FirstRand

owner-manager culture
innovation
entrepreneurship
franchise value

’18 annual financial statements

FirstRand

1966/010753/06
Certain entities within the FirstRand group are Authorised Financial Services and Credit Providers.
This analysis is available on the group's website:
www.firstrand.co.za
Email questions to
investor.relations@firstrand.co.za

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A summary risk and capital management report

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A summary risk and capital management report

INTRODUCTION

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

RISK REPORTING

The group's robust and transparent risk reporting process enables key stakeholders (including the board and strategic executive committee) to:

- get an accurate, complete and reliable view of the group's financial and non-financial risk profile;
- make appropriate strategic and business decisions;
- evaluate and understand the level and trend of material risk exposures and the impact on the group's capital adequacy; and
- make timely adjustments to the group's future capital requirements and strategic plans.

Significant investment, commitment and notable progress has been made with implementation of *The principles for effective risk data aggregation and risk reporting* (BCBS 239), taking cognisance of the strategic data roadmap and supported by business IT strategies.

RISK GOVERNANCE

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

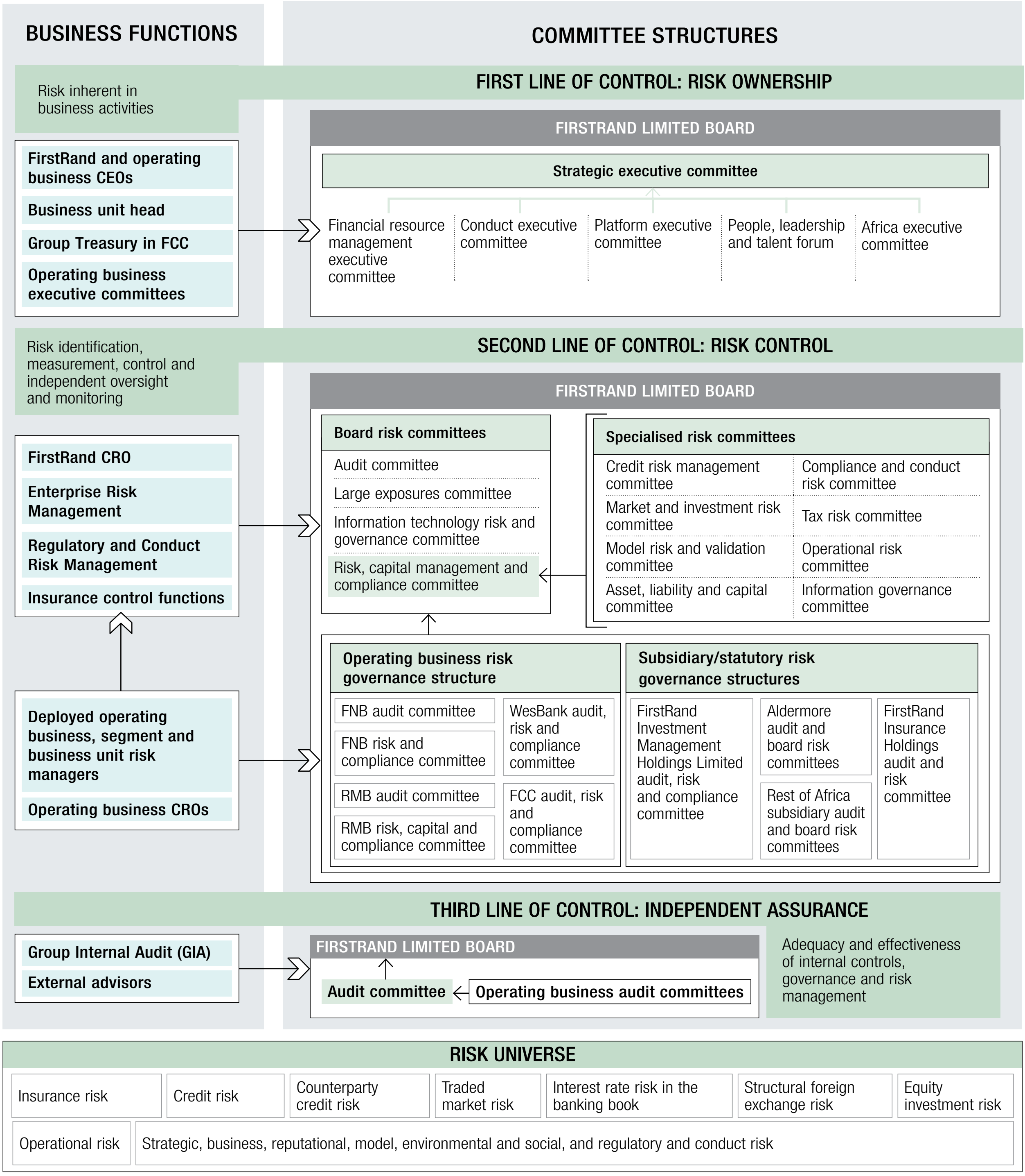
The group's business performance and risk management framework (BPRMF) describes the group's risk management structure and approach to risk management. Effective risk management requires multiple points of control or safeguards that should consistently be applied at various levels throughout the organisation. There are three lines of control across the group's operations, which are recognised in the BPRMF along with the business functions, committee structures and risk universe, as illustrated in the diagram on the next page.

The primary board committee overseeing risk matters across the group is the FirstRand risk, capital management and compliance (RCC) committee. It has delegated responsibility for a number of specialist topics to various subcommittees. Additional risk, audit and compliance committees exist in each operating business, the governance structures of which align closely with that of the group. Further detail on the roles and responsibilities of the RCC committee and its subcommittees relating to each particular risk type is provided in the group's Pillar 3 disclosure on www.firstrand.co.za.

Other board committees also exist, with clearly defined responsibilities. The group board committees comprise members of operating business 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 business audit, risk and compliance committees support the board risk committees and RCC subcommittees in the third line of control across the group.

The strategic executive committee ensures alignment of business strategies, implements the risk/return framework and is responsible for the optimal deployment of the group's resources.

BUSINESS PERFORMANCE AND RISK MANAGEMENT FRAMEWORK



RISK MANAGEMENT APPROACH

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

RISK MANAGEMENT FRAMEWORK	PERFORMANCE MANAGEMENT FRAMEWORK	RISK/RETURN AND FINANCIAL RESOURCE MANAGEMENT FRAMEWORKS
Key principles: > ensure material risks are identified, measured, monitored, mitigated and reported; > assess impact of the cycle on the group's portfolio; > understand and price appropriately for risk; and > originate within cycle-appropriate risk appetite and volatility parameters.	**Key principles:** > allocate capital appropriately; > ensure an efficient capital structure with appropriate/conservative gearing; and > ensure economic value creation, which is measured as NIACC, the group's key performance measure.	**Key principles:** > execute sustainable funding and liquidity strategies; > protect credit ratings; > preserve a "fortress" balance sheet that can sustain shocks through the cycle; and > ensure the group remains appropriately capitalised.

CORE RISK COMPETENCIES

The group defines risk widely. It is any factor that, if not adequately assessed, monitored and managed, may prevent the group 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 FirstRand explicitly recognises core risk competencies as necessary and important differentiators in the competitive environment in which it operates. These core risk competencies include identifying, assessing, monitoring and managing risk, and are integrated in all management functions and business areas across the group.

They provide the checks and balances necessary to ensure sustainability and performance, create opportunities, achieve desired objectives, and avoid adverse outcomes and reputational damage.

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

For a detailed analysis of risk and capital management, refer to the group's Pillar 3 disclosure on www.firstrand.co.za. The Pillar 3 disclosure complies with BCBS revised Pillar 3 disclosure requirements, the consolidated and enhanced Pillar 3 framework, Regulation 43 of the Regulations relating to Banks, issued in terms of the Banks Act, 1990 (Act 94 of 1990), and all Pillar 3 related directives issued by the Prudential Authority (PA).

RISK APPETITE

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

RETURN AND RISK APPETITE STATEMENT

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

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 risks it assumes in the normal course of business.

This ensures that the group maintains an appropriate balance between risk and reward. Risk/return targets and appetite limits are set to enable the group to achieve its overall strategic objectives, namely to:

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

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

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

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

The group's risk/return profile is monitored regularly, using risk appetite limits, which are measured on a point-in-time and forward-looking basis.

Risk appetite influences business plans and informs risk-taking activities and strategies.

The group cascades overall appetite into targets and/or limits at risk type, business and activity level, and these represent the targets and constraints the group imposes to ensure its commitments are attainable. Management of risk is the responsibility of everybody across the group, supported through three lines of control, the BPRMF and the group's risk governance committees.

The following diagram outlines the quantitative measures and qualitative principles of the group's return and risk appetite framework. The measures are continually reassessed as part of the group's ongoing review and refinement of its return and risk appetite.

RETURN AND RISK APPETITE FRAMEWORK

QUANTITATIVE MEASURES

Normal cycle

Performance targets		Resource objectives and constraints		
Returns	ROE **18% – 22%**	Solvency	CET1 capital **10% – 11%**	Leverage **>5%**
Earnings growth	Normalised earnings growth **Nominal GDP plus >0% – 3%**	Liquidity	To exceed minimum regulatory requirements with appropriate buffers	

Credit rating*:
Equal to highest in SA banking industry

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

Normal downturn and stressed downturn

Limits set for earnings fall under stressed conditions, as well as minimum ROE, CET1, leverage and liquidity ratios.

RISK LIMITS

Risk limits, thresholds, tolerances and triggers are defined per risk type.

QUALITATIVE PRINCIPLES

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

FINANCIAL RESOURCE MANAGEMENT

The management of the group's financial resources, which it defines as capital, funding and liquidity, and risk capacity, is critical to the achievement of its stated growth and return targets, and is driven by the group's overall risk appetite. Forecast growth in earnings and balance sheet risk weighted assets is based on the group's macroeconomic outlook and evaluated against available financial resources, considering the requirements of capital providers, regulators and rating agencies. The expected outcomes and constraints are then stress tested and compared to the group's financial and prudential targets through different business cycles and scenarios to enable FirstRand to deliver on its commitments to stakeholders at a defined confidence level.

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

The group adopts a disciplined approach to the management of its foreign currency balance sheet. The framework for the management of external debt takes into account sources of sovereign risk and foreign currency funding capacity, as well as the macroeconomic vulnerabilities of South Africa. The group employs a self-imposed structural borrowing limit and a liquidity risk limit more onerous than required in terms of regulations.

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

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

BUSINESS ACTIVITIES AND RESULTANT RISKS

The group's strategy is executed through its portfolio of operating businesses within the frameworks set by the group.

	FNB	RMB	WesBank	Aldermore	Ashburton Investments	FCC
Key activities	**Retail and commercial banking, insurance, and wealth and investment management**	**Corporate and investment banking**	**Instalment finance and short-term insurance (VAPS)****	**Asset and invoice finance, commercial and residential mortgages, and deposit taking**	**Asset management**	**Group-wide functions**
Market segments	> consumer > small business > agricultural > medium corporate > public sector	> financial institutions > large corporates > public sector	> retail and commercial	> retail and commercial	> retail and institutional	> institutional (and internal/ intragroup)
Products and services	> transactional and deposit taking > mortgage and personal loans > credit and debit cards > investment products > insurance products (funeral, risk, credit life) > card acquiring > credit facilities > distribution channels > FNB Connect > wealth and investment management*	> advisory > structured finance > markets and structuring > transactional banking and deposit taking > principal investing solutions and private equity	> asset-based finance > full maintenance leasing > personal loans > value-added products and services (short-term insurance)	> asset finance > invoice finance > commercial, buy-to-let and residential mortgages > deposits	> traditional and alternative investment solutions	> group asset/ liability management > funding instruments > funding and liquidity management > capital issuance > capital management > foreign exchange management > tax risk management
Risks#	Retail and commercial credit risk	Corporate and counterparty credit risk	Retail, commercial and corporate credit risk	Retail and commercial credit risk		Interest rate risk in the banking book
	Insurance risk	Traded market risk		Interest rate risk in the banking book		Funding and liquidity risk
				Funding and liquidity risk		Foreign exchange risk
	Equity investment risk					
	Operational risk					
Other risks	Strategic, business, reputational, model, environmental and social, regulatory and conduct risk					

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

** *Value-added products and services.*

\# *For risk definitions refer to page D28.*

RISK PROFILE

The following table provides a high-level overview of FirstRand's risk profile in relation to its quantitative return and risk appetite measures.

	YEAR ENDED 30 JUNE 2018	RETURN AND RISK APPETITE QUANTITATIVE MEASURES	2018 IN REVIEW
GROWTH AND RETURNS	**Normalised ROE** 23.0% 2017: 23.4%	**Normalised ROE** Long-term target **18% – 22%**	The quality of the group's operating businesses' growth strategies and disciplined allocation of financial resources has over time enabled the group to deliver on its earnings growth and return targets. The *CFO report* provides an overview of the group's financial position and performance for the year ended 30 June 2018.
	Normalised earnings growth +8% 2017: +7%	**Normalised earnings growth** Long-term target **Nominal GDP plus >0% – 3%**	
SOLVENCY	**Capital adequacy** 14.7% 2017: 17.1%	**Capital adequacy** Target **>14%**	The group's CET1 position was impacted by the acquisition of Aldermore in April 2018, which resulted in a reduction in the CET1 ratio of 240 bps. The decrease in the CET1 position relates mainly to the payment of goodwill and identified intangible assets, as well as the consolidation of Aldermore RWA. Post the acquisition of Aldermore, FirstRand operated above its stated capital targets. The group continues to actively manage its stated capital composition given the grandfathering and redemption of old-style Tier 2 instruments. During the year under review, the group issued R2.75 billion Basel III-compliant Tier 2 instruments in the domestic market, as well as $500 million in the international market. This resulted in a more efficient composition which is closely aligned with the group's internal targets. The Basel III leverage ratio is a supplementary measure to the risk-based capital ratio and greater emphasis has been placed on monitoring the interplay between capital and leverage. FirstRand has maintained a leverage ratio above its internal targets.
	Tier 1 12.1% 2017: 14.9%	**Tier 1** Target **>12%**	
	CET1 11.5% 2017: 14.3%	**CET1** Target **10% – 11%**	
	Leverage 7.1% 2017: 8.6%	**Leverage** Target **>5%**	

Note: Capital and leverage ratios include unappropriated profits.

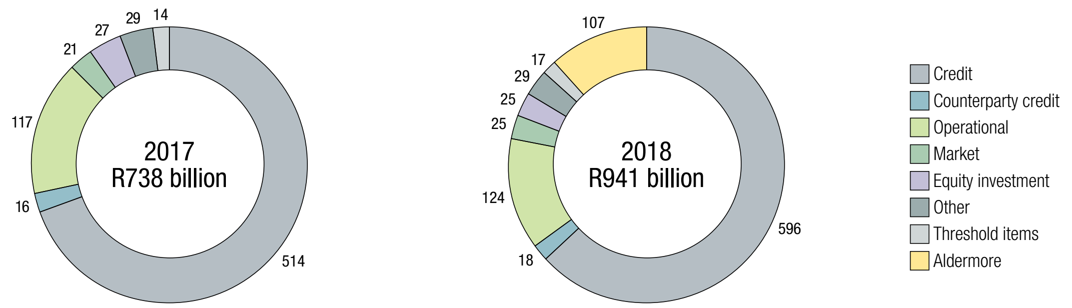
LIQUIDITY	**LCR** 115% 2017: 97%	**LCR** Minimum regulatory requirement: **90%** (2017: 80%)	FirstRand continued to actively manage liquidity buffers through high quality, highly liquid assets that are available as protection against unexpected events or market disruptions. The group exceeded the 90% minimum LCR with an average LCR of 115% over the quarter ended 30 June 2018. At 30 June 2018, the group's average available HQLA holdings amounted to R203 billion.
	NSFR 112% 2017: n/a	**NSFR** Minimum regulatory requirement: **100%**	The NSFR became effective on 1 January 2018 with a minimum regulatory requirement of 100%. The group exceeded the 100% minimum requirement with an NSFR of 112% at 30 June 2018.

EXPOSURES PER RISK TYPE

RISK TYPE	YEAR ENDED 30 JUNE 2018	2018 IN REVIEW
Credit risk	**Normalised NPLs** **2.36%** 2017: 2.41%	The group's credit loss ratio of 84 bps (90 bps excluding Aldermore) was down year-on-year and remains well below the group's through-the-cycle threshold, reflecting the positive impact of the group's origination strategies and provisioning policies over the past two financial years and the acquisition of Aldermore.
	Normalised credit loss ratio **84 bps** **90 bps** (excluding Aldermore) 2017: 91 bps Long-run average (excluding Aldermore) **100 – 110 bps**	
Market risk	**10-day expected tail loss** **R464 million** 2017: R350 million	The foreign exchange asset class represents the most significant traded market risk exposure as at 30 June 2018. The group's market risk profile remained within risk appetite.
Equity investment risk	**Equity investment risk carrying value as % of Tier 1** **11.7%** 2017: 10.1%	The year was characterised by some realisations and new investments added to the private equity portfolio. The quality of the investment portfolio remains acceptable and within risk appetite.
Interest rate risk in the banking book	**Net interest income sensitivity** **Down 200 bps** **-R3.4 billion** 2017: -R2.1 billion **Up 200 bps** **R3.1 billion** 2017: R1.4 billion	Assuming no change in the balance sheet nor any 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 R3.4 billion. A similar increase in interest rates would result in an increase in projected 12-month NII of R3.1 billion. The group's average endowment book was R223 billion for the year. The year-on-year increase in NII sensitivity was largely driven by the inclusion of Aldermore and the transitioning of RMB's investment banking advances from fair value to amortised cost in preparation for IFRS 9.

