 13 | – | 2 851 |

## 10 ADVANCES

| | | 2015 | | | | |
|---|---|---|---|---|---|---|
| **R million** | **Notes** | **Designated at fair value through profit or loss** | **Held-to-maturity** | **Loans and receivables** | **Available-for-sale** | **Total** |
| Notional value of advances | | 194 437 | 26 | 492 366 | 19 | 686 848 |
| Contractual interest suspended | | – | (6) | (1 365) | – | (1 371) |
| **Gross value of advances** | | 194 437 | 20 | 491 001 | 19 | 685 477 |
| **Sector analysis** | | | | | | |
| Agriculture | | 1 236 | – | 23 961 | 19 | 25 216 |
| Banks | | 11 820 | – | 4 366 | – | 16 186 |
| Financial institutions | | 58 191 | – | 20 922 | – | 79 113 |
| Building and property development | | 17 309 | – | 7 428 | – | 24 737 |
| Government, Land Bank and public authorities | | 13 462 | – | 1 385 | – | 14 847 |
| Individuals | | 461 | 20 | 341 517 | – | 341 998 |
| Manufacturing and commerce | | 36 815 | – | 46 570 | – | 83 385 |
| Mining | | 17 070 | – | 5 051 | – | 22 121 |
| Transport and communication | | 10 477 | – | 5 535 | – | 16 012 |
| Other services | | 27 596 | – | 34 266 | – | 61 862 |
| **Gross advances** | | 194 437 | 20 | 491 001 | 19 | 685 477 |
| Impairment of advances | 11 | – | (4) | (10 086) | – | (10 090) |
| **Net advances** | | 194 437 | 16 | 480 915 | 19 | 675 387 |
| **Category analysis** | | | | | | |
| Overdrafts and cash management accounts | | – | – | 52 608 | – | 52 608 |
| Term loans | | 4 158 | – | 26 693 | 7 | 30 858 |
| Card loans | | – | – | 20 765 | – | 20 765 |
| Instalment sales and hire purchase agreements | | – | – | 136 267 | 12 | 136 279 |
| Lease payments receivable | | – | – | 5 715 | – | 5 715 |
| Property finance | | 271 | 20 | 193 916 | – | 194 207 |
| – Home loans | | – | 20 | 174 958 | – | 174 978 |
| – Commercial property finance | | 271 | – | 18 958 | – | 19 229 |
| Personal loans | | – | – | 28 697 | – | 28 697 |
| Preference share agreements | | 29 643 | – | 391 | – | 30 034 |
| Assets under agreement to resell | | 37 884 | – | 2 182 | – | 40 066 |
| Investment bank term loans | | 122 249 | – | – | – | 122 249 |
| Long-term loans to associates | | – | – | 176 | – | 176 |
| Other | | 232 | – | 23 591 | – | 23 823 |
| **Gross value of advances** | | 194 437 | 20 | 491 001 | 19 | 685 477 |
| Impairment of advances | 11 | – | (4) | (10 086) | – | (10 090) |
| **Net advances** | | 194 437 | 16 | 480 915 | 19 | 675 387 |

## 10 ADVANCES continued

| | | 2015 | | | | |
|---|---|---|---|---|---|---|
| **R million** | **Notes** | **Designated at fair value through profit or loss** | **Held-to-maturity** | **Loans and receivables** | **Available-for-sale** | **Total** |
| **Geographic analysis (based on credit risk)** | | | | | | |
| South Africa | | 158 848 | 20 | 458 630 | 19 | 617 517 |
| Other Africa | | 24 583 | – | 4 329 | – | 28 912 |
| United Kingdom | | 7 364 | – | 22 189 | – | 29 553 |
| Other | | 3 642 | – | 5 853 | – | 9 495 |
| – Europe | | 1 363 | – | 3 788 | – | 5 151 |
| – North America | | 307 | – | 3 | – | 310 |
| – South America | | 718 | – | – | – | 718 |
| – Australasia | | – | – | 2 | – | 2 |
| – Asia | | 1 254 | – | 2 060 | – | 3 314 |
| **Gross value of advances** | | 194 437 | 20 | 491 001 | 19 | 685 477 |
| Impairment of advances | 11 | – | (4) | (10 086) | – | (10 090) |
| **Net advances** | | 194 437 | 16 | 480 915 | 19 | 675 387 |

## 10 ADVANCES continued

| R million | Notes | 2014<br>Designated at fair value through profit or loss | Held-to-maturity | Loans and receivables | Available-for-sale | Total |
|---|---|---|---|---|---|---|
| Notional value of advances | | 177 851 | 36 | 455 264 | 22 | 633 173 |
| Contractual interest suspended | | – | (5) | (1 517) | – | (1 522) |
| **Gross value of advances** | | 177 851 | 31 | 453 747 | 22 | 631 651 |
| **Sector analysis** | | | | | | |
| Agriculture | | 417 | – | 19 906 | 22 | 20 345 |
| Banks | | 4 014 | – | 4 338 | – | 8 352 |
| Financial institutions | | 54 778 | – | 20 014 | – | 74 792 |
| Building and property development | | 21 641 | – | 7 900 | – | 29 541 |
| Government, Land Bank and public authorities | | 11 392 | – | 2 534 | – | 13 926 |
| Individuals | | 307 | 31 | 326 930 | – | 327 268 |
| Manufacturing and commerce | | 37 196 | – | 38 007 | – | 75 203 |
| Mining | | 15 945 | – | 4 209 | – | 20 154 |
| Transport and communication | | 11 706 | – | 6 192 | – | 17 898 |
| Other services | | 20 455 | – | 23 717 | – | 44 172 |
| **Gross value of advances** | | 177 851 | 31 | 453 747 | 22 | 631 651 |
| Impairment of advances | 11 | – | (1) | (9 538) | – | (9 539) |
| **Net advances** | | 177 851 | 30 | 444 209 | 22 | 622 112 |
| **Category analysis** | | | | | | |
| Overdrafts and cash management accounts | | – | – | 48 574 | – | 48 574 |
| Term loans | | 1 031 | – | 21 523 | 22 | 22 576 |
| Card loans | | – | – | 17 032 | – | 17 032 |
| Instalment sales and hire purchase agreements | | – | – | 128 051 | – | 128 051 |
| Lease payments receivable | | – | – | 7 262 | – | 7 262 |
| Property finance | | 302 | 31 | 184 149 | – | 184 482 |
| – Home loans | | – | 31 | 170 518 | – | 170 549 |
| – Commercial property finance | | 302 | – | 13 631 | – | 13 933 |
| Personal loans | | – | – | 24 443 | – | 24 443 |
| Preference share agreements | | 25 149 | – | 406 | – | 25 555 |
| Assets under agreement to resell | | 31 390 | – | 1 363 | – | 32 753 |
| Investment bank term loans | | 119 555 | – | – | – | 119 555 |
| Long-term loans to associates | | – | – | 130 | – | 130 |
| Other | | 424 | – | 20 814 | – | 21 238 |
| **Gross value of advances** | | 177 851 | 31 | 453 747 | 22 | 631 651 |
| Impairment of advances | 11 | – | (1) | (9 538) | – | (9 539) |
| **Net advances** | | 177 851 | 30 | 444 209 | 22 | 622 112 |

## 10 ADVANCES continued

| | | 2014 | | | | |
|---|---|---|---|---|---|---|
| **R million** | **Notes** | **Designated at fair value through profit or loss** | **Held-to-maturity** | **Loans and receivables** | **Available-for-sale** | **Total** |
| **Geographic analysis (based on credit risk)** | | | | | | |
| South Africa | | 156 435 | 31 | 430 511 | 22 | 586 999 |
| Other Africa | | 15 282 | – | 3 910 | – | 19 192 |
| United Kingdom | | 3 944 | – | 14 850 | – | 18 794 |
| Other | | 2 190 | – | 4 476 | – | 6 666 |
| – Europe | | 864 | – | 3 374 | – | 4 238 |
| – North America | | 504 | – | 210 | – | 714 |
| – Australasia | | – | – | 2 | – | 2 |
| – Asia | | 822 | – | 890 | – | 1 712 |
| **Gross value of advances** | | 177 851 | 31 | 453 747 | 22 | 631 651 |
| Impairment of advances | 11 | – | (1) | (9 538) | – | (9 539) |
| **Net advances** | | 177 851 | 30 | 444 209 | 22 | 622 112 |

## 10 ADVANCES continued

| | 2015 | | | |
|---|---|---|---|---|
| **R million** | **Within 1 year** | **Between 1 and 5 years** | **More than 5 years** | **Total** |
| **Analysis of instalment sales and lease payments receivable** | | | | |
| Lease payments receivable | **1 647** | **4 336** | **346** | **6 329** |
| Suspensive sale instalments receivable | **42 455** | **122 230** | **8 233** | **172 918** |
| Sub-total | **44 102** | **126 566** | **8 579** | **179 247** |
| Less: unearned finance charges | **(8 876)** | **(26 247)** | **(1 998)** | **(37 121)** |
| **Total gross instalment sales and lease payments receivable** | **35 226** | **100 319** | **6 581** | **142 126** |
| Less: interest in suspense | | | | **(132)** |
| **Total net instalment sales and lease payments receivable** | | | | **141 994** |

| | 2014 | | | |
|---|---|---|---|---|
| **R million** | **Within 1 year** | **Between 1 and 5 years** | **More than 5 years** | **Total** |
| **Analysis of instalment sales and lease payments receivable** | | | | |
| Lease payments receivable | 2 193 | 5 222 | 411 | 7 826 |
| Suspensive sale instalments receivable | 40 450 | 113 804 | 9 105 | 163 359 |
| Sub-total | 42 643 | 119 026 | 9 516 | 171 185 |
| Less: unearned finance charges | (8 576) | (25 035) | (2 174) | (35 785) |
| **Total gross instalment sales and lease payments receivable** | 34 067 | 93 991 | 7 342 | 135 400 |
| Less: interest in suspense | | | | (87) |
| **Total net instalment sales and lease payments receivable** | | | | 135 313 |

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 R132 million (2014: R137 million).

### Advances relating to synthetic securitisations

Fresco II was a synthetic securitisation transaction that matured in the prior year amounting to R5 billion of the bank's corporate advances. In terms of the transaction, the bank transferred the credit risk up to the value of the reference portfolio to Fresco II, a bankruptcy remote special purpose entity.

## 10 ADVANCES continued

### Credit risk mitigation

Collateral is an important mitigant of credit risk. Refer to the *risk and capital management report* for the bank's credit risk management strategy with detailed information on credit risk mitigation.

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

| R million | 2015 | 2014 |
|---|---|---|
| FNB retail | **6 772** | 6 910 |
| FNB commercial | **542** | 482 |
| **Total FNB** | **7 314** | 7 392 |
| RMB investment banking | **1 126** | 1 054 |
| RMB corporate banking | **30** | 26 |
| **Total RMB** | **1 156** | 1 080 |
| WesBank | **2 071** | 1 959 |
| FCC and other | **–** | 30 |
| **Total** | **10 541** | 10 461 |

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.

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 ongoing basis through statistical indexation models. However in the event of default, more detailed reviews and valuations of collateral are performed, which, therefore, yields a more accurate financial effect.

## 11 IMPAIRMENT OF ADVANCES

Significant loans and advances are monitored by the credit committee and impaired according to the bank's impairment policy when an indication of impairment is observed.

The following factors, among others, 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.

| | 2015 | | | |
|---|---|---|---|---|
| | **FNB** | | **RMB** | |
| **R million** | **Retail** | **Commercial** | **Investment banking** | **Corporate banking** |
| **Analysis of movement in impairment of advances per class of advance** | | | | |
| Opening balance | **4 053** | **1 061** | **231** | **252** |
| Amounts written off | **(2 982)** | **(266)** | **–** | **(35)** |
| Acquisitions of business | **–** | **–** | **–** | **–** |
| Transfers (to)/from other divisions | **(35)** | **–** | **–** | **35** |
| Reclassifications | **–** | **–** | **–** | **–** |
| Exchange rate difference | **7** | **–** | **9** | **–** |
| Unwinding of discounted present value on NPLs | **(70)** | **(2)** | **–** | **–** |
| Net new impairments created/(released)* | **2 984** | **340** | **56** | **112** |
| **Closing balance** | **3 957** | **1 133** | **296** | **364** |
| (Increase)/decrease in impairment* | **(2 984)** | **(340)** | **(56)** | **(112)** |
| Recoveries of bad debts previously written off | **1 221** | **30** | **–** | **–** |
| **Impairment loss recognised in profit or loss** | **(1 763)** | **(310)** | **(56)** | **(112)** |

* *Refer to the risk management framework and governance structure report for more details: Credit risk – under the impairment of financial assets and NPLs section.*

| 2015 | | | | |
|---|---|---|---|---|
| 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 |
| – | – | – | – | – |
| – | – | – | 50 | (50) |
| 6 | – | 22 | 7 | 15 |
| (8) | – | (80) | (80) | – |
| 2 987 | (298) | 6 181 | 5 841 | 340 |
| 3 292 | 1 048 | 10 090 | 5 239 | 4 851 |
| (2 987) | 298 | (6 181) | (5 841) | (340) |
| 574 | – | 1 825 | 1 825 | – |
| (2 413) | 298 | (4 356) | (4 016) | (340) |

## 11 IMPAIRMENT OF ADVANCES continued

| | 2014 | | | | |
|---|---|---|---|---|---|
| | FNB | | RMB | | |
| **R million** | **Retail** | **Commercial** | **Investment banking** | **Corporate banking** | |
| **Analysis of movement in impairment of advances per class of advance** | | | | | |
| Opening balance | 4 390 | 1 007 | 156 | 232 | |
| Amounts written off | (3 304) | (195) | – | (3) | |
| Acquisitions of business | – | – | – | – | |
| Transfers from/(to) other divisions | 48 | (36) | – | (9) | |
| Reclassifications | – | – | – | – | |
| Exchange rate difference | 6 | – | 3 | – | |
| Unwinding of discounted present value on NPLs | (109) | (8) | – | – | |
| Net new impairments created | 3 022 | 293 | 72 | 32 | |
| **Closing balance** | 4 053 | 1 061 | 231 | 252 | |
| Increase in impairment | (3 022) | (293) | (72) | (32) | |
| Recoveries of bad debts previously written off | 1 103 | 31 | – | 1 | |
| **Impairment loss recognised in profit or loss** | (1 919) | (262) | (72) | (31) | |

| | 2014 | | | | |
|---|---|---|---|---|---|
| | WesBank | FCC and other | Total impairment | Specific impairment | Portfolio impairment |
| | | | | | |
| | 2 127 | 800 | 8 712 | 5 228 | 3 484 |
| | (2 045) | – | (5 547) | (5 547) | – |
| | 43 | – | 43 | 22 | 21 |
| | (66) | 63 | – | – | – |
| | – | – | – | (4) | 4 |
| | 6 | 1 | 16 | 9 | 7 |
| | (11) | – | (128) | (128) | – |
| | 2 541 | 483 | 6 443 | 5 415 | 1 028 |
| | 2 595 | 1 347 | 9 539 | 4 995 | 4 544 |
| | (2 541) | (483) | (6 443) | (5 415) | (1 028) |
| | 481 | – | 1 616 | 1 616 | – |
| | (2 060) | (483) | (4 827) | (3 799) | (1 028) |

## 11 IMPAIRMENT OF ADVANCES continued

| | 2015 | | |
|---|---|---|---|
| **R million** | **Total value net of interest in suspense** | **Security held and expected recoveries** | **Specific impairment** |
| **NPLs by sector** | | | |
| Agriculture | **219** | **163** | **56** |
| Banks | **–** | **–** | **–** |
| Financial institutions | **98** | **45** | **53** |
| Building and property development | **1 391** | **1 228** | **163** |
| Government, Land Bank and public authorities | **8** | **6** | **2** |
| Individuals | **10 992** | **7 133** | **3 859** |
| Manufacturing and commerce | **972** | **464** | **508** |
| Mining | **811** | **776** | **35** |
| Transport and communication | **125** | **57** | **68** |
| Other | **937** | **442** | **495** |
| **Total NPLs** | **15 553** | **10 314** | **5 239** |
| **NPLs by category** | | | |
| Overdrafts 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** |
| – Home loans | **4 519** | **3 615** | **904** |
| – Commercial property finance | **352** | **245** | **107** |
| 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** |

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.

The bank makes use of the allowance account method for the purposes of impairing loans and advances that are measured at amortised cost. Fair value gains and losses that arise on the remeasurement of loans and advances that are measured at fair value are included in fair value income in non-interest revenue. The total value of NPLs, reflected above, includes the cumulative fair value adjustment applicable to RMB investment banking NPLs of R1 166 million at June 2015 (R1 066 million at June 2014). The age analysis of advances contained in the *risk and capital management report* reflects NPLs net of the cumulative fair value adjustment. Refer to page 134.

## 11 IMPAIRMENT OF ADVANCES continued

| | 2015 | | |
|---|---|---|---|
| **R million** | **Total value net of interest in suspense** | **Security held and expected recoveries** | **Specific impairment** |
| **NPLs by class** | | | |
| FNB retail | 6 257 | 4 080 | 2 177 |
| FNB commercial | 1 301 | 549 | 752 |
| **Total FNB** | 7 558 | 4 629 | 2 929 |
| RMB investment banking | 2 143 | 2 066 | 77 |
| RMB corporate banking | 84 | 78 | 6 |
| **Total RMB** | 2 227 | 2 144 | 83 |
| WesBank | 5 768 | 3 541 | 2 227 |
| **Total NPLs** | 15 553 | 10 314 | 5 239 |
| **NPLs by geographical area** | | | |
| South Africa | 14 675 | 9 546 | 5 129 |
| Other Africa | 676 | 675 | 1 |
| United Kingdom | 75 | 28 | 47 |
| Europe | 47 | 47 | – |
| Asia | 80 | 18 | 62 |
| **Total NPLs** | 15 553 | 10 314 | 5 239 |

## 11 IMPAIRMENT OF ADVANCES continued

| | 2014 | | |
|---|---|---|---|
| **R million** | **Total value net of interest in suspense** | **Security held and expected recoveries** | **Specific impairment** |
| **NPLs by sector** | | | |
| Agriculture | 174 | 126 | 48 |
| Financial institutions | 167 | 47 | 120 |
| Building and property development | 2 080 | 1 775 | 305 |
| Government, Land Bank and public authorities | 53 | 19 | 34 |
| Individuals | 11 323 | 7 623 | 3 700 |
| Manufacturing and commerce | 469 | 155 | 314 |
| Mining | 52 | 14 | 38 |
| Transport and communication | 65 | 26 | 39 |
| Other | 601 | 204 | 397 |
| **Total NPLs** | 14 984 | 9 989 | 4 995 |
| **NPLs by category** | | | |
| Overdrafts and cash management accounts | 940 | 263 | 677 |
| Term loans | 270 | 127 | 143 |
| Card loans | 385 | 113 | 272 |
| Instalment sales and hire purchase agreements | 3 488 | 2 187 | 1 301 |
| Lease payments receivable | 183 | 107 | 76 |
| Property finance | 6 147 | 4 776 | 1 371 |
| – Home loans | 5 629 | 4 506 | 1 123 |
| – Commercial property finance | 518 | 270 | 248 |
| Personal loans | 1 475 | 497 | 978 |
| Investment bank term loans | 1 635 | 1 635 | – |
| Other | 461 | 284 | 177 |
| **Total NPLs** | 14 984 | 9 989 | 4 995 |

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.

## 11 IMPAIRMENT OF ADVANCES continued

| | 2014 | | |
|---|---|---|---|
| **R million** | **Total value net of interest in suspense** | **Security held and expected recoveries** | **Specific impairment** |
| **NPLs by class** | | | |
| FNB retail | 7 318 | 4 906 | 2 412 |
| FNB commercial | 1 259 | 526 | 733 |
| **Total FNB** | 8 577 | 5 432 | 3 145 |
| RMB investment banking | 1 740 | 1 690 | 50 |
| RMB corporate banking | 6 | – | 6 |
| **Total RMB** | 1 746 | 1 690 | 56 |
| WesBank | 4 661 | 2 867 | 1 794 |
| **Total NPLs** | 14 984 | 9 989 | 4 995 |
| **NPLs by geographical area** | | | |
| South Africa | 14 886 | 9 983 | 4 903 |
| Other Africa | – | – | – |
| United Kingdom | 37 | 6 | 31 |
| Europe | – | – | – |
| Asia | 61 | – | 61 |
| **Total NPLs** | 14 984 | 9 989 | 4 995 |

## 12 AMOUNTS DUE (TO)/BY HOLDING COMPANY AND FELLOW SUBSIDIARY COMPANIES

| R million | 2015 | 2014 |
|---|---|---|
| Amounts due to holding company | **(291)** | (133) |
| Amounts due to fellow subsidiary companies | **(11 545)** | (12 159) |
| **Amounts due to holding company and fellow subsidiary companies** | **(11 836)** | (12 292) |
| Amounts due by holding company | **–** | – |
| Amounts due by fellow subsidiary companies | **27 318** | 26 005 |
| **Amounts due by holding company and fellow subsidiary companies** | **27 318** | 26 005 |
| **Net amounts due by holding company and fellow subsidiary companies** | **15 482** | 13 713 |

These loans have no fixed terms of repayment and carry varying rates of interest. Loans to fellow subsidiary companies amounting to R263 million (2014: R236 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 subsidiary companies | | Amounts due to fellow subsidiary companies | |
|---|---|---|---|---|
| **R million** | **Notional** | **Fair value** | **Notional** | **Fair value** |
| **2015** | | | | |
| **Derivative instruments** | **19 574** | **295** | **(24 851)** | **(135)** |
| 2014 | | | | |
| Derivative instruments | 28 411 | 305 | (14 821) | (226) |

## 13 DEFERRED INCOME TAX

Movement on the deferred income tax account is shown below.

| R million | 2015 | 2014 |
|---|---|---|
| **Deferred income tax asset** | | |
| Opening balance | **400** | – |
| Charge to profit or loss | **673** | 400 |
| Deferred income tax on amounts charged directly to other comprehensive income | **129** | – |
| **Total deferred income tax asset** | **1 202** | 400 |
| **Deferred income tax liability** | | |
| Opening balance | **–** | (50) |
| Release to profit or loss | **–** | 44 |
| Deferred income tax on amounts charged directly to other comprehensive income | **–** | 6 |
| **Total deferred income tax liability** | **–** | – |
| **Net deferred income tax asset/(liability)** | **1 202** | 400 |

## 13 DEFERRED INCOME TAX continued

Deferred income tax assets and liabilities and deferred income tax charged/released to profit or loss are attributable to the items below.

| | 2015 | | | | |
|---|---|---|---|---|---|
| **R million** | **Opening balance** | **Tax (charge)/ release** | **Tax rate adjustment** | **Other** | **Closing balance** |
| **Deferred income tax asset** | | | | | |
| Taxation losses | – | 133 | – | – | 133 |
| Provision for loan impairment | – | 776 | – | – | 776 |
| Provision for post-employment benefits* | – | 248 | – | (1) | 247 |
| Other provisions | – | 922 | – | – | 922 |
| Cash flow hedge* | – | (179) | – | 105 | (74) |
| Instalment credit assets | – | (469) | – | – | (469) |
| Accruals | – | (93) | – | – | (93) |
| Available-for-sale securities* | – | (135) | – | 25 | (110) |
| Capital gains tax | – | 70 | – | – | 70 |
| Other | 400 | (600) | – | – | (200) |
| **Total deferred income tax asset** | 400 | 673 | – | 129 | 1 202 |
| **Deferred income tax liability** | | | | | |
| Taxation losses | – | – | – | – | – |
| Provision for loan impairment | 774 | (774) | – | – | – |
| Provision for post-employment benefits | 182 | (182) | – | – | – |
| Other provisions | 839 | (839) | – | – | – |
| Cash flow hedge* | (180) | 180 | – | – | – |
| Instalment credit assets | (879) | 879 | – | – | – |
| Accruals | (122) | 122 | – | – | – |
| Available-for-sale securities* | (135) | 135 | – | – | – |
| Capital gains tax | 88 | (88) | – | – | – |
| Other | (567) | 567 | – | – | – |
| **Total deferred income tax liability** | – | – | – | – | – |
| **Net deferred income tax asset/(liability)** | 400 | 673 | – | 129 | 1 202 |

* *Amounts reported under the other column have been charged directly to other comprehensive income.*

Deferred income tax assets are recognised in respect of deductible temporary differences, unused tax losses and unused tax credits to the extent that the realisation of the related tax benefit is probable based on management's review of the bank's budget and forecast information.

## 13 DEFERRED INCOME TAX continued

| R million | 2014 Opening balance | Tax (charge)/ release | Tax rate adjustment | Other | Closing balance |
|---|---|---|---|---|---|
| **Deferred income tax asset** | | | | | |
| Taxation losses | – | – | – | – | – |
| Other | – | 400 | – | – | 400 |
| **Total deferred income tax asset** | – | 400 | – | – | 400 |
| **Deferred income tax liability** | | | | | |
| Taxation losses | – | – | – | – | – |
| Provision for loan impairment | 569 | 205 | – | – | 774 |
| Provision for post-employment benefits | 114 | (12) | – | 80 | 182 |
| Other provisions | 958 | (119) | – | – | 839 |
| Cash flow hedge* | (39) | – | – | (141) | (180) |
| Instalment credit assets | (1 223) | 344 | – | – | (879) |
| Accruals | (183) | 61 | – | – | (122) |
| Available-for-sale securities* | (201) | (1) | – | 67 | (135) |
| Capital gains tax | 69 | 19 | – | – | 88 |
| Other | (114) | (453) | – | – | (567) |
| **Total deferred income tax liability** | (50) | 44 | – | 6 | – |
| **Net deferred income tax asset/(liability)** | (50) | 444 | – | 6 | 400 |

* *Amounts reported under the other column have been charged directly to other comprehensive income.*

## 14 INVESTMENT SECURITIES AND OTHER INVESTMENTS

| | 2015 | | | | |
|---|---|---|---|---|---|
| **R million** | **Held for trading** | **Designated at fair value through profit or loss** | **Loans and receivables** | **Available-for-sale** | **Total** |
| Negotiable certificates of deposit | **1 022** | **–** | **–** | **681** | **1 703** |
| Treasury bills | **–** | **21 175** | **–** | **1 170** | **22 345** |
| Other government and government guaranteed stock | **27 525** | **165** | **–** | **29 091** | **56 781** |
| Other dated securities | **4 750** | **23 007** | **192** | **10 403** | **38 352** |
| Other undated securities | **509** | **–** | **–** | **–** | **509** |
| Equities | **41** | **13 107** | **–** | **590** | **13 738** |
| Other | **115** | **–** | **–** | **–** | **115** |
| **Total investment securities and other investments** | **33 962** | **57 454** | **192** | **41 935** | **133 543** |

| | 2014 | | | | |
|---|---|---|---|---|---|
| **R million** | **Held for trading** | **Designated at fair value through profit or loss** | **Loans and receivables** | **Available-for-sale** | **Total** |
| Negotiable certificates of deposit | – | – | – | 749 | 749 |
| Treasury bills | 1 075 | 15 791 | – | 1 024 | 17 890 |
| Other government and government guaranteed stock | 20 207 | 2 173 | – | 20 213 | 42 593 |
| Other dated securities | 3 454 | 11 899 | 505 | 1 778 | 17 636 |
| Other undated securities | 67 | – | – | – | 67 |
| Equities | 3 | 9 283 | – | 561 | 9 847 |
| Other | – | – | – | 1 | 1 |
| **Total investment securities and other investments** | 24 806 | 39 146 | 505 | 24 326 | 88 783 |

R40 219 million (2014: R36 504 million) of the financial instruments form part of the bank's liquid asset portfolio in terms of the SARB and other foreign banking regulators' requirements.

## 14 INVESTMENT SECURITIES AND OTHER INVESTMENTS continued

### Analysis of investment securities and other investments

| R million | 2015 | 2014 |
|---|---|---|
| **Listed** | **74 461** | 58 988 |
| – Equities | **1 715** | 1 412 |
| – Debt | **72 746** | 57 576 |
| **Unlisted** | **59 082** | 29 795 |
| – Equities | **12 023** | 8 435 |
| – Debt | **47 059** | 21 360 |
| **Total** | **133 543** | 88 783 |

Information regarding investment securities and other investments is kept at the bank's registered offices. This information is open for inspection in terms of the provisions of section 26 of the Companies Act 71 of 2008.

## 15 INVESTMENTS IN SUBSIDIARY COMPANIES

FirstRand Bank Limited is the entity through which the FirstRand group's banking operations are conducted. This entity has branches in India and London and significant representative offices in Angola and Kenya. Investments held by the bank are listed in the table below.

| 2015 | Nature of business | Principal place of business | Ownership % | Voting rights % | Investment in subsidiary (R million) |
|---|---|---|---|---|---|
| FRB Representacoes E Participacoes LTDA | **Financial services** | **Sao Paulo, Brazil** | **100** | **100** | ***** |
| Other | **Various** | **Various** | **Various** | **Various** | ***** |
| **Total investments in subsidiary companies at cost** | | | | | ***** |

| 2014 | Nature of business | Principal place of business | Ownership % | Voting rights % | Investment in subsidiary (R million) |
|---|---|---|---|---|---|
| FRB Representacoes E Participacoes LTDA | Financial services | Sao Paulo, Brazil | 100 | 100 | * |
| Other | Various | Various | Various | Various | * |
| **Total investments in subsidiary companies at cost** | | | | | * |

* *Denotes amounts less than R500 000.*

## 15 INVESTMENTS IN SUBSIDIARY COMPANIES continued

The bank did not dispose of or acquire any significant subsidiaries in the current year.

| | 2014 | | | | |
|---|---|---|---|---|---|
| **Entity** | **% acquired/ disposed of** | **Transaction date** | **Net asset value of subsidiary R million** | **Notes** | **Transaction details** |
| **Acquisitions** | | | | | |
| First Auto Proprietary Limited (First Auto) | 100 | 1 October 2013 | 110 | 15.1 | The bank acquired all the assets and liabilities of First Auto from FRIHL. The assets and liabilities acquired were divisionalised within the bank. The primary reason for the divisionalisation was to achieve operational and funding efficiencies as First Auto's business is aligned to that of WesBank (a division of FirstRand Bank Limited). The acquisition was accounted for in line with the FirstRand group's accounting policy for common control transactions. The bank recognised the assets and liabilities at the predecessor consolidated carrying values on the acquisition date. The assets and liabilities were not restated to fair value. No additional goodwill is recognised for common control transactions, but the difference between the consideration and the net carrying value of the assets is accounted for directly in equity. The consideration transferred was equal to the consolidated carrying value and no amounts were recognised in equity. As part of the transaction assets of R1 582 million (including goodwill of R104 million) and liabilities of R1 472 million were acquired. |

## 15 INVESTMENTS IN SUBSIDIARY COMPANIES continued

### 15.1 Acquisitions of subsidiaries and businesses

| | 2014 | |
|---|---|---|
| **R million** | **Total** | **First Auto** |
| **Cash flow information** | | |
| Discharged by cash consideration | (110) | (110) |
| Less: Cash and cash equivalents acquired | 110 | 110 |
| **Net cash in/outflow on acquisition of subsidiaries** | – | – |

## 16 INVESTMENTS IN ASSOCIATES

| **R million** | **2015** | **2014** |
|---|---|---|
| **Unlisted investments** | | |
| Investments at cost less amounts written off | * | * |
| **Total investments in associates** | * | * |

* *Denotes amounts less than R500 000.*

There were no acquisition and disposals of associates in the current year.

### 16.1 Disposal of associates

| | 2014 | | | |
|---|---|---|---|---|
| | **Total** | **Capricorn Fund Managers** | **Truffle Asset Management** | **Weston Atlas Funds** |
| Disposal date | | 30/11/13 | 30/11/13 | 31/05/14 |
| Interest disposed of (%) | | 21 | 44 | 33 |
| Total consideration received (R million) | 57 | 10 | 6 | 41 |
| - Discharged of by cash | – | – | – | – |
| - Non-cash consideration | 57 | 10 | 6 | 41 |
| Carrying value of the associate on disposal date | (44) | (10) | (5) | (29) |
| **Gain on disposal of associates** | 13 | – | 1 | 12 |

#### Capricorn Fund Managers and Truffle Asset Management

These amounts represent seed capital invested into funds managed by third party fund managers. The investments were disposed of in the prior year for R10 million and R6 million respectively.

#### Weston Atlas Funds

The underlying assets of the Weston Capital Partners Fund II Ltd (the fund) were sold during the prior year and the proceeds distributed to investors. These distributions were in effect a return of capital and the bank (through its division RMB) no longer holds an investment in the fund. The distributions received from the fund exceeded the carrying value of the investment and a gain of R12 million was recognised in gains less losses from investing activities.

## 17 PROPERTY AND EQUIPMENT

The useful life of each asset is assessed individually. The table below provides information on the benchmarks used when assessing the useful lives of the individual assets.

| | |
|---|---|
| Leasehold premises | Shorter of estimated life or period of lease |
| Freehold property and property held under finance lease | |
| – Buildings and structures | 50 years |
| – Mechanical and electrical | 20 years |
| – Components | 20 years |
| – Sundries | 3 – 5 years |
| Computer equipment | 3 – 5 years |
| Furniture and fittings | 3 – 10 years |
| Motor vehicles | 5 years |
| Office equipment | 3 – 6 years |

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| R million | Cost | Accumulated depreciation and impairments | Carrying amount | Cost | Accumulated depreciation and impairments | Carrying amount |
| **Property*** | **9 772** | **(2 370)** | **7 402** | 8 821 | (2 003) | 6 818 |
| Freehold property | **6 457** | **(1 073)** | **5 384** | 5 730 | (928) | 4 802 |
| Leasehold premises | **3 315** | **(1 297)** | **2 018** | 3 091 | (1 075) | 2 016 |
| **Equipment*** | **10 970** | **(5 551)** | **5 419** | 9 432 | (4 881) | 4 551 |
| Computer equipment | **6 025** | **(3 390)** | **2 635** | 4 983 | (3 008) | 1 975 |
| Furniture and fittings | **1 489** | **(774)** | **715** | 1 334 | (688) | 646 |
| Motor vehicles | **2 282** | **(687)** | **1 595** | 2 125 | (561) | 1 564 |
| Office equipment | **1 174** | **(700)** | **474** | 990 | (624) | 366 |
| **Total property and equipment** | **20 742** | **(7 921)** | **12 821** | 18 253 | (6 884) | 11 369 |

* *Assets utilised by the bank in the normal course of operations to provide services.*

## 17 PROPERTY AND EQUIPMENT continued

| | | Property | |
|---|---|---|---|
| **R million** | **Notes** | **Freehold property** | **Leasehold premises** |
| **Carrying amount at 1 July 2013** | | 4 555 | 1 868 |
| Acquisitions | | 522 | 406 |
| Disposals | | (31) | (41) |
| Exchange rate difference | | – | 3 |
| Depreciation charge for the year | 3 | (244) | (219) |
| Impairments recognised | 3.1 | – | (1) |
| Other | | – | – |
| **Carrying amount at 30 June 2014** | | **4 802** | **2 016** |
| Acquisitions | | **746** | **277** |
| Disposals | | **(11)** | **(19)** |
| Exchange rate difference | | **–** | **1** |
| Depreciation charge for the year | 3 | **(152)** | **(254)** |
| Impairments recognised | 3.1 | **–** | **–** |
| Impairments reversed | 3.1 | **–** | **–** |
| Transfers between divisions | | **(1)** | **(3)** |
| **Carrying amount at 30 June 2015** | | **5 384** | **2 018** |

Information regarding land and buildings is kept at the bank's registered offices. This information will be open for inspection in terms of section 26 of the Companies Act 71 of 2008.

| Computer equipment | Furniture and fittings | Motor vehicles | Office equipment | Total |
|---|---|---|---|---|
| Equipment | | | | |
| 1 559 | 599 | 1 514 | 326 | 10 421 |
| 1 125 | 205 | 910 | 150 | 3 318 |
| (97) | (13) | (518) | (3) | (703) |
| 4 | 1 | – | 1 | 9 |
| (617) | (145) | (340) | (108) | (1 673) |
| – | – | (3) | – | (4) |
| 1 | (1) | 1 | – | 1 |
| **1 975** | **646** | **1 564** | **366** | **11 369** |
| **1 363** | **174** | **797** | **243** | **3 600** |
| **(4)** | **(7)** | **(397)** | **–** | **(438)** |
| **1** | **2** | **–** | **–** | **4** |
| **(712)** | **(100)** | **(369)** | **(130)** | **(1 717)** |
| **–** | **–** | **–** | **–** | **–** |
| **–** | **–** | **3** | **–** | **3** |
| **12** | **–** | **(3)** | **(5)** | **–** |
| **2 635** | **715** | **1 595** | **474** | **12 821** |

## 18 INTANGIBLE ASSETS

The useful life of each intangible asset is assessed individually. The table below provides information on the benchmarks used when assessing the useful lives of the individual intangible assets.

| | |
|---|---|
| Software and development costs | 3 years |
| Trademarks | 10 to 20 years |
| Other | 3 to 10 years |

| | | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|---|
| R million | Notes | Cost | Accumulated amortisation and impairments | Carrying amount | Cost | Accumulated amortisation and impairments | Carrying amount |
| **Goodwill** | | | | | | | |
| Opening balance | | **104** | **(104)** | **–** | – | – | – |
| Acquisition of business* | | **–** | **–** | **–** | 104 | – | 104 |
| Impairments recognised | 3.1 | **–** | **–** | **–** | – | (104) | (104) |
| **Closing balance** | | **104** | **(104)** | **–** | 104 | (104) | – |
| **Software and development costs** | | | | | | | |
| Opening balance | | **932** | **(848)** | **84** | 949 | (805) | 144 |
| Acquisitions | | **36** | **–** | **36** | 1 | – | 1 |
| Disposals | | **–** | **–** | **–** | (19) | 12 | (7) |
| Exchange rate difference | | **1** | **(1)** | **–** | 1 | (1) | – |
| Amortisation for the year | 3 | **–** | **(50)** | **(50)** | – | (54) | (54) |
| Impairments recognised | 3.1 | **–** | **–** | **–** | – | – | – |
| Other | | **(7)** | **8** | **1** | – | – | – |
| **Closing balance** | | **962** | **(891)** | **71** | 932 | (848) | 84 |
| **Trademarks** | | | | | | | |
| Opening balance | | **70** | **(70)** | **–** | 59 | (59) | – |
| Exchange rate difference | | **4** | **(4)** | **–** | 11 | (11) | – |
| **Closing balance** | | **74** | **(74)** | **–** | 70 | (70) | – |

* *During the prior year, the bank acquired the business of First Auto from FRIHL. The transaction was accounted for as a business combination under common control and the bank acquired the goodwill that was recognised on the original business combination.*

There were no reversals of previously recognised impairments in the current or prior years.

## 18 INTANGIBLE ASSETS continued

| | | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|---|
| | Notes | Cost | Accumulated amortisation and impairments | Carrying amount | Cost | Accumulated amortisation and impairments | Carrying amount |
| **Other** | | | | | | | |
| Opening balance | | **96** | **(96)** | **–** | 92 | (82) | 10 |
| Exchange rate difference | | **1** | **(1)** | **–** | 4 | (4) | – |
| Amortisation for the year | | **–** | **–** | **–** | – | – | – |
| Impairments recognised | 3.1 | **–** | **–** | **–** | – | (10) | (10) |
| **Closing balance** | | **97** | **(97)** | **–** | 96 | (96) | – |
| **Total intangible assets** | | | | | | | |
| Goodwill | | **104** | **(104)** | **–** | 104 | (104) | – |
| Software and development costs | | **962** | **(891)** | **71** | 932 | (848) | 84 |
| Trademarks | | **74** | **(74)** | **–** | 70 | (70) | – |
| Other | | **97** | **(97)** | **–** | 96 | (96) | – |
| **Total intangible assets** | | **1 237** | **(1 166)** | **71** | 1 202 | (1 118) | 84 |

## 19 EMPLOYEE LIABILITIES AND RELATED ASSETS

| R million | Notes | 2015 | 2014 |
|---|---|---|---|
| Staff related provisions | 19.1 | **5 004** | 4 882 |
| Share-based payment liability | | **2 955** | 2 549 |
| Defined benefit post-employment liability | 19.2 | **885** | 649 |
| Other long-term employee liabilities | | **4** | – |
| Defined contribution post-employment liability | 19.3 | **–** | – |
| **Total employee liabilities** | | **8 848** | 8 080 |
| **Net amount due to employees** | | **8 848** | 8 080 |

### 19.1 Staff-related provisions

The staff-related provisions consist mainly of the provision for leave pay and staff bonuses. The liability relating to the MMI shares that participants in the BEE schemes received in December 2014 was also included in the comparative. Further details of this scheme and the vesting conditions related to the scheme are provided in note 28.

| R million | Notes | 2015 | 2014 |
|---|---|---|---|
| Opening balance | | **4 882** | 3 894 |
| Acquisitions of business | | **–** | 7 |
| Exchange rate differences | | **14** | 28 |
| Charge to profit or loss | 3 | **3 496** | 3 487 |
| – Additional provisions created | | **3 496** | 3 506 |
| – Unused provisions reversed | | **–** | (19) |
| Utilised | | **(3 388)** | (2 534) |
| **Closing balance** | | **5 004** | 4 882 |

## 19 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

### 19.2 Defined benefit post-employment liability

#### Nature of benefits

The bank operates two defined benefit plans in South Africa; a plan that provides post-employment medical benefits and a pension plan. The pension plan provides retired employees with annuity income after their service. The medical scheme provides retired employees with medical benefits after their service. In terms of these plans, the bank is liable to the employees for specific payments on retirement and for any deficit in the provision of these benefits from the plan assets. The liabilities and assets of these pension plans are reflected as a net asset or liability in the statement of financial position. For the pension plan, a separate fund (the fund) has been established. The fund had assets that are used solely to pay the pension benefits. For current pensioners the fund pays a pension to the members, and dependants' pension to the spouse and eligible children payable on death of the member.

On retirement of current defined contribution active members, the plan 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, pension increase target) and the economic assumptions at time of purchase (inflation-linked bond yields available). 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 plan. Benefits on withdrawal and retrenchment are determined in terms of the prevailing legislation and are equivalent to the value of the actuarial reserve held in the fund. 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 medical scheme, the bank is liable for any deficit in the provision of the benefits from the plan assets. In terms of the small number of defined benefit contributing members in the plan, the bank is liable for any deficit in the value of accrued benefits exceeding the assets in the fund earmarked for these liabilities. 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. 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 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). The employer's post-employment medical 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.

#### Regulatory framework

The plans are governed by local regulations and practice in South Africa. The pension plan is regulated by the Financial Services Board and the medical plan by the Registrar of Council for Medical Schemes.

## 19 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

### 19.2 Defined benefit post-employment liability continued

#### Governance of the plans

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 boards for five years and may be re-elected for a number of terms. 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 done 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.

Governance of the post-employment medical aid subsidy policy lies with the bank and the bank has established a committee that meets regularly to discuss and review the management and the subsidy. The committee also considers administration, data management issues and analyses demographic and economic risks inherent in the subsidy policy.

#### Funding policy

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.

The last statutory actuarial valuation of the fund (in 30 June 2014), reflected that all categories of liabilities were at least 100% funded.

#### 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 pension 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 pension liabilities and an in-depth attribution analysis in respect of changes in the pension funding level.

## 19 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

### 19.2 Defined benefit post-employment liability continued

The trustees of the pension 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 form 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.

The financial implications to the bank in the event of a deficit in the pension plan have been discussed in the nature of the benefits section above.