The group's RWA distribution below shows that credit risk remains the most significant risk type that the group is exposed to.

RWA ANALYSIS



CURRENT AND EMERGING CHALLENGES AND OPPORTUNITIES

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

These challenges and associated risks are continuously identified, potential impacts determined, reported to and debated by appropriate risk committees and management.

CURRENT AND EMERGING CHALLENGES	OPPORTUNITIES AND RISK MANAGEMENT FOCUS AREAS
Strategic and business risks	
> Global pressure on emerging markets. > Intensifying competition in banking profit pools from non-traditional competitors (specifically those with low-cost infrastructures) and insurance players. > Policy uncertainty with challenges remaining around the mining charter, state-owned enterprises' (SOEs) financial stability and labour markets. > In the UK, uncertainty relating to Brexit dominates the macroeconomic outlook and will continue to weigh on business and consumer confidence, which in turn is expected to suppress investment spending to a certain degree.	> Developments in South Africa and other key markets are monitored with appropriate responses, strategic adjustments and proactive financial resource management actions implemented, where required. > Refer to the *CEO's report* for detail on the group's strategic responses to intensifying competition from non-traditional competitors. > Credit origination and funding strategies are assessed and adjusted considering macroeconomic conditions and market liquidity. > In the UK, uncertainty over the outcome of Brexit continues to dominate the macroeconomic outlook and will continue to weigh on business and consumer confidence, which in turn will suppress investment spending to a certain degree. These ongoing headwinds were all anticipated when FirstRand acquired Aldermore and, as indicated previously, the group expects the growth trajectory to slow relative to the previous year, owing to competitive margin pressure and normalisation of credit costs.
Funding, liquidity and capital	
> The current environment of increasing cost and scarcity of financial resources, and greater potential for global financial market volatility, pose risks for FirstRand's funding, liquidity and capital profile. > The impact of PA transitional regulatory requirements, which include buffer add-ons for domestic systemically-important banks, the countercyclical buffer, and capital conservation requirements, are incorporated in the targets set for the group, but regulatory reforms such as ongoing Basel III pronouncements may pose further risks for capital levels.	> The group continues to focus on growing its deposit franchise through innovative products and improving the risk profile of institutional funding. > FirstRand has continued to exceed internal capital targets, with ongoing focus on optimising the capital stack. > The impact of the proposed regulatory reforms continues to be assessed and incorporated into the group's capital planning.
Credit and counterparty credit risk	
> Credit risk remains high due to a macroeconomic environment characterised by low economic growth, structural constraints, high structural unemployment, and rising income and wealth disparity. > Credit and counterparty credit risks are impacted by the sovereign rating, policy uncertainty and financial distress of several large SOEs.	> Despite challenging economic conditions, the group is benefiting from prudent risk mitigation measures in place. > Developments in the corporate and public sector are closely monitored and managed. > The group reviews risk appetite and credit origination strategies on an ongoing basis. > Sovereign rating actions are also monitored, together with the ratings of associated entities, with proactive revisions, where required. > The group worked towards finalising its implementation of IFRS 9 impairment models. IFRS 9 comes into effect on 1 July 2018.

CURRENT AND EMERGING CHALLENGES	OPPORTUNITIES AND RISK MANAGEMENT FOCUS AREAS
Traded market risks	
> The overall diversified level of market risk increased over the year. There were no significant concentrations in the portfolio.	> Given the impending regulatory changes outlined in the BCBS's documents, *Fundamental review of the trading book* and BCBS 239, RMB is reviewing the current target operating platform for market risk activities, considering platform capabilities across both front office and risk-management areas, and aligning market risk processes, analyses and reporting in line with these requirements.
Interest rate risk in the banking book and structural foreign exchange risk	
> The SARB is expected to begin a shallow interest rate hiking cycle from 2019. > The next hike could come sooner if inflation is stronger than expected, or if the rand depreciates further than expected.	> The group is addressing the new BCBS requirements for IRRBB. > FirstRand actively manages the endowment book, monitors the net open forward position in foreign exchange against limits, assesses and reviews the group's foreign exchange exposures and enhances the quality and frequency of reporting.
Operational, IT and information governance risk	
> Operational risk is driven by ongoing challenges in the IT environment, growing sophistication of cybercrime, operational challenges in meeting various regulatory requirements across multiple jurisdictions, current group-wide projects to replace key legacy systems, risk of process breakdowns and organisational change. > The impact of external factors on business operations, such as disruptive protest actions, water and electricity supply shortages and interruptions, pose a risk to operations and require management to continuously review contingency plans to ensure minimal business disruption. > Increased business digitisation (including robotics and artificial intelligence) introduces additional IT risk due to the demand and speed of digital technology adoption.	> Continue to address possible control weaknesses, improve system security, IT risk processes and operational business resilience capability. > Integrated group cybercrime strategy and cyber incident response planning. > Continue to improve risk data management, aggregation and reporting. > Align IT and related frameworks and risk management practices with changing business models and the technology landscape. > Improve information management capabilities and the control environment, and roll out awareness programmes on records management, data quality and data privacy management.
Regulatory and conduct risk	
> The Twin Peaks system of financial regulation was implemented in April 2018. This has resulted in the creation of the PA and the Financial Sector Conduct Authority to govern prudential regulation and market conduct, respectively. > Regulatory and conduct risk management is impacted by the changing regulatory landscape and the ongoing introduction of new/amended regulations and legislation (particularly in banking activities) and the pressure on resources which could impact profitability over the medium to long term. > Heightened scrutiny and monitoring by regulators and other stakeholders on regulatory compliance and ethical conduct.	> Continue to make significant investments in people, systems and processes to manage risks emanating from the large number of new and amended local and international regulatory requirements, market conduct reforms, data privacy and financial crime legislation. > Focus on monitoring the risk culture with clear prevention and remediation frameworks. > Risk mitigation strategies will focus on the integration of conduct risk controls into business-as-usual processes, the repositioning of some programmes to cater for regulatory changes, the active management of conflicts of interest and creating greater awareness of these matters at every level of the organisation.

DISCLOSURE OF KEY RISKS

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

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

Further detailed analysis of the group's risks and the Pillar 3 disclosure requirements are provided in the Pillar 3 disclosure and can be found on the group's website www.firstrand.co.za.

FINANCIAL AND INSURANCE RISKS

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

RISK TYPE	RISK DEFINITION	DISCLOSURE REQUIREMENT	REPORT REFERENCES
Non-traded market risk		> IFRS 7 quantitative information > Projected NII sensitivity > Net structural foreign exposures	Annual financial statements
> Interest rate risk in the banking book	The sensitivity of a bank's financial position and earnings to unexpected, adverse movements in interest rates.	> Governance, assessment and management > NII sensitivity > Banking book NAV sensitivity > Net structural foreign exposures	Pillar 3 disclosure
> Structural foreign exchange risk	Foreign exchange risk is the risk of an adverse impact on the group's financial position and earnings as a result of movements in foreign exchange rates impacting balance sheet exposures.		
Equity investment risk	The risk of an adverse change in the fair value of an investment in a company, fund or listed, unlisted or bespoke financial instrument.	> IFRS 7 quantitative information > Investment risk exposure and sensitivity	Annual financial statements
		> Governance, assessment and management > Investment risk exposure, sensitivity and capital	Pillar 3 disclosure
Insurance risk	Insurance risk arises from the inherent uncertainties relating to liabilities payable under an insurance contract. These uncertainties can result in the occurrence, amount or timing of liabilities differing from expectations. Insurance risk can arise throughout the product cycle and relates to product design, pricing, underwriting or claims management.	> Assessment and management of insurance risk	Pillar 3 disclosure

In terms of Regulation 43 of the *Regulations relating to banks*, the common disclosures are published on the group's website: www.firstrand.co.za/investorcentre/pages/commondisclosures.aspx

NON-FINANCIAL RISKS

RISK TYPE	RISK DEFINITION	DISCLOSURE REQUIREMENT	REPORT REFERENCES
Operational risk	The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes fraud and criminal activity (internal and external), project risk, legal risk, business continuity, information and IT risk, process and human resources risk. Strategic, business and reputational risks are excluded from the definition.	> Assessment and management > Pillar 3 disclosure requirements	Pillar 3 disclosure
Regulatory risk	The risk of statutory or regulatory sanction and material financial loss or reputational damage as a result of failure to comply with any applicable laws, regulations or supervisory requirements.	> Assessment and management > Pillar 3 disclosure requirements	Pillar 3 disclosure
Business risk	The risk to earnings and capital from potential changes in the business environment, client behaviour and technological progress. Business risk is often associated with volume and margin risk, and relates to the group's ability to generate sufficient levels of revenue to offset its costs.	> Assessment and management > Pillar 3 disclosure requirements	Pillar 3 disclosure
Model risk	The use of models presents model risk, which is the potential for adverse consequences from decisions based on incorrect or misused model outputs and reports. Model risk can lead to financial losses, poor business and strategic decision making, or damage to the group's reputation.	> Assessment and management > Pillar 3 disclosure requirements	Pillar 3 disclosure
Reputational risk	The risk of reputational damage due to compliance failures, pending litigations, underperformance or negative media coverage.	> Assessment and management > Pillar 3 disclosure requirements	Pillar 3 disclosure
Environmental and social risk	Relates to environmental and social issues which impact the group's ability to successfully and sustainably implement business strategy.	> Governance and assessment	Environmental and social risk report on www.firstrand.co.za

B five year review and corporate governance

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B five year review and corporate governance

FIVE YEAR REVIEW

R million	2014	2015*	2016*	2017	**2018**	Compound growth %
Statement of financial position						
Total assets	945 535	1 059 266	1 149 277	1 217 707	**1 532 289**	13
Average assets	905 634	1 002 401	1 104 272	1 183 492	**1 374 998**	11
Advances	685 926	779 171	851 405	893 106	**1 121 227**	13
Average advances	643 496	732 549	815 288	872 256	**1 007 167**	12
Impairment and fair value of credit of advances	10 385	14 373	16 157	16 540	**18 835**	16
NPLs	16 281	17 501	21 282	21 905	**26 947**	13
Gross advances before impairments	696 311	793 544	867 562	909 646	**1 140 062**	13
Deposits	768 234	865 616	920 074	983 529	**1 267 448**	13
Capital and reserves attributable to equityholders of the group	85 033	95 297	104 264	113 403	**126 794**	11
Treasury shares	1 076	-	43	32	**15**	(66)
Ordinary dividends	8 669	10 724	12 608	13 294	**14 921**	15
Total equity before dividends and treasury shares	94 778	106 021	116 915	126 729	**141 730**	11
Total ordinary equity	80 514	90 778	99 745	108 884	**121 025**	11
Assets under administration	1 150 845	1 308 630	1 428 356	1 518 934	**1 867 270**	13
Income statement						
Net interest income before impairment of advances	29 878	35 621	42 041	44 917	**49 098**	13
Impairment and fair value of credit of advances	(5 252)	(5 787)	(7 159)	(8 054)	**(8 567)**	13
Non-interest revenue	36 150	38 058	36 934	40 922	**44 193**	5
Share of profit of associates and joint ventures after tax	927	1 539	1 456	1 038	**909**	-
Operating expenses	(35 448)	(38 692)	(41 657)	(44 585)	**(48 462)**	8
Earnings attributable to ordinary equityholders	18 440	21 623	22 563	24 572	**26 546**	10
Headline earnings	18 671	21 141	22 387	23 762	**26 509**	9
Earnings per share (cents)						
- Basic	336.2	390.1	402.4	438.2	**473.3**	9
- Diluted	332.7	390.1	402.4	438.2	**473.3**	9
Headline earnings per share (cents)						
- Basic	340.4	381.4	399.2	423.7	**472.7**	9
- Diluted	336.8	381.4	399.2	423.7	**472.7**	9

** Reclassifications of prior year numbers.*

FIVE YEAR REVIEW continued

R million	2014	2015	2016	2017	**2018**	Compound growth %
Dividend per share (cents)	174.0	210.0	226.0	255.0	**275.0**	12
Dividend cover based on headline earnings	2.0	1.8	1.8	1.7	**1.7**	
NCNR preference dividends per share (cents)						
- February	320.3	348.5	366.5	395.6	**386.2**	5
- August	341.1	363.9	394.7	393.6	**378.3**	3
Net asset value per ordinary share (cents)	1 467.9	1 619.2	1 778.5	1 941.2	**2 157.9**	10
Shares in issue (millions)	5 637.9	5 609.5	5 609.5	5 609.5	**5 609.5**	-
Weighted average number of shares in issue (millions)	5 485.3	5 543.6	5 607.7	5 608.0	**5 608.1**	1
Diluted weighted average number of shares in issue (millions)	5 543.0	5 543.6	5 607.7	5 608.0	**5 608.1**	-

FIVE YEAR REVIEW continued

R million	2014	2015#	2016#	2017	**2018**	Compound growth %
Key ratios						
Return on ordinary equity based on headline earnings (%)	24.5	24.7	23.5	22.8	**23.1**	
Price earnings ratio based on headline earnings (times)	12.0	14.0	11.2	11.1	**13.5**	
Price-to-book ratio (times)	2.8	3.3	2.5	2.4	**3.0**	
Market capitalisation (R million)	229 746	299 098	251 529	264 487	**358 390**	12
Closing share price (cents)	4 075	5 332	4 484	4 715	**6 389**	12
Cost-to-income ratio (%)	52.9	51.4	51.8	51.3	**51.4**	
Credit loss ratio (%)	0.8	0.8	0.9	0.9	**0.9**	
NPLs as a % of gross advances (%)	2.34	2.21	2.45	2.41	**2.36**	
Non-interest income as a % of total income (%)	54.0	52.6	47.7	48.3	**47.9**	
Return on average total assets based headline earnings (%)	2.1	2.1	2.0	2.0	**1.9**	
Interest margin on average advances (%)	4.6	5.0	5.2	5.1	**4.9**	
Exchange rates						
Rand/USD						
- Closing	10.63	12.14	14.66	13.10	**13.80**	
- Average	10.38	11.45	14.51	13.58	**12.82**	
Rand/GBP						
- Closing	18.17	19.12	19.67	17.00	**18.18**	
- Average	16.89	18.02	21.47	17.21	**17.27**	
Statement of financial position (USD)*						
Total assets	88 950	87 254	78 395	92 955	**111 035**	6
Advances	64 527	64 182	58 077	68 176	**81 248**	6
Deposits	72 270	71 295	62 761	75 079	**91 844**	6
Total equity	7 999	7 850	7 112	8 657	**9 188**	4
Assets under administration	108 029	107 589	97 432	115 949	**135 309**	6
Income statement (USD)**						
Earnings attributable to ordinary equityholders	1 776	1 888	1 555	1 809	**2 071**	4
Headline earnings	1 799	1 846	1 543	1 750	**2 068**	4
Statement of financial position (GBP)*						
Total assets	52 038	55 401	58 428	71 630	**84 284**	13
Advances	37 750	40 752	43 284	52 536	**61 674**	13
Deposits	42 280	45 268	46 775	57 855	**69 717**	13
Total equity	4 680	4 984	5 301	6 671	**6 974**	10
Assets under administration	63 338	68 443	72 616	89 349	**102 710**	13
Income statement (GBP)**						
Earnings attributable to ordinary equityholders	1 092	1 200	1 051	1 428	**1 537**	9
Headline earnings	1 105	1 173	1 043	1 381	**1 535**	9

* *The statement of financial position is converted using the closing rates as disclosed.*
***The income statement is converted using the average rate as disclosed.*
 # Reclassification of prior year numbers.

CORPORATE GOVERNANCE

ECONOMIC IMPACT

	2018		2017	
	R million	**%**	R million	%
Value added				
Net interest income after impairment	**82 110**	**66.1**	72 387	65.3
Non-operating revenue	**45 215**	**36.4**	42 068	38.0
Non-operating expenses	**(3 055)**	**(2.5)**	(3 628)	(3.3)
Value added by operations	**124 270**	**100.0**	110 827	100.0
To employees				
Salaries, wages and other benefits	**28 679**	**23.1**	25 852	23.3
To providers of funding	**56 736**	**45.7**	49 174	44.4
Dividends to shareholders	**15 157**		13 650	
Interest paid	**41 579**		35 524	
To suppliers	**14 546**	**11.7**	13 229	11.9
To government	**9 440**	**7.6**	8 495	7.7
Normal tax	**8 342**		7 383	
Value added tax	**1 062**		1 067	
Capital gains tax	**7**		12	
Other	**29**		33	
To communities				
CSI spend	**235**	**0.2**	218	0.2
To expansion and growth	**14 634**	**11.7**	13 859	12.5
Retained income	**11 855**		11 278	
Depreciation and amortisation	**3 192**		2 977	
Deferred income tax	**(413)**		(396)	
Total value added	**124 270**	**100.0**	110 827	100.0

BOARD SKILLS AND EXPERIENCE

As at 30 June 2018, FirstRand had a unitary board of 16 members, 3 are executive directors, 13 of the directors are non-executive, 7 of whom are independent. It was noted that the appointment of Mary Vilakazi as Chief Operating Officer was effective 1 July 2018.

INDEPENDENT NON-EXECUTIVE CHAIRMAN

William Rodger (Roger) Jardine (52)

BSc, MSc
Appointed July 2010

Roger Jardine is the Chairman of FirstRand Limited. Prior to becoming the Chairman on 1 April 2018, he served on the FirstRand Board as a non-executive director for 14 years. He was a member of the Risk, Capital and Compliance Committee, the Large Exposures Committee and Chaired the Nominations Committee and Directors Affairs and Governance Committee.

Jardine is a past CEO of 3 South African companys: Kagiso Media, the Aveng Group, and Primedia. He has been a director of several companies in diverse industries including steel, retail, manufacturing, IT services, mining services, and infrastructure development.

Before embarking on his career in the private sector almost 20 years ago, Jardine worked in the arena of science and technology policy. In 1992, he became the National Co-ordinator of Science and Technology policy for the African National Congress (ANC). In 1995, Jardine was appointed Director-General of the Department of Arts, Culture, Science and Technology. He also served as Chairman of the Council for Scientific and Industrial Research (CSIR) and the Chairman of the Nuclear Energy Corporation of South Africa (NECSA).

Jardine studied physics and obtained a Bachelor of Science (BSc) degree from Haverford College in 1989 in Pennsylvania (USA), and a Master of Science (MSc) in Radiological Physics from Wayne State University in 1991 in Michigan (USA).

FirstRand – *committee memberships*
- Directors' affairs and governance
- Large exposures (resigned 30 May 2018)

Other listed directorships
None

EXECUTIVE DIRECTORS

CHIEF EXECUTIVE OFFICER

Alan Patrick Pullinger (52)
MCom, CA(SA), CFA
Appointed October 2015

Alan graduated from the University of the Witwatersrand in 1991 and qualified as a chartered accountant after serving articles at Deloitte & Touche. He spent five years with Deloitte & Touche and was appointed to the partnership in 1996.

He joined Rand Merchant Bank in 1998 (prior to the creation of FirstRand Limited) and was appointed as CEO in 2008 until his promotion to deputy CEO of FirstRand on 1 October 2015. Alan has since been appointed as CEO with effect from 1 April 2018.

FirstRand – *committee memberships*

- Audit – *ex officio*
- Information, Technology and risk governance
- Large exposures
- Remuneration – *ex officio*
- Risk, capital management and compliance – *ex officio*
- Social, ethics and transformation – *ex officio*
- First National Bank* - chairman
- Rand Merchant Bank*
- WesBank*

**Divisional board*

Other listed directorships
Aldemore Group plc (UK)

EXECUTIVE OFFICER

Johan Petrus (Johan) Burger (59)

BCom (Hons), CA(SA)
Appointed January 2009

Johan joined Rand Merchant Bank in 1986, where he performed a number of roles before being appointed financial director in 1995. Following the formation of FirstRand Limited in 1998, he was appointed financial director of the FirstRand banking group and in 2002 was appointed CFO of the FirstRand group. In addition to his role as group CFO, Johan was appointed as group COO in 2009 and deputy CEO in October 2013. He was appointed as CEO in October 2015. Johan retired as CEO with effect from 31 March 2018. He remained as an executive director until 31 August 2018 and became a non-executive director on 1 September 2018.

Prior to joining FirstRand, Johan completed his articles with Coopers & Lybrand (now PwC) and qualified as a chartered accountant in 1984.Johan graduated from University of Johannesburg (formerly RAU) with a BCom (Hons) (Accounting) in 1983.

FirstRand – *committee memberships*

- Audit – *ex officio*
- Large exposures
- Remuneration – *ex officio*
- Risk, capital management and compliance – *ex officio*
- Social, ethics and transformation – *ex officio*
- First National Bank*
- Rand Merchant Bank*
- WesBank*

**Divisional board*

Other listed directorships

Rand Merchant Investment Holdings Limited, RMB Holdings Limited and Aldermore Group plc (UK)

FINANCIAL DIRECTOR

Hetash Surendrakumar (Harry) Kellan (46)

BCom (Hons), CA(SA)
Appointed January 2014

Harry started his career with the FirstRand group in 2005 at FNB as group financial manager. He was appointed CFO of FNB in 2007, a position he held until his appointment to FirstRand as financial director in January 2014.

Prior to joining FirstRand, Harry completed his articles with Arthur Andersen and qualified as a chartered accountant in 1998 after graduating from the University of the Witwatersrand in 1994. After completing his articles, he specialised in financial services at Arthur Andersen from June 1998 to August 2000, including a year at the London office. He then joined HSBC South Africa in September 2000 where he held the position of associate director in corporate finance.

FirstRand – *committee memberships*

- Audit – *ex officio*
- Remuneration – *ex officio*
- Risk, capital management and compliance – *ex officio*
- Social, ethics and transformation – *ex officio*
- First National Bank*
- WesBank*

**Divisional board*

Other listed directorships

None

INDEPENDENT NON-EXECUTIVE DIRECTORS

Grant Glenn Gelink (68)

BCom (Hons), BCompt (Hons), CA(SA)
Appointed January 2013

Grant has had extensive work experience within Deloitte South Africa, which includes the following positions spanning over 26 years – CEO (2006 to 2012), CEO: human capital corporation (2004 to 2006), managing partner: consulting and advisory services (2001 to 2006) and partner in charge Pretoria office (1997 to 1999).

FirstRand – *committee memberships*

- Audit – chairman**
- Remuneration – Chair
- Directors' affairs and governance
- Information Technology and risk governance
- Risk capital management and compliance
- First National Bank*
- WesBank*

**Divisional board*
***Appointed as chairman with effect from 1 September 2017*

Other listed directorships
Allied Electronics Corporation Limited (ALTRON), Grindrod Limited, Santam Limited

Nolulamo Nobambiswano (Lulu) Gwagwa (59)

BA, MTRP, MSc, PhD
Appointed February 2004

After studying abroad, Lulu took up a position in 1992 as a senior lecturer at the University of Natal's Department of Town and Regional Planning. From 1995 to 1998 she became the deputy director general in the national Department of Public Works. During this period, she also served as the presidential appointee on the Commission on Provincial Government and as deputy chair of the Ministerial Advisory Committee on Local Government Transformation. From 1998 until 2003 she was the CEO of the Independent Development Trust. She is currently the CEO of Lereko Investments, a black-owned investment company and the chairperson of Aurecon Africa.

FirstRand – *committee memberships*

- Directors' affairs and governance
- Social, ethics and transformation – chairman

Other listed directorships
Massmart Holdings Limited, Sun International Limited

Russell Mark Loubser (68)
BCom (Hons), MCom, CA(SA)
Appointed September 2014

Russell was the CEO of the Johannesburg Stock Exchange (JSE) from January 1997 until December 2011. During his tenure, he conceptualised the demutualisation of the JSE, and it was converted into a public company in 2005 and listed in 2006.

Prior to being appointed to the JSE, Russell was executive director of financial markets at Rand Merchant Bank Limited (RMB), which he joined in May 1985. He was part of the small team at RMB that started the stock index derivatives industry in SA in 1987. He was also a member of the King Committee on Corporate Governance for 15 years, a member of the Securities Regulation Panel of SA for 15 years and served on the board of directors of the World Federation of Exchanges (WFE) for approximately 13 years. Russell has also served as a council member of the University of Pretoria since 2007.

FirstRand – *committee memberships*
- Audit
- Directors' affairs and governance
- Large exposures – chairman
- Remuneration
- Risk, capital management and compliance – chairman
- First National Bank*
- Rand Merchant Bank*

**Divisional board*

Other listed directorships
None

Ethel Gothatamodimo Matenge-Sebesho (63)
MBA, CAIB
Appointed July 2010

Ethel previously worked for Home Finance Guarantors Africa Reinsurance (HFGA Re), whose main objective is to facilitate access to housing finance in the low to medium income market in Africa. Her main role was to drive the establishment of new markets for the company in a number of African countries.

Prior to joining HFGA Re, Ethel was head of Housing Institutions at National Housing Finance Corporation, where she was part of a team that introduced social housing in South Africa. She has previously worked for Standard Chartered Bank in Botswana, at which time she obtained the Institute of Bankers' qualification and MBA from Brunel University of London.

Ethel has served on various bodies, among them, Air Botswana (vice chairman), Oikocredit (an international development financial institution based in the Netherlands), Botswana Investment and Trade Centre (vice chairman) and Momentum Investments.

FirstRand – *committee memberships*
- Audit
- Directors' affairs and governance
- First National Bank*

**Divisional board*

Other listed directorships
Distell Group Holdings Ltd

Amanda Tandiwe (Tandi) Nzimande (48)

CTA, CA(SA), HDip Co Law
Appointed February 2008

Tandi, a chartered accountant, has had a varied career since qualifying at KPMG in 1996. She worked as a corporate finance advisor at Deutsche Bank for five years, following which she acquired and ran a small business in the postal and courier industry for four years. During that, period she also consulted to WDB Investment Holdings, which she eventually joined as its chief financial officer, a position she vacated in May 2016. Her past board memberships include OUTsurance, Rennies Travel and Masana Fuel Solutions. Tandi has recently launched her own business focused on executive coaching.

Tandi is a fellow of the Africa Leadership Initiative. She is also a member of the South African Institute of Chartered Accountants, African Women Chartered Accountants as well as the Association of Black Securities and Investment Professional.

FirstRand – *committee memberships*
- Directors' affairs and governance -chairman
- Remuneration
- Social, ethics and transformation

Other listed directorships
Hulamin Limited and Verimark Holdings Limited

Thomas (Tom) Winterboer (62)

Bcom (Hons), CA(SA) (AEP)
Appointed April 2018

Tom joined Price Waterhouse in 1978 and left the firm after completion of his training contract in 1981 to join an investment bank. He re-joined the firm in 1982 and completed a two year secondment in PW's London offices from 1986 to 1988 as a senior manager, serving clients in the financial services industry and a variety of other industries. He was admitted to partnership in 1989. He was appointed as the firm's Banking Leader since 1996 and later became Financial Services Leader for PwC Africa where he was a member of PwC Global Financial Services Leadership team. Tom developed and launched various banking and other financial services thought leadership material since 1996. He led services in assurance and advisory for the Big Four South African Banks, foreign and smaller SA banks and for clients in many other industries.

In August 2014 Tom was appointed as the Curator for African Bank. The new African Bank was successfully launched in April 2016, after which he continued his work as Curator for Residual Debt Services Limited (previously African Bank Limited) until March 2018.

FirstRand – *committee memberships*
- Audit
- Directors' affairs and governance
- Risk, capital management and compliance

Other listed directorships
None

NON-EXECUTIVE DIRECTORS

Mary Sina Bomela (45)
BCom (Hons), CA(SA), MBA
Appointed September 2011

Mary was appointed to the position of CEO of the Mineworkers Investment Company Proprietary Limited (MIC) in July 2010 and was appointed to the board in September 2011.

Prior to joining the MIC, Mary was the CFO of Freight Dynamics and an executive in the corporate services division of the South African Institute of Chartered Accountants. She has held executive positions in the resources, media, utilities and financial services sector.

FirstRand – *committee memberships*
- Directors' affairs and governance
- Risk, capital management and compliance

Other listed directorships
Ascendis Health Limited and Metrofile Holdings Limited

Hermanus Lambertus Bosman (49)
BCom, LLB, LLM, CFA
Appointed April 2017

Herman was with RMB for 12 years and headed up its corporate finance practice between 2000 and 2006. After serving as chief executive of Deutsche Bank South Africa from 2006 to 2013, Herman joined RMB Holdings Limited and Rand Merchant Investment Holdings Limited as the chief executive officer on 2 April 2014.

FirstRand – *committee memberships*
- Directors' affairs and governance
- Social, ethics and transformation

Other listed directorships
Discovery Limited, Hastings Group Holdings plc, Rand Merchant Investment Holdings Limited (chief executive) and RMB Holdings Limited (chief executive)

Jan Jonathan (Jannie) Durand (51)

BAccSc (Hons), MPhil, CA(SA)
Appointed October 2012

Jannie studied at the University of Stellenbosch and after obtaining his BAcc degree in 1989 and BAcc (Hons) degree in 1990, he obtained his MPhil (Management Studies) degree from Oxford in 1992. He qualified as a chartered accountant in 1995.

He joined the Rembrandt Group in 1996. He became financial director of VenFin Limited in 2000 and CEO in May 2006. Jannie was appointed as chief investment officer of Remgro Limited in November 2009 and CEO from 7 May 2012.

FirstRand – *committee memberships*
- Directors' affairs and governance
- Remuneration

Other listed directorships
Distell Group Holdings, Mediclinic International plc, RCL Foods Limited, Rand Merchant Investment Holdings Limited, RMB Holdings Limited (chairman), and Remgro Limited

Francois (Faffa) Knoetze (55)

BCom (Hons), FASSA, FIA
Appointed April 2016

Faffa graduated from the University of Stellenbosch in 1984 and became a fellow of the Actuarial Society of South Africa in 1992.

After starting his actuarial career at Sanlam as a marketing actuary in the life business, he spent most of his working career at Alexander Forbes, where he was the valuator and consulting actuary to a number of pension and provident funds, and carried the overall responsibility for the full service offering of Alexander Forbes to its retirement fund clients in the Stellenbosch region.

He joined Remgro on 2 December 2013 and focuses on the company's interests in the financial services (insurance and banking) and sports industries.

FirstRand – *committee memberships*
- Directors' affairs and governance
- Risk, capital management and compliance
- Social, ethics and transformation
- First National Bank*
- Rand Merchant Bank*
- WesBank*

  ** Divisional board*

Other listed directorships
Rand Merchant Investment Holdings Limited (alternate) and RMB Holdings Limited (alternate)

Paballo Joel Makosholo (39)
MCom SA& International tax (IEDP), CA(SA)
Appointed October 2015

Paballo qualified as a chartered accountant after serving articles at KPMG. He spent time in the audit and corporate finance division, and thereafter one year with Rothschild Investment Bank as an executive.

He joined Kagiso Trust in 2006 and was appointed chief financial and investment executive, a position he held for ten years. Paballo was responsible for overseeing all investments of the Trust which included FirstRand and Kagiso Tiso Holdings (KTH). He is currently the Chairman of KTH's Investment Committee and is working as chief operations officer at Kagiso Capital.

FirstRand – *committee memberships*
- Audit
- Directors' affairs and governance
- Social, ethics and transformation
- First National Bank*
- WesBank*

** Divisional board*

Other listed directorships
None

Thandie Sylvia Mashego (40)

BCom (Hons), CA(SA), MBL
Appointed January 2017

Thandie is the CFO of WDB Investment Holdings, responsible for the overall financial and risk management of the group. She is also involved in transaction execution and investment monitoring. Prior to joining WDB Investment Holdings, Thandie spent two years as group CFO of Vantage Capital Group, a private equity fund manager. She also spent 11 years at the Industrial Development Corporation (IDC) in various roles, where she led a number of project and corporate finance transactions. In her last five years at the IDC, Thandie was responsible for the management of IDC's private equity and loan investment portfolio in several sectors.

She qualified as a chartered accountant in 2003 after completing articles at KPMG and Transnet Group Limited.

FirstRand – *committee memberships*

- Directors' affairs and governance
- Large exposures
- First National Bank*

** Divisional board*

Other listed directorships

None

Detailed directorships of Board members can be requested from the Company Secretary's Office

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AUDIT COMMITTEE REPORT

The fundamental role of an audit committee is to assist the board to fulfil its oversight responsibilities in areas such as financial reporting, internal control systems, risk management systems and the internal and external audit functions. The FirstRand committee works closely with the group's risk, capital management and compliance committee, social, ethics and transformation committee and information and technology risk and governance committee to identify common risk and control themes, and achieve synergy between combined assurance processes, thereby ensuring that, where appropriate, these functions can leverage off one another.

The committee is constituted as a statutory committee of FirstRand in respect of its duties in terms of section 94(7) of the Companies Act, no 71 of 2008, section 64 of the Banks Act (1990) and as a committee of the FirstRand board concerning all other duties assigned to it by the board. The objectives and functions of the committee are set out in its charter, which was reviewed and updated during the year.

SUMMARY OF RESPONSIBILITIES

- reviews the quality, independence and cost-effectiveness of the statutory audit and non-audit engagements;
- reviews the appointment of the external auditors for recommendation to the board;
- oversees internal and external audits, including review and approval of internal and external audit plans, review of significant audit findings and monitors progress reports on corrective actions required to rectify reported internal control shortcomings;
- assists the board in evaluating the adequacy and effectiveness of FirstRand's system of internal control (including internal financial controls), accounting practices, information systems and auditing processes;
- reports its assessment of the adequacy and effectiveness of the internal controls (including internal financial controls), processes, practices and systems as set out above to the board;
- ensures that a combined assurance model is applied to provide a coordinated approach to assurance activities;
- oversees financial risks, Banks Act regulatory audit process and internal financial controls including integrity, accuracy and completeness of the annual integrated report (both financial and non-financial reporting);
- receives reports on fraud and IT risks as these relate to financial reporting;
- satisfies itself with the expertise, resources and experience of the group financial director and finance function; and
- provides independent oversight of the integrity of the annual financial statements and other external reports issued by FirstRand (i.e. sustainability reporting and disclosure integrated with financial reporting) and recommends the annual integrated report to the board for approval and in a format agreed with the board.

The effectiveness of the committee and its individual members is assessed on an annual basis.