## 19 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

### 19.2 Defined benefit post-employment liability continued

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

| | | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|---|
| **R million** | **Notes** | **Pension** | **Medical** | **Total** | **Pension** | **Medical** | **Total** |
| **Post-employment benefit fund liability** | | | | | | | |
| Present value of funded obligation | | **9 449** | **3 171** | **12 620** | 9 369 | 3 030 | 12 399 |
| Fair value of plan assets | | **(9 645)** | **(2 286)** | **(11 931)** | (9 725) | (2 381) | (12 106) |
| **Total employee (asset)/ liability** | | **(196)** | **885** | **689** | (356) | 649 | 293 |
| Limitation imposed by IAS 19 asset ceiling | | **196** | **–** | **196** | 356 | – | 356 |
| **Total post-employment liability** | | **–** | **885** | **885** | – | 649 | 649 |
| **The amounts recognised in the income statement are:** | | | | | | | |
| Current service cost | | **4** | **49** | **53** | 3 | 43 | 46 |
| Net interest | | **(32)** | **96** | **64** | 8 | 29 | 37 |
| **Total included in staff costs** | 3 | **(28)** | **145** | **117** | 11 | 72 | 83 |
| **Movement in post-employment benefit fund liability** | | | | | | | |
| Present value at the beginning of the year | | **–** | **649** | **649** | 90 | 317 | 407 |
| Current service cost | | **4** | **49** | **53** | 3 | 43 | 46 |
| Net interest | | **(32)** | **96** | **64** | 8 | 29 | 37 |
| **Remeasurements:** | | | | | | | |
| **Recognised in OCI** | | **31** | **(33)** | **(2)** | (98) | 385 | 287 |
| – Actuarial (gains)/losses from changes in demographic assumptions | | **(121)** | **–** | **(121)** | 12 | – | 12 |
| – Actuarial (gains)/losses from changes in financial assumptions | | **(40)** | **(26)** | **(66)** | 175 | 78 | 253 |
| – Other remeasurements | | **192** | **(7)** | **185** | (285) | 307 | 22 |
| Benefits paid | | **–** | **124** | **124** | – | (125) | (125) |
| Employer contributions | | **(2)** | **–** | **(2)** | (2) | – | (2) |
| Employee contributions | | **(1)** | **–** | **(1)** | (1) | – | (1) |
| **Closing balance** | | **–** | **885** | **885** | – | 649 | 649 |

## 19 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

### 19.2 Defined benefit post-employment liability continued

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| **R million** | **Pension** | **Medical** | **Total** | **Pension** | **Medical** | **Total** |
| **Movement in the fair value of plan assets:** | | | | | | |
| Opening balance | **9 725** | **2 381** | **12 106** | 8 886 | 2 474 | 11 360 |
| Interest income | **848** | **180** | **1 028** | 745 | 207 | 952 |
| **Remeasurements: Recognised in OCI** | | | | | | |
| – Return on plan assets excluding interest income | **(352)** | **(18)** | **(370)** | 641 | (300) | 341 |
| Employer contributions | **2** | **–** | **2** | 2 | – | 2 |
| Employee contributions | **1** | **–** | **1** | 1 | – | 1 |
| Benefits paid and settlements | **(579)** | **(257)** | **(836)** | (550) | – | (550) |
| **Closing balance** | **9 645** | **2 286** | **11 931** | 9 725 | 2 381 | 12 106 |
| **Reconciliation of limitation imposed by IAS 19 asset ceiling** | | | | | | |
| Opening balance | **356** | **–** | **356** | – | – | – |
| Interest income | **32** | **–** | **32** | – | – | – |
| Change in the asset ceiling, excluding amounts included in interest | **(192)** | **–** | **(192)** | 356 | – | 356 |
| **Closing balance** | **196** | **–** | **196** | 356 | – | 356 |
| **The actual return on plan assets was:** | **12%** | **–** | | 16% | – | |
| **Plan assets comprise the following:** | | | | | | |
| Equity securities: listed | **2 116** | **–** | **2 116** | 2 163 | – | 2 163 |
| **Total equity securities** | **2 116** | **–** | **2 116** | 2 163 | – | 2 163 |
| Cash and cash equivalents | **386** | **–** | **386** | 331 | – | 331 |
| Debt instruments | **6 690** | **–** | **6 690** | 7 231 | – | 7 231 |
| – Government bonds | **5 966** | **–** | **5 966** | 6 175 | – | 6 175 |
| – Money market | **331** | **–** | **331** | 609 | – | 609 |
| – Corporate bonds | **392** | **–** | **392** | 95 | – | 95 |
| – Other | **1** | **–** | **1** | 352 | – | 352 |
| Derivatives | **2** | **–** | **2** | – | – | – |
| – Forward foreign currency contracts | **2** | **–** | **2** | – | – | – |
| Other dated instruments | **451** | **2 286** | **2 737** | – | 2 381 | 2 381 |
| **Total plan assets** | **9 645** | **2 286** | **11 931** | 9 725 | 2 381 | 12 106 |
| **Included in plan assets were the following:** | | | | | | |
| FirstRand Limited ordinary shares with fair value of | **41** | **–** | **41** | 1 | – | 1 |
| Buildings occupied by the group with a fair value of | **–** | **–** | **–** | – | – | – |
| **Total** | **41** | **–** | **41** | 1 | – | 1 |

## 19 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

### 19.2 Defined benefit post-employment liability 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.

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | **Pension** | **Medical** | **Pension** | **Medical** |
| **The principal actuarial assumptions used for accounting purposes were:** | | | | |
| Expected rates of salary increases % | **8.2** | **–** | 8.3 | – |
| Long term increase in health cost % | **–** | **8.2** | – | 8.3 |
| **The effects of a 1% movement in the assumed health cost rate were:** | | | | |
| Increase of 1% | | | | |
| – Effect on the aggregate of the current service cost and interest cost (R million) | **–** | **55.8** | – | 55.4 |
| – Effect on the defined benefit obligation (R million) | **–** | **482.2** | – | 470.6 |
| Decrease of 1% | | | | |
| – Effect on the aggregate of the current service cost and interest cost (R million) | **–** | **45.1** | – | 44.6 |
| – Effect on the defined benefit obligation (R million) | **–** | **393.3** | – | 382.7 |
| **The effects of a 1% movement in the expected rates of salary increases were:** | | | | |
| Increase of 1% | | | | |
| – Effect on the defined benefit obligation (R million) | **8.2** | **–** | 8.9 | – |
| – Effect on the aggregate of the current service cost and interest cost (R million) | **0.5** | **–** | 3.0 | – |
| Decrease of 1% | | | | |
| – Effect on the defined benefit obligation (R million) | **7.5** | **–** | 7.9 | – |
| – Effect on the aggregate of the current service cost and interest cost (R million) | **0.5** | **–** | 1.0 | – |
| **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) | **349.2** | **114.9** | 347.8 | 109.5 |
| – Effect on the aggregate of the current service cost and interest cost (R million) | **15.5** | **12.0** | 17.0 | 11.7 |
| **Decrease in life expectancy by 10 years** | | | | |
| – Effect on the defined benefit obligation (R million) | **344.6** | **113.5** | 329.1 | 108.1 |
| – Effect on the aggregate of the current service cost and interest cost (R million) | **15.3** | **11.9** | 14.4 | 11.5 |

## 19 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

### 19.2 Defined benefit post-employment liability continued

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | **Pension** | **Medical** | **Pension** | **Medical** |
| Estimated contributions expected to be paid to the plan in the next annual period (R million) | **3** | **–** | 3 | – |
| Net increase in rate used to value pensions, allowing for pension increases (%) | **1.8** | **1.0** | 1.7 | 0.9 |
| The weighted average duration of the defined benefit obligation is (years) | **11.0** | **15.9** | 11.1 | 17.9 |

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous year.

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 | **654** | **3 010** | **7 526** | **11 190** |
| Post-employment medical benefits | **134** | **673** | **26 144** | **26 951** |
| **Total as 30 June 2015** | **788** | **3 683** | **33 670** | **38 141** |

The interest income is determined using a discount rate with reference to high quality corporate bonds.

| | 2015 | | 2014 | |
|---|---|---|---|---|
| **Mortality rate** | **Active members** | **Pensioners** | **Active members** | **Pensioners** |
| **Pension fund** | | | | |
| Normal retirement age | **60** | **–** | 60 | – |
| Mortality rate table used | **PA(90)-2** | **PA(90)-2** | PA(90)-2 | PA(90)-2 |
| **Post-employment medical benefits** | | | | |
| Normal retirement age | **60** | **–** | 60 | – |
| Mortality rate table used (rated down 3 years for females) Active | **SA85-90** | **–** | SA85-90 | – |
| Retired | **PA(90)-2** | **PA(90)-2** | PA(90)-2 | PA(90)-2 |

SA85 – 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.

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.

## 19 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

### 19.2 Defined benefit post-employment liability continued

| | 2015 | | 2014 | |
|---|---|---|---|---|
| **Mortality rate** | **Pension** | **Medical** | **Pension** | **Medical** |
| **The average life expectancy in years of a pensioner retiring at age 65, on the reporting date, is:** | | | | |
| Male | **17** | **17** | 17 | 17 |
| Female | **21** | **21** | 21 | 21 |
| **The average life expectancy in years of a pensioner retiring at age 65, 20 years after the reporting date, is:** | | | | |
| Male | **17** | **18** | 18 | 18 |
| Female | **22** | **22** | 22 | 22 |

| | **2015** | **2014** |
|---|---|---|
| **Pension** | | |
| **The number of employees covered by the scheme:** | | |
| Active members | **37** | 43 |
| Pensioners | **6 341** | 6 393 |
| Deferred plan participants | **267** | 279 |
| **Total** | **6 645** | 6 715 |
| **Defined benefit obligation amounts due to:** | | |
| Benefits vested at the end of the reporting period (R million) | **9 449** | 9 369 |
| Amounts attributable to future salary increases (R million) | **114** | 125 |
| Other benefits (R million) | **9 335** | 9 244 |
| **Medical** | | |
| **The number of employees covered by the scheme:** | | |
| Active members | **5 042** | 5 486 |
| Pensioners | **5 146** | 5 064 |
| **Total** | **10 188** | 10 550 |
| **Defined benefit obligation amounts due to:** | | |
| Benefits vested at the end of the reporting period (R million) | **2 000** | 1 881 |
| Benefits accrued but not vested at the end of the reporting period (R million) | **1 171** | 1 149 |
| Conditional benefits (R million) | **1 171** | 1 149 |
| Other benefits (R million) | **2 000** | 1 881 |

The employer's post-employment health care liability consists of a commitment to pay a portion of the members' post-employment medical scheme contributions. This liability is also generated in respect of dependants who are offered continued membership of the medical scheme on the death of the primary member. Members employed on or after the 1st of December 1998 do not qualify for a post-employment medical subsidy.

At the last valuation date the fund was financially sound.

## 19 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

### 19.3 Defined contribution post-employment liability

| R million | 2015 | 2014 |
|---|---|---|
| **Post-employment defined contribution plan** | | |
| – Present value of obligation | **16 115** | 14 709 |
| – Present value of assets | **(16 115)** | (14 709) |
| **Net defined contribution liability** | **–** | – |

The defined contribution scheme allows active 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.

## 20 NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE

| R million | Notes | 2015 | 2014 |
|---|---|---|---|
| **Total non-current assets held for sale** | | **125** | – |
| Non-current assets held for sale | 20.1 | **125** | – |
| **Net non-current assets held for sale** | | **125** | – |

### 20.1 Non-current assets held for sale

| R million | 2015 | 2014 |
|---|---|---|
| **Non-current assets held for sale** | | |
| Advances | **125** | – |
| **Total non-current assets held for sale** | **125** | – |

#### Non-current asset held for sale in 2015

*Advances*

As part of the overall restructure of the RMB resources business, the bank has met the IFRS 5 requirements to classify advances of R125 million as held for sale. The sale process is underway and marketing documents were distributed to potential buyers in May 2015. Completion of the process is anticipated in the fourth quarter of 2015.

## 21 SHORT TRADING POSITIONS

| R million | 2015 | 2014 |
|---|---|---|
| Government and government guaranteed stock | **5 232** | 5 367 |
| Other dated securities | **38** | 31 |
| **Total short trading positions** | **5 270** | 5 398 |
| **Analysed as follows:** | | |
| Listed | **5 270** | 5 398 |
| **Total short trading positions** | **5 270** | 5 398 |

## 22 CREDITORS AND ACCRUALS

| R million | 2015 | 2014 |
|---|---|---|
| Accrued interest | **101** | 53 |
| Sundry creditors | **3 958** | 3 317 |
| Accrued expenses | **1 424** | 1 047 |
| Withholding tax for employees | **392** | 310 |
| Other accounts payable | **4 834** | 4 426 |
| Deferred income | **1 146** | 947 |
| Operating lease liability arising from straight lining of lease payments | **86** | 81 |
| Payments received in advance | **225** | 199 |
| **Total creditors and accruals** | **12 166** | 10 380 |
| **Analysis of creditors and accruals** | | |
| Financial | **5 236** | 4 655 |
| Non-financial | **6 930** | 5 725 |
| **Total creditors and accruals** | **12 166** | 10 380 |

## 23 DEPOSITS

| R million | 2015 Designated at fair value through profit or loss | 2015 At amortised cost | 2015 Total |
|---|---|---|---|
| **Category analysis** | | | |
| Current accounts | **–** | **165 128** | **165 128** |
| Savings accounts | **–** | **7 318** | **7 318** |
| Call deposits | **426** | **140 358** | **140 784** |
| Fixed and notice deposits | **62 593** | **166 417** | **229 010** |
| Negotiable certificates of deposit | **2 062** | **47 865** | **49 927** |
| Repurchase agreements* | **15 796** | **11 527** | **27 323** |
| Securities lending | **–** | **7 845** | **7 845** |
| Credit linked notes and cash collateral | **12 995** | **12 004** | **24 999** |
| Fixed and floating rate notes | **570** | **102 007** | **102 577** |
| Other | **2 538** | **22 254** | **24 792** |
| **Total deposits** | **96 980** | **682 723** | **779 703** |

| R million | 2014 Designated at fair value through profit or loss | 2014 At amortised cost | 2014 Total |
|---|---|---|---|
| **Category analysis** | | | |
| Current accounts | – | 155 128 | 155 128 |
| Savings accounts | – | 5 958 | 5 958 |
| Call deposits | 133 | 130 680 | 130 813 |
| Fixed and notice deposits | 51 104 | 138 232 | 189 336 |
| Negotiable certificates of deposit | 3 062 | 49 578 | 52 640 |
| Repurchases agreements* | 16 953 | 4 749 | 21 702 |
| Securities lending | – | 6 303 | 6 303 |
| Credit linked notes and cash collateral | 9 379 | 12 370 | 21 749 |
| Fixed and floating rate notes | 2 268 | 86 233 | 88 501 |
| Other | 282 | 20 764 | 21 046 |
| **Total deposits** | 83 181 | 609 995 | 693 176 |

* *The bank repurchased R27.3 billion (2014: R21.7 billion) of notes issued into the market during the year. These notes have been pledged as security in terms of a repurchase transaction to an external counterparty.*

## 23 DEPOSITS continued

| R million | 2015 Designated at fair value through profit or loss | 2015 At amortised cost | 2015 Total |
|---|---|---|---|
| **Sector analysis** | | | |
| Sovereigns, including central banks | **1 758** | **53 699** | **55 457** |
| Public sector entities | **2 852** | **23 640** | **26 492** |
| Local authorities | **837** | **8 689** | **9 526** |
| Banks | **20 843** | **49 230** | **70 073** |
| Securities firms | **2 935** | **12 925** | **15 860** |
| Corporate customers | **60 843** | **310 699** | **371 542** |
| Retail customers | **5 004** | **223 417** | **228 421** |
| Other | **1 908** | **424** | **2 332** |
| **Total deposits** | **96 980** | **682 723** | **779 703** |
| **Geographical analysis** | | | |
| South Africa | **73 913** | **628 263** | **702 176** |
| Other Africa | **11 418** | **7 974** | **19 392** |
| UK | **10 810** | **18 985** | **29 795** |
| Other | **839** | **27 501** | **28 340** |
| **Total deposits** | **96 980** | **682 723** | **779 703** |

| R million | 2014 Designated at fair value through profit or loss | 2014 At amortised cost | 2014 Total |
|---|---|---|---|
| **Sector analysis** | | | |
| Sovereigns, including central banks | 508 | 47 228 | 47 736 |
| Public sector entities | 2 011 | 30 325 | 32 336 |
| Local authorities | 758 | 8 989 | 9 747 |
| Banks | 17 283 | 23 760 | 41 043 |
| Securities firms | 566 | 11 302 | 11 868 |
| Corporate customers | 52 303 | 287 986 | 340 289 |
| Retail customers | 8 799 | 199 987 | 208 786 |
| Other | 953 | 418 | 1 371 |
| **Total deposits** | 83 181 | 609 995 | 693 176 |
| **Geographical analysis** | | | |
| South Africa | 66 180 | 577 499 | 643 679 |
| Other Africa | 4 735 | 5 322 | 10 057 |
| UK | 5 310 | 4 207 | 9 517 |
| Other | 6 956 | 22 967 | 29 923 |
| **Total deposits** | 83 181 | 609 995 | 693 176 |

## 24 PROVISIONS

| R million | Notes | 2015 | 2014 |
|---|---|---|---|
| **Audit fees** | | | |
| Opening balance | | **43** | 51 |
| Charge to profit or loss | 3 | **179** | 143 |
| – Additional provisions created | | **182** | 143 |
| – Unused provisions reversed | | **(3)** | – |
| Utilised | | **(172)** | (151) |
| **Closing balance** | | **50** | 43 |
| **Other*** | | | |
| Opening balance | | **343** | 195 |
| Exchange rate difference | | **1** | 3 |
| Charge to profit or loss | | **118** | 262 |
| – Additional provisions created | | **155** | 275 |
| – Unused provisions reversed | | **(37)** | (13) |
| Utilised | | **(213)** | (117) |
| **Closing balance** | | **249** | 343 |
| **Total provisions** | | **299** | 386 |

* *Other provisions include provisions for litigation and claims.*

## 25 OTHER LIABILITIES

| R million | 2015 | 2014 |
|---|---|---|
| Funding liabilities* | **3 977** | 4 268 |
| **Total other liabilities** | **3 977** | 4 268 |

* *Included in funding liabilities are preference shares with a carrying value of R3 977 million (2014: R4 268 million). Details of these preference shares can be found in note 27.*

## 26 TIER 2 LIABILITIES

| R million | 2015 | 2014 |
|---|---|---|
| Fixed rate bonds* | **2 807** | 4 582 |
| Floating rate bonds** | **9 176** | 6 902 |
| **Total Tier 2 liabilities#** | **11 983** | 11 484 |

* *The fixed rate bonds mature between 21 December 2018 and 2 June 2021 and bear interest at rates between 8.5% and 12%.*

** *The ZAR denominated floating rate bonds of R7 063 million (2014: R5 050 million) mature between 10 June 2016 and 2 June 2021 and the interest varies between 70 bps and 350 bps above the three month JIBAR. The USD denominated floating rate bonds of USD 174.2 million (2014: USD 174.2 million) matures on 9 April 2019 and bears an interest rate at 415 bps over LIBOR.*

\# *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 bank is considered to be non-viable.*

## 27 SHARE CAPITAL AND SHARE PREMIUM

### 27.1 Share capital and share premium classified as equity

| R million | 2015 | 2014 |
|---|---|---|
| **Ordinary shares** | | |
| **Authorised** | | |
| 2 000 000 shares with a par value of R2 per share | **4** | 4 |
| **Issued – fully paid up** | | |
| 1 866 836 (2014: 1 866 835) 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** | 15 304 |
| **Total issued ordinary share capital and share premium** | **16 808** | 15 308 |
| **NCNR preference shares** | | |
| **Authorised** | | |
| 100 000 000 NCNR preference shares with a par value of R0.01 per share | **1** | 1 |
| **Issued – fully paid up** | | |
| 3 000 000 (2014: 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** | 18 308 |

* *Denotes amounts less than R500 000.*

## 27 SHARE CAPITAL AND SHARE PREMIUM continued

### 27.2 Share capital and share premium classified as liabilities

| R million | 2015 | 2014 |
|---|---|---|
| Preference shares that are classified as financial liabilities have been included in deposits (note 23) or other liabilities (note 25) as appropriate. The table below provides details of these preference shares: | | |
| **Redeemable preference shares** | | |
| **Authorised** | | |
| 5 000 000 000 redeemable preference shares with a par value of R0.0001 per share | **1** | 1 |
| **Issued – fully paid up** | | |
| 32 670 (2014: 32 670) redeemable preference shares with a par value of R0.0001 per share | ***** | * |
| Redeemable preference share premium | **3 267** | 3 267 |
| **Redeemable class R preference shares** | | |
| **Authorised** | | |
| 50 000 redeemable preference shares with a par value of R0.0001 per share | ***** | * |
| **Issued – fully paid up** | | |
| 6 287 (2014: 9 812) redeemable preference shares with a par value of R0.0001 per share | ***** | * |
| Redeemable R class share premium | **629** | 981 |

* *Denotes amounts less than R500 000.*

These preference shares bear interest at 66.67% of FNB prime lending rate from time to time and are redeemable after three years and one day of issue.

| | Number of ordinary shares | Number of NCNR preference shares | Number of redeemable preference shares | Number of redeemable class R preference shares |
|---|---|---|---|---|
| **Reconciliation of shares issued** | | | | |
| Shares at 1 July 2013 | 1 866 835 | 3 000 000 | 1 670 | 8 905 |
| Issued during the year | – | – | 31 000 | 907 |
| **Shares at 30 June 2014** | 1 866 835 | 3 000 000 | 32 670 | 9 812 |
| Issued/(redeemed) during the year | **1** | **–** | **–** | **(3 525)** |
| **Shares at 30 June 2015** | **1 866 836** | **3 000 000** | **32 670** | **6 287** |

For detail on capital management of the bank please refer to the *risk and capital management section* of the annual report.

The unissued ordinary shares are under the control of the directors until the next annual general meeting.

## 28 REMUNERATION SCHEMES

| R million | Notes | 2015 | 2014 |
|---|---|---|---|
| **The charge to profit or loss for share-based payments is as follows:** | | | |
| FirstRand black employee scheme | | **72** | 25 |
| FirstRand black non-executive directors scheme | | **2** | 1 |
| FirstRand share appreciation rights scheme | | ***** | 269 |
| Conditional share plan | | **2 214** | 2 040 |
| **Amount included in profit or loss** | 3 | **2 288** | 2 335 |

* *Denotes amounts less than R500 000.*

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. To facilitate the wind-up of the trusts on maturity of the transaction, the group bought back 63 million FirstRand shares from the trusts. The group also obtained 11 million MMI shares held by the trusts (collectively, the share buy-back). The share buy-back enabled the trusts to return capital contributions and the vesting of the net proceeds with the residual beneficiary.

On 20 January 2015, the group reissued 35 million ordinary shares and offered 67 million FirstRand and 24 million MMI ordinary shares on behalf of the beneficiaries to settle tax obligations and to deliver cash value to the beneficiaries who elected to sell their shares. While the group facilitated the sale, the election was made by the beneficiaries and the full proceeds on the sale of these shares were for the account of the beneficiaries.

The offers were made by way of an accelerated book build process to qualifying institutional investors only and were successfully placed. The ordinary shares were delivered and the new shares listed on the JSE on 28 January 2015.

## 28 REMUNERATION SCHEMES continued

The FirstRand share schemes are equity settled schemes, except for the FirstRand share appreciation rights scheme and conditional share plan which are cash settled.

**Description of schemes and vesting conditions:**

| Scheme | IFRS 2 treatment | Description | Vesting conditions |
|---|---|---|---|
| **FirstRand black employee scheme** | Equity settled | This scheme was set up specifically for the benefit of the black employees.<br><br>The issue of participation rights in the scheme was made on the following dates – 20 July 2005, 1 November 2006, 3 December 2007 and 14 May 2010. | The rights granted under this scheme vested 31 December 2014. |
| **FirstRand black non-executive directors scheme** | Equity settled | This scheme was set up specifically for the benefit of the black non-executive directors and those executive directors who were non-executive prior to becoming executives of the FirstRand group. | The rights granted under this scheme vested 31 December 2014. |
| **FirstRand share appreciation rights scheme** | Cash settled | This scheme was implemented in 2006 to provide selected FirstRand group employees, including executive directors of participating companies, the opportunity of receiving incentive remuneration payments based on the increase in the market value of ordinary FirstRand shares. | One third of the total number of rights issued may be exercised after the third year, two thirds after the fourth year and all of the shares by the fifth anniversary of the grant date, provided that the performance objectives set for the grant have been achieved. The final tranche of the rights granted vested during the financial year ending 30 June 2015. In any one year where the performance objectives have not been achieved the shares will not vest in that year but will be carried over to the following year, provided that the performance objectives are met in that following year. If performance conditions are not met by year five, the rights will not vest. These corporate performance targets are set out on page 316. The majority of the shares vested in November 2013 and the remaining vested on 1 October 2014. |
| **Conditional share plan** | Cash settled | The conditional award comprises a number of full shares with no strike price. | 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 are set out on page 316. |

## 28 REMUNERATION SCHEMES continued

### Valuation methodologies:

| Scheme | Valuation methodology | | |
|---|---|---|---|
| FirstRand black employee scheme | Black Scholes option pricing model | Economically, FirstRand has granted European call options and is repurchasing shares. The strike price equates to the expected outstanding amount of the funding. The value of the implicit options is determined using the Black Scholes option pricing model. | |
| FirstRand black non-executive directors scheme | Black Scholes option pricing model | The FirstRand black non-executive directors scheme is valued on the same methodology as used for the FirstRand black employee scheme, except that a zero percentage weighted average forfeiture rate was used due to the fact that there are only 10 participants (2014: 10 participants). | |
| FirstRand share appreciation rights scheme | Cox Rubenstein binomial model | The scheme is cash settled and will thus be repriced at each reporting date. | |
| Conditional share plan | Black Scholes option pricing model | 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** | **Market related** | **Employee related** |
| A fixed dividend yield was assumed. | ▸ volatility is the expected volatility over the period of the plan. Historical volatility was used as a proxy for expected volatility; and<br>▸ The interest rate used was the RMB forward prime curve (extrapolated where necessary) as the funding of the option is linked to the prime lending rate. | The weighted average forfeiture rate used is based on historical forfeiture data for this scheme and takes cognisance of whether the shares are in or out the money and the vesting date. |
| A fixed dividend yield was assumed. | | Not applicable. |
| Management's estimates of future dividends. | ▸ volatility is the expected volatility over the period of the plan. Historical volatility was used as a proxy for expected volatility.<br>▸ 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. | The number of rights granted is reduced by the actual staff turnover at year end. This turnover is then assumed to be constant over the period of the grant and used to estimate the expected number of rights which will vest on the vesting date. |
| Management's estimates of future discrete dividends. | | The weighted average forfeiture rate used is based on historical forfeiture data over all schemes cognisant of whether the shares are in or out the money and the vesting date. |

## 28 REMUNERATION SCHEMES continued

### Corporate performance targets

The FirstRand Limited group remuneration committee sets the corporate performance targets (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.

The criteria for the 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 2012 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.

### Currently open

**2012 (vests in 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 2013 to the financial year end immediately preceding the vesting date. In addition NIACC must be positive over the three-year performance period.

**2013 (vests in 2016)** – FirstRand Limited must achieve growth in normalised EPS which equals or exceeds South African nominal GDP plus 1.5% growth on a cumulative basis over the life of the conditional award, from base year end 30 June 2014 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 South African nominal GDP plus 2% growth on a cumulative basis over the life of the conditional award, from base year end 30 June 2014 to the financial year end immediately preceding the vesting date. In addition NIACC must be positive over the three-year performance period.

**2015 (vests in 2018)** – FirstRand Limited must achieve growth in normalised EPS which equals or exceeds South African nominal GDP plus 1% growth on a cumulative basis over a three year period, from base year ended 30 June 2015 to the financial year end immediately preceding the vesting date. In addition, ROE must be equal to or greater than cost of equity plus 5% over the three year performance period. Should nominal GDP plus 1% not be achieved, the remuneration committee may sanction a partial vesting or conditional shares, which is calculated pro rata to the performance which extends nominal GDP.

## 28 REMUNERATION SCHEMES continued

The significant weighted average assumptions used to estimate the fair value of options and share transactions granted are detailed below.

| | FirstRand black employee scheme | FirstRand black non-executive directors scheme | FirstRand share appreciation rights scheme | Conditional share plan |
|---|---|---|---|---|
| **2015** | | | | |
| Range of exercise prices (rand) | **–** | **–** | **–** | **–** |
| Expected volatility (%) | **–** | **–** | **–** | **25** |
| Expected option life (years) | **–** | **–** | **–** | **3 – 4** |
| Expected risk free rate (%) | **–** | **–** | **–** | **4.82 – 7.07** |
| Expected dividend yield (%) | **–** | **–** | **–** | **–** |
| Expected dividend growth (%) | **–** | **–** | **–** | **–** |
| **2014** | | | | |
| Range of exercise prices (rand) | 12.05 – 24.60 | 12.28 – 17.60 | 12.98 – 12.98 | – |
| Expected volatility (%) | 24 – 29 | 23 – 33 | 25 | 25 |
| Expected option life (years) | 5 – 10 | 10 | 5 | 3 – 4 |
| Expected risk free rate (%) | 6.91 – 9.90 | 6.91 | 4.82 – 5.21 | 4.82 – 7.07 |
| Expected dividend yield (%) | 3.5 | 3.5 | – | – |
| Expected dividend growth (%) | – | – | – | – |

## 28 REMUNERATION SCHEMES continued

| | 2015 | | | |
|---|---|---|---|---|
| **Options and share awards outstanding** | **FirstRand share appreciation rights scheme (FSR shares)** | **FirstRand black employee scheme (FSR shares)#** | **FirstRand black non-executive directors scheme (FSR shares)** | **Conditional share plan (FSR shares)** |
| **Number of options and share awards in force at the beginning of the year (millions)** | **0.1** | **105.7** | **8.5** | **105.4** |
| Granted at prices ranging between (cents) | **1 298 – 1 298** | **1 205 – 2 460** | **1 228 – 1 760** | **–** |
| Weighted average (cents) | **1 298** | **1 637** | **1 291** | **–** |
| **Number of options and share awards granted during the year (millions)** | **–** | **–** | **–** | **30.4** |
| Fair value per share on grant date | **–** | **–** | **–** | ***** |
| **Number of options and share awards transferred (within the group) during the year (millions)**** | **–** | **–** | **–** | **(0.3)** |
| Granted at prices ranging between (cents) | **–** | **–** | **–** | **–** |
| Weighted average (cents) | **–** | **–** | **–** | **–** |
| **Number of options and share awards exercised/released during the year (millions)** | **(0.1)** | **(106.0)** | **(8.7)** | **(40.2)** |
| Market value range at date of exercise/release (cents) | **4 302 – 4 302** | **4 892 – 4 892** | **4 892 – 4 892** | **3 935 – 5 631** |
| Weighted average (cents) | **4 302** | **4 892** | **4 892** | **4 427** |
| **Number of options and share awards cancelled/lapsed during the year (millions)** | **–** | **0.248** | **0.2** | **(4.7)** |
| Granted at prices ranging between (cents) | **–** | **1 228 – 2 234** | **2 998 – 2 998** | **–** |
| Weighted average (cents) | **–** | **1 788** | **2 998** | **–** |
| **Number of options and share awards in force at the end of the year (millions)** | **–** | **–** | **–** | **90.7** |
| Granted at prices ranging between (cents) | **–** | **–** | **–** | **–** |
| Weighted average (cents) | **–** | **–** | **–** | **–** |

* *The grant date fair value was not determined as these share awards are cash settled and are remeasured to fair value at each reporting date.*

** *These relate to options and share awards for employees transferred between legal entities within the FirstRand Limited group.*

# *As the scheme gets closer to the vesting date more accurate information is available about the final level of forfeitures expected.*

## 28 REMUNERATION SCHEMES continued

| | 2014 | | | |
|---|---|---|---|---|
| **Options and share awards outstanding** | **FirstRand share appreciation rights scheme (FSR shares)** | **FirstRand black employee scheme (FSR shares)#** | **FirstRand black non-executive directors scheme (FSR shares)** | **Conditional share plan (FSR shares)** |
| **Number of options and share awards in force at the beginning of the year (millions)** | 37.9 | 102.6 | 8.5 | 117.4 |
| Granted at prices ranging between (cents) | 785 – 1 298 | 1 205 – 2 460 | 1 228 – 1 760 | – |
| Weighted average (cents) | 1 048 | 1 651 | 1 291 | – |
| **Number of options and share awards granted during the year (millions)** | – | – | – | 39.8 |
| Fair value per share on grant date | – | – | – | * |
| **Number of options and share awards transferred (within the group) during the year (millions)**** | 0.1 | – | – | (2.8) |
| Granted at prices ranging between (cents) | 1 048 – 1 048 | – | – | – |
| Weighted average (cents) | 1 048 | – | – | – |
| **Number of options and share awards exercised/released during the year (millions)** | (37.6) | – | – | (44.3) |
| Market value range at date of exercise/release (cents) | 2 440 – 3 866 | – | – | 2 825 – 4 074 |
| Weighted average (cents) | 3 518 | – | – | 3 346 |
| **Number of options and share awards cancelled/lapsed during the year (millions)** | (0.3) | 3.1 | – | (4.7) |
| Granted at prices ranging between (cents) | 1 014 – 1 048 | 1 228 – 2 234 | – | – |
| Weighted average (cents) | 1 046 | 1 182 | – | – |
| **Number of options and share awards in force at the end of the year (millions)** | 0.1 | 105.7 | 8.5 | 105.4 |
| Granted at prices ranging between (cents) | 1 298 – 1 298 | 1 205 – 2 460 | 1 228 – 1 760 | – |
| Weighted average (cents) | 1 298 | 1 637 | 1 291 | – |

* *The grant date fair value was not determined as these share awards are cash settled and are remeasured to fair value at each reporting date.*

** *These relate to options and share awards for employees transferred between legal entities within the FirstRand Limited group.*

# *As the scheme gets closer to the vesting date more accurate information is available about the final level of forfeitures expected.*

## 28 REMUNERATION SCHEMES continued

| | 2015 | | | |
|---|---|---|---|---|
| | FirstRand share appreciation rights scheme (FSR shares) | | | |
| **Options and share awards outstanding** | **Range of exercise prices (rand)*** | **Weighted average remaining life (years)** | **Outstanding options (millions)** | |
| | | | | |
| | | | | |
| Total options and share awards – in the money (millions) | | | – | |
| Total options – out of the money (millions) | | | – | |
| **Total options and share awards (millions)** | | | – | |
| Value of company loans to share option trust at the beginning of the year (R million) | | | – | |
| Value of company loans to share option trust at the end of the year (R million) | | | – | |
| Number of participants | | | – | |

* *Some share appreciation rights are subject to other vesting conditions that are highly unlikely to be achieved.*

** *The employees are awarded the shares, there is therefore no strike price associated with the awards made under the conditional share plan.*

| | 2015 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | FirstRand black non-executive directors scheme (FSR shares) | | | FirstRand black employee scheme | | | Conditional share plan (FSR shares)** | |
| | Range of exercise prices (rand) | Weighted average remaining life (years) | Out-standing options (millions) | Range of exercise prices (rand)* | Weighted average remaining life (years) | Out-standing options (millions) | Weighted average remaining life (years) | Out-standing options (millions) |
| | | | | | | | 0.28 | 28.6 |
| | | | | | | | 1.29 | 31.7 |
| | | | | | | | 2.28 | 30.2 |
| | | | | | | | 2.59 | 0.2 |
| | | | | | | | | 90.7 |
| | | | – | | | – | | 90.7 |
| | | | – | | | – | | – |
| | | | – | | | – | – | 90.7 |
| | | | – | | | – | | – |
| | | | – | | | – | | – |
| | | | – | | | – | | 2 628 |

## 28 REMUNERATION SCHEMES continued

| | 2014 | | |
|---|---|---|---|
| | **FirstRand share scheme (FSR shares)** | | |
| **Options and share awards outstanding** | **Range of exercise prices (rand)*** | **Weighted average remaining life (years)** | **Out-standing options (millions)** |
| | 10.48 – 14.46 | 0.34 | 0.1 |
| | | | 0.1 |
| Total options and share awards – in the money (millions) | | | 0.1 |
| Total options – out of the money (millions) | | | – |
| **Total options and share awards (millions)** | | | 0.1 |
| Value of company loans to share option trust at the beginning of the year (R million) | | | – |
| Value of company loans to share option trust at the end of the year (R million) | | | – |
| Number of participants | | | 1 |

* *Some share appreciation rights are subject to other vesting conditions that are highly unlikely to be achieved.*

** *The employees are awarded the shares, there is therefore no strike price associated with the awards made under the conditional share plan.*

The share options outstanding at the end of the year had a weighted average remaining contractual life of 440 days.

| | 2014 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | FirstRand black non-executive directors scheme (FSR shares) | | | FirstRand black employee scheme | | | Conditional share plan (FSR shares)** | |
| | Range of exercise prices (rand) | Weighted average remaining life (years) | Out-standing options (millions) | Range of exercise prices (rand)* | Weighted average remaining life (years) | Out-standing options (millions) | Weighted average remaining life (years) | Out-standing options (millions) |
| | 12.05 – 14.00 | 0.50 | 7.5 | 12.05 – 14.00 | 0.50 | 51.9 | 0.29 | 39.4 |
| | 16.57 – 19.89 | 0.50 | 1.0 | 14.01 – 16.56 | 0.50 | 1.1 | 1.28 | 35.0 |
| | | | | 16.57 – 19.89 | 0.50 | 35.9 | 2.29 | 30.8 |
| | | | | 19.90 – 24.60 | 0.50 | 16.8 | 2.77 | 0.2 |
| | | | 8.5 | | | 105.7 | | 105.4 |
| | | | 8.5 | | | 105.7 | | 105.4 |
| | | | – | | | – | | – |
| | | | 8.5 | | | 105.7 | | 105.4 |
| | | | | | | | | |
| | | | – | | | – | | – |
| | | | – | | | – | | – |
| | | | 10 | | | 11 296 | | 2 444 |

## 29 CASH FLOW INFORMATION

| R million | 2015 | 2014 |
|---|---|---|
| **29.1 Reconciliation of operating profit before income tax to cash generated from operating activities** | | |
| Operating profit before tax | **21 591** | 17 918 |
| Adjusted for: | | |
| Depreciation, amortisation and impairment charges | **1 767** | 1 858 |
| Impairment of advances | **4 356** | 4 827 |
| Movement in provisions and employee liabilities | **3 792** | 3 892 |
| Loss on disposal of property and equipment | **14** | 20 |
| (Gain)/loss on disposal of investment securities and other investments | **(46)** | 7 |
| Gain on disposal of investment in associates | **–** | (13) |
| Deferred expenses and income | **(677)** | (472) |
| Share-based payment expense | **2 288** | 2 335 |
| Net fair value gains on financial assets through profit or loss | **(3 077)** | (2 851) |
| Accruals | **403** | 298 |
| Present value adjustments | **(81)** | (129) |
| Dividends paid | **(6 654)** | (4 481) |
| Losses on foreign currency translation reserve | **2** | 1 |
| Reclassification from other comprehensive income in respect of available-for-sale assets and cash flow hedges | **173** | 546 |
| **Cash generated from operating activities** | **23 851** | 23 756 |
| **29.2 Cash receipts from customers** | | |
| Interest income | **50 588** | 43 829 |
| Fee and commission income | **20 009** | 18 765 |
| Trading and other income | **3 978** | 5 040 |
| **Cash receipts from customers** | **74 575** | 67 634 |
| **29.3 Cash paid to customers, suppliers and employees** | | |
| Interest expense | **(20 776)** | (18 590) |
| Other operating expenses | **(25 422)** | (22 789) |
| **Cash paid to customers, suppliers and employees** | **(46 198)** | (41 379) |
| **29.4 Total dividends received** | | |
| Dividend income from trading activities | **124** | 100 |
| Dividend income from banking activities | **1 965** | 1 856 |
| Other dividend income including preference dividend | **39** | 26 |
| **Total dividends received** | **2 128** | 1 982 |
| **29.5 Total dividends paid** | | |
| Charged to retained earnings | **(6 654)** | (4 481) |
| **Total dividends paid** | **(6 654)** | (4 481) |
| **29.6 Increase in income-earning assets** | | |
| Liquid assets and trading securities | **(41 225)** | 9 058 |
| Advances | **(55 407)** | (75 854) |
| **Increase in income-earning assets** | **(96 632)** | (66 796) |

## 29 CASH FLOW INFORMATION continued

| R million | 2015 | 2014 |
|---|---|---|
| **29.7 Increase in deposits and other liabilities** | | |
| Deposits | **84 756** | 62 643 |
| Employee liabilities | **(4 528)** | (5 032) |
| Creditors (net of debtors) | **1 395** | 1 536 |
| Other | **1 377** | (5 589) |
| **Increase in deposits and other liabilities** | **83 000** | 53 558 |
| **29.8 Total taxation paid** | | |
| Indirect tax paid | **(778)** | (716) |
| Tax refundable/(payable) at beginning of the year | **(53)** | 140 |
| Charge to profit or loss | **(5 239)** | (4 375) |
| Tax refundable at year end | **69** | 53 |
| Deferred income tax charged to profit and loss | **(672)** | (445) |
| Other* | **10** | 1 |
| **Total taxation paid** | **(6 663)** | (5 342) |

* *Other includes acquisitions/disposals of subsidiaries and customer tax adjustments.*

## 30 CONTINGENCIES AND COMMITMENTS

| R million | 2015 | 2014 |
|---|---|---|
| Guarantees* | **33 319** | 30 895 |
| Letters of credit | **5 494** | 7 075 |
| **Total contingencies** | **38 813** | 37 970 |
| Irrevocable commitments | **80 044** | 77 806 |
| Committed capital expenditure | **4 778** | 3 015 |
| Operating lease commitments | **1 971** | 1 901 |
| Other | **160** | 146 |
| **Total contingencies and commitments** | **125 766** | 120 838 |
| **Other contingencies** | | |
| The bank is exposed to various actual or potential claims. | | |
| **Legal proceedings** | | |
| There are a number of legal or potential claims against the bank, the outcome of which cannot at present be foreseen. These claims are not regarded as material either on an individual or a total basis. Provision is made for all liabilities that are expected to materialise. | **218** | 218 |
| **Commitments** | | |
| Commitments in respect of capital expenditure and long-term investments approved by directors comprise of the following: | | |
| – Property, equipment and intangible asset commitments contracted for at the reporting date but not yet incurred | **731** | 694 |
| – Property, equipment and intangible asset commitments not yet contracted for at reporting date but approved by the directors | **4 047** | 2 320 |

* *Guarantees consist predominantly of endorsements and performance guarantees. Guarantees reported above include guarantees of R1 377 million (2014: R705 million) granted to other FirstRand group companies.*

Funds to meet these commitments will be provided from the bank's resources.

## 30 CONTINGENCIES AND COMMITMENTS continued

### ABIL contingency

The South African Reserve Bank (SARB) announced in August 2014 that African Bank Investment Limited (ABIL) would be placed under curatorship. A consortium of six South African banks, including FirstRand, and the Public Investment Corporation (PIC) have underwritten R5 billion respectively.

### 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.

| | 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** |

| | 2014 | | | |
|---|---|---|---|---|
| **R million** | **Within 1 year** | **Between 1 and 5 years** | **More than 5 years** | **Total** |
| Office premises | 635 | 1 107 | – | 1 742 |
| Equipment and motor vehicles | 119 | 40 | – | 159 |
| **Total operating lease commitments** | 754 | 1 147 | – | 1 901 |

## 30 CONTINGENCIES AND COMMITMENTS continued

### Future minimum lease payments receivable under operating leases where the bank is the lessor

The bank owns various assets that are leased to third parties under non-cancellable operating leases as part of the 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.

| | 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** |

| | 2014 | | | |
|---|---|---|---|---|
| **R million** | **Within 1 year** | **Between 1 and 5 years** | **More than 5 years** | **Total** |
| Property | 18 | 21 | – | 39 |
| Motor vehicles | 521 | 746 | – | 1 267 |
| **Total receivable under non-cancellable operating leases** | 539 | 767 | – | 1 306 |

## 31 COLLATERAL PLEDGED AND HELD

### 31.1 Collateral pledged

The following liabilities have been secured by the bank pledging either its own or borrowed financial assets, except for the short positions which are covered by borrowed securities only.

| R million | 2015 | 2014 |
|---|---|---|
| Short trading positions | **5 270** | 5 397 |
| Creditors and accruals | **65** | – |
| Total deposits | **35 168** | 28 487 |
| – Deposits under repurchase agreements | **27 323** | 21 704 |
| – Deposits in securities lending transactions* | **7 845** | 6 303 |
| – Other secured deposits | **–** | 480 |
| Amounts due to holding company and fellow subsidiary companies | **2** | 292 |
| Other | **1 022** | 989 |
| **Total** | **41 527** | 35 165 |

* *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.*

The bank pledges assets under the following terms and conditions:

- Mandatory reserve deposits are held with the central bank in accordance with statutory requirements. These deposits are not available to finance the bank's day-to-day operations.
- Assets are pledged as collateral under repurchase agreements with other banks and for security deposits relating to local futures and options.
- Collateral in the form of cash and other investment securities is pledged when the bank borrows equity securities from third parties. These transactions are conducted under the terms and conditions that are usual and customary to standard securities lending arrangements.
- All other pledges are conducted under terms which are usual and customary to lending arrangements.