The committee is satisfied that it has executed its duties during the past financial year in accordance with these terms of reference, relevant legislation, regulation and governance practices.

Feedback was obtained from management, external audit and internal audit in making all assessments.

COMPOSITION		APPOINTED	MEETING	NOVEMBER TRILATERAL
GG Gelink (chairman) [2]	Independent non-executive director	January 2013	4/4	1/1
RM Loubser	Independent non-executive director	September 2014	4/4	1/1
EG Matenge-Sebesho	Independent non-executive director	July 2010	4/4	1/1
PJ Makosholo	Non-executive director	March 2016	4/4	1/1
JH van Greuning [1]	Independent non-executive director	September 2009	2/4	0/1

1. *Resigned as chairman of the committee with effect 1 September 2017 and from the board with effect from 30 November 2017*
2. *Appointed as chairman of the committee with effect 1 September 2017.*

ATTENDEES

Leon Crouse (specialist consultant)
CEO
Financial director
Chief risk officer
Chief audit executive
Chairman of the subcommittees
External auditors and other assurance providers
Heads of finance, risk and compliance

The composition of the committee is designed to include members with practical banking expertise in accordance with the Banks Act.

In addition to the audit committee, divisional audit committees have been established. The divisional audit committees are chaired by competent independent non-executives who participate in the audit committee.

The external auditors and chief audit executive meet independently with the non-executive members as and when required.

The committee is satisfied that the individual members of the committee possess appropriate qualifications and a balance of skills and experience to discharge their responsibilities.

AREAS OF FOCUS

During the year, the committee:

- reviewed the reports on internal financial controls and going concern aspect of FirstRand, in terms of regulation 40(4) of the Banks Act regulations;
- considered feedback from the external auditors on the SARB bilateral meeting;
- conducted a financial trends analysis of the group's year-to-date performance;
- considered industry trend updates from the external auditors;
- reviewed and approved the internal audit charter;
- reviewed and approved the audit committee charter;
- attended the trilateral meeting with the SARB;
- considered IFRS 9 financial instruments updates and impact assessments;
- received updates on IFRS 15 revenue from contracts with customers;
- approved the appointment of the new audit partner in line with the five-year audit partner rotation policy;
- received an update on XBRL implementation;
- approved the key audit matters report;
- noted the finding of the report from the JSE on the proactive monitoring of financial statements in 2017, published in 2018;
- received the Banks Act regulation 39 corporate governance assessment.

EXTERNAL AUDIT

- The committee nominated, for re-election at the annual general meeting, Deloitte & Touche and PricewaterhouseCoopers Inc. as the external audit firms responsible for performing the functions of auditor for the 2019 financial year.
- The committee ensured that the appointment of the auditors complied with all legislation on appointment of auditors.
- The committee annually reviews and approves the list of non-audit services which the auditors may perform. There is an approval process where all non-audit service engagements above a certain threshold must be approved by the financial director, and above a further threshold, pre-approved by the chairman of the audit committee.
- The committee encouraged effective communication between the external and internal audit functions.

The committee has satisfied itself to the performance and quality of the external audit and that the external auditors and lead partners were independent of the group, as set out in section 94(8) of the Companies Act.

This included consideration of:

- representations made by the external auditors to the audit committee;
- independence criteria specified by the Independent Regulatory Board for Auditors and international regulatory bodies as well as criteria for internal governance processes within audit firms;
- auditor suitability assessment in terms of paragraph 3.84(g) (iii) and section 22.15(h) of the JSE Listings Requirements;
- previous appointments of the auditors;
- extent of other work undertaken by the auditors for the group; tenure of the auditors and rotation of the lead partners; and
- changes to management during the tenure of auditors, which mitigates the attendant risk of familiarity between the external auditor and management.

INTERNAL AUDIT

The internal audit function provides assurance to the board on the adequacy and effectiveness of the group's internal control and risk management practices, and the integrity of financial reporting systems. Internal audit assists management by making recommendations for improvements to the control and risk management environment.

During the year, the committee received regular reports from group internal audit on any weaknesses in controls that were identified, including financial controls, and considered corrective actions to be implemented by management.

The committee has assessed the performance of the chief audit executive and the arrangements of internal audit, and is satisfied that the internal audit function is independent and appropriately resourced, and that the chief audit executive has fulfilled the obligations of that position.

The committee can confirm that the financial and risk management information contained in the annual integrated report accurately reflects information reported to the committee by management and has no reason to believe that the existing internal controls, including internal financial controls, do not form a sound basis for the preparation of reliable financial statements. The committee's opinion is supported by the reports received from the risk, capital management and compliance committee, external audit, internal audit and executive management.

Reviewed and approved the annual internal audit plan, which was informed by combined assurance role-players and aligned to the group's strategic objectives, risks and opportunities identified by management as well as topical issues facing the financial services industry. On a quarterly basis, the committee reviewed and approved proposed amendments to the plan to ensure it remained agile to the changing risk landscape.

Reviewed quarterly activity reports from internal audit which covered audit plan progress, insights and optimisations opportunities, cumulative view on internal financial controls and risk management process maturity, and a summary of audit observations with respective status updates on remediation effort.

The group's external auditors conducted an annual assessment of the internal audit function against the International Standards on Auditing (ISA) 610 and confirmed that the work of internal audit was reliable for the purposes of the external audit

FINANCIAL STATEMENTS AND FINANCE FUNCTION

Having achieved its objectives for the financial year, the committee recommended the consolidated financial statements, company financial statements and annual integrated report for the year ended 30 June 2018 for approval to the board. The financial statements will be open for discussion at the forthcoming annual general meeting.

An audit committee process has been established to receive and deal appropriately with any concerns or complaints relating to:

- reporting practices and internal audit of the group;
- content or auditing of the financial statements;
- internal financial controls of the bank or controlling company; and
- any other related matter.

No complaints were received relating to accounting practices or internal audit, nor to the content or audit of the group's annual financial statements.

With the enhancement of the new audit report standard, the committee has considered the appropriateness of the key audit matters reported on by the external auditors and is satisfied with the treatment and audit response thereof.

The committee is satisfied that the group has appropriate financial reporting control frameworks and procedures, and that these procedures are operating effectively.

The committee reports that, based on a formal assessment process, it was satisfied as to the appropriateness of the expertise, effectiveness and experience of the group financial director, Mr HS Kellan (BCom (Hons), CA(SA)) during the reporting period.

In addition, the committee is satisfied with:

- the expertise, effectiveness and adequacy of resources and arrangements in the finance function; and
- the experience, effectiveness, expertise and continuous professional development of senior members of the finance function.

The committee confirms that it was able to carry out its work to fulfil its statutory mandate under normal and unrestricted conditions. The committee is satisfied that the assurance obtained during the meetings, corroborated by the review of the documentation deemed necessary and its own analyses sustain its conclusions reached for the 2018 financial year.

RELATIONSHIP WITH OTHER GOVERNANCE COMMITTEES

The committee works closely with the group's risk, capital management and compliance committee, social, ethics and transformation monitoring committee and information and technology risk governance committee to identify common risk and control themes, and achieve synergy between combined assurance processes, thereby ensuring that, where appropriate, relevant information is shared and these functions can leverage off one another.

Based on the reports received, the committee is satisfied that:

- the group has implemented appropriate processes for complying with the spirit and letter of key regulations impacting the group; and
- the group is able to effectively manage its risk, information and technology resources.

COMBINED ASSURANCE

During the year, the committee monitored alignment of all assurance providers to achieve elimination of multiple approaches to risk assessment and reporting. The combined assurance model incorporates and optimises all assurance services and functions so that, taken as a whole, these enable an effective control environment; support the integrity of information used for internal decision-making by management, the governing body and its committees, and supports the integrity of the group's external reports.

The committee is satisfied with the expertise, effectiveness and adequacy of arrangements in place for combined assurance.

During the year, the committee received regular reports from group internal audit on any weaknesses in controls that were identified, including financial controls, and considered corrective actions to be implemented by management.

FUTURE AREAS OF FOCUS

- review and consider management's plans in respect of the implementation of IFRS 16 Leases and IFRS 17 Insurance Contracts;
- consider the requirements arising from mandatory audit firm rotation (MAFR), effective for financial periods ending on or after April 2023, and initiate a project to assess and address MAFR;
- monitor non-audit fees paid to external audit and whether it is within approved limits; and
- biannually assess significance of loss-making entities and entities with a negative net asset value.

GG Gelink
Chairman, audit committee
Sandton

5 September 2018

DIRECTORS` RESPONSIBILITY STATEMENT AND APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

TO THE SHAREHOLDERS OF FIRSTRAND LIMITED

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

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

In preparing the annual financial statements, suitable accounting policies in accordance with IFRS have been applied and reasonable judgements and estimates have been made by management. The amended IFRS standards (International Accounting Standard 7 *Statement of Cash Flows* (IAS 7) and International Accounting Standard 12 *Income Taxes* (IAS 12)) that became effective during the current reporting period had no effect on the group's reported earnings, financial position or reserves, or a material impact on the accounting policies. The only impact was a change in disclosure requirements relating to liabilities arising from financing activities in terms of the amendments to IAS 7 *Statement of Cash Flows.* The financial statements incorporate full and responsible disclosure in line with the group's philosophy on corporate governance.

The directors are responsible for the group'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 group is on identifying, assessing, managing and monitoring all known forms of risk across the group.

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

Based on the information and explanations given by management and the internal auditors, nothing has come to the attention of the directors to indicate that the internal controls are inadequate and that the financial records may not be relied on in preparing the consolidated and separate annual financial statements and maintaining accountability for the group'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 group, 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 consolidated and separate annual financial statements fairly present the state of affairs of the group and company at the end of the financial year and the net income and cash flows for the year.

The directors have reviewed the group and company's budgets and flow of funds forecasts and considered the group and company's ability to continue as a going concern in light of current and anticipated economic conditions. On the basis of this review, and in light of the current financial position and profitable trading history, the directors are satisfied that the group 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 group'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, no 71 of 2008. Their unmodified report appears on page C17.

The consolidated annual financial statements of the group, which appear on pages C26 to C263 and the separate annual financial statements of the company, which appear on pages C264 to C280, and the summary risk and capital management report, which appear in section A of the summary risk and capital management report, were approved by the board of directors on 5 September 2018.

WR Jardine

Chairman

AP Pullinger

Chief executive officer

Sandton

5 September 2018

COMPANY SECRETARY'S CERTIFICATION

DECLARATION BY THE COMPANY SECRETARY IN RESPECT OF SECTION 88 (2) (E) OF THE COMPANIES ACT.

I declare that, to the best of my knowledge, the company has lodged with the Commissioner of the Companies and Intellectual Property Commission all such returns and notices as 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

5 September 2018

DIRECTORS' REPORT

for the year ended 30 June 2018

NATURE OF BUSINESS

FirstRand Limited is a public company and registered bank controlling company with a primary listing on the JSE Limited (JSE) (under Financial – Banks, share code: FSR) and a secondary listing on the Namibian Stock Exchange (NSX) (share code: FST). FirstRand Limited is the holding company of the FirstRand group of companies.

FirstRand's portfolio of franchises comprises FNB, RMB, WesBank, Aldermore and Ashburton Investments and provides a universal set of transactional, lending, investment and insurance products and services. The FCC franchise represents group-wide functions.

Whilst the group is predominantly South African based, it has subsidiaries in the United Kingdom (being Aldermore Group plc), Namibia, Botswana, Zambia, Mozambique, Tanzania, Nigeria, Swaziland, Lesotho and Ghana. The bank has branches in India, London and Guernsey, and representative offices in Dubai, Kenya, Angola and China.

Refer to section D for a simplified group structure of the group.

The Board acknowledges its responsibilities for the integrity of this report. Guideline as provided by the 2016 King Code have been adopted in preparation of this report. The board believes that this report fairly represents the performance of the group.

CASH DIVIDEND DECLARATIONS

Ordinary shares

The directors declared a total gross cash dividend totalling 275 cents per ordinary share out of income reserves for the year ended 30 June 2018.

Dividends

ORDINARY SHARES

	Year ended 30 June	
Cents per share	**2018**	2017
Interim (declared 5 March 2018)	**130.0**	119.0
Final (declared 5 September 2018)	**145.0**	136.0
	275.0	255.0

The salient dates for the final dividend are as follows:

Last day to trade cum-dividend	Tuesday 2 October 2018
Shares commence trading ex-dividend	Wednesday 3 October 2018
Record date	Friday 5 October 2018
Payment date	Monday 8 October 2018

Share certificates may not be dematerialised or re-materialised between Wednesday, 3 October 2018 and Friday, 5 October 2018, both days inclusive.

For shareholders who are subject to dividend withholding tax (DWT), tax will be calculated at 20% (or such lower rate if a double taxation agreement applies for foreign shareholders).

For South African shareholders who are subject to DWT, the net final dividend after deducting 20% tax will be 116.00000 cents per share.

The issued share capital on the declaration date was 5 609 488 001 ordinary shares and 45 000 000 variable rate NCNR B preference shares.

FirstRand's income tax reference number is 9150/201/71/4.

B preference shares

Dividends on the B preference shares are calculated at a rate of 75.56% of the prime lending rate of FNB, a division of FirstRand Bank Limited.

Dividends declared and paid

	Preference dividends	
Cents per share	**2018**	2017
Period:		
30 August 2016 - 27 February 2017		395.6
28 February 2017 – 28 August 2017		393.6
29 August 2017 – 26 February 2018	**386.2**	
27 February 2018 – 27 August 2018	**378.3**	

SHARE CAPITAL

Details of FirstRand's authorised share capital as at 30 June 2018 are shown in note 28 to the group's financial statements.

Ordinary share capital

There were no changes to authorised or issued ordinary share capital during the year.

Preference share capital

There were no changes to authorised or issued preference share capital during the year.

SHAREHOLDER ANALYSIS

The following shareholders have a significant beneficial interest in FirstRand's issued ordinary shares.

%	**2018**	2017
RMH Asset Holding Company (Pty) Ltd (RMB Holdings)	**34.1**	34.1
Public Investment Corporation	**9.2**	9.1
BEE partners	**5.2**	5.2
Financial Securities Limited (Remgro)	**3.9**	3.9

A further analysis of shareholders is set out in section D.

EVENTS AFTER REPORTING PERIOD

DISCOVERY CARD

Subsequent to the year end, the group concluded a transaction with Discovery, through the issuance of preference shares, for the ultimate transfer and disposal of its remaining effective 25.01% interest in Discovery Card and Discovery Bank, respectively. The consideration of this transaction is R1.8 billion, which together with the preference share issuance of R1.3 billion in 2016, results in a total value unlock for FirstRand shareholders of approximately R3 billion. This transaction is expected to be concluded during the financial year ending 30 June 2019.

At 30 June 2018, FNB includes Discovery Card advances with a gross value of R4.3 billion which will also be transferred at carrying value.

FNB SWAZILAND

During the next financial year, a minority interest in FNB Swaziland will be offered to local investors through a listing.

DIRECTORATE

Details of the board of directors are in section B.

BOARD CHANGES

The following changes to the board of directors have taken place during the 2018 financial year end up to reporting date.

		EFFECTIVE DATE
Appointments		
T Winterboer	Independent non-executive director	20 April 2018
M Vilakazi	Chief Operating Officer	1 July 2018
Retirements		
BJ van der Ross	Independent non-executive director (retired)	30 November 2017
JH van Greuning	Independent non-executive director (retired)	30 November 2017
LL Dippenaar	Board chairman and non-executive director (retired)	31 March 2018
JP Burger	Chief executive officer (retired)*	31 March 2018
PM Goss	Independent non-executive director (retired)	30 April 2018
PK Harris	Non-executive director (retired)	30 April 2018
Change of designation		
WR Jardine	Chairman	1 April 2018
JP Burger	Executive director	1 April 2018
AP Pullinger	Chief executive officer	1 April 2018
JP Burger	Non-executive director	1 September 2018
JJ Durand	Alternate non-executive director	3 September 2018

*JP Burger retired as CEO effective 31 March 2018. He remained an executive director until 31 August 2018 and became a non-executive director on 1 September 2018.

DIRECTORS' AND PRESCRIBED OFFICERS' INTERESTS IN FIRSTRAND

Closed periods commence on 1 January and 1 July and are in force until the announcement of the interim and year end results. Closed periods also include any period where the company is trading under cautionary or where participants have knowledge of price sensitive information. Similar prohibitions exist in respect of trading in RMB Holdings Limited shares because of the relative importance of FirstRand in the earnings of RMB Holdings Limited. All directors' dealings require the prior approval of the chairman and the company secretary retains a record of all such share dealings and approvals. Trading in securities by employees who are exposed to price sensitive information is subject to the group's personal account trading rules. It is not a requirement of the company's memorandum of incorporation or the board charter that directors own shares in the company.

Ordinary shares

	Direct beneficial (thousands)	Indirect beneficial (including held by associates) (thousands)	Indirect via RMBH (thousands)	Total 2018 (thousands)	Percentage holding %	Total 2017 (thousands)
Executive directors and prescribed officers						
JP Burger	504	6 117	1 670	**8 291**	0.15	8 291
AP Pullinger	4 550	37	-	**4 587**	0.08	4 585
HS Kellan	780	629	11	**1 420**	0.03	1 420
J Celliers	-	333	1	**334**	0.01	338
C de Kock	300	536	-	**836**	0.01	1 136
JR Formby	598	587	-	**1 185**	0.02	1 185
Non-executive directors						
HL Bosman	120	-	-	**120**	-	120
LL Dippenaar**	1 377	1 728	101 627	**104 732**	1.87	104 732
GG Gelink	102	-	-	**102**	-	102
PM Goss***	1	-	16 401	**16 402**	0.29	16 402
NN Gwagwa	251	-	-	**251**	-	251
PK Harris***	-	313	9 473	**9 786**	0.17	9 786
WR Jardine	-	232	11	**243**	-	243
RM Loubser	-	-	1 868	**1 868**	0.03	1 868
EG Matenge-Sebesho	-	77	-	**77**	-	77
BJ van der Ross*	363	-	-	**363**	0.01	463
Total	8 946	10 589	131 062	**150 597**	2.67	150 999

* *Retired November 2017.*
***Retired March 2018*
****Retired April 2018.*

Directors' interests remained unchanged from the end of the financial year to the date of this report.

B preference shares

	Indirect beneficial (thousands)	Total 2018 (thousands)	Total 2017 (thousands)
Non-executive directors			
LL Dippenaar	250	**250**	250
Total	250	**250**	250

WR Jardine
Chairman

AP Pullinger
CEO

5 September 2018

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF FIRSTRAND LIMITED

Report on the audit of the consolidated and separate financial statements

Our Opinion

We have audited the consolidated and separate financial statements of FirstRand Limited (the Company) and its subsidiaries (together the Group) set out on pages C26 to C280 , which comprise the consolidated and separate statements of financial position as at 30 June 2018, and the consolidated income statement, the consolidated statement of other comprehensive income, the separate statement of comprehensive income, and the consolidated and separate statements of changes in equity and the consolidated and separate statements of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of FirstRand Limited and its subsidiaries as at 30 June 2018, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act of South Africa.

Basis for Opinion

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

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

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

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We communicate the key audit matters that relate to the audit of the consolidated financial statements of the current period in the table below. We have determined that there are no key audit matters to communicate in our report with regard to the audit of the separate financial statements of the Company for the current period.

Key audit matter	How the matter was addressed in the audit
Valuation of complex financial instruments which are subject to judgement The valuation of complex financial instruments requires significant judgement by management in the application of valuation methodologies as well as the determination of key assumptions relating to inputs other than unadjusted quoted prices in active markets that the Group can access at measurement date. Such assumptions include unobservable inputs, projected cash flows and the consideration of recent market developments in valuation methodologies relating to the impact of counterparty and own credit risk, regulation and funding costs. The financial instruments impacted by these judgemental assumptions include: ● Advances book carried at fair value (primarily Rand Merchant Bank and Group Treasury); ● Complex derivative financial instruments (primarily those which are longer dated and valued with reference to unobservable inputs); and ● Investment securities valued with reference to unobservable inputs. These would primarily be unlisted equities. As the impact of these assumptions on the valuation of the related financial instruments significantly affects the measurement of profit and loss and disclosures of financial risks in the consolidated financial statements, the valuation of the complex financial instruments was considered a matter of most significance in our audit. The related disclosures in the consolidated financial statements are included in note 34 – Fair value measurements.	Our audit of the valuation of the fair value advances book, complex derivative instruments and investment securities where these utilised judgemental assumptions included, inter alia, the following audit procedures which were performed with the assistance of our valuation experts: ● We tested the design, implementation and operating effectiveness of the relevant financial reporting controls relating to valuations; ● We evaluated the technical and practical appropriateness and accuracy of valuation methodologies (including key assumptions made and modelling approaches adopted) applied by management with reference to market practice, practical constraints on the ability to apply the methodologies to the instruments being valued and for consistency with prior periods; ● For selected financial instruments we independently recalculated the fair values; ● We assessed the appropriateness and sensitivity of unobservable market rates, projected cash flows and valuation adjustments with reference to the best available independent information; and ● We assessed the completeness, accuracy and adequacy of the disclosures. Based on the procedures described above, our audit evidence supported management's assumptions and disclosures.

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

Key audit matter	How the matter was addressed in the audit
<u>Retail advances</u> Retail advances are typically higher volume, lower value and therefore a significant portion of the impairment is calculated on a portfolio basis. This requires the use of statistical models incorporating data and assumptions which are not always necessarily observable. Management applies professional judgement in developing the models, analysing data and determining the most appropriate assumptions and estimates. The inputs into the model process requiring significant management judgement, include: ● The probability of default (PD); ● The loss given default (LGD); ● Whether the loss event (that is the point at which impairment is recognised) had been identified in a timely manner; ● The emergence periods between the impairment event occurring and a specific or portfolio impairment being recognised; and ● The identification and treatment of cured and renegotiated loans. <u>Overlays</u> Management also evaluates the overall portfolio provisions, as determined by the model, and may, in certain circumstances, recognise additional provisions (in the form of overlays) where there is uncertainty in respect of the model's ability to address specific trends or conditions due to inherent limitations of modelling based on past performance, the timing of model updates and macro-economic events which could impact retail consumers. Related disclosures in the consolidated financial statements: ● Accounting policies, note 9.4 - Critical accounting estimates, assumptions and judgements; and ● Note 38.1 – Financial and Insurance Risk – Credit risk.	● We selected a sample of advances that had not been identified as impaired and determined if this was reasonable by forming an independent view on whether a specific impairment should be recognised. <u>Retail advances</u> ● Where impairments were calculated on a modelled basis (portfolio impairments and specific impairments for certain high volume books), we assessed the appropriateness of these models as well as the data and assumptions used by management. This included: ○ Comparing those assumptions which could have a material impact with actual experience and industry practice, including the determination of probabilities of default, expected loss in the event of default, the emergence periods, the curing of defaulted or renegotiated loans as well as the potential divergence of these assumptions for specific advance categories such as advances subject to debt counselling; and ○ Testing the operation of impairment models, including, where required, building our own independent assessment and comparing our results to those of management and, where applicable, overlays held. Based on the procedures described above, our audit evidence supported the total credit impairments, inclusive of overlays, which were found to be within an acceptable range in the context of an incurred loss model and supported management's disclosures.

<table>
<tr><th>Key audit matter</th><th>How the matter was addressed in the audit</th></tr>
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Disclosure of the expected impact of adoption of IFRS 9 on the 2019 financial statements

IFRS 9, *Financial Instruments* (IFRS 9), will be adopted by the Group for the annual period beginning on 1 July 2018. In periods prior to adoption, IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (IAS 8) requires disclosure of known or reasonably estimable information that the application of the new standard will have on the Group's 2019 consolidated financial statements.

The Group's estimate of the adoption impact of IFRS 9 and the resulting disclosures required by IAS 8 are presented in note 39. This note includes the Group's assessment of the expected impact of IFRS 9 on its CET 1 (Common Equity Tier 1 capital) ratio at the date of adoption of the new standard (i.e. 1 July 2018).

While the change in classification and measurement of certain advances and investment securities will impact the Group, the most significant impact on the Group will be the change in the calculation of the impairments on debt instruments, from an incurred loss model under IAS 39 *Financial instruments: Recognition and measurement* to an expected credit loss (ECL) model under IFRS 9.

Determining ECL estimates is complex and highly judgmental and is considered to involve a high degree of estimation uncertainty. IFRS 9 requires management to forecast the credit losses that the Group is expected to incur as the result of defaults under different scenarios covering prescribed future periods. ECLs represent the weighted average of these expected losses, discounted and weighted by the probability that it would occur. These ECLs will impact the valuation of the Group's portfolio of assets at any given point in time.

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To obtain sufficient appropriate audit evidence on the disclosures presented in note 39 with regards to the expected impact of the adoption of IFRS 9 on the Group's 2019 financial statements, we have performed the following procedures:

- We obtained an understanding of the governance processes over the implementation project through discussion with management and attendance of the Group and Franchise steering, risk and audit committees;
- We evaluated the IFRS 9 accounting policies and guidance notes prepared by management to determine whether these accounting policies are in compliance with IFRS and that they are appropriate based on our understanding of the nature of the entity, business and industry. The policies and guidance notes include the approach taken to identifying significant increases in credit risk and the incorporation of forward looking information; and
- We evaluated the expected changes to the classification and measurement of financial instruments with reference to the business models documented by management and the guidance notes described above.

In addition, where ECL calculations require the incorporation of complex financial models, we have performed the following procedures on material advances portfolios:

- Dependent upon the stage of maturity of the relevant model, we performed either an initial validation of key inputs and assumptions to identify any significant flaws in the model and the potential impact thereof or we performed an independent high level calculation to determine the potential impact with reference to materiality, guidance notes, agreed model refinements and industry experience.

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Key audit matter	How the matter was addressed in the audit
To determine the potential impact of the changes set out, above management has developed and/or amended the applicable credit and accounting policies and methodologies to incorporate the new requirements of IFRS 9, as part of the group's IFRS 9 implementation project and existing governance structures. This included determining the classification of instruments under IFRS 9, developing new models for credit impairment based on ECL including enhancements to data infrastructure and system capabilities. Auditing the estimate of the impact of IFRS 9 as disclosed by management presents a matter of most significance to our audit due to the inherent subjectivity of the assumptions and judgment made by management. Changes to the assumptions and estimates used by management could generate fluctuations in the Group's financial position and therefore this has been identified as a matter of most significance in our audit. Related disclosures in the consolidated financial statements are included in note 39 – Standards and interpretations issued but not yet effective.	● We tested the review and approval of the forward looking information used in the models. We assessed the reasonableness of this forward looking information with the assistance of our economics and credit experts to challenge the multiple economic scenarios and the probability weightings applied to these, so as to determine whether non-linear losses were appropriately captured under more stressed economic scenarios. While further refinements are expected as the IFRS 9 implementation is finalised, including consideration of industry developments, the results of our procedures described above have provided us with sufficient appropriate audit evidence to evaluate whether management's estimate of the impact of the adoption of IFRS 9 and related disclosures presented in note 39, are reasonable.
Identification and valuation of the identifiable assets and liabilities valued as part of the purchase price allocation as a result of the acquisition of Aldermore Group plc FirstRand Group acquired 100% of Aldermore Group plc (Aldermore) with an effective date of 1 April 2018. A purchase price allocation (PPA) was performed in accordance with IFRS 3 *Business Combinations* (IFRS 3) by management with the assistance of a valuation expert appointed by them.	Our procedures included, amongst others, the following: ● We assessed whether the effective date of the acquisition as determined by management was in compliance with IFRS 3 through inspection of the salient terms and conditions of the purchase agreement; and ● With the assistance of our valuation experts we performed an independent assessment of the fair values of the identifiable assets and liabilities acquired at acquisition date as well as the identification and valuation of intangible assets and the resultant goodwill to be recognised.

Key audit matter	How the matter was addressed in the audit
The PPA is the identification and measurement of assets (tangible and intangible), liabilities and contingent liabilities, at fair value, with the excess of the acquisition cost over the identified fair values recognised as goodwill. The valuation of the identifiable assets and liabilities is considered a matter of most significance to the audit due to the inherent judgement involved therein and its direct impact on the amount of goodwill recognised on acquisition date by the Group. The most significant assumptions included the discount rate, cost of capital and attrition rates. Related disclosures in the consolidated financial statements: ● Accounting policies, note 9.2 – Critical accounting estimates, assumptions and judgements; ● Note 19 – Intangible assets; and ● Note 30 – Subsidiaries and non-controlling interests.	This independent assessment was evaluated against managements' expert's assessment by performing the following procedures: ● We assessed the competence, capabilities and objectivity of the external valuation expert used by management; ● We obtained and inspected the PPA report as prepared by the external valuation expert as well as the underlying supporting information; ● Based on discussions with the expert and management, reading the purchase agreements and our understanding of the business and industry, we critically assessed the process followed for the identification and measurement of the assets and liabilities acquired; ● We assessed the fair values of the identifiable assets and liabilities acquired in relation to the audited statement of financial position of Aldermore as at 31 March 2018; ● We evaluated the valuation methodology adopted by management, with reference to accepted industry valuation techniques, and we considered the methodology used by management to be acceptable; ● We tested the mathematical accuracy of the valuation models and found no material exceptions; ● We agreed management's cash flow forecast to approved budgets, compared the actual performance of the business against the prior budget, and held discussions with management on the reasonability of the forecasts utilised and management's assessment and found it to be appropriate; ● We tested the underlying assumptions, including the discount rate, cost of capital and attrition rates used in management's models for reasonableness by benchmarking the assumptions to industry average rates and we found it to be appropriate; and ● We assessed the appropriateness of the accounting treatment upon recognition of the identifiable assets and liabilities, inclusive of taxation consequences. Based on the procedures described above, our audit evidence supported management's assumptions.

Other information

The directors are responsible for the other information. The other information comprises the information included in the *Annual Financial Statements 2018*, which includes the Directors' report, the Audit Committee report and the Company Secretary's Certification as required by the Companies Act of South Africa, which we obtained prior to the date of this report, and the *Annual Integrated Report 2018*, which is expected to be made available to us after that date. Other information does not include the consolidated and separate financial statements and our auditors' report thereon.

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

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

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

Responsibilities of the Directors for the Consolidated and Separate Financial Statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate 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 consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' Responsibilities for the Audit of the Consolidated and Separate Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group and/or the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on other legal and regulatory requirements

In terms of the Independent Regulatory Board for Auditors (IRBA) Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that Deloitte & Touche and PricewaterhouseCoopers Inc. have been the joint auditors of FirstRand Limited for 8 years. Prior to the commencement of the joint audit relationship PricewaterhouseCoopers Inc. were the sole auditors of FirstRand Limited for 14 years.

Deloitte & Touche

Deloitte & Touche
Registered auditor
Per partner: Darren Shipp CA (SA)
Johannesburg
5 September 2018

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Registered auditor
Director: Francois Prinsloo CA (SA)
Johannesburg
5 September 2018

ACCOUNTING POLICIES

1 INTRODUCTION AND BASIS OF PREPARATION

1.1 Introduction

The group's consolidated and separate annual financial statements have been prepared in accordance with IFRS, the Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, the JSE Listings Requirements, the LSE Listings Requirements and requirements of the Companies Act, no 71 of 2008 (Companies Act).

These financial statements comprise the statements of financial position (also referred to as the balance sheet) as at 30 June 2018, and the statements of comprehensive income, income statements, statements of changes in equity and statements of cash flows for the year ended, and the notes, comprising a summary of significant accounting policies and other explanatory notes.

The group adopts the following significant accounting policies in preparing its financial statements, which have been consistently applied to all years presented.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES				
2	Subsidiaries, associates and joint arrangements	Consolidation and equity accounting (section 2.1)	Related party transactions (section 2.2)	
3	Income, expenses and taxation	Income and expenses (section 3.1)	Income tax expenses (section 3.2)	
4	Financial instruments	Classification (section 4.1)	Measurement (section 4.2)	Impairment (section 4.3)
		Transfers and de-recognition (section 4.4)	Offset and collateral (section 4.5)	Derivatives and hedge accounting (section 4.6)
5	Other assets and liabilities	Property, equipment and investment properties (section 5.1)	Intangible assets (section 5.1)	Commodities (section 5.1)
		Provisions (section 5.1)	Non-current assets held for sale (section 5.2)	Leases (section 5.3)
6	Capital and reserves	Share capital and treasury shares	Dividends and non-cash distributions	Other reserves
7	Transactions with employees	Employee benefits (section 7.1)	Share-based payment transactions (section 7.2)	
8	Non-banking activities	Insurance activities (section 8.1)	Investment management activities (section 8.2)	

1.2 Basis of preparation

Amendments to IAS 7 and IAS 12 became effective in the current year. These amendments have not had an impact on the group's reported earnings, financial position or reserves, or a material impact on the accounting policies.

The amendments to IAS 7 introduces additional disclosures in the statement of cash flows and notes to the annual financial statements that will enable the users of the financial statements to evaluate changes in liabilities arising from financing activities. This amendment has been applied retrospectively on a voluntary basis and comparative information has been presented in line with the amended disclosure requirements. The amendment to IAS 12 relates to the recognition of a deferred tax asset for unrealised losses on debt instruments that are measured at fair value for accounting purposes but considered at cost for tax purposes. The group is accounting for deferred tax of these assets in line with the amendments and the adoption of these amendments had no impact on the group.

The group prepares consolidated financial statements which include the assets, liabilities and results of the operations of FirstRand Limited, its subsidiaries and its share of earnings of associates and joint ventures. To compile the consolidated financial statements the following information is used:

- Audited information about the financial position and results of operations at 30 June each year for all significant subsidiaries in the group. For insignificant private equity subsidiaries that have a year-end that is less than three months different to that of the group, the latest audited financial statements are used; and
- The most recent audited financial statements of associates and joint ventures. These are not always drawn up to the same date as the financial statements of the group. Where the reporting date is different from that of the group, the group uses the most recently available financial statements of the investee and reviews the investee's management accounts for material transactions during the intervening period. In instances where significant events occurred between the last reporting date of an investee and the reporting date of the group, the effect of such events is adjusted for.

Accounting policies of subsidiaries, associates and joint ventures have been changed at acquisition, where necessary, to ensure consistency with the accounting policies adopted by the group.

The segmental analysis included in the segment report is based on the information reported to the chief operating decision maker for the respective segments under the current franchise management structures. The information is prepared in terms of IFRS and certain adjustments are made to the segment results to eliminate the effect of non-taxable income and other segment specific items that impact certain key ratios reviewed by the chief operating decision maker when assessing the operating segments' performance. In addition, certain normalised adjustments are also processed to the segment results.