Assets pledged to secure the above liabilities consist of the following.

| R million | 2015 | 2014 |
|---|---|---|
| Cash and cash equivalents | **861** | 877 |
| Advances | **4** | 2 |
| Investment securities and other investments – held under repurchase agreements | **18 655** | 11 132 |
| Investment securities and other investments – other | **226** | 483 |
| **Total assets pledged** | **19 746** | 12 494 |

## 31 COLLATERAL PLEDGED AND HELD continued

### 31.2 Collateral held

Collateral the bank holds that it has the ability to sell or repledge in the absence of default by the owner of the collateral:

| | 2015 | | 2014 | |
|---|---|---|---|---|
| **R million** | **Fair Value** | **Fair value of collateral sold or repledged** | **Fair Value** | **Fair value of collateral sold or repledged** |
| Cash and cash equivalents | **6 444** | **–** | 6 641 | – |
| Investment securities and other investments – held under reverse repurchase agreements | **40 066** | **14 902** | 32 752 | 16 467 |
| Investment securities and other investments – other* | **8 083** | **8 083** | 6 596 | 6 596 |
| **Total collateral pledged** | **54 593** | **22 985** | 45 989 | 23 063 |

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

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

| | 2015 | 2014 |
|---|---|---|
| **R million** | **Property** | **Property** |
| Opening balance | **110** | 154 |
| Net movement | **(42)** | (44) |
| **Closing balance** | **68** | 110 |

## 32 LOANS AND RECEIVABLES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

Certain instruments 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 instruments.

| | 2015 | | | | | |
|---|---|---|---|---|---|---|
| | | | Change in fair value | | | |
| | | | Of mitigating instruments | | Due to credit risk | |
| R million | Carrying value | Mitigated credit risk* | Current period | Cumulative | Current period | Cumulative |
| Included in advances | **194 437** | **3 542** | **16** | **(4)** | **250** | **(1 996)** |
| Included in investment securities and other investments | **35 630** | **–** | **–** | **–** | **(237)** | **(318)** |
| **Total** | **230 067** | **3 542** | **16** | **(4)** | **13** | **(2 314)** |

| | 2014 | | | | | |
|---|---|---|---|---|---|---|
| | | | Change in fair value | | | |
| | | | Of mitigating instruments | | Due to credit risk | |
| R million | Carrying value | Mitigated credit risk* | Current period | Cumulative | Current period | Cumulative |
| Included in advances | 177 851 | 2 263 | 3 | (17) | 414 | (2 343) |
| Included in investment securities and other investments | 17 340 | – | – | – | (31) | (81) |
| Total | 195 191 | 2 263 | 3 | (17) | 383 | (2 424) |

* *The notional amount by which any credit derivatives or similar instruments mitigate the maximum exposure to credit risk. Losses are indicated with brackets.*

Different methods are used to determine the current period and cumulative changes in fair value attributable to credit risk for investment securities and advances. This is due to the differing inherent credit risk of these instruments.

The methods used are:

### Advances

The change in credit risk is the difference between the fair value of advances based on the original credit spreads (as determined using the bank'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 bank uses its own annual credit review process to determine if there has been a change in the credit rating of the counterparty via an annual process to review the credit rating and LGD of the respective counterparties.

### Investment securities and other investments

The change in fair value for investments designated at fair value through profit or loss is calculated by stripping out the movements that result from a change in market factors that give rise to market risk.

The change in fair value due to credit risk is then calculated as the balancing figure, after deducting the movement due to market risk from the total movement in fair value.

## 33 FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

The following financial liabilities have been designated at fair value through profit and loss:

| | 2015 | | | |
|---|---|---|---|---|
| | | | Change in fair value due to credit risk | |
| R million | Fair value | Contractually payable at maturity | Current period | Cumulative |
| Deposits | **96 980** | **111 891** | **–** | **–** |
| Other liabilities | **3 348** | **3 267** | **–** | **–** |
| Tier 2 liabilities | **–** | **–** | **–** | **–** |
| **Total** | **100 328** | **115 158** | **–** | **–** |

| | 2014 | | | |
|---|---|---|---|---|
| | | | Change in fair value due to credit risk | |
| R million | Fair value | Contractually payable at maturity | Current period | Cumulative |
| Deposits | 83 181 | 83 072 | – | – |
| Other liabilities | 3 287 | 3 267 | – | – |
| Tier 2 liabilities | 1 030 | 1 054 | (8) | 9 |
| **Total** | 87 498 | 87 393 | (8) | 9 |

*Losses are indicated with brackets.*

The current and cumulative change in fair value that is attributable to credit risk of financial liabilities designated at fair value through profit or loss is determined with reference to changes in the mark-to-market yields of own issued bonds.

## 34 TRANSFERS AND DERECOGNITION OF FINANCIAL ASSETS

In the normal course of business the bank enters into transactions in terms of which it transfers financial assets directly to third parties or to structured entities. Financial assets are transferred when the bank has either transferred its contractual right to receive cash flows from the financial asset, or it has assumed an obligation to pay over all the cash flows from the financial asset to another entity in such a way that the transaction meets the definition of a pass through arrangement in terms of IAS 39. Where the transfer of the financial asset qualifies for derecognition, these transfers may give rise to the partial or full derecognition of the financial asset concerned.

- No derecognition occurs when the bank transfers financial assets in such a way that it retains substantially all the risks and rewards of ownership of the transferred asset. The entire transferred financial asset will continue to be recognised on the statement of financial position of the bank. The majority of transferred financial assets of the bank that do not qualify for derecognition are debt securities transferred under repurchase agreements or lent under securities lending agreements. Disclosures relating to these transferred financial assets that are not derecognised in their entirety are included under point 34.1 below.
- Partial derecognition occurs when the bank transfers financial assets in such a way that it neither transfers nor retains substantially all the risks and rewards of ownership but still controls the transferred financial assets. These financial assets are recognised on the statement of financial position to the extent of the bank's continuing involvement. This excludes the full derecognition of part of a larger financial asset as is detailed below. Disclosures relating to these transferred financial assets that are partially derecognised are included under point 34.1 below.
- Full derecognition occurs when the bank has transferred a financial asset and it either transfers substantially all the risks and rewards of ownership, or it neither retains nor transfers substantially all the risks and rewards of ownership but loses control of the financial asset. Where the financial asset qualifies for full derecognition, the bank derecognises the entire transferred financial asset. The transfer may however result in the bank obtaining a new asset or assuming a new liability that continues to expose the bank to the derecognised financial asset (e.g. a servicing asset or liability). Full derecognition includes the derecognition of a specific and identifiable portion of a financial asset where all the risks and rewards of ownership of that part are transferred, e.g. 90% of all the cash flows or interest payments of a financial asset. This is not partial derecognition as is detailed above. The majority of transferred financial assets of the bank that qualify for full derecognition are outright sales, loan syndications and securitisation transactions. Disclosures relating to the continuing involvement in derecognised financial assets to which the bank is still exposed are included under point 34.2 below.

### 34.1 Transferred financial assets that are not derecognised in their entirety

#### Repurchase agreements

The bank enters into repurchase agreements in terms of which it sells investment securities to an external counterparty in exchange for cash and agrees to repurchase the investment securities at a specified price at a specified future date. The bank retains substantially all the risks and rewards of ownership of the transferred investment securities in these transactions. The transferred investment securities continue to be recognised in full by the bank (investment securities and other investments) and a financial liability (deposits) is recognised for the cash received. The counterparty's only recourse is to the transferred investment securities that are subject to the repurchase agreement. The bank remains exposed to all the underlying risks on the investment securities. The risks include counterparty, interest rate, currency, prepayment and other price risks.

Investment securities and other investments of the bank with a carrying amount of R18 655 million (2014: R11 132 million) have been transferred in terms of repurchase transactions. Associated liabilities with a carrying amount of R17 893 million (2014: R10 509 million) have been recognised for cash received from counterparties and have been included in deposits. Both the transferred investments and related deposits are designated at fair value through profit or loss.

## 34 TRANSFERS AND DERECOGNITION OF FINANCIAL ASSETS continued

### 34.1 Transferred financial assets that are not derecognised in their entirety continued

#### Securities lending transactions

The bank enters into securities lending transactions in terms of which the bank lends investment securities that it owns to external counterparties and to fellow subsidiary companies, in exchange for cash collateral. The cash collateral is provided by the counterparty as security for the return of the securities. The investment securities that are lent continue to be recognised in full as the bank retains substantially all the risks and rewards of ownership of these investment securities and the derecognition criteria are not met. A financial liability is recognised for the cash collateral received from the counterparty. The bank's only recourse in respect of the return of the investment securities it has lent is to the cash collateral held and as such, the bank generally requires cash collateral in excess of the fair value of the securities lent. The bank remains exposed to all the underlying risks of the transferred investment securities. The risks include counterparty, investment, equities price, currency and other price risks.

During the current year, the bank did not enter into any securities lending transactions in terms of which it lent securities recognised on its statement of financial position.

#### Other transfers

The bank enters into other 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. The transferred advances continue to be recognised in full by the bank (advances) and a financial liability (deposits) is recognised for the cash received. The bank remains exposed to all the underlying risks on the advances. The risks include counterparty, interest rate, currency, prepayment and other price risks.

Advances of the bank with a carrying amount of R5 826 million (2014: R4 825 million) have been transferred in terms of such conduit transactions. Associated liabilities of R5 826 million (2014: R4 825 million) have been recognised for cash received and have been included in deposits.

### 34.2 Transferred financial assets that are derecognised

#### Securitisation transactions

Traditional securitisation transactions arranged by the bank result in the full derecognition of the securitised financial assets. In a traditional securitisation transaction, financial assets or interests in a pool of financial assets are sold to a structured entity, which then issues liabilities to third party investors, e.g. variable rate notes. As the bank has assumed an obligation to pay over all the cash flows from the advances to the structured entity, the bank's exposure to the variability in the amounts and timing of the cash flows of the transferred advances is no longer significant. The bank has, therefore, transferred substantially all of the risks and rewards of ownership of the advances to the structured entity and the advances are derecognised in their entirety. The bank may, however, acquire other financial assets and liabilities that continue to expose the bank to the returns on the underlying advances, e.g. the bank may be required to take up some of the notes issued by the structured entity that it is unable to issue into the market or enter into an interest rate swap with the securitisation structured entity. The bank may also continue to be exposed to the underlying advances through clean up calls in terms of which the bank has the option but not the obligation to repurchase the remaining derecognised advances at fair value once the value of the advances falls below a specified level.

The following bankruptcy remote structured entities have been created to facilitate a traditional securitisation transaction related to WesBank retail instalment sale advances:

- Nitro 4 facilitated a securitisation transaction amounting to R3 982 million of WesBank retail instalment sale advances and was established in August 2011.
- Nitro 5 facilitated a securitisation transaction amounting to R2 399 million of WesBank retail instalment sale advances and was established in June 2015.
- Turbo Finance 2 facilitated a securitisation transaction amounting to GBP314 million of retail instalment sale advances in the UK relating to the bank's MotoNovo finance division and was established in January 2012.
- Turbo Finance 3 facilitated a securitisation transaction amounting to GBP326 million of retail instalment sale advances in the UK relating to the bank's MotoNovo finance division and was established in September 2012.

## 34 TRANSFERS AND DERECOGNITION OF FINANCIAL ASSETS continued

### 34.2 Transferred financial assets that are derecognised continued

#### Securitisation transactions continued

- Turbo Finance 4 facilitated a securitisation transaction amounting to GBP374 million of retail instalment sale advances in the UK relating to the bank's MotoNovo finance division and was established in November 2013.
- Turbo Finance 5 facilitated a securitisation transaction amounting to GBP420 million of retail instalment sale advances in the UK relating to the bank's MotoNovo finance division and was established in September 2014.

In the current year, the Turbo Finance 2 securitisation transaction was wound up and the notes were called or settled. The process for winding down the Nitro 4 securitisation was also initiated in the current year and is expected to be finalised in the 2016 financial year.

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

The triggers associated with the bank's obligation to provide financial support or to repurchase the transferred financial assets include:

- any breach of the contractual representations and warranties relating to the derecognised assets;
- special permission obtained from the 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).

#### Other structured transactions

Other transactions may, depending on the individual arrangement, result in the derecognition of financial assets and the separate recognition of assets or liabilities for any rights or obligations created or retained in the transfer. These transactions could result in the bank having continuing involvement in the derecognised financial assets in the form of guarantees, servicing agreements, clean-up calls, investments held, credit enhancement or liquidity facilities and derivatives such as interest rate swaps, total return swaps, written put options or purchased call options.

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.

## 34 TRANSFERS AND DERECOGNITION OF FINANCIAL ASSETS continued

### 34.2 Transferred financial assets that are derecognised continued

#### Other structured transactions continued

The bank manages these risks as follows:

- strict internal controls and continual monitoring; and
- the application of hedging measures where appropriate/required.

Where the bank is required to bear losses in terms of these transactions, this will only ever be after all other parties involved, i.e. the lowest ranking.

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.

The table below sets out the financial information about the continuing involvement in transferred financial assets which have been derecognised in their entirety.

| | 2015 | | | | |
|---|---|---|---|---|---|
| **Type of continuing involvement** | **Carrying amount of continuing involvement recognised in the statement of financial position** | | **Fair value of continuing involvement** | | **Maximum exposure to loss*** |
| **R million** | **Assets** | **Liabilities** | **Assets** | **Liabilities** | |
| **Traditional securitisation transactions** | | | | | |
| 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** |

| | 2014 | | | | |
|---|---|---|---|---|---|
| **Type of continuing involvement** | **Carrying amount of continuing involvement recognised in the statement of financial position** | | **Fair value of continuing involvement** | | **Maximum exposure to loss*** |
| **R million** | **Assets** | **Liabilities** | **Assets** | **Liabilities** | |
| **Traditional securitisation transactions** | | | | | |
| Derivative financial instruments | 2 | 10 | 2 | 10 | 2 243 |
| Investment securities and other investments | 1 967 | – | 1 967 | – | 1 967 |
| **Other structured transactions** | | | | | |
| Investment securities and other investments | 1 881 | – | 1 881 | – | 1 881 |
| **Total** | 3 850 | 10 | 3 850 | 10 | 6 091 |

* *The maximum exposure to loss from continuing involvement in derecognised financial assets is the total loss that the bank would suffer in a worst case scenario such as if the underlying derecognised financial asset were to lose all of its value. This includes any off-balance sheet commitments or contingencies related to the derecognised financial asset. The maximum exposure to loss from continuing involvement through clean up calls, included in derivatives, is determined as the agreed upon amount the bank would have to pay to repurchase a financial asset that has no value. The maximum exposure to loss from continuing involvement through derivatives is determined as any payments the bank is obligated to make in terms of the derivative contract (such as interest payments) that is based on the value of the underlying transferred financial assets. The maximum exposure to loss from continuing involvement through notes issued by the structured entity and held by the bank is determined as the value of the notes recognised as an investment by the bank.*

## 34 TRANSFERS AND DERECOGNITION OF FINANCIAL ASSETS continued

### 34.2 Transferred financial assets that are derecognised continued

The table below sets out the profit or loss impact of transfers of financial assets which are derecognised in full.

| | 2015 | | |
|---|---|---|---|
| | | Income recognised from continuing involvement | |
| **Type of continuing involvement R million** | **Gain at date of transfer** | **For the current period** | **Cumulative** |
| Traditional securitisation transactions | **1 418** | **174** | **215** |
| Other structured transactions | **–** | **9** | **40** |
| **Total** | **1 418** | **183** | **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 2015. It also sets out the maturity analysis of these undiscounted cash flows.

| | 2015 | | | | | |
|---|---|---|---|---|---|---|
| **Type of continuing involvement R million** | **Total undiscounted cash outflows** | **Call** | **1 to 3 months** | **4 to 12 months** | **1 to 5 years** | **Over 5 years** |
| Traditional securitisation transactions | **15 518** | **10** | **32** | **545** | **14 931** | **–** |
| **Total** | **15 518** | **10** | **32** | **545** | **14 931** | **–** |

| 2014 | | |
|---|---|---|
| | Income recognised from continuing involvement | |
| Gain at date of transfer | For the current period | Cumulative |
| 1 557 | 53 | 294 |
| – | 29 | 31 |
| 1 557 | 82 | 325 |

| 2014 | | | | | |
|---|---|---|---|---|---|
| Total undiscounted cash outflows | Call | 1 to 3 months | 4 to 12 months | 1 to 5 years | Over 5 years |
| 10 067 | 13 | 41 | 540 | 9 470 | 3 |
| 10 067 | 13 | 41 | 540 | 9 470 | 3 |

## 35 FAIR VALUE MEASUREMENTS

### 35.1 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, relevant risk committees and external auditors annually or more frequently if considered appropriate.

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

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

#### Recurring fair value measurements

Recurring fair value measurements are those for assets and liabilities that IFRS requires or permits to be recognised at fair value and are recognised in the statement of financial position at reporting date. This includes 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 (for example in a dealer market), the bank uses the price within the bid-ask spread that is most representative of fair value in the circumstances. Although not a requirement, the bank uses the bid price for financial assets or the ask/offer price for financial liabilities where this best represents fair value.

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

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

#### 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 assets 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 fair value less costs to sell is the recoverable amount; *IFRS 3 Business Combinations* where assets and liabilities are measured at fair value at acquisition date; and IAS 36 where fair value less costs to sell is the recoverable amount. These fair value measurements are determined on a case by case basis as they occur within each reporting period.

## 35 FAIR VALUE MEASUREMENTS continued

### 35.1 Valuation methodology continued

#### Other fair value measurements

Other fair value measurements include 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 point 35.4 below, for all other financial instruments at amortised cost the carrying value is equal to or a reasonable approximation of the fair value.

### 35.2 Fair value hierarchy and measurements

The bank classifies assets and liabilities measured at fair value using a fair value hierarchy that reflects whether observable or unobservable inputs are used in determining the fair value of the item. 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.

#### Levels of fair value hierarchy

##### LEVEL 1

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

##### LEVEL 2

Fair value is determined using inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly such as quoted prices for similar items in an active market or for an identical item in an inactive market, or valuation models using observable inputs or inputs derived from observable market data. This category includes loans and advances to customers, equities listed in an inactive market, certain debt instruments, over-the-counter derivatives or exchange-traded derivatives where a market price is not available, deposits, other liabilities, Tier 2 liabilities and commodities which are not exchange-traded.

##### LEVEL 3

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

## 35 FAIR VALUE MEASUREMENTS continued

### 35.2 Fair value hierarchy and 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 and level 3.

| Instrument | Fair value hierarchy level | Valuation technique | Description of valuation technique and main assumptions | Observable inputs | Significant unobservable inputs of level 3 items |
|---|---|---|---|---|---|
| **Derivative financial instruments** | | | | | |
| Option contracts | Level 2 and level 3 | Option pricing model | The Black Scholes model is used. | Strike price of the option; market-related discount rate; forward rate and cap and floor volatility | Volatilities |
| Futures contracts | Level 2 | Discounted cash flows | Future cash flows are discounted using a market-related interest rate. Projected cash flows are obtained by subtracting the strike price of the forward contract from the market projected future value. | Market interest rates and curves | Not applicable |
| Swaps | Level 2 | 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 pertaining to the swap. | Market interest rates and curves | Not applicable |
| Forward rate agreements | Level 2 | 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 and curves | Not applicable |
| Forward contracts | Level 2 | 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 | Not applicable |

## 35 FAIR VALUE MEASUREMENTS continued

### 35.2 Fair value hierarchy and measurements continued

| Instrument | Fair value hierarchy level | Valuation technique | Description of valuation technique and main assumptions | Observable inputs | Significant unobservable inputs of level 3 items |
|---|---|---|---|---|---|
| **Derivative financial instruments continued** | | | | | |
| Credit derivatives | Level 2 and level 3 | Discounted cash flows | Future cash flows are discounted using a market-related interest rate. Where prices are obtainable from the market, individual credit spreads are used. | Market interest rates and curves | Credit inputs |
| Commodity derivatives | Level 2 | Discounted cash flows | Commodity-linked instruments are measured by taking into account the price, the location differential, grade differential, silo differential and discount factor of the most liquidly-traded futures linked to the commodity. | Futures prices | Not applicable |
| Equity derivatives | Level 2 and level 3 | Industry standard models | The models calculate fair value based on input parameters such as stock prices, dividends, volatilities, interest rates, equity repo curves and, for multi-asset products, correlations. Unobservable model inputs are determined by reference to liquid market instruments and applying extrapolation techniques to match the appropriate risk profile. | Market interest rates and curves | Volatilities |

## 35 FAIR VALUE MEASUREMENTS continued

### 35.2 Fair value hierarchy and measurements continued

| Instrument | Fair value hierarchy level | Valuation technique | Description of valuation technique and main assumptions | Observable inputs | Significant unobservable inputs of level 3 items |
|---|---|---|---|---|---|
| **Loans and advances to customers** | | | | | |
| Investment banking book | Level 3 | 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 a market-related interest rate. To calculate the fair value of credit the bank uses a valuation methodology based on the credit spread matrix, which considers loss given default, tenor and the internal credit committee rating criteria. The fair value measurement includes the original credit spread and is repriced when there is a change in rating of the counterparty. A decline in credit rating would result in an increase in the spread above the base rate for discounting purposes and consequently a reduction of the fair value of the advance. 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. | Market interest rates and curves | Credit inputs |
| Other loans and advances | Level 2 and level 3 | Discounted cash flows | Future cash flows are discounted using a market-related interest rate adjusted for credit inputs, over the contractual period. | Market interest rates and curves | Credit inputs |

## 35 FAIR VALUE MEASUREMENTS continued

### 35.2 Fair value hierarchy and measurements continued

| Instrument | Fair value hierarchy level | Valuation technique | Description of valuation technique and main assumptions | Observable inputs | Significant unobservable inputs of level 3 items |
|---|---|---|---|---|---|
| **Investment securities and other investments** | | | | | |
| Equities/bonds listed in an inactive market | Level 2 and level 3 | Discounted cash flows | For listed equities and bonds, the listed price is used where the market is active (i.e. level 1). However if the market is not active and the listed price is not representative of fair value, these are classified as level 2 or level 3 and a valuation technique is used, e.g. a discounted cash flow is used for listed bonds. 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 a market-related interest rate. Where the valuation techniques incorporates unobservable inputs for credit risk, level 3 of the fair value hierarchy is deemed appropriate. | Market interest rates and curves | Credit inputs |
| Unlisted bonds | Level 2 and level 3 | Discounted cash flows | Unlisted bonds are valued similarly to advances measured at fair value. The future cash flows are discounted using a market-related interest rate adjusted for credit inputs, over the contractual period. | Market interest rates and curves | Credit inputs |
| Unlisted equities | Level 2 and level 3 | Price earnings (P/E) model | For unlisted equities, the earnings included in the model are derived from a combination of historical and budgeted earnings depending on the specific circumstances of the entity whose equity is being valued. The P/E multiple is derived from current market observations taking into account an appropriate discount for unlisted companies. The valuation of these instruments may be corroborated by a discounted cash flow valuation or by the observation of other market transactions that have taken place. | Market transactions | Growth rates and P/E ratios |

## 35 FAIR VALUE MEASUREMENTS continued

### 35.2 Fair value hierarchy and measurements continued

| Instrument | Fair value hierarchy level | Valuation technique | Description of valuation technique and main assumptions | Observable inputs | Significant unobservable inputs of level 3 items |
|---|---|---|---|---|---|
| **Investment securities and other investments continued** | | | | | |
| Negotiable certificates of deposit | Level 2 | Discounted cash flows | Future cash flows are discounted using a market-related interest rate. Inputs to these models include information that is consistent with similar market-quoted instruments, where available. | Market interest rates and curves | Not applicable |
| Treasury bills | Level 2 | BESA bond pricing model | The BESA bond pricing model uses the BESA mark-to-market bond yield. | Market interest rates and curves | Not applicable |
| **Deposits** | | | | | |
| Call and non-term deposits | Level 2 | None – the undiscounted amount is used | The undiscounted amount of the deposit is the fair value due to the short term nature of the instruments. These deposits are financial liabilities with a demand feature and the fair value is not less than the amount payable on demand, i.e. the undiscounted amount of the deposit. | None – the undiscounted amount approximates fair value and no valuation is performed | Not applicable |
| Deposits that represent collateral on credit linked notes | Level 3 | Discounted cash flows | These deposits represent the collateral leg of credit linked notes. The forward curve adjusted for liquidity premiums and business unit margins is used. The valuation methodology does not take early withdrawals and other behavioural aspects into account. | Market interest rates and curves | Credit inputs on related advance |
| Other deposits | Level 2 and level 3 | Discounted cash flows | The forward curve adjusted for liquidity premiums and business unit margins. The valuation methodology does not take early withdrawals and other behavioural aspects into account. | Market interest rates and curves | Credit inputs |
| **Other liabilities and Tier 2 liabilities** | Level 2 | Discounted cash flows | Future cash flows are discounted using a market-related interest rate. | Market interest rates and curves | Not applicable |
| **Financial assets and liabilities not measured at fair value but for which fair value is disclosed** | Level 2 and level 3 | Discounted cash flows | Future cash flows are discounted using a market-related interest rate and curves adjusted for credit inputs. | Market interest rates and curves | Credit inputs |

## 35 FAIR VALUE MEASUREMENTS continued

### 35.2 Fair value hierarchy and measurements continued

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, i.e. note 15 for IFRS 3 transactions. There were no assets or liabilities measured at fair value on a non-recurring basis in the current and prior year.