Use of judgements and estimates

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 group'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 policy 9.

Presentation of annual financial statements, functional and foreign currency

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

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

2 SUBSIDIARIES, ASSOCIATES AND JOINT ARRANGEMENTS

2.1 Basis of consolidation and equity accounting

	Subsidiaries and other structured entities	Associates	Joint ventures
Typical shareholding in the assessment of entities that are not structured entities	Greater than 50%	Between 20% and 50%	Between 20% and 50%
When an entity is a structured entity and control of an entity is not evidenced through shareholding, the group considers the substance of the arrangement and the group's involvement with the entity to determine whether the group has control, joint control or significant influence over the significant decisions that impact the relevant activities of the entity.			
Nature of the relationship between the group and the investee	Entities over which the group has control as defined in IFRS 10 are consolidated. These include certain investment funds managed by the group, securitisation structures or other entities used for the purpose of buying or selling credit protection.	Entities over which the group has significant influence as defined in IAS 28. These include investment funds not consolidated but which the group has significant influence over.	A joint arrangement in terms of which the group and the other contracting parties have joint control as defined in IFRS 11. Joint ventures are those joint arrangements where the group has rights to the net assets of the arrangement.

Separate financial statements
The company measures investments in these entities at cost less impairment (in terms of IAS 36), with the exception of investments acquired and held exclusively with the view to dispose of in the near future (within 12 months) that are measured at fair value less cost to sell in terms of IFRS 5.

	Consolidated financial statements	
	Consolidation	**Equity accounting**
Initial recognition in the consolidated financial statements	Subsidiaries acquired are accounted for by applying the acquisition method of accounting to business combinations. The excess (shortage) of the sum of the consideration transferred, the value of non-controlling interest, the fair value of any existing interest, and the fair value of identifiable net assets, is recognised as goodwill or a gain on bargain purchase, as is set out further below. Transaction costs are included in operating expenses within profit or loss when incurred.	Associates and joint ventures are initially recognised at cost (including goodwill) and subsequently equity accounted. The carrying amount is increased to reflect the group's portion of profits and decreased to recognise the group's share of losses and dividends received from the investee after the date of acquisition. Items that impact the investee's net asset value that do not impact other comprehensive income are recognised directly in gains less losses from investing activities within non-interest revenue.
Intercompany transactions and balances	Intercompany transactions are eliminated on consolidation, including unrealised gains. Unrealised losses on transactions between group entities are also eliminated unless the transaction provides evidence of impairment of the transferred asset, in which case the transferred asset will be tested for impairment in accordance with the group's impairment policies.	Unrealised gains on transactions are eliminated to the extent of the group's interest in the entity. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset.

Consolidated financial statements		
	Consolidation	**Equity accounting**
Impairment	In the consolidated financial statements either the cash generating unit (CGU) is tested i.e. a grouping of assets no higher than an operating segment of the group; or if the entity is not part of a CGU, the individual assets of the subsidiary and goodwill are tested for impairment in terms of IAS 36.	The group applies the indicators of impairment in IAS 39 to determine whether an impairment test is required. The amount of the impairment is determined by comparing the investment's recoverable amount with its carrying amount as determined in accordance with IAS 36. The entire carrying amount of the investment, including other long-term interests, is tested for impairment. Certain loans and other long-term interests in associates and joint ventures are considered to be, in substance, part of the net investment in the entity when settlement is neither planned nor likely to occur in the foreseeable future. Such items may include preference shares and long-term receivables or loans but do not include trade receivables or any long-term loans for which adequate collateral exists. These loans and other long-term interests in associates and joint ventures are included in advances in the statement of financial position. The value of such loans is, however, included in the carrying amount of the investee for purposes of determining the share of losses of the investee attributable to the group and for impairment testing purposes. Any resulting impairment losses are recognised as part of the share of profits or losses from associates or joint ventures.

	Consolidated financial statements	
	Consolidation	Equity accounting
Goodwill	Goodwill on the acquisition of businesses and subsidiaries represents excess consideration transferred, and is recognised as an intangible asset at cost less accumulated impairment losses. If this amount is negative, as in the case of a bargain purchase, the difference is immediately recognised in gains less losses from investing activities within non-interest revenue. Goodwill is tested annually for impairment by the group in March or earlier if there are objective indicators of impairment. For subsidiaries acquired between March and June a goodwill impairment test is performed in June in the year of acquisition and thereafter annually in March. For testing purposes, goodwill is allocated to a suitable CGU. Impairment losses in respect of goodwill are not subsequently reversed.	Notional goodwill on the acquisition of associates and joint ventures is included in the equity accounted carrying amount of the investment. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount, but only to the extent that the investment's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss has been recognised.
Outside shareholders	Non-controlling interests in the net assets of subsidiaries are separately identified and presented from the group's equity. All transactions with non-controlling interests, which do not result in a loss of control, are treated as transactions with equity holders. Non-controlling interest is initially measured either at the proportional share of net assets or at fair value. The measurement distinction is made by the group on a case-by-case basis.	Transactions with outside shareholders are not equity transactions and the effects thereof are recognised in profit or loss as part of gains less losses from investing activities in non-interest revenue.

Disposals

In a disposal transaction where the group loses control of the subsidiary, joint control of a joint venture or significant influence over an associate, and the group retains an interest in the entity after disposal, for example an investment in associate or investment security, the group measures any retained investment in the entity at fair value at the time of the disposal. Thereafter the remaining investment is accounted for in accordance with the relevant accounting requirements.

When a foreign operation is sold or partially disposed of and control/joint control/significant influence is lost, the group'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. Dividends received that do not constitute a return of capital are not deemed to represent a disposal or partial disposal of a foreign operation.

For partial disposals where control/joint control/significant influence is retained, the group re-attributes the proportionate share of the cumulative translation differences recognised in other comprehensive income to the non-controlling interests of the foreign operation.

Gains or losses on all other disposals are recognised in gains less losses from investing activities in non-interest revenue.

The group may lose control of a subsidiary in a transaction where an interest in the investee is retained through an associate or joint venture. The group eliminates the group share of profits on these transactions in accordance with IAS 28.

Interests in unconsolidated structured entities

Interests in unconsolidated structured entities may expose the group to variability in returns from the structured entity. However, because of a lack of power over the structured entity it is not consolidated. Normal customer/supplier relationships where the group transacts with the structured entity on the same terms as other third parties are not considered to be interests in the entity.

From time to time the group also sponsors the formation of structured entities primarily for the purpose of allowing clients to hold investments, for asset securitisation transactions and for buying and selling credit protection.

Where the interest or sponsorship does not result in control, and does not represent a normal customer or supplier relationship, disclosures of these interests or sponsorships are made in the notes in terms of IFRS 12.

2.2 Related party transactions

Related parties of the group, as defined, include:

Subsidiaries	Associates	Joint ventures	Post-employment benefit funds (pension funds)
Entities that have significant influence over the group, and subsidiaries of these entities	Key management personnel (KMP)	Close family members of KMP	Entities controlled, jointly controlled or significantly influenced by KMP or their close family members

The principal shareholder of the FirstRand Limited group is RMB Holdings Limited, incorporated in South Africa.

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

3 INCOME, EXPENSES AND TAXATION

3.1 Income and expenses

Net interest revenue recognised in profit or loss

Net interest includes:

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

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

<table>
<tr><th colspan="2">Non-interest revenue recognised in profit or loss</th></tr>
<tr><th colspan="2">Net fee and commission income</th></tr>
<tr><td>Fee and commission income</td><td>Fees and transaction costs that do not form an integral part of the effective interest rate are recognised as income when the outcome of the transaction involving the rendering of services can be reliably estimated as follows:
➢ fees for services rendered are recognised on an accrual basis when the service is rendered, e.g. banking fee and commission income, and asset management and related fees;
➢ fees earned on the execution of a significant act, e.g. knowledge-based fee and commission income, and non-banking fee and commission income, when the significant act has been completed; and
➢ commission income on bills and promissory notes endorsed is credited to profit or loss over the life of the relevant instrument on a time apportionment basis.

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 insurance and asset management operations.</td></tr>
<tr><td>Insurance commission income</td><td>Commissions earned on the sale of insurance products to customers of the group on behalf of an insurer and the income arising from third-party insurance cell captives and profit share agreements, are recognised as fee and commission income.</td></tr>
<tr><td>Fee and commission expenses</td><td>Fee and commission expenses are expenses that are incremental and directly attributable to the generation of fee and commission income, and are recognised as part of fee and commission income. These include transaction and service fees, which are expensed as the services are received.</td></tr>
<tr><td>Customer loyalty programmes</td><td>The group operates a customer loyalty programme, eBucks, in terms of which it undertakes to provide reward credits to certain customers to buy goods and services.

The reward credits are accounted for as a separately identifiable component of the fee and commission income transactions. The consideration allocated to the reward credits is measured at the fair value of the reward credit and recognised in fee and commission income over the period in which the customers utilise the reward credits.

Expenses relating to the provision of the reward credits are recognised as fee and commission expenses as incurred.</td></tr>
</table>

Non-interest revenue recognised in profit or loss

Fair value gains or losses

Fair value gains or losses of the group recognised in non-interest revenue includes the following:

- fair value adjustments and interest on trading financial instruments including derivative instruments that do not qualify for hedge accounting and adjustments relating to non-recourse investments and deposits (except where the group owns the commercial paper issued by the conduits);
- fair value adjustments that are not related to credit risk on advances designated at fair value through profit or loss;
- a component of interest expense that relates to interest paid on liabilities which fund the group's fair value operations. The interest expense is reduced by the amount that is included in fair value income;
- fair value adjustments on financial instruments designated at fair value through profit or loss in order to eliminate an accounting mismatch, except for such instruments relating to the group's insurance and funding operations for which the interest component is recognised in interest income;
- ordinary and preference dividends on equity instruments designated at fair value through profit or loss or held for trading;
- any difference between the carrying amount of the liability and the consideration paid, when the group repurchases debt instruments that it has issued; and
- fair value gains or losses on policyholder liabilities under investment contracts.

Gains less losses from investing activities

The following items are included in gains less losses from investing activities:

- any gains or losses on disposals of investments in subsidiaries, associates and joint ventures;
- any amounts recycled from other comprehensive income in respect of available-for-sale financial assets;
- dividend income on any equity instruments that are considered long term investments of the group, including dividends from subsidiaries, associates and joint ventures; and
- fair value gains or losses on investment property held at fair value through profit or loss.

Dividend income

The group recognises dividend income when the group's right to receive payment is established. This is the last day to trade for listed shares and on the date of declaration for unlisted shares.

Dividend income includes scrip dividends, irrespective of whether there is an option to receive cash instead of shares, except to the extent that the scrip dividend is viewed as a bonus issue with no cash alternative and the transaction lacks economic significance.

Expenses

Expenses of the group, apart from certain fee and commission expenses included in net fee and commission income, are recognised and measured in terms of the accrual principle and presented as operating expenses in profit or loss.

Indirect tax expense	Indirect tax includes other taxes paid to central and local governments including value added tax and securities transfer tax. Indirect tax is disclosed separately from income tax and operating expenses in the income statement.

3.2 Income tax expenses

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

<table>
<tr><th colspan="2">Current income tax</th></tr>
<tr><td colspan="2">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 group operates.</td></tr>
<tr><th colspan="2">Deferred income tax</th></tr>
<tr><td>Recognition</td><td>On temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the financial statements.</td></tr>
<tr><td>Typical temporary differences in the group that deferred tax is provided for</td><td>➢ depreciation of property and equipment;
➢ revaluation of certain financial assets and liabilities, including derivative contracts;
➢ provisions for pensions and other post-retirement benefits;
➢ tax losses carried forward; and
➢ investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the difference will not reverse in the foreseeable future.</td></tr>
<tr><td>Measurement</td><td>Using the liability method under IAS 12 and applying tax rates and laws that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

For temporary differences arising from the fair value adjustments on investment properties, deferred income tax is provided at the rate that would apply on the sale of the property i.e. the capital gains tax rate.</td></tr>
<tr><td>Presentation</td><td>In profit or loss unless it relates to items recognised directly in equity or other comprehensive income.

Items recognised directly in equity or other comprehensive income relate to:
➢ the issue or buy back of share capital;
➢ fair value re-measurement of available-for-sale investments;
➢ re-measurements of defined benefit post-employment plans; and
➢ derivatives designated as hedging instruments in effective cash flow hedges.

Tax in respect of share transactions is recognised directly in equity. Tax in respect of the other items is recognised directly in other comprehensive income and subsequently reclassified to profit or loss (where applicable) at the same time as the related gain or loss.</td></tr>
<tr><th colspan="2">Deferred income tax</th></tr>
<tr><td>Deferred tax assets</td><td>The group recognises deferred income tax assets only if it is probable that future taxable income will be available against which the unused tax losses can be utilised, based on management's review of the group's budget and forecast information. The group 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.</td></tr>
</table>

4 FINANCIAL INSTRUMENTS

4.1 Classification

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

Derivatives
Derivatives are either designated as hedging instruments in effective hedging relationships or are classified as held for trading and measured at fair value through profit or loss.
Cash and cash equivalents and accounts receivable
Cash and cash equivalents comprise coins and bank notes, money at call and short notice and balances with central banks. All balances included in cash and cash equivalents have a maturity date of less than three months from the date of acquisition. Money at short notice constitutes amounts withdrawable in 32 days or less. Cash and cash equivalents and accounts receivable are measured at amortised cost in accordance with IAS 39.
Advances
Advances that are not designated at fair value through profit or loss are measured at amortised cost in accordance with IAS 39. These include retail, commercial and corporate bank advances. Various advances to customers, structured notes and other investments held by RMB investment bank, which would otherwise be measured at amortised cost, have been designated at fair value to eliminate the accounting mismatch between the assets and the underlying derivatives used to manage the risk arising from the assets and /or are managed on a fair value basis. Advances include marketable advances representing certain debt investment securities qualifying as high quality liquid assets that are under the control of the Group Treasurer and corporate bonds held by RMB investment bank. High quality liquid assets are assets that are easily and immediately converted into cash at little or no loss of value.
Investment securities
The majority of investment securities of the group are either designated at fair value because they are managed on a fair value basis or are classified as available-for-sale. There is a portfolio of debt investment securities measured at amortised cost. Investment securities that represent an interest in the residual value of the investee are classified as equities within investment securities.

Financial liabilities and compound financial instruments
The group classifies a financial instrument that it issues as a financial liability or an equity instrument in accordance with the substance of the contractual agreement. Tier 2 instruments which have write down or conversion features are classified based on the nature of the instrument and the definitions of debt and equity. Compound instruments are those financial instruments that have components of both financial liabilities and equity, such as issued convertible bonds. At initial recognition, the instrument and the related transaction costs are split into their separate components in terms of the definitions and criteria of IAS 32 and are subsequently accounted for as a financial liability or equity.
Short trading positions
Short trading positions are classified as held for trading and measured at fair value through profit or loss. These positions are presented in separate lines on the statement of financial position of the group.
Deposits, Tier 2 liabilities and other funding liabilities
Liabilities are generally measured at amortised cost but may be measured at fair value through profit or loss if they are managed on a fair value basis or the fair value designation reduces or eliminates an accounting mismatch. Tier 2 and other funding liabilities are presented in separate lines on the statement of financial position of the group.

4.2 Measurement

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

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

4.3 Impairment of financial assets

General

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

Scope	This policy applies to: ➢ advances measured at amortised cost; ➢ investment securities measured at amortised cost; ➢ advances and debt instruments classified as available-for-sale; and ➢ accounts receivable.
Objective evidence of impairment	The group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. The following factors are considered when determining whether there is objective evidence that the asset has been impaired: ➢ breaches of loan covenants and conditions; ➢ time period of overdue contractual payments; ➢ actuarial credit models; ➢ loss of employment or death of the borrower; and ➢ probability of liquidation of the customer. Where objective evidence of impairment exists, impairment testing is performed based on the following: ➢ the probability of default (PD) which is a measure of the expectation of how likely the customer is to default; ➢ the exposure at default (EAD) which is the expected amount outstanding at the point of default; and ➢ the loss given default (LGD) which is the expected loss that will be realised at default after considering recoveries through collateral and guarantees. For available-for-sale equity instruments objective evidence of impairment includes information about significant changes with an adverse effect on the environment in which the issuer operates and indicates that the cost of the investment in the equity instrument may not be recovered and a significant or prolonged decline in the fair value of the security below its cost.
Assessment of objective evidence of impairment	An assessment of impairment is first performed individually for financial assets that are individually significant and then individually or collectively for financial assets that are not individually significant. If the group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and performs a collective assessment for impairment. Financial assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

Collective assessment	For the purposes of a collective assessment of impairment, financial assets are grouped based on similar credit risk characteristics; i.e. based on the group'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 per the contractual terms of the financial assets being evaluated.
Recognition of impairment loss	If there is objective evidence of impairment, an impairment loss is recognised in a separate line in profit or loss. The amount of the loss is measured as the difference between the financial 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. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. For available-for-sale financial assets which are impaired the cumulative loss is reclassified from other comprehensive income to profit or loss.
Reversal of impairment loss	If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating): ➢ The previously recognised impairment loss is reversed by adjusting the allowance account (where applicable) and the amount of the reversal is recognised in profit or loss; and ➢ Impairment losses recognised on available-for-sale equity instruments are not subsequently reversed through profit or loss, but are recognised directly in other comprehensive income.