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

The following table presents the recurring and non-recurring fair value measurements and fair value hierarchy of assets and liabilities of the bank which are recognised at fair value.

| | 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** |
| Advances* | **–** | **40 679** | **153 777** | **194 456** |
| Investment securities and other investments | **65 313** | **39 361** | **28 677** | **133 351** |
| Commodities | **7 354** | **–** | **–** | **7 354** |
| Amounts due by holding company and fellow subsidiaries | **–** | **295** | **–** | **295** |
| **Total financial 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** |
| Tier 2 liabilities | **–** | **–** | **–** | **–** |
| **Total financial liabilities measured at fair value** | **7 528** | **137 829** | **1 187** | **146 544** |

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

## 35 FAIR VALUE MEASUREMENTS continued

### 35.2 Fair value hierarchy and measurements continued

| | 2014 | | | |
|---|---|---|---|---|
| **R million** | **Level 1** | **Level 2** | **Level 3** | **Total fair value** |
| **Assets** | | | | |
| *Recurring fair value measurements* | | | | |
| Derivative financial instruments | 22 | 38 610 | 1 | 38 633 |
| Advances* | – | 31 809 | 146 064 | 177 873 |
| Investment securities and other investments | 49 299 | 33 461 | 5 518 | 88 278 |
| Commodities | 7 904 | – | – | 7 904 |
| Amounts due by holding company and fellow subsidiaries | – | 305 | – | 305 |
| **Total financial assets measured at fair value** | 57 225 | 104 185 | 151 583 | 312 993 |
| **Liabilities** | | | | |
| *Recurring fair value measurements* | | | | |
| Short trading positions | 5 398 | – | – | 5 398 |
| Derivative financial instruments | 25 | 41 598 | 5 | 41 628 |
| Deposits | 125 | 82 104 | 952 | 83 181 |
| Other liabilities | – | 3 287 | – | 3 287 |
| Amounts due to holding company and fellow subsidiaries | – | 226 | – | 226 |
| Tier 2 liabilities | – | 1 030 | – | 1 030 |
| **Total financial liabilities measured at fair value** | 5 548 | 128 245 | 957 | 134 750 |

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

## 35 FAIR VALUE MEASUREMENTS continued

### 35.2 Fair value hierarchy and measurements continued

#### 35.2.1 Transfers between fair value hierarchy levels

The following represents the significant transfers into levels 1, 2 and 3 and the reasons for these transfers. Transfers between levels of the fair value hierarchy are deemed to occur at the beginning of the reporting period.

| | 2015 | | |
|---|---|---|---|
| **R million** | **Transfers in** | **Transfers out** | **Reasons for 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)** | |

| | 2014 | | |
|---|---|---|---|
| **R million** | **Transfers in** | **Transfers out** | **Reasons for transfer in** |
| Level 1 | – | – | There were no transfers in or out of level 1. |
| Level 2 | – | (187) | Investment securities to the value of R187 million were transferred into level 3 out of level 2 as a result of certain of the significant inputs becoming unobservable owing to a change in the counterparty's capital structure. |
| Level 3 | 187 | – | |
| **Total transfers** | **187** | **(187)** | |

## 35 FAIR VALUE MEASUREMENTS continued

## 35.3 Additional disclosures for level 3 financial instruments

### 35.3.1 Changes in level 3 instruments with recurring fair value measurements

The following tables show 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.

| | 2015 | | |
|---|---|---|---|
| **R million** | **Fair value on 30 June 2014** | **Gains/losses recognised in profit or loss** | **Gains/losses recognised in other comprehensive income** |
| **Assets** | | | |
| Derivative financial instruments | **1** | **4** | **–** |
| Advances | **146 064** | **6 801** | **–** |
| Investment securities and other investments | **5 518** | **1 083** | **97** |
| **Total financial assets measured at fair value in level 3** | **151 583** | **7 888** | **97** |
| **Liabilities** | | | |
| Derivative financial instruments | **5** | **4** | **–** |
| Deposits | **952** | **14** | **–** |
| **Total financial liabilities measured at fair value in level 3** | **957** | **18** | **–** |

*Decreases in level 3 assets and liabilities are included in brackets. Decreases in the value of assets may be a result of losses, sales and settlements or the disposal of subsidiaries. Decreases in the value of liabilities may be a result of gains, settlements or the disposal of subsidiaries.*

| | 2014 | | |
|---|---|---|---|
| **R million** | **Fair value on 30 June 2013** | **Gains/losses recognised in profit or loss** | **Gains/losses recognised in other comprehensive income** |
| **Assets** | | | |
| Derivative financial instruments | 1 | – | – |
| Advances | 112 331 | 3 139 | – |
| Investment securities and other investments | 4 831 | 317 | 55 |
| **Total financial assets measured at fair value in level 3** | 117 163 | 3 456 | 55 |
| **Liabilities** | | | |
| Derivative financial instruments | – | 4 | – |
| Deposits | 1 302 | – | – |
| **Total financial liabilities measured at fair value in level 3** | 1 302 | 4 | – |

*Decreases in level 3 assets and liabilities are included in brackets. Decreases in the value of assets may be a result of losses, sales and settlements or the disposal of subsidiaries. Decreases in the value of liabilities may be a result of gains, settlements or the disposal of subsidiaries.*

| | 2015 | | | | | |
|---|---|---|---|---|---|---|
| | **Purchases, sales, issues and settlements** | **Acquisitions/ disposals of subsidiaries** | **Transfers into level 3** | **Transfers out of level 3** | **Exchange rate difference** | **Fair value on 30 June 2015** |
| | **–** | **–** | **–** | **–** | **–** | **5** |
| | **(367)** | **–** | **–** | **(6)** | **1 285** | **153 777** |
| | **17 248** | **–** | **4 709** | **–** | **22** | **28 677** |
| | **16 881** | **–** | **4 709** | **(6)** | **1 307** | **182 459** |
| | **(4)** | **–** | **–** | **–** | **–** | **5** |
| | **216** | **–** | **–** | **–** | **–** | **1 182** |
| | **212** | **–** | **–** | **–** | **–** | **1 187** |

| | 2014 | | | | | |
|---|---|---|---|---|---|---|
| | **Purchases, sales, issues and settlements** | **Acquisitions/ disposals of subsidiaries** | **Transfers into level 3** | **Transfers out of level 3** | **Exchange rate difference** | **Fair value on 30 June 2014** |
| | – | – | – | – | – | 1 |
| | 30 179 | – | – | – | 415 | 146 064 |
| | 122 | – | 187 | – | 6 | 5 518 |
| | 30 301 | – | 187 | – | 421 | 151 583 |
| | 1 | – | – | – | – | 5 |
| | (371) | – | – | – | 21 | 952 |
| | (370) | – | – | – | 21 | 957 |

## 35 FAIR VALUE MEASUREMENTS continued

### 35.3 Additional disclosures for level 3 financial instruments continued

#### 35.3.2 Unrealised gains or losses on level 3 instruments with recurring fair value measurements

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

The table below presents the total gains/losses relating to 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.

| | 2015 | | |
|---|---|---|---|
| **R million** | **Gains/losses recognised in the income statement** | **Gains/losses recognised in other comprehensive income** | **Total gains/losses** |
| **Assets** | | | |
| Derivative financial instruments | **4** | **–** | **4** |
| Advances* | **5 132** | **–** | **5 132** |
| Investment securities and other investments | **937** | **97** | **1 034** |
| **Total** | **6 073** | **97** | **6 170** |
| **Liabilities** | | | |
| Derivative financial instruments | **4** | **–** | **4** |
| Deposits | **(14)** | **–** | **(14)** |
| **Total** | **(10)** | **–** | **(10)** |

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

*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 disposal of subsidiaries.*

## 35 FAIR VALUE MEASUREMENTS continued

### 35.3 Additional disclosures for level 3 financial instruments continued

#### 35.3.2 Unrealised gains or losses on level 3 instruments with recurring fair value measurements continued

| | 2014 | | |
|---|---|---|---|
| **R million** | **Gains/losses recognised in the income statement** | **Gains/losses recognised in other comprehensive income** | **Total gains/losses** |
| **Assets** | | | |
| Advances* | 2 889 | – | 2 889 |
| Investment securities and other investments | 290 | 51 | 341 |
| **Total** | 3 179 | 51 | 3 230 |
| **Liabilities** | | | |
| Derivative financial instruments | 4 | – | 4 |
| Deposits | (2) | – | (2) |
| **Total** | 2 | – | 2 |

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

*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 disposal of subsidiaries.*

## 35 FAIR VALUE MEASUREMENTS continued

### 35.3 Additional disclosures for level 3 financial instruments continued

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

The value of assets and liabilities measured at fair value on a recurring basis that are classified in level 3 of the fair value hierarchy is determined using valuation techniques that make use of significant inputs that are not based on observable market data. The inputs into these valuation techniques are derived from all available information and management's judgement. While management believes that these fair values are appropriate they could be sensitive to changes in the assumptions used to derive the inputs. The table below illustrates the sensitivity of the significant inputs when changed to reasonable possible alternative inputs:

| | 2015 | |
|---|---|---|
| **R million** | **Significant unobservable inputs** | **Reasonably possible changes to significant unobservable inputs** |
| **Assets** | | |
| Derivative financial instruments | **Volatilities** | **Volatilities are increased and decreased by 10%** |
| Advances | **Credit** | **Credit migration matrix*** |
| Investment securities and other investments | **Credit, growth rates and P/E ratios of unlisted investments** | **Unobservable inputs are increased and decreased by 10%** |
| **Total financial assets measured at fair value in level 3** | | |
| **Liabilities** | | |
| Derivative financial instruments | **Volatilities** | **Volatilities are increased and decreased by 10%** |
| Deposits | **Credit risk of the cash collateral leg of credit linked notes** | **Credit migration matrix**** |
| **Total financial liabilities measured at fair value in level 3** | | |

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

** *The deposits included in level 3 of the hierarchy represent the collateral leg of credit linked notes. The most significant unobservable input in determining the fair value of the credit linked notes is the credit risk component. The sensitivity to credit risk has been assessed in the same way as for advances using the credit migration matrix with the deposit representing the cash collateral component thereof.*

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | Reasonably possible alternative fair value | | | Reasonably possible alternative fair value | | |
| | Fair value | Using more positive assumptions | Using more negative assumptions | Fair value | Using more positive assumptions | Using more negative assumptions |
| | **5** | **6** | **5** | 1 | 1 | 1 |
| | **153 777** | **154 411** | **151 871** | 146 064 | 147 016 | 146 478 |
| | **28 677** | **29 004** | **28 360** | 5 518 | 6 086 | 4 957 |
| | **182 459** | **183 421** | **180 236** | 151 583 | 153 103 | 151 436 |
| | **5** | **4** | **5** | 5 | 5 | 5 |
| | **1 182** | **1 064** | **1 301** | 952 | 857 | 1 048 |
| | **1 187** | **1 068** | **1 306** | 957 | 862 | 1 053 |

## 35 FAIR VALUE MEASUREMENTS continued

### 35.4 Other fair value measurements

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.

| | 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 and other investments | **192** | **192** | **–** | **192** | **–** |
| **Total financial 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 financial liabilities at amortised cost** | **695 335** | **695 295** | **5 159** | **687 694** | **2 442** |

| | 2014 | | | | |
|---|---|---|---|---|---|
| **R million** | **Carrying value** | **Total fair value** | **Level 1** | **Level 2** | **Level 3** |
| **Assets** | | | | | |
| Advances | 444 239 | 446 233 | – | 60 101 | 386 132 |
| Investment securities and other investments | 505 | 505 | – | 505 | – |
| **Total financial assets at amortised cost** | 444 744 | 446 738 | – | 60 606 | 386 132 |
| **Liabilities** | | | | | |
| Deposits | 609 995 | 611 136 | 18 029 | 592 152 | 955 |
| Other liabilities | 981 | 975 | – | 975 | – |
| Tier 2 liabilities | 10 454 | 10 705 | – | 10 705 | – |
| **Total financial liabilities at amortised cost** | 621 430 | 622 816 | 18 029 | 603 832 | 955 |

## 35 FAIR VALUE MEASUREMENTS continued

### 35.5 Day 1 profit or loss

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

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

| R million | 2015 | 2014 |
|---|---|---|
| Balance at 1 July | **11** | 16 |
| Amount recognised in profit or loss as a result of changes which would be observable by market participants | **(5)** | (5) |
| **Balance at 30 June** | **6** | 11 |

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

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

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

- offset and the net amount presented in the bank's statement of financial position in accordance with the requirements of IAS 32; and
- subject to enforceable master netting arrangements 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.

| | 2015 | | |
|---|---|---|---|
| | Financial instruments subject to offsetting agreements, MNA and similar agreements | | |
| | Amounts where offsetting is applied | | |
| **R million** | **Gross amount** | **Amounts set-off** | **Net amount reported in the statement of financial position*** |
| **Assets** | | | |
| Derivatives | **42 294** | **10 135** | **32 159** |
| Reverse repurchase, securities borrowing and similar arrangements | **44 890** | **12 400** | **32 490** |
| Other advances | **2 930** | **2 771** | **159** |
| Intercompany assets | **9 035** | **1 166** | **7 869** |
| **Total** | **99 149** | **26 472** | **72 677** |
| **Liabilities** | | | |
| Derivatives | **49 128** | **10 135** | **38 993** |
| Repurchase securities lending and similar arrangements | **39 106** | **12 400** | **26 706** |
| Other deposits | **2 993** | **2 771** | **222** |
| Intercompany liabilities | **1 227** | **1 166** | **61** |
| **Total** | **92 454** | **26 472** | **65 982** |

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

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

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

| | 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Financial instruments subject to offsetting agreements, MNA and similar agreements | | | | | |
| | Amounts where offsetting is not applied | | | | | |
| | Financial instruments subject to MNA and similar agreements | Financial collateral** | Net amount | Financial instruments not subject to set-off or MNA | Total statement of financial position# |
| | 25 531 | 1 305 | 5 323 | 1 953 | 34 112 |
| | 849 | 31 641 | – | 7 576 | 40 066 |
| | – | – | 159 | 635 162 | 635 321 |
| | 33 | – | 7 836 | 19 449 | 27 318 |
| | 26 413 | 32 946 | 13 318 | 664 140 | 736 817 |
| | 25 531 | 136 | 13 326 | 1 818 | 40 811 |
| | 849 | 25 857 | – | 8 462 | 35 168 |
| | – | – | 222 | 744 313 | 744 535 |
| | 33 | – | 28 | 11 775 | 11 836 |
| | 26 413 | 25 993 | 13 576 | 766 368 | 832 350 |

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

| | 2014 | | |
|---|---|---|---|
| | Financial instruments subject to offsetting agreements, MNA and similar agreements | | |
| | Amounts where offsetting is applied | | |
| R million | Gross amount | Amounts set-off | Net amount reported in the statement of financial position* |
| **Assets** | | | |
| Derivatives | 42 795 | 7 989 | 34 806 |
| Reverse repurchase, securities borrowing and similar arrangements | 42 761 | 13 908 | 28 853 |
| Other advances | 2 164 | 2 164 | – |
| Intercompany assets | 5 663 | 532 | 5 131 |
| **Total** | 93 383 | 24 593 | 68 790 |
| **Liabilities** | | | |
| Derivatives | 44 886 | 7 989 | 36 897 |
| Repurchase securities lending and similar arrangements | 34 121 | 13 909 | 20 212 |
| Other deposits | 2 471 | 2 163 | 308 |
| Intercompany liabilities | 837 | 532 | 305 |
| **Total** | 82 315 | 24 593 | 57 722 |

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

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

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

| 2014 | | | | |
|---|---|---|---|---|
| Financial instruments subject to offsetting agreements, MNA and similar agreements | | | | |
| Amounts where offsetting is not applied | | | | |
| Financial instruments subject to MNA and similar agreements | Financial collateral** | Net amount | Financial instruments not subject to set-off or MNA | Total statement of financial position# |
| 28 519 | 1 883 | 4 404 | 3 827 | 38 633 |
| 202 | 28 651 | – | 3 900 | 32 753 |
| – | – | – | 589 837 | 589 837 |
| 71 | – | 5 060 | 20 874 | 26 005 |
| 28 792 | 30 534 | 9 464 | 618 438 | 687 228 |
| 28 519 | 239 | 8 139 | 4 731 | 41 628 |
| 202 | 20 010 | – | 7 793 | 28 005 |
| – | – | 308 | 664 863 | 665 171 |
| 71 | – | 234 | 11 987 | 12 292 |
| 28 792 | 20 249 | 8 681 | 689 374 | 747 096 |

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

### Details of the offsetting and collateral arrangements

#### Derivative assets and liabilities

The bank's derivative transactions that are not transacted on an exchange are entered into under International Derivatives Swaps and Dealers Association (ISDA) 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 being 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).

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

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

#### Repurchase, reverse repurchase and securities borrowing and lending transactions

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

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

#### Other advances and deposits

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

#### Intercompany assets and liabilities

Intercompany assets and liabilities consist of derivative assets and liabilities that are offset based on the same criteria applicable to external derivatives.

## 37 SEGMENT INFORMATION

### 37.1 Reportable segments

Set out below is information about the reportable segments of the bank, details of the various products and services provided by the franchises, their major customers and the basis of preparation of segment information. The bank accounts for inter-segment transaction as if the transaction were with third parties.

#### FNB

FNB represents the bank's retail and commercial activities in South Africa. 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, investment and savings – and include mortgage loans, credit and debit cards, personal loans and investment products. Services include transactional and deposit taking, card acquiring, credit facilities and distribution channels (namely the branch network, ATMs, call centres, cell phone and internet). FNB's primary segments are retail and commercial.

#### FNB Africa

FNB Africa comprises a support division acting as strategic enabler, facilitator and coordinator for African expansion.

#### RMB

RMB is the corporate and investment bank and offers advisory, financing, trading, corporate banking and principal investing solutions. RMB's business units include global markets, investment banking and corporate banking.

#### WesBank

WesBank represents the bank's activities in vehicle and asset 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 strong point-of-sale presence in South Africa. WesBank also has a vehicle finance business in the UK, MotoNovo.

#### FCC

FCC represents key group-wide functions, including 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.

## 37 SEGMENT INFORMATION continued

### 37.1 Reportable segments continued

#### Major customers

In terms of *IFRS 8 Operating Segments*, a customer is regarded as a major customer if the revenue from transactions with this customer exceeds 10% or more of the entity's revenue. The bank has no major customer as defined and is, therefore, not reliant on the revenue from one or more major customers.

#### Basis of preparation of segment information

The segmental analysis is based on the information reported to management for the respective segments and is based on the current franchise management structures. The information is based on IFRS with the exception of normalisation adjustments and certain adjustments made to 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 bank believes normalised earnings more accurately reflect its economic performance therefore IFRS earnings are adjusted to take into account headline earnings adjustments, non-operational items and accounting anomalies.

In order to ensure that the total segment results, assets and liabilities agree to the amounts reported in terms of IFRS, the above mentioned amounts are adjusted in the IFRS adjustments column.

Below is a description of the normalised adjustments made to IFRS earnings when preparing the normalised results.

#### Equity-settled share-based payments

IFRS 2 requires that all share-based payment transactions for goods or services received must be expensed with effect from financial periods commencing on or after 1 January 2005.

In 2005 the bank concluded a BEE transaction. As part of this transaction, rights were granted to the bank's black South African employees and black non-executive directors. These rights were accounted for as expenses in accordance with IFRS 2. These schemes all vested on 31 December 2014 and the staff received the FirstRand and MMI shares due to them.

From an IFRS perspective the following expenses are recognised for the period from 1 July 2014 until the vesting date:

- IFRS 2 cost for the FirstRand shares granted to employees based on grant date fair value; and
- an IAS 19 expense for the movement in fair value of the MMI shares that are expected to vest.

When calculating normalised results, the following adjustments are made in respect of the staff share trusts to reflect the economic cost of the scheme:

- the IFRS 2 expense is reversed; and
- the IAS 19 expense relating to the fair value movement in the MMI shares is reversed.

#### 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.

## 37 SEGMENT INFORMATION continued

### 37.1 Reportable segments continued

#### USD liquidity funding

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

#### 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 the 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 lost margin on the disposed 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 within RMB on a fair value basis in terms of IFRS. As a result, the margin on these advances is reflected as part of non-interest revenue (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.

#### IAS 19 Remeasurement of plan assets

In terms of the revised IAS 19, interest income is recognised on 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 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.

#### Credit based investments included in advances

Certain corporate bonds, high quality liquid assets and notes held in securitisation vehicles are classified as investment securities for IFRS purposes. The underlying nature and credit exposure of these assets is credit-related and these were, therefore, reclassified from investment securities into advances.

## 37 SEGMENT INFORMATION continued

### 37.1 Reportable segments continued

#### 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 for the specific reporting period to the period in which the IFRS 2 impact will manifest in the bank's results. This reflects the economic substance of the hedge and associated IFRS 2 impact for the bank.

In addition, the portion of the share-based payment expense which relates to the remeasurement of the liability arising from changes in the share price 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 2/2013 Headline Earnings* in calculating headline earnings are included in normalised results on a line-by-line basis based on the nature of the adjustment. The description and the amount of these adjustments is provided in the reconciliation between headline earnings and IFRS profit on page 11.

These adjustments include the write back of impairment losses recognised on intangible assets and goodwill.

## 37 SEGMENT INFORMATION continued

### 37.2 Geographic segments

Refer to the reportable segment information for a description of the divisions.

| Segment | Countries included | Franchises included |
|---|---|---|
| South Africa | South Africa | FNB<br>RMB<br>WesBank<br>FCC (including Group Treasury) |
| United Kingdom | United Kingdom | FNB<br>RMB<br>WesBank<br>FCC (including Group Treasury) |
| Asia | India | FNB<br>RMB |
| Other | Other Africa<br>North America<br>South America<br>Europe | FNB<br>RMB |

The following significant exchange rates were used to convert the statement of financial position.

Foreign denominated assets and liabilities are converted at the closing rate of exchange.

| | 2015 | 2014 |
|---|---|---|
| GBP | **19.12** | 18.17 |
| EUR | **13.57** | 14.55 |
| USD | **12.14** | 10.63 |
| AUD | **9.35** | 10.02 |
| BRL | **3.90** | 4.83 |
| INR | **0.19** | 0.18 |

## 37 SEGMENT INFORMATION continued

### 37.3 Reportable segments continued

| R million | 2015 FNB | 2015 FNB Africa* |
|---|---|---|
| **Net interest income before impairment of advances** | 18 626 | 4 |
| Impairment of advances | (2 070) | (3) |
| **Net interest income after impairment of advances** | 16 556 | 1 |
| Non-interest revenue | 16 837 | 501 |
| **Net income from operations** | 33 393 | 502 |
| Operating expenses | (19 603) | (824) |
| **Income before tax** | 13 790 | (322) |
| Indirect tax | (435) | (1) |
| **Profit before tax** | 13 355 | (323) |
| Income tax expense | (3 740) | 90 |
| **Profit for the year** | 9 615 | (233) |
| **The income statement includes:** | | |
| Depreciation | (1 206) | (3) |
| Amortisation | (3) | – |
| Impairment charges | (3) | – |
| **The statement of financial position includes:** | | |
| Advances (after ISP – before impairments) | 284 099 | 443 |
| Total assets | 298 865 | 579 |
| Total liabilities | 285 719 | 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 on page 3).*

### Geographical segments

| R million | 2015 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 |
| Total assets | 907 094 | 39 794 | 3 071 | – | 949 959 |
| Non-current assets* | 12 813 | 53 | 26 | – | 12 892 |
| Total liabilities | 832 803 | 39 803 | 2 356 | – | 874 962 |

* *Excludes financial instruments, accounts receivable, deferred income tax assets, post-employment benefit assets and rights arising under insurance contracts.*

| | 2015 | | | | | |
|---|---|---|---|---|---|---|
| | RMB | | | | | |
| | Investment banking | Corporate banking | WesBank | FCC (including Group Treasury) | Elimination and IFRS adjustments | Total |
| | 1 566 | 918 | 7 316 | 1 689 | 110 | 30 229 |
| | (56) | (112) | (2 413) | (27) | 325 | (4 356) |
| | 1 510 | 806 | 4 903 | 1 662 | 435 | 25 873 |
| | 7 908 | 1 149 | 3 201 | 1 252 | (1 632) | 29 216 |
| | 9 418 | 1 955 | 8 104 | 2 914 | (1 197) | 55 089 |
| | (4 671) | (1 330) | (5 107) | (2 413) | 450 | (33 498) |
| | 4 747 | 625 | 2 997 | 501 | (747) | 21 591 |
| | (75) | 18 | (239) | (22) | 3 | (751) |
| | 4 672 | 643 | 2 758 | 479 | (744) | 20 840 |
| | (1 309) | (180) | (772) | (134) | 806 | (5 239) |
| | 3 363 | 463 | 1 986 | 345 | 62 | 15 601 |
| | | | | | | |
| | (66) | (3) | (411) | (26) | (2) | (1 717) |
| | (8) | – | (36) | (2) | (1) | (50) |
| | – | – | (101) | – | 100 | (4) |
| | | | | | | |
| | 221 297 | 6 147 | 166 897 | 6 627 | (33) | 685 477 |
| | 346 103 | 6 611 | 166 345 | 133 323 | (1 867) | 949 959 |
| | 342 219 | 5 926 | 163 586 | 78 774 | (2 165) | 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 equityholders** | 15 394 |
| Headline earnings adjustments | (7) |
| **Headline earnings to ordinary equityholders** | 15 387 |
| TRS adjustment | (34) |
| IAS 19 adjustment | (107) |
| **Normalised earnings from continuing operations** | 15 246 |

## 37 SEGMENT INFORMATION continued

### 37.3 Reportable segments continued

| | 2014 | |
|---|---|---|
| **R million** | **FNB** | **FNB Africa*** |
| **Net interest income before impairment of advances** | 16 136 | 2 |
| Impairment of advances | (2 082) | (99) |
| **Net interest income after impairment of advances** | 14 054 | (97) |
| Non-interest revenue | 15 460 | 379 |
| **Net income from operations** | 29 514 | 282 |
| Operating expenses | (17 724) | (688) |
| **Income before tax** | 11 790 | (406) |
| Indirect tax | (488) | (1) |
| **Profit before tax** | 11 302 | (407) |
| Income tax expense | (3 164) | 114 |
| **Profit for the year** | 8 138 | (293) |
| **The income statement includes:** | | |
| Depreciation | (1 184) | (1) |
| Amortisation | (22) | – |
| Impairment charges | (27) | – |
| **The statement of financial position includes:** | | |
| Advances (after ISP – before impairments) | 258 823 | 241 |
| Total assets | 270 505 | 260 |
| Total liabilities | 259 838 | 634 |

** *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 on page 3).*

## Geographical segments

| | 2014 | | | | |
|---|---|---|---|---|---|
| **R million** | **South Africa** | **United Kingdom** | **Asia** | **Other** | **Total** |
| Net interest income after impairment of advances | 20 342 | 54 | (24) | – | 20 372 |
| Non-interest revenue | 27 232 | 1 316 | 74 | – | 28 622 |
| Total assets | 821 862 | 26 858 | 2 489 | – | 851 209 |
| Non-current assets* | 11 379 | 46 | 28 | – | 11 453 |
| Total liabilities | 758 283 | 26 941 | 1 921 | – | 787 145 |

* *Excludes financial instruments, accounts receivable, deferred income tax assets, post-employment benefit assets and rights arising under insurance contracts.*

| 2014 | | | | | |
|---|---|---|---|---|---|
| RMB | | | FCC | | |
| Investment banking | Corporate banking | WesBank | (including Group Treasury) | Elimination and IFRS adjustments | Total |
| 1 284 | 813 | 8 159 | 2 069 | (3 264) | 25 199 |
| (72) | (31) | (2 060) | (34) | (449) | (4 827) |
| 1 212 | 782 | 6 099 | 2 035 | (3 713) | 20 372 |
| 7 838 | 1 095 | 2 043 | 1 948 | (141) | 28 622 |
| 9 050 | 1 877 | 8 142 | 3 983 | (3 854) | 48 994 |
| (4 431) | (1 354) | (4 851) | (3 735) | 1 707 | (31 076) |
| 4 619 | 523 | 3 291 | 248 | (2 147) | 17 918 |
| (57) | (25) | (253) | 28 | – | (796) |
| 4 562 | 498 | 3 038 | 276 | (2 147) | 17 122 |
| (1 278) | (139) | (852) | (77) | 1 021 | (4 375) |
| 3 284 | 359 | 2 186 | 199 | (1 126) | 12 747 |
| | | | | | |
| (65) | (5) | (375) | (43) | – | (1 673) |
| (5) | – | (25) | (1) | (1) | (54) |
| (1) | – | (3) | (3) | (97) | (131) |
| | | | | | |
| 206 916 | 6 442 | 156 856 | 2 403 | (30) | 631 651 |
| 319 688 | 6 826 | 156 743 | 99 879 | (2 692) | 851 209 |
| 315 450 | 6 303 | 155 058 | 52 103 | (2 241) | 787 145 |

## Reconciliation of profit for the year to normalised earnings

| R million | 2014 |
|---|---|
| **Profit for the year (per above)** | 12 747 |
| NCNR preference shareholders | (192) |
| **Attributable earnings to ordinary equityholders** | 12 555 |
| Headline earnings adjustments | 68 |
| **Headline earnings to ordinary equityholders** | 12 623 |
| TRS adjustment | (198) |
| IAS 19 adjustment | (104) |
| **Normalised earnings from continuing operations** | 12 321 |

## 38 RELATED PARTIES

The bank defines related parties as:

(i) the parent company;
(ii) subsidiaries and fellow subsidiaries;
(iii) associate companies;
(iv) joint ventures;
(v) associates and joint ventures of the parent company and fellow subsidiaries;
(vi) groups that have significant influence over the parent. If an investor has significant influence over the parent, it is a related party not only of the parent but also of the subsidiaries, including the bank. If an investor that has significant influence over the parent has subsidiaries, those subsidiaries are also related to the bank;
(vii) post-employment benefit funds (pension funds);
(viii) key management personnel, being the FirstRand Limited board of directors, the bank's board of directors and the bank's executive committee; including any entities which provide key management personnel services to the bank;
(ix) close family members of key management personnel (individual's spouse/domestic partner and children; domestic partner's children and dependants of individual or domestic partner); and
(x) entities controlled, jointly controlled or significantly influenced by an individual referred to in (viii) and (ix).

The ultimate parent of the bank is FirstRand Limited, incorporated in South Africa.

### 38.1 Subsidiaries

Details of interests in subsidiaries are disclosed in note 15.

Refer below for details of transactions with subsidiaries and fellow subsidiaries.

### 38.2 Associates

Details of investments in associates are disclosed in note 16.

## 38 RELATED PARTIES continued

### 38.3 Details of transactions with relevant related parties appear below

| | 2015 | | | | | |
|---|---|---|---|---|---|---|
| **R million** | **Parent** | **Entities that have significant influence over the parent and their subsidiaries** | **Fellow subsidiaries** | **Own associates** | **Associates of the parent and fellow subsidiaries** | **Joint ventures of the parent and fellow subsidiaries** |
| **Advances** | | | | | | |
| Opening balance | – | 1 488 | – | 33 | 3 574 | 5 375 |
| Acquisitions/(disposals) of associates and joint ventures | – | – | – | – | (369) | – |
| Advanced during the year | – | 39 | – | 46 | 2 741 | 783 |
| Repayments during the year | – | (355) | – | – | (2 611) | (465) |
| Interest income | – | 3 | – | – | 6 | 373 |
| Fair value movements during the year | – | 99 | – | – | 245 | 98 |
| Provision for impairment loss | – | – | – | (27) | – | (36) |
| **Closing balance** | – | 1 274 | – | 52 | 3 586 | 6 128 |
| **Accounts receivable** | | | | | | |
| Opening balance | – | – | – | – | 247 | 36 |
| Accrued during the year | – | – | – | – | 221 | 13 |
| Repayments during the year | – | – | – | – | (228) | (13) |
| **Closing balance** | – | – | – | – | 240 | 36 |
| **Amounts due by holding company and fellow subsidiary companies** | | | | | | |
| Opening balance | – | – | 26 005 | – | – | – |
| Issued during the year | – | – | 1 313 | – | – | – |
| **Closing balance** | – | – | 27 318 | – | – | – |
| **Derivative assets** | | | | | | |
| Notional amount | – | 30 | – | – | 1 338 | 26 695 |
| Fair value | – | 1 | – | – | 17 | 213 |
| **Guarantees received** | – | – | – | – | 5 | – |

## 38 RELATED PARTIES continued

### 38.3 Details of transactions with relevant related parties appear below continued

| R million | 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Parent | Entities that have significant influence over the parent and their subsidiaries | Fellow subsidiaries | Own associates | Associates of the parent and fellow subsidiaries | Joint ventures of the parent and fellow subsidiaries |
| **Deposits** | | | | | | |
| Opening balance | – | 3 | – | – | 358 | 15 |
| Acquisitions/(disposals) of associates and joint ventures | – | – | – | – | (10) | – |
| Received during the year | – | 176 | – | – | 1 018 | 1 953 |
| Redeemed during the year | – | (2) | – | – | (1 135) | (12) |
| Interest expense | – | – | – | – | (3) | (1) |
| **Closing balance** | – | 177 | – | – | 228 | 1 955 |
| **Accounts payable** | | | | | | |
| Opening balance | – | – | – | – | 46 | 32 |
| Accrued during the year | – | 2 | – | – | 231 | (21) |
| Repayments during the year | – | – | – | – | (225) | – |
| **Closing balance** | – | 2 | – | – | 52 | 11 |
| **Amounts due to holding company and fellow subsidiary companies** | | | | | | |
| Opening balance | 133 | – | 12 159 | – | – | – |
| Repayments during the year | 158 | – | (614) | – | – | – |
| **Closing balance** | 291 | – | 11 545 | – | – | – |
| **Derivative liabilities** | | | | | | |
| Notional amount | – | 5 | – | – | – | – |
| Interest received | – | – | 970 | – | 17 | 342 |
| Interest paid | – | – | (541) | – | (2) | (133) |
| Non-interest revenue | – | 100 | 1 749 | 13 | 263 | 1 010 |
| Operating expenditure (note 3) | – | (14) | (850) | – | (683) | (1) |
| Dividends (paid)/received | (6 447) | – | – | – | – | – |

## 38 RELATED PARTIES continued

### 38.3 Details of transactions with relevant related parties appear below continued

| | 2014 | | | | | |
|---|---|---|---|---|---|---|
| **R million** | **Parent** | **Entities that have significant influence over the parent and their subsidiaries** | **Fellow subsidiaries** | **Own associates** | **Associates of the parent and fellow subsidiaries** | **Joint ventures of the parent and fellow subsidiaries** |
| **Advances** | | | | | | |
| Opening balance | – | 1 237 | – | 100 | 1 020 | 3 375 |
| Acquisitions/(disposals) of associates and joint ventures | – | – | – | – | (213) | – |
| Advanced during the year | – | 310 | – | 25 | 3 363 | 1 825 |
| Repayments during the year | – | (161) | – | – | (753) | (86) |
| Interest income | – | – | – | 6 | 30 | 217 |
| Fair value movements during the year | – | 102 | – | – | 127 | 74 |
| Provision for impairment loss | – | – | – | (98) | – | (30) |
| **Closing balance** | – | 1 488 | – | 33 | 3 574 | 5 375 |
| **Accounts receivable** | | | | | | |
| Opening balance | – | – | – | – | 174 | 37 |
| Accrued during the year | – | – | – | – | 476 | 55 |
| Repayments during the year | – | – | – | – | (403) | (56) |
| **Closing balance** | – | – | – | – | 247 | 36 |
| **Amounts due by holding company and fellow subsidiary companies** | | | | | | |
| Opening balance | – | – | 20 628 | – | – | – |
| Issued during the year | – | – | 5 377 | – | – | – |
| **Closing balance** | – | – | 26 005 | – | – | – |
| **Derivative assets** | | | | | | |
| Notional amount | – | 5 | – | – | 3 173 | 20 152 |
| Fair value | – | – | – | – | 47 | 82 |
| **Guarantees received** | – | – | – | – | 4 | – |

## 38 RELATED PARTIES continued

### 38.3 Details of transactions with relevant related parties appear below continued

| R million | Parent | Entities that have significant influence over the parent and their subsidiaries | Fellow subsidiaries | Own associates | Associates of the parent and fellow subsidiaries | Joint ventures of the parent and fellow subsidiaries |
|---|---|---|---|---|---|---|
| | 2014 | | | | | |
| **Deposits** | | | | | | |
| Opening balance | – | 3 | – | – | 122 | 60 |
| Acquisitions/(disposals) of associates and joint ventures | – | – | – | – | (4) | – |
| Received during the year | – | – | – | – | 470 | 3 |
| Redeemed during the year | – | – | – | – | (235) | (48) |
| Interest expense | – | – | – | – | 5 | – |
| Provision for impairment | – | – | – | – | – | – |
| **Closing balance** | – | 3 | – | – | 358 | 15 |
| **Accounts payable** | | | | | | |
| Opening balance | – | – | – | – | 41 | 50 |
| Accrued during the year | – | – | – | – | 443 | – |
| Repayments during the year | – | – | – | – | (438) | (18) |
| **Closing balance** | – | – | – | – | 46 | 32 |
| **Amounts due to holding company and fellow subsidiary companies** | | | | | | |
| Opening balance | 766 | – | 13 762 | – | – | – |
| Repayments during the year | (633) | – | (1 603) | – | – | – |
| **Closing balance** | 133 | – | 12 159 | – | – | – |
| **Derivative liabilities** | | | | | | |
| Notional amount | – | 1 | – | – | – | – |
| Interest received | – | – | 1 069 | 6 | 28 | 216 |
| Interest paid | – | – | 467 | – | 1 | 52 |
| Non-interest revenue | – | 19 | 2 695 | 10 | 202 | 1 168 |
| Operating expenditure (note 3) | – | – | 785 | – | 536 | 57 |
| Dividends (paid)/received | (4 289) | 83 | – | – | – | 7 |

## 38 RELATED PARTIES continued

### 38.4 Key management personnel

| R million | 2015 | 2014 |
|---|---|---|
| **Total advances** | | |
| Opening balance | **107** | 48 |
| Advanced during the year | **605** | 225 |
| Repayments during the year | **(601)** | (169) |
| Interest earned | **11** | 3 |
| **Closing balance** | **122** | 107 |
| The amounts advanced to key management personnel consists of mortgages, instalment finance agreements, credit cards and other loans. | | |
| **Total deposits** | | |
| Opening balance | **101** | 129 |
| Net deposits/(withdrawals) | **28** | (32) |
| Net interest and service cost | **(1)** | 4 |
| **Closing balance** | **128** | 101 |
| The amounts deposited by key management personnel are held in cheque and current accounts, savings accounts and other term accounts. | | |
| **Investments under the co-investment scheme** | | |
| Opening balance | **42** | 25 |
| Withdrawals | **(17)** | (2) |
| Net investment return credited | **13** | 19 |
| **Closing balance** | **38** | 42 |
| **Other fees** | | |
| Financial consulting fees and commissions | **7** | 4 |
| **Key management compensation** | | |
| Salaries and other short-term benefits | **221** | 197 |
| Share-based payments | **211** | 398 |
| **Total compensation** | **432** | 595 |
| Deferred compensation is included in the above and is payable in FirstRand Limited shares in October 2016. | **63** | 47* |
| A list of the board of directors of the bank is on page 4 of the annual report. | | |
| Details of key management compensation are provided in note 3. | | |

### 38.5 Post-retirement benefit fund

| Details of transactions between the bank and the bank's post-retirement benefit plan are listed below: | 2015 | 2014 |
|---|---|---|
| Dividend income | **8** | 9 |
| Deposits and current accounts held with the bank | **382** | 367 |
| Interest expenses | **21** | 16 |

* *In the prior year the full portion of the deferred compensation was included (R279 million).*

## 39 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In preparing the financial statements, the bank makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Unless stated otherwise, the judgements applied by management in applying the accounting policies are consistent with the prior year.

### 39.1 Credit impairment losses on loans and advances

The bank continuously assesses its credit portfolios for impairment. In determining whether an impairment loss should be recognised in the income statement, the bank makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans.

**(a) Performing loans**

The impairment provision of the performing portfolio is split into two parts:

i. The first part consists of the portion of the performing portfolio where an incurred impairment event is inherent in a portfolio of performing advances but has not specifically been identified. An incurred but not reported (IBNR) provision is calculated on this subsegment 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.

ii. The second part consists of the portfolio specific impairment (PSI) to reflect the decrease in estimated future cash flows for the subsegment of the performing portfolio where there is objective evidence of impairment. The decrease in future cash flows is primarily estimated based on analysis of historical loss and recovery rates for comparable subsegments of the portfolio.

   The assessment of whether objective evidence of impairment exists requires judgement and depends on the class of the financial asset. In the 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 judgement are used, while the wholesale portfolio assessment (including RMB investment banking and RMB corporate banking) includes a judgemental review of individual industries for objective signs of distress.

**(b) Non-performing loans**

Retail loans are individually impaired if three or more instalments are due and unpaid, or if there is evidence before this that the customer is unlikely to repay his obligations in full. Commercial and wholesale loans are analysed on a case-by-case basis taking into account breaches of key loan conditions, excesses and similar risk indicators.

Management's estimates of future cash flows on individually impaired loans are based on internal historical loss experience, supplemented by analysis of comparable external data (for commercial and wholesale loans) for assets with similar credit risk characteristics. The methodology and assumptions used for estimating the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Refer to note 11 for a detailed analysis of the impairment of advances and the carrying amounts of the specific and portfolio provisions.

## 39 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES continued

### 39.2 Impairment of available-for-sale equity instruments

The bank determines that available-for-sale equity instruments are impaired and the impairment recognised in profit or loss when there has been a significant or prolonged decline in the fair value below cost. The determination of what is significant or prolonged requires judgement. In making this judgement, the bank evaluates factors such as, inter alia, the normal volatility in share prices, evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

### 39.3 Income taxes

The bank is subject to direct tax in a number of jurisdictions. There may be transactions and calculations for which the ultimate tax determination has an element of uncertainty during the ordinary course of business. The bank recognises liabilities based on objective estimates of the amount of tax that may be due. Where the final tax determination is different from the amounts that were initially recorded, the difference will impact the income tax and deferred income tax provisions in the period in which such determination is made.

Refer to note 4 and 13 for more information regarding the income tax expense and deferred income tax charges, assets and liabilities.

### 39.4 Impairment of goodwill

The recoverable amount of goodwill is tested annually for impairment in accordance with the stated accounting policy. The recoverable amount of the cash generating units (CGU) is the higher of the value in use or fair value less costs to sell. The value in use is calculated as the net present value of the discounted cash flows of the CGU. Refer to note 35 for details on how the bank determines fair value.

### 39.5 Employee benefit liabilities

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 on an actuarial basis using a number of assumptions. The assumptions used in determining the charge to profit or loss arising from these obligations include the expected long-term rate of return on the relevant plan assets, 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.

The assumptions related to the expected return on plan assets are determined on a uniform basis, considering long-term historical returns, asset allocation and future estimations of long-term investment returns. The bank determines the appropriate discount rate at the end of each year, which represents the interest rate that should be used to determine the present value of the expected cash outflows required to settle the pension and post-employment medical obligations. In determining the appropriate discount rate, the bank considers the interest rate on high quality corporate bonds and government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. The expected salary and pension increase rates are based on inflation rates, adjusted for salary scales and country specific conditions. The inflation rate used is a rate within the government's monetary policy target for inflation and is calculated as the difference between the yields on portfolios of fixed interest government bonds and a portfolio of index linked bonds of a similar term.