Impairment of advances

The adequacy of impairments of advances is assessed through the ongoing review of the quality of credit exposures. For amortised cost and fair value advances, impairments are recognised through the use of the allowance account method and an impairment charge in the income statement.

The following table sets out the group policy on the ageing of advances (i.e. when an advance is considered past due or non-performing) and the accounting treatment of past due, impaired and written off advances:

	Type of advance	Group policy on past due/impaired
Past due advances	The past due analysis is only performed for advances with specific expiry or instalment repayment dates or demand loans for which payment has been demanded. The analysis is not applicable to overdraft products or products where no specific due date is determined. The level of risk on these types of products is assessed with reference to the counterparty ratings of the exposures and reported as such.	
	Loans with a specific expiry date (e.g. term loans etc.) and loans repayable by regular instalments (e.g. mortgage loans and personal loans).	Treated as overdue where one full instalment is in arrears for one day or more and remains unpaid as at the reporting date. Advances on which partial payments have been made are included in neither past due nor impaired until such time as the sum of the unpaid amounts equal a full instalment, at which point it is reflected as past due.
	Loans payable on demand (e.g. overdrafts).	Treated as overdue where a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instruction.
	The full outstanding amount is reported as past due even if part of the balance is not yet due.	

	Type of advance	Group policy on past due/impaired
Non-performing loans	Retail loans.	Individually impaired if three or more instalments are due or unpaid or if there is evidence before this that the customer is unlikely to repay the obligations in full. Debt-review accounts are not reclassified and remain in non-performing loans until fully cured.
	Commercial and wholesale loans.	Analysed on a case-by-case basis taking into account breaches of key loan conditions, excesses and similar risk indicators.
Impairments		
Specific	Created for non-performing loans where there is objective evidence that an incurred loss event will have an adverse impact on the estimated future cash flows from the advance. Potential recoveries from guarantees and collateral are incorporated into the calculation of impairment figures.	
Portfolio	Created with reference to performing advances. The impairment provision on the performing portfolio is split into two parts: ➢ An incurred but not reported (IBNR) provision i.e. the portion of the performing portfolio where an incurred impairment event is inherent in a portfolio of performing advances but has not specifically been identified; and ➢ The portfolio specific impairment (PSI) which reflects the decrease in estimated future cash flows for the sub-segment of the performing portfolio where there is objective evidence of impairment.	

Write - offs
When an advance is uncollectible, it is written off against the related allowance account. Such advances are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the impairment of advances in profit or loss.

4.4 Transfers and derecognition

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

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

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

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

Transaction type	Description	Accounting treatment
	Transfers without derecognition	
Traditional securitisations and conduit programmes i.e. non-recourse transactions	Specific advances or investment securities are transferred to a structured entity, which then issues liabilities to third party investors, for example variable rate notes or investment grade commercial paper. The group's obligations toward the third party note holders is limited to the cash flows received on the underlying securitised advances or non-recourse investment securities i.e. the note holders only have a claim to the ring fenced assets in the structured entity, and not to other assets of the group. The group consolidates these securitisation and conduit vehicles as structured entities, in terms of IFRS 10.	The transferred assets continue to be recognised by the group in full. Such advances and investment securities are disclosed separately in the relevant notes. The group recognises an associated liability for the obligation toward third party note holders as a separate category of deposits. These deposits are usually measured at amortised cost.

<table>
<tr><th>Transaction type</th><th>Description</th><th>Accounting treatment</th></tr>
<tr><th colspan="3">Transfers without derecognition</th></tr>
<tr><td>Repurchase agreements</td><td>Investment securities and advances are sold to an external counterparty in exchange for cash and the group agrees to repurchase the assets at a specified price at a specified future date.

The counterparty's only recourse is to the transferred investment securities and advances that are subject to the repurchase agreement. The group remains exposed to all the underlying risks on the assets including counterparty, interest rate, currency, prepayment and other price risks.</td><td rowspan="2">The underlying securities purchased under agreements to resell (reverse repos) are not recognised on the statement of financial position. The group does not recognise securities borrowed in the financial statements, unless these have been on sold to third parties, in which case the obligation to return these securities is recognised as a financial liability measured at amortised cost or fair value.</td></tr>
<tr><td>Securities lending and reverse repurchase agreements</td><td>Investment securities are lent to external counterparties in exchange for cash collateral as security for the return of the securities.

The group's only recourse in respect of the return of the securities it has lent is to the cash collateral held and as such, the group generally requires cash collateral in excess of the fair value of the securities lent.</td></tr>
<tr><th colspan="3">Transfers with derecognition</th></tr>
<tr><td>Where the group purchases its own debt</td><td colspan="2">The debt is derecognised from the statement of financial position and any difference between the carrying amount of the liability and the consideration paid is included in fair value gains or losses within non-interest revenue.</td></tr>
<tr><th colspan="3">Neither transferred nor derecognised</th></tr>
<tr><td>Synthetic securitisation transactions</td><td>Credit risk related to specific advances is transferred to a structured entity through credit derivatives. The group consolidates these securitisation vehicles as structured entities, in terms of IFRS 10.</td><td>The group continues to recognise the advances and recognises associated credit derivatives which are measured at fair value through profit or loss.</td></tr>
</table>

4.5 Offsetting of financial instruments and collateral

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

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

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

It is the group'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 yields a more accurate financial effect. For asset finance, the total security reflected represents only the realisation value estimates of the vehicles repossessed at the date of repossession. Where the repossession has not yet occurred, the realisation value of the vehicle is estimated using internal models and is included as part of total recoveries.

4.6 Derivative financial instruments and hedge accounting

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

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

For derivatives used in cash flow hedges, the effective portion of changes in the fair value of derivatives is recognised in the cash flow hedge reserve in other comprehensive income and reclassified to profit or loss in the periods in which the hedged item affects profit or loss; the ineffective portion is recognised immediately in profit or loss as part of fair value gains or losses within non-interest revenue. For cash flow hedges of a forecast transaction, which results in the recognition of a non-financial item, the amount of the accumulated gains or losses previously recognised in the cash flow hedge reserve is included in the carrying value of the item on initial recognition.

The group 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 group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

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

5 OTHER ASSETS AND LIABILITIES

5.1 Classification and measurement

Classification	Measurement
Information regarding land and buildings is kept at the group's registered office and is open for inspection in terms of Section 26 of the Companies Act.	
Property and equipment	
Property and equipment of the group includes: ➢ assets utilised by the group in the normal course of operations to provide services, including freehold property and leasehold premises and leasehold improvements (owner occupied); ➢ assets which are owned by the group and leased to third parties under operating leases as part of the group's revenue generating operations; ➢ capitalised leased assets; and ➢ other assets utilised by the group in the normal course of operations including computer and office equipment, motor vehicles and furniture and fittings.	Historical cost less accumulated depreciation and impairment losses, except for land which is not depreciated. Depreciation is on a straight line basis over the useful life of the asset, except for assets capitalised under finance leases where the group is the lessee, in which case, depreciation is over the life of the lease (refer to policy 5.3). The useful life of each asset is assessed individually. The benchmarks used when assessing the useful life of the individual assets are: Leasehold premises 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 Other equipment Various between 3 – 10 years

<table>
<tr><th colspan="2">Investment properties</th></tr>
<tr><td>Properties held to earn rental income and/or for capital appreciation that are not occupied by the companies in the group.

When investment properties become owner occupied, the group reclassifies them to property and equipment, using the fair value at the date of reclassification as the cost.</td><td>The fair value gains or losses are adjusted for any potential double counting arising from the recognition of lease income on the straight line basis compared to the accrual basis normally assumed in the fair value determination.</td></tr>
<tr><th colspan="2">Intangible assets</th></tr>
<tr><td>Intangible assets of the group includes:
➢ internally generated intangible assets (including computer software and other assets such as trademarks or patents) are capitalised when the requirements of IAS 38 relating to the recognition of internally generated assets have been met;
➢ external computer software development costs are capitalised when they can be clearly associated with a strategic and unique system which will result in a benefit for the group exceeding the costs incurred for more than one financial period; and
➢ material acquired relationship related intangible assets, trademarks, patents and similar rights are capitalised where the group will receive a benefit from these intangible assets for more than one financial period.</td><td>Cost less accumulated amortisation and any impairment losses.

Amortisation is on a straight line basis over the useful life of the asset. The useful life of each asset is assessed individually. The benchmarks used when assessing the useful life of the individual assets are:

<table><tr><td>Software and development costs</td><td>3 years</td></tr><tr><td>Trademarks</td><td>10 – 20 years</td></tr><tr><td>Other</td><td>3 - 10 years</td></tr></table></td></tr>
</table>

Classification	Measurement
Intangible assets	
All other costs related to intangible assets are expensed in the financial period incurred.	
Goodwill arising from business combinations is recognised as an intangible asset.	Refer to policy 2.1.
Commodities	
Commodities acquired for short-term trading purposes include the following: ➢ commodities acquired with the intention of resale in the short-term or if they form part of the trading operations of the group; and ➢ certain commodities subject to option agreements whereby the counterparty may acquire the commodity at a future date.	Fair value less costs to sell with changes in fair value being recognised as fair value gains or losses within non-interest revenue. The price risk in commodities subject to option agreements is fully hedged through a short position and if the party exercises the option the net profit earned on the transaction will be an interest margin recognised as interest revenue.
Forward contracts to purchase or sell commodities where net settlement occurs, or where physical delivery occurs and the commodities are held to settle a further derivative contract, are recognised as derivative instruments.	Fair value through profit or loss.
Provisions	
The group will only recognise a provision measured in terms of IAS 37 when there is uncertainty around the amount or timing of payment. Where there is no uncertainty the group will recognise the amount as a creditor or accrual. The most significant provisions related to litigation and claims, as well as provisions for intellectual property fees that arise because of the use of dealer platforms, databases, systems, brands and trademarks when marketing and promoting motor warranty products as part of the motor value added products and services business. The group recognises a provision when a reliable estimate of the outflow required can be made and the outflow is more reliable than not.	

Other assets that are subject to depreciation and intangible assets, other than goodwill (refer to policy 2.1), are reviewed for impairment whenever objective evidence of impairment exists. Impairment losses are recognised in profit or loss as part of operating expenses.

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

5.2 Non-current assets and disposal groups held for sale

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

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

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

5.3 Leases

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

	Group company is the lessee	Group company is the lessor
Finance leases		
At inception	Capitalised as assets and a corresponding lease liability for future lease payments is recognised.	Recognise assets sold under a finance lease as advances and impair as required, in line with policy 4.3.
Over the life of the lease	The asset is depreciated – refer to policy 5.1.	Unearned finance income is recognised as interest income over the term of the lease using the effective interest method.
Operating leases	Recognised as an operating expense in profit or loss on a straight line basis over the period of the lease. Any difference between the actual lease amount payable and the straight-lined amount calculated is recognised as a liability of the group in creditors and accruals.	Assets held under operating leases are recognised as a separate category of property and equipment (assets held under leasing arrangements) and depreciated - refer to policy 5.1. Rental income is recognised as other non-interest revenue on a straight line basis over the lease term.
Instalment credit sale agreements where the group is the lessor	The group regards instalment credit sale agreements as financing transactions and includes the total rentals and instalments receivable, less unearned finance charges, in advances. The group calculates finance charges using the effective interest rates as detailed in the contracts and credits finance charges to interest revenue in proportion to capital balances outstanding.	

6 CAPITAL AND RESERVES

Transaction	Liability	Equity
Shares issued and issue costs	Preference shares, where the group does not have the unilateral ability to avoid repayments, are classified as liabilities. Preference shares which qualify as Tier 2 capital have been included in Tier 2 liabilities. Other preference share liabilities have been included in other liabilities as appropriate.	The group's equity includes ordinary shares, contingently convertible securities and non-cumulative non-redeemable (NCNR) preference shares. These instruments do not obligate the group to make payments to investors and meet the definition of equity. Any incremental costs directly related to the issue of new shares or options, net of any related tax benefit, are deducted from the issue price.
Dividends paid/declared	Recognised as interest expense on the underlying liability.	Dividends on ordinary shares, NCNR preference shares and contingently convertible securities are recognised against equity. A corresponding liability is recognised when the dividends have been approved by the company's shareholders and distribution is no longer at the discretion of the entity.
Distribution of non-cash assets to owners	The liability to distribute non-cash assets is recognised as a dividend to owners at the fair value of the asset to be distributed. The difference between the carrying amount of the assets distributed and the fair value of the assets on the date of distribution is recognised as non-interest revenue in profit or loss for the period.	The carrying amount of the dividend payable is re-measured at the end of each reporting period and on settlement date. The initial carrying amount and any subsequent changes are recognised in equity.
Treasury shares i.e. where the group purchases its own equity share capital	If the group re-acquires its own equity instruments, those instruments are deducted from the group's equity.	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 the shares are subsequently sold or re-issued, any consideration received net of any directly attributable incremental costs, is included in shareholders' equity.

Transaction	Liability	Equity
Other reserves		Other reserves recognised by the group relate to the general risk reserves, required to be held by some of the group's African operations capital redemption reserve funds and insurance contingency reserves. These reserves are required by in-country legislation governing these subsidiaries and are calculated based on the requirements outlined in the relevant legislation applicable in the specific jurisdiction.

7 TRANSACTIONS WITH EMPLOYEES

7.1 Employee benefits

The group 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 group employees. The defined benefit plans are funded by contributions from employees and the relevant group companies, taking into account the recommendations of independent qualified actuaries.

Defined contribution plans	
Determination of purchased pension on retirement from defined contribution plan	**Recognition** Contributions are recognised as an expense, included in staff costs, when the employees have rendered the service entitling them to the contributions. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.
	Measurement Upon retirement of current defined contribution active members, the fund provides a pension that can be purchased with the member's share. The pension so purchased is determined based on the purchasing member's demographic details (age, gender, age of spouse), the pension structure (guarantee period, spouse's reversion and pension increase target) and the economic assumptions at time of purchase (inflation linked bond yields available). A benefit on withdrawal and retrenchment are determined in terms of the prevailing legislation and is equivalent to the value of the actuarial reserve held in the fund. If the member chooses to buy into the fund, the fair value of plan assets and liabilities is increased by the amount of the contribution on that date.

Defined benefit plans	
Defined benefit obligation liability	**Recognition** The liabilities and assets of these funds are reflected as a net asset or liability in the statement of financial position i.e. the present value of the defined benefit obligation at the reporting date less the fair value of plan assets. Where the value is a net asset, the amount recognised is limited to the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.
	Measurement The present value of the defined benefit obligation is calculated annually by independent actuaries using the projected credit unit method. The discount rate used is the rate of risk free government bonds that are denominated in the currency in which the benefits will be paid and have terms to maturity approximating the terms of the related pension liability.
Plan assets	The plan assets are carried at fair value. Where the plan assets include qualifying insurance policies that exactly match the amount and timing of some or all of the benefits under the plan, the fair value is deemed to be the present value of the related obligation. If the qualifying insurance policy has a limit of indemnity the fair value of the insurance policy is limited to that amount.
Profit or loss	Included as part of staff costs: ➢ current and past service costs calculated using the projected unit credit method; ➢ gains or losses on curtailments and settlements that took place in the current period; ➢ net interest income calculated by applying the discount rate at the beginning of the period to the net asset or liability; and ➢ actuarial gains or losses on long term employee benefits.
Other comprehensive income	All other re-measurements in respect of the obligation and plan assets are included in other comprehensive income and never reclassified to profit or loss.

Termination benefits	
The group recognises termination benefits as a liability in the statement of financial position and as an expense, included in staff costs, in profit or loss when it has a present obligation relating to termination. The group has a present obligation at the earlier of when the group can no longer withdraw the offer of the termination benefit or when the group recognises any related restructuring costs.	
Liability for short term employee benefits	
Leave pay	The group recognises a liability for the employees' rights to annual leave in respect of past service. The amount recognised by the group is based on current salary of employees and the contractual terms between the employee and the group. The expense is included in staff costs.
Bonuses	The group recognises a liability and an expense for management and staff bonuses when it is probable that the economic benefits will be paid and the amount can be reliably measured. The expense is included in staff costs.

7.2 Share-based payment transactions

The group operates cash settled share-based incentive plans for employees.

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

8 NON-BANKING ACTIVITIES

8.1 Insurance activities

The group issues contracts that transfer insurance risk or financial risk. As a result of the different risks transferred by these contracts, contracts are separated into investment and insurance contracts for the purposes of measurement and income recognition.

The classification of contracts is performed at the initial recognition of each contract. The classification of the contract does not change during its lifetime unless the terms of the contract change to such an extent that it necessitates a change in classification.

The group seeks reinsurance in the ordinary course of business for the purpose of limiting its net loss potential through the diversification of its risks on short-term insurance contracts. Reinsurance arrangements do not relieve the group from its direct obligations to its policyholders.

	Insurance contracts	
	Short-term insurance contracts	**Long-term insurance contracts**
Definitions	Contracts that transfer significant insurance risk to the group and are within the scope of IFRS 4.	
Types of policies underwritten	➢ liability - provides cover for risks relating to the incurring of a liability other than relating to a risk covered more specifically under another insurance contract; ➢ motor - provides indemnity cover relating to the possession, use or ownership of a motor vehicle; ➢ personal accident - provides compensation arising out of the death or disability directly caused by an accident occurring anywhere in the world, provided that death or disability occurs within 12 months of this injury; and ➢ property - provides indemnity relating to movable and immovable property.	➢ Insurance policies providing lump sum benefits on death, disability or ill health of the policyholder; and ➢ policies that provide funeral cover.
Premiums	Premiums are recognised in profit or loss as part of premium income in non-interest revenue gross of commission and reinsurance premiums but net of taxes and levies.	
	Only the earned portion of premiums is recognised as revenue. Includes all premiums for the period of risk covered by the policy, regardless of whether or not these are due for payment in the accounting period.	Recognised as revenue when they become payable by the contract holder. Premiums received in advance are included in creditors and accruals.