Additional information is provided in note 19.

### 39.6 Securitisations and structured entities

The bank sponsors the formation of structured entities primarily for the purpose of allowing clients to hold investments, asset securitisation transactions and buying and selling credit protection.

For more information regarding the bank's synthetic and traditional securitisations and the respective carrying amounts refer to note 10.

## 39 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES continued

### 39.7 Associates

The bank is presumed to have significant influence over an investee if it owns more than 20% of the voting rights and does not have control or joint control.

Significant influence may also arise from rights other than voting rights. These rights include, but are not limited to, the ability to appoint key management personnel and participation in the decision making processes of the investee.

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.

### 39.8 Joint arrangements

The bank has joint control over an arrangement when the contractual agreements that establish the arrangement require unanimous consent of all parties sharing control for decisions that relate to directing the relevant activities of the arrangement. The bank considers all contractual provisions, explicit and implicit, when assessing whether joint control over the arrangement exists. An example of an implicit provision indicating joint control may be where an entity is established with two 50% shareholders and a 51% majority is required for decisions that relate to the relevant activities of the entity. In that case, although unanimous consent may not explicitly be mentioned in the contracts, it is implicit that both shareholders must agree on decisions that relate to the relevant activities of the entity and joint control implicitly exists in the contract.

The bank distinguishes protective rights afforded to debt financiers or non-controlling shareholders from the requirement for unanimous consent by looking at the substance of the contractual agreements. The contractual agreements that establish a joint arrangement may contain clauses which provide for the manner in which disputes are handled and arbitration dealt with. These clauses are designed to protect the parties sharing control in the event that unanimous consent cannot be reached and do not prevent an arrangement from being jointly controlled.

The bank classifies joint arrangements as either joint operations or joint ventures based on the substance of the arrangement and the bank's rights and obligations arising from the joint arrangement. When the bank has rights to the assets and assumes responsibility for the liabilities relating to the arrangement the bank classifies the arrangement as a joint operation. When the bank has rights to the net assets of the arrangement it is classified as a joint venture.

If the joint arrangement is not structured through a separate legal entity it is classified as a joint operation. When the joint arrangement is structured through a separate legal entity it is classified as a joint venture if the separate legal entity acquires assets and incurs obligations in its own name. If the bank has ownership rights in respect of assets acquired by the separate legal entity or has the obligation to settle the liabilities of the separate legal entity in its own name, the joint arrangement is classified as a joint operation.

### 39.9 Revenue recognition

Management needs to apply judgement to determine whether the bank acts as a principal or agent in certain revenue-generating transactions. If the bank acts as an agent, the gross economic benefits include amounts collected on behalf of the principal and do not result in increases in the equity of the bank. The amount collected on behalf of the principal is not recognised as revenue, instead the bank recognises the fee or commission that it earns while acting as an agent as non-interest revenue.

An entity is acting as a principal when it has exposure to significant risks and rewards associated with selling the goods or providing the services. The bank considers the following as indicators when assessing whether the bank is acting as a principal in a transaction:

- bank has the primary responsibility of providing the goods or services;
- bank carries the inventory risk;
- bank has the ability to establish the price, either directly or indirectly; and
- bank bears the customer's credit risk.

## 40 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The bank will comply with the following new standards and interpretations from the stated effective date:

| | | Effective date |
|---|---|---|
| **IAS 1 (amended)** | **Amendments to *IAS 1 Presentation of Financial Statements* under the Disclosure Initiative**<br>Various narrow-scope amendments were made to IAS 1 relating to the presentation in the annual financial statements. This included clarifications of the application of materiality and aggregation, guidance on the minimum line items to be presented on the statement of financial position, income statement and statement of other comprehensive income and the structure and order of the notes to the financial statements.<br><br>These amendments are not expected to have an impact on the bank as they have merely clarified existing requirements of the standard relating to presentation. | Annual periods commencing on or after 1 January 2016 |
| **IAS 16 (amended)** | **Property, Plant and Equipment – Depreciation method**<br>*IAS 16 Property, Plant and Equipment* was amended to clarify that a depreciation method that is based on revenue generated by an activity is not an appropriate method. This is because such a method reflects the pattern of the generation of economic benefits that arise from the operation of the business of which an asset is part, rather than the pattern of consumption of an asset's expected future economic benefits.<br><br>The amendment is not expected to have an impact on the bank as the bank does not apply a revenue-based depreciation approach. | Annual periods commencing on or after 1 January 2016 |
| **IAS 16 and IAS 41 (amended)** | **Bearer plants – Amendments to Property, Plant and Equipment and Agriculture**<br>The amendment changes the financial reporting for bearer plants and indicates that bearer plants should be accounted for in the same way as property, plant and equipment because their operations are similar to that of manufacturing. Consequently, the amendment includes bearer plants within the scope of IAS 16, instead of *IAS 41 Agriculture*. The produce growing on bearer plants will remain within the scope of IAS 41.<br><br>The amendment falls outside the scope of the bank's operations and will have no impact on the bank. | Annual periods commencing on or after 1 January 2016 |
| **IAS 27 (amended)** | **Equity method in Separate Financial Statements**<br>The amendment permits investments in subsidiaries, associates and joint ventures to be accounted for using the equity method in the separate annual financial statements of the investor.<br><br>This will not have an impact on the bank's separate financial statements as the bank will continue to carry investments in subsidiaries, associates and joint ventures at cost less impairment losses. | Annual periods commencing on or after 1 January 2016 |

## 40 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE continued

| | | Effective date |
|---|---|---|
| **IFRS 10 and IAS 28 (amended)** | **Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**<br>The amendment clarifies the treatment of the sale or contribution of assets from an investor to its associate or joint venture The amendment requires:<br>• full recognition in the investor's financial statements of the gains or losses arising on the sale or contribution of assets that constitute a business (as defined in IFRS 3; and<br>• the partial recognition of gains or losses where the assets do not constitute a business, i.e. a gain or loss is recognised only to the extent of the unrelated investors' share in that associate or joint venture.<br>These requirements apply regardless of the legal form of the transaction, e.g. whether the sale or contribution of assets occurs by an investor transferring shares in a subsidiary that holds the assets (resulting in loss of control of the subsidiary), or by the direct sale of the assets themselves.<br>The amendments are applicable prospectively and the bank will assess the impact of the amendment on each transaction as and when they occur. | Annual periods commencing on or after 1 January 2016 |
| **IAS 38 (amended)** | **Intangible Assets**<br>IAS 38 is amended to introduce a rebuttable presumption that a revenue-based amortisation method for intangible assets is inappropriate for the same reasons as in IAS 16. There are limited circumstances when the presumption can be overcome.<br>The amendment is not expected to have an impact on the bank as it does not apply a revenue-based amortisation approach. | Annual periods commencing on or after 1 January 2016 |
| **IFRS 9** | **Financial Instruments**<br>*IFRS 9 Financial Instruments* was issued on 24 July 2014. The final version of the standard incorporates amendments to the classification and measurement guidance as well as accounting requirements for impairment of financial assets measured at amortised cost. These elements of the final standard are discussed in detail below:<br>• The classification and measurement of financial instruments 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.<br>• 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.<br>• IFRS 9 allows financial liabilities not held for trading to be measured at either amortised cost or fair value. 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. | Annual periods commencing on or after 1 January 2018. |

## 40 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE continued

| | | Effective date |
|---|---|---|
| **IFRS 9 continued** | **Financial Instruments continued**<br>• The 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.<br><br>The bank has initiated a process to determine the impact of the standard on the bank's statement of financial position and performance. Until the process has been completed the bank is unable to quantify the expected impact. | Annual periods commencing on or after 1 January 2018. |
| **IFRS 10, IFRS 12 and IAS 28 (amended)** | **Investment Entities: Applying the Consolidation Exception**<br>The amendments introduce clarifications to the requirements when applying the consolidation exemption for entities that meet the definition of an investment entity.<br><br>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)** | **Joint Arrangements**<br>The IASB has issued an amendment to *IFRS 11 Joint Arrangements* to provide guidance on the accounting for acquisitions of interests in joint operations that constitutes a business.<br><br>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.<br><br>The amendment is not expected to have an impact on the bank as the bank does not have any interests in joint operations. | Annual periods commencing on or after 1 January 2016 |
| **IFRS 14** | **Regulatory Deferral Accounts**<br>*IFRS 14 Regulatory Deferral Accounts* permits an entity which is a first-time adopter of IFRS to continue to account, with some limited changes, for regulatory deferral account balances in accordance with its previous GAAP, both on initial adoption of IFRS and in subsequent financial statements.<br><br>The standard falls outside the scope of the bank's operations and will have no impact on the results. | Annual periods commencing on or after 1 January 2016 |

## 40 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE continued

| | | Effective date |
|---|---|---|
| **IFRS 15** | **Revenue**<br>*IFRS 15 Revenue from Contracts with Customers* 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.<br><br>The new standard will also provide guidance for transactions that were not previously comprehensively addressed and improve guidance for multiple-element arrangements. The standard also introduces enhanced disclosures about revenue.<br><br>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 determine the significance of the impact. | Annual periods commencing on or after 1 January 2018. |
| **Annual Improvements** | **Improvements to IFRS**<br>The IASB issued the *Annual Improvements 2012 – 2014 Cycle*. The annual improvements project includes amendments to the following standards, *IFRS 1 First-time Adoption of International Financial Reporting Standards*, IFRS 5, *IFRS 7 Financial Instruments: Disclosures*, IAS 19 and *IAS 34 Interim Financial Reporting*. The annual improvement project's aim is to clarify and improve accounting standards.<br><br>The improvements include terminology and editorial changes which have a minimal effect on recognition and measurement.<br><br>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 |

## 41 TRANSACTIONS INVOLVING THE LEGAL FORM OF A LEASE

The bank entered into an arrangement with the counterparty for the refurbishment of moveable assets, which are for the exclusive use of the counterparty. The duration of the arrangement is for 14 years and will conclude in May 2016. The transactions are a series of back-to-back leases, which, although the transactions are structured as leases, are in substance a financing arrangement. The arrangement also provides for a final balloon payment, which will be serviced through sinking fund deposits ceded to the bank, into which the counterparty is making payments and earning interest.

Fees received are recognised annually in non-interest revenue.

## 42 NON-CONTROLLING INTERESTS AND INTERESTS IN OTHER ENTITIES

In terms of IFRS 12, the following disclosures are not required in separate financial statements unless separate financial statements are the only financial statements prepared by the entity.

### 42.1 Non-controlling interests

The bank currently has no subsidiaries with non-controlling interest that are material.

### 42.2 Structured entities

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

#### Consolidated structured entities

The bank assesses whether it has control over these structured entities in terms of IFRS 10. Where the bank has control over a structured entity it is consolidated in terms of IFRS 10. Refer to note 39 for details on the assumptions applied. Currently the bank itself does not consolidate any structured entities.

Consolidated structured entities of the FirstRand group include securitisation vehicles, conduit vehicles and certain staff share trusts. For details on any financial or other support provided by the bank to these securitisation and conduit vehicles refer to the securitisation and conduits section of the risk report of these annual financial statements and note 34.

The bank has not provided any additional financial or other support to these entities 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 these entities.

#### Interests in unconsolidated structured entities

The bank currently has no interests in any unconsolidated structured entities. However the bank has provided liquidity facilities and credit enhancement facilities to two non-recourse vehicles. The non-recourse vehicles are consolidated by the bank's fellow subsidiary FirstRand Investment Holdings (Proprietary) Limited. The bank receives no fee for the liquidity facilities and credit enhancement provided. During the current year 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 FirstRand Investment Holdings (Proprietary) Limited does hold immaterial interests in some of these entities. During the current year no fees were received from these entities and no assets were transferred by the bank to these entities.

## 43 SUBSEQUENT EVENTS

It is anticipated that during the 2016 financial year Discovery Limited (Discovery) will subscribe for preference shares in FirstRand Bank Limited in the amount of R1.35 billion and increase its participation in DiscoveryCard to 74.99% with FirstRand retaining 25.01%. It is intended that in time, the arrangement will be expanded to a broader product suite with the same profit share. DiscoveryCard made a profit before tax of approximately R320 million for the year ended 30 June 2015 and net advances totalled R3.7 billion.

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.

## 44 RISK DISCLOSURE

The risk disclosure has been disclosed as part of the *risk and capital management report*.

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SUPPLEMENTARY INFORMATION

# COMPANY INFORMATION

## FIRSTRAND BANK LIMITED

(Registration No. 1929/001225/06)

## COMPANY SECRETARY AND REGISTERED OFFICE

C Low
Group Company Secretary's Office

4 Merchant Place
Cnr Fredman Drive and Rivonia Road
Sandton
2196

Group Company Secretary's Office
PO Box 650149
Benmore
2010

Tel: +27 11 282 1808
Fax: +27 11 282 8088
Website: www.firstrand.co.za

## SPONSOR

(In terms of JSE debt listing requirements)
Rand Merchant Bank (a division of FirstRand Bank Limited)
Debt Capital Markets
1 Merchant Place
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Sandton 2196
Telephone: +27 11 282 8118

## AUDITORS

### PricewaterhouseCoopers Inc.

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2157

### Deloitte & Touche

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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 | FRB08 | ZAG000047796 |
| | 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 | FRBC21 | ZAG000052283 |
| | FirstRand Bank Limited | FRBC22 | ZAG000052390 |
| Senior unsecured | FirstRand Bank Limited | FRBN04 | ZAG000041005 |
| | 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 |

| | Issuer | Bond code | ISIN code |
|---|---|---|---|
| Senior unsecured | FirstRand Bank Limited | FRS102 | ZAG000111782 |
| | FirstRand Bank Limited | FRS103 | ZAG000111840 |
| | FirstRand Bank Limited | FRS104 | ZAG000111857 |
| | FirstRand Bank Limited | FRS105 | ZAG000112046 |
| | 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 |
| | FirstRand Bank Limited | FRS113 | ZAG000115478 |
| | FirstRand Bank Limited | FRS114 | ZAG000116070 |
| | FirstRand Bank Limited | FRS115 | ZAG000116740 |
| | FirstRand Bank Limited | FRS116 | ZAG000117136 |
| | FirstRand Bank Limited | FRS117 | ZAG000117706 |
| | FirstRand Bank Limited | FRS118 | ZAG000118498 |
| | 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 | 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 |

## LISTED DEBT INSTRUMENTS

### JSE continued

| | Issuer | Bond code | ISIN code |
|---|---|---|---|
| Inflation-linked bonds | FirstRand Bank Limited | FRBI22 | ZAG000079666 |
| | FirstRand Bank Limited | FRBI23 | ZAG000076498 |
| | FirstRand Bank Limited | FRBI25 | ZAG000109588 |
| | FirstRand Bank Limited | FRBI28 | ZAG000079237 |
| | FirstRand Bank Limited | FRBI33 | ZAG000079245 |
| Credit linked notes | FirstRand Bank Limited | FRC37 | ZAG000076712 |
| | FirstRand Bank Limited | FRC40 | ZAG000081027 |
| | FirstRand Bank Limited | FRC46 | ZAG000082959 |
| | FirstRand Bank Limited | FRC61 | ZAG000087347 |
| | FirstRand Bank Limited | FRC66 | ZAG000088485 |
| | FirstRand Bank Limited | FRC67 | ZAG000088741 |
| | FirstRand Bank Limited | FRC68 | ZAG000088758 |
| | FirstRand Bank Limited | FRC69 | ZAG000088766 |
| | FirstRand Bank Limited | FRC71 | ZAG000088923 |
| | FirstRand Bank Limited | FRC72 | ZAG000088956 |
| | FirstRand Bank Limited | FRC74 | ZAG000089178 |
| | FirstRand Bank Limited | FRC76 | ZAG000089574 |
| | FirstRand Bank Limited | FRC78 | ZAG000089806 |
| | FirstRand Bank Limited | FRC79 | ZAG000089947 |
| | FirstRand Bank Limited | FRC82 | ZAG000090796 |
| | FirstRand Bank Limited | FRC83 | ZAG000090952 |
| | FirstRand Bank Limited | FRC84 | ZAG000090986 |
| | FirstRand Bank Limited | 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 |

| | Issuer | Bond code | ISIN code |
|---|---|---|---|
| Credit linked notes | 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 | FRC147 | ZAG000099433 |
| | FirstRand Bank Limited | FRC148 | ZAG000099466 |
| | FirstRand Bank Limited | FRC149 | ZAG000099607 |
| | FirstRand Bank Limited | FRC150 | ZAG000099821 |
| | FirstRand Bank Limited | FRC151 | ZAG000099904 |
| | FirstRand Bank Limited | FRC152 | ZAG000100330 |
| | FirstRand Bank Limited | FRC153 | ZAG000100348 |
| | FirstRand Bank Limited | FRC154 | ZAG000100694 |
| | FirstRand Bank Limited | FRC155 | ZAG000101643 |
| | FirstRand Bank Limited | 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 |
| | 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 | FRC184 | ZAG000109992 |
| | 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 |

| | Issuer | Bond code | ISIN code |
|---|---|---|---|
| Credit linked notes | 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 | FRC226 | ZAG000122722 |
| | 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 | FRD003 | ZAG000114067 |

| | Issuer | Bond code | ISIN code |
|---|---|---|---|
| Investment security index contracts | Rand Merchant Bank | RMBI06 | ZAG000056722 |
| | Rand Merchant Bank | RMBI07 | ZAG000057910 |
| | Rand Merchant Bank | RMBI08 | ZAG000072265 |
| Structured notes | FirstRand Bank Limited | COLRMB | ZAE000155222 |

## London Stock Exchange (LSE)

### European medium term note (EMTN) programme

| | Issuer | ISIN code |
|---|---|---|
| Senior unsecured | FirstRand Bank Limited | XS0610341967 |
| | FirstRand Bank Limited | XS0635404477 |

## SIX Swiss Exchange

| | Issuer | ISIN code |
|---|---|---|
| Senior unsecured | FirstRand Bank Limited | CH0238315680 |

# CREDIT RATINGS

## FIRSTRAND BANK LIMITED

The credit ratings reflect the 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 2 OCTOBER 2015

| | South African sovereign rating | | | FirstRand Bank | | |
|---|---|---|---|---|---|---|
| | **Moody's** | **Fitch** | **S&P** | **Moody's** | **Fitch** | **S&P** |
| **Foreign currency rating** | | | | | | |
| Long term | Baa2 | BBB | BBB- | Baa2 | BBB | BBB- |
| Short term | (P)P-2 | F3 | A-3 | P-2 | F3 | A-3 |
| Outlook | Stable | Negative | Stable | Stable | Negative | Stable |
| **Local currency rating** | | | | | | |
| Long term | Baa2 | BBB+ | BBB+ | Baa2 | BBB | BBB- |
| Short term | (P)P-2 | – | A-2 | P-2 | – | A-3 |
| Outlook | Stable | Negative | Stable | Stable | Negative | Stable |
| **National scale rating** | | | | | | |
| Long term | | | zaAAA | A1.za | AA(zaf) | zaAA |
| Short term | | | zaA-1 | P-1.za | F1+(zaf) | zaA-1 |
| Outlook | | | – | – | Negative | – |
| **Standalone credit ratings*** | | | | baa2 | bbb | 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 three major rating agencies use different terminology for this concept: Moody's, baseline credit assessment; Fitch Ratings, viability rating; and Standard & Poor's, standalone credit profile.*

## Moody's Investor Services (Moody's)

Moody's announced on 19 August 2014 that it had downgraded FRB's local currency and national scale ratings by one notch to Baa1 (from A3) and Aa3.za (from Aa2.za), respectively, and that all ratings had been placed under review. In the announcement, Moody's indicated that the change to their credit opinion was prompted by the SARB's actions with respect to ABIL, which, in their view, changed the likelihood of systemic support that might be received from South African authorities. These rating actions were linked to Moody's assessment of the South African banking industry as a whole and were not a reflection of any fundamental changes in FRB's financial strength, earnings resilience or credit quality. On 10 November 2014, the agency announced that following the lowering of South Africa's bond rating to Baa2 (stable) from Baa1 (negative) on 6 November 2014, the long-term deposit and senior debt ratings of the five largest South African banks were downgraded by one notch to Baa2 (stable) from Baa1 (on review for downgrade). These rating actions concluded Moody's rating review which had been initiated for these banks on 19 August 2014.

In the announcement, Moody's indicated that the rating actions were driven primarily by:

- the weakening of the South African government's credit profile, as captured by Moody's downgrade of South Africa's bond rating to Baa2 from Baa1 on 6 November 2014, combined with FRB's sizable holdings of sovereign debt securities, which link their creditworthiness to that of the national government; and to a lesser extent by
- the challenges the banks face in view of weaker economic growth in South Africa, particularly in the context of consumer affordability pressures and still-high consumer indebtedness that will likely lead to increased credit risk and higher loan impairments for the banks.

The agency indicated that the bank's deposit rating downgrade to Baa2 from Baa1 was mainly triggered by its sovereign debt exposure, amounting to approximately 96% of its capital base as of August 2014. In view of the correlation between sovereign and bank credit risk, FRB's rating continues to be aligned with the rating of the government. To a lesser extent, the rating action also reflects the agency's expectation that the challenging economic conditions will moderate its earnings growth in the foreseeable future.

On 23 June 2015 Moody's affirmed FRB's ratings.

## Fitch Ratings (Fitch)

On 17 July 2014 and 25 June 2015, FRB's national scale ratings as well as all the local and foreign currency ratings were affirmed by Fitch.

## Standard and Poor's (S&P)

On 12 December 2014, S&P affirmed FRB's counterparty and national scale ratings.

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## DEFINITIONS

# DEFINITIONS

| | |
|---|---|
| **Additional Tier 1 capital (AT1)** | NCNR preference share capital less specified regulatory deductions. |
| **CAGR** | Compound annual growth rate. |
| **Capital adequacy ratio (CAR)** | Capital divided by RWA. |
| **Common Equity Tier 1 capital** | Share capital and premium plus accumulated comprehensive income and reserves less specific regulatory deductions. |
| **Cost-to-income ratio** | Operating expenses excluding indirect taxes expressed as a percentage of total income including share of profits from associates and joint ventures. |
| **Credit loss ratio** | Total impairment charge per the income statement expressed as a percentage of average advances (average between the opening and closing balance for the year). |
| **Diversity ratio** | Non-interest revenue expressed as a percentage of total income including share of profits from associates and joint ventures. |
| **Effective tax rate** | Tax per the income statement divided by the profit before tax per the income statement. |
| **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. |
| **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. |
| **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 general provisions for entities on the standardised approach less specified regulatory deductions. |
| **TLAC** | Total loss absorbing capacity. |
| **Total qualifying capital and reserves** | Tier 1 capital plus Tier 2 capital. |

STUDIO⑤

FIRSTRAND BANK

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