	Insurance contracts	
	Short-term insurance contracts	**Long-term insurance contracts**
Claims paid	Claims paid decrease the policyholder liability.	In respect of outstanding claims, provision is made for the costs of intimated and unintimated claims.
Policyholder liability	Comprises: ➢ provision for claims reported but not paid; ➢ provision for claims which are not IBNR; and ➢ provision for unearned premiums. Measured at the best estimate of the ultimate cost of settling all claims incurred but unpaid at the reporting date, whether reported or not, and related internal and external claims handling expenses.	Measured in accordance with local practice at the date of adoption of IFRS 4. In South Africa, these are the standard of actuarial practise (SAP) issued by the Actuarial Society of South Africa (ASSA). Policyholder liabilities under long-term insurance contracts are valued in terms of the financial soundness valuation (FSV) method as described in SAP 104. Policyholder liabilities comprise a provision for claims reported but not paid; provision for claims incurred but not reported and a provision for unearned premiums. Policyholder liabilities under insurance contracts are measured at the best estimate of the ultimate cost of settling all claims incurred but unpaid at the reporting date, whether reported or not. The liability for outstanding claims is calculated by reviewing individual claims and making allowance for IBNR, and the effect of both internal and external foreseeable events, such as changes in claims handling procedures, inflation, judicial trends, legislative changes and past experience and trends. The company does not discount its liability for unpaid claims. Adjustments to the amounts of policyholder liabilities under insurance contracts established in prior years are reflected in the financial statements for the period in which the adjustments are made and disclosed separately if material. The methods used are reviewed annually.

	Insurance contracts	
	Short-term insurance contracts	**Long-term insurance contracts**
Income statement impact of movements in the policy holder liabilities /reinsurance assets	Adjustments to the amounts of policyholder liabilities for policies established in prior years are reflected in the financial statements for the period in which the adjustments are made and disclosed separately, if material.	Any differences between valuation assumptions and actual experience and any change in liabilities resulting from changes in valuation assumptions are recognised in profit or loss as part of premium income in non-interest revenue over the life of the contract. If future experience under a policy contract is exactly in line with the assumptions employed at the initial recognition of the contract the valuation margins will emerge as profits over the duration of a policy contract. This is known as the unwinding of margins. In addition to the profit recognised at the origination of a policy contract and the unwinding of margins as the group is released from risk, any differences between the best estimate valuation assumptions and actual experience over each accounting period also gives rise to profits and losses. These profits and losses emerge over the lifetime of the policy contract. The change in liabilities resulting from changes in the long-term valuation assumptions is another source of profit or loss.
Liability adequacy test	The net liability recognised is tested for adequacy by calculating current estimates of all future contractual cash flows and comparing this amount to the carrying value of the liability. Where a shortfall is identified, an additional liability and the related expense are recognised.	Liabilities are calculated in terms of the FSV basis as described in SAP 104. Since the FSV basis meets the minimum requirement of the liability adequacy test, it is not necessary to perform additional adequacy test on the liability component. For the liability relating to potential future claims which have already been incurred on the reporting date, but of which the group has not yet been informed, tests are performed to ensure that the liability is sufficient to cover historical run-off profiles and growth in the volume of business.

	Insurance contracts	
	Short-term insurance contracts	**Long-term insurance contracts**
Acquisition costs	Acquisition costs include all commission and expenses directly related to acquiring new business.	
	Expensed as incurred.	The FSV methodology implicitly creates a deferred acquisition cost asset by reducing the liabilities to the extent of margins included in the premium that are intended to recover acquisition costs. Therefore, no explicit deferred acquisition cost asset is recognised in the statement of financial position for contracts valued on this basis.
Related receivables and payables	Amounts due to and from agents, brokers and policyholders, are recognised as part of accounts receivable or payable on the statement of financial position. Recognised when due/receivable. Receivables recognised are impaired in line with the group policy on the impairment of financial assets – refer to policy 4.3.	Not applicable to long-term insurance contracts.

Reinsurance contracts held	
Definitions	Contracts that give rise to a significant transfer of insurance risk from the group to another insurance entity.
Premiums/recoveries	Premiums paid are recognised as a deduction against premium income in non-interest revenue at the undiscounted amounts due in terms of the contract, when they become due for payment. Recoveries are recognised in profit or loss as part of premium income in non-interest revenue in the same period as the related claim at the undiscounted amount receivable in terms of the contract.
Reinsurance assets	The benefits to which the group is entitled under its reinsurance contracts are recognised as assets including: ➢ short-term balances due from reinsurers on settled claims (included in accounts receivable); and ➢ receivables that are dependent on the expected claims and benefits arising under the related insurance contracts (classified as reinsurance assets). Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the underlying insurance contracts and in accordance with the terms of each reinsurance contract. Assessed for impairment if there is objective evidence, by applying IAS 39 impairment considerations for amortised cost assets, that the group may not recover all amounts due and the impact on the amounts that the group will receive from the reinsurer are reliably measurable.
Income statement impact of movements in reinsurance assets	Any difference between the carrying amount of the reinsurance asset and the recoverable amount is recognised as an impairment loss in profit or loss as an adjustment to premium income included in non-interest revenue.
Related receivables and payables	Liabilities relating to reinsurance comprising of premiums payable for reinsurance contracts, are included in accounts payable and are recognised as an expense when they fall due in terms of the contract.

Investment contracts	
Definitions	Contracts that only transfer financial risk with no significant insurance risk and are within the scope of IAS 39.
Premiums	Premiums received are recorded as an increase in investment contract liabilities.
Claims paid	Claims incurred are recorded as withdrawals from investment contract liabilities
Policyholder liabilities	Recognised in the statement of financial position when the group becomes party to the contractual provisions of the contract. These liabilities are designated at fair value through profit or loss on initial recognition. The fair value of the financial liability recognised is never less than the amount payable on surrender, discounted for the required notice period, where applicable.
Income statement impact of movements in policyholder liabilities	The movement in the liability for policyholder liabilities under investment contracts is recognised as part of fair value gains or losses in non-interest revenue.
Acquisition costs	The contractual customer relationship and the right to receive future investment management fees. Incremental costs directly attributable to securing rights to receive policy fees for services sold with investment contracts are recognised as an asset where they meet the definition of an asset under IFRS. These assets are recognised as intangible assets of the group – refer to policy 5.
Fees on investment contracts	A deferred revenue liability is recognised in respect of upfront fees, which are directly attributable to a contract, that are charged for securing the investment management service contract. The deferred revenue liability is then released to revenue when the services are provided, over the expected duration of the contract on an appropriate basis. Service fee income is recognised on an accrual basis as and when the services are rendered and is included in fee and commission income within non-interest revenue.

8.2 Investment management activities

Certain divisions within the group engage in investment management activities that result in the managing of assets on behalf of clients. The group excludes assets related to these activities from the statement of financial position as these are not assets and liabilities of the group but of the client, but discloses the value of these assets in its notes.

The fee income earned and fee expenses incurred by the group relating to these activities are recognised in fee and commission income and expenses within non-interest revenue in the period to which the service relates.

9 CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

9.1 Introduction

In preparing the financial statements, management makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Unless stated otherwise the judgements applied by management in applying the accounting policies are consistent with the prior year. Included below are all the critical accounting estimates, assumptions and judgements made by the group, except those related to fair value measurement, which are included in note 34.

9.2 Subsidiaries, associates and joint arrangements

<table>
<tr><th colspan="2">Subsidiaries</th></tr>
<tr><td colspan="2">Only one party can have control over a subsidiary. In determining whether the group has control over an entity, consideration is given to any rights the group has that result in the ability to direct the relevant activities of the investee, and the group’s exposure to variable returns.
In operating entities, shareholding is most often the clearest indication of control. However, for structured entities and investment management funds, judgement is often needed to determine which investors have control of the entity or fund. Generally where the group’s shareholding is greater than 50%, the investment is accounted for as a subsidiary.
Some of the major factors considered by the group in making this determination include the following:</td></tr>
<tr><td>Decision making power</td><td>Factors considered includes:
➢ the purpose and design of the entity;
➢ what the relevant activities of the entity are;
➢ who controls the relevant activities and whether control is based on voting rights or contractual agreements. This includes considering:
o what percentage of voting rights are held by the group, the dispersion and behaviour of other investors is;
o potential voting rights and whether these increase/decrease the group’s voting powers;
o who makes the operating and capital decisions;
o who appoints and determines the remuneration of the key management personnel of the entity;
o whether any investor has any veto rights on decisions;
o whether there are any management contracts in place that confer decision making rights;
o whether the group provides significant funding or guarantees to the entity; and
o whether the group’s exposure is disproportionate to its voting rights.
➢ whether the group is exposed to any downside risk or upside potential that the entity was designed to create;
➢ to what extent the group is involved in the setup of the entity; and
➢ to what extent the group is responsible to ensure that the entity operates as intended.</td></tr>
</table>

<table>
<tr><td>Exposure to variable returns</td><td colspan="2">Factors considered include:
➢ the group’s rights in respect of profit or residual distributions;
➢ the group’s rights in respect of repayments and return of debt funding;
➢ whether the group receives any remuneration from servicing assets or liabilities of the entity;
➢ whether the group provides any credit or liquidity support to the entity;
➢ whether the group receives any management fees and whether these are market related; and
➢ whether the group can obtain any synergies through the shareholding, not available to other shareholders. Benefits could be non-financial in nature as well, such as employee services etc.</td></tr>
<tr><td>Ability to use power to affect returns</td><td colspan="2">Factors considered includes:
➢ whether the group is acting as agent or principal;
➢ if the group has any de facto decision making rights;
➢ whether the decision making rights the group has are protective or substantive; and
➢ whether the group has the practical ability to direct the relevant activities.</td></tr>
<tr><th colspan="2">Associates</th><th>Joint arrangements</th></tr>
<tr><td colspan="2">Determining whether the group has significant influence over an entity:
➢ significant influence may arise from rights other than voting rights for example management agreements; and
➢ the group 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.</td><td>Determining whether the group has joint control over an entity:
➢ the group considers all contractual arrangements to determine whether unanimous consent is required in all circumstances; and
➢ joint arrangements are classified as joint ventures when they are a separate legal entity and the shareholders share in the net assets of the separate legal entity. In order to determine whether the shareholders share in the net assets of the entity the group considers the practical decision making ability and management control of the activities of the joint arrangement.</td></tr>
<tr><th colspan="3">Structured entities</th></tr>
<tr><td colspan="3">Structured entities are those where voting rights generally relate to administrative tasks only and the relevant activities are determined only by means of a contractual arrangement.

When assessing whether the group has control over a structured entity specific consideration is given to the purpose and design of the structured entity and whether the group has power over decisions that relate to activities that the entity was designed to conduct.</td></tr>
</table>

Investment funds

The group acts as fund manager to a number of investment funds. In terms of a mandate the group is required to take active investment management decisions in respect of the fund.

Determining whether the group controls such an investment fund usually focuses on the assessment of the aggregate economic interests of the group in the fund (comprising any direct interests in the fund and expected management fees) and the investor's right to remove the group as fund manager.

If the other investors are able to remove the group as fund manager or the group's aggregate interest is not deemed to be significant, the group does not consolidate the funds as it is merely acting as an agent for the other investors. Other investors are considered to be able to remove the fund manager if it is possible for a small number of investors acting together to appoint a new fund manager in the absence of misconduct. Where the group has a significant investment and an irrevocable fund management agreement the fund is consolidated.

Where such funds are consolidated, judgement is applied in determining if the non-controlling interests in the funds are classified as equity or financial liabilities. Where the external investors have the right to put their investments back to the fund, these non-controlling interests do not meet the definition of equity and are classified as financial liabilities.

Where such funds are not consolidated, the group is considered to have significant influence over the fund where it has an insignificant direct interest in the fund and there is an irrevocable fund management agreement.

Where investments in funds managed by the group are not considered to be material, these are not consolidated or equity accounted by the group and recognised as investment securities.

As decisions related to the relevant activities are based on a contractual agreement (mandate) as opposed to voting or similar rights, investment funds that are managed by the group are considered to be structured entities as defined in IFRS 12 except where other investors can remove the group as fund manager without cause as this represents rights similar to voting rights.

The group receives investment management fees from the funds for investment management services rendered. These fees are typical of supplier customer relationships in the investment management industry. Where the group provides seed funding or has any other interests in investment funds that it manages, and does not consolidate or equity account the fund, the investment is considered to represent a typical customer supplier relationship. The group does not sponsor investment funds that it manages, as it does not provide financial support to these funds.

Impairment of goodwill

The recoverable amount of goodwill is tested annually for impairment in accordance with the stated accounting policy. For impairment testing purposes, goodwill is allocated to CGUs at the lowest level of operating activity to which it relates, and is therefore not combined at group level.

The significant CGUs to which the goodwill balance as at 30 June relates are reflected below.

R million	**2018**	2017
FNB Botswana	**36**	34
FNB Namibia	**54**	54
FNB Mozambique	**102**	95
RMB other	**2**	-
WesBank	**466**	478
Aldermore	**6 620**	-
Other	**32**	6 151
Total	**7 312**	6 812

The recoverable amount of the CGU is determined as the higher of the value in use or fair value less costs to sell.

The group's goodwill impairment test is performed on the balances as at 31 March annually. The acquisition of Aldermore Group plc was effective 1 April 2018 and a detailed calculation of goodwill and other intangible assets was performed on this date. As at 30 June 2018, management reviewed the assumptions and estimates used in the calculation of goodwill and other intangible assets and determined that the recoverable amount exceeds the carrying amount. No impairment of goodwill or other intangible assets recognised as a result of the acquisition of Aldermore is required in the current period.

Value in use

The value in use is calculated as the net present value of the discounted cash flows of the CGU. This is determined by discounting the estimated future pre-tax cash flows to its present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the CGU. The future cash flows are based on financial budgets approved by management covering a one year period. Cash flows beyond one year are extrapolated using the estimated growth rate for the CGU.

The key assumptions in determining the value in use of the CGU are therefore the discount rate and growth rate. The table below shows the discount rate and the growth rate used in calculating the value in use for the CGUs.

	Discount rates		Growth rates	
%	**2018**	2017	**2018**	2017
FNB Botswana	**12.30**	13.00	**3.00**	3.00
FNB Mozambique	**27.80**	22.00	**3.60**	4.00
WesBank	**19.86**	20.56	**3.93**	5.01
Aldermore	**11.50**	-	**3.00**	-
Other	**12.41**	12.68	**4.19**	5.12

The discount rate used is the weighted average cost of capital for the specific segment or entity, adjusted for specific risks relating to the segment or entity. Some of the other assumptions include investment returns, expense inflation rates.

The period over which management has projected cash flows ranges between 3 and 5 years. The cash flows from the final cash flow period are extrapolated into perpetuity to reflect the long term plans of the group. The growth rate does not exceed the long-term average past growth rate for the business in which the CGU operates.

A reasonably possible change in the discount rate or growth rate of the above mentioned CGUs would not result in their recoverable amounts exceeding the carrying values. A change in the discount rates or growth rate applied and other reasonably possible changes in the key assumptions would not result in additional impairment losses being recognised for goodwill in any of the CGU's. The recoverable amount is sufficiently in excess of the carrying amount that changes to the assumptions don't change the final outcome of the test.

Fair value less costs to sell

The fair value less costs to sell is determined as the current market value of the CGU less any costs related to the realisation of the CGU.

The recoverable amount of the RMB other and FNB Namibia CGUs were calculated based on the fair value less costs to sell. RMB other consists of a number of individually immaterial investments in private equity subsidiaries. The fair value was determined using valuation techniques with market inputs. Due to the differing nature of the underlying entities, various inputs were used to determine the fair value of each of the individual CGUs included in the total RMB other CGU. These amounts were impaired to zero during the current year. Refer to note 3 for more details.

The fair value less costs to sell for FNB Namibia is based on the listed share price as quoted on the Namibian Stock Exchange and therefore falls into level 1 of the fair value hierarchy.

Foreign operations

Management has reviewed the economies where the group's foreign operations are actively conducted and have not identified any hyperinflationary economies in terms of the requirements of IFRS. The group only operates in South Africa, London, Guernsey, India, Kenya, Angola, Dubai and Shanghai. There is an office in Angola, however, the operations are not active at this point.

9.3 Taxation

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

9.4 Impairment of financial assets

<table>
<tr><th colspan="2">Impairment of financial assets</th></tr>
<tr><td colspan="2">In determining whether an impairment loss should be recognised, the group makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans.</td></tr>
<tr><th colspan="2">General</th></tr>
<tr><td>Collective impairment assessments of groups of financial assets</td><td>Future cash flows in a group of financial assets are estimated based on 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 based on current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of financial assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are regularly reviewed by the group to reduce any differences between loss estimates and actual loss experience.</td></tr>
<tr><td>Impairment assessment of collateralised financial assets</td><td>The calculation of the present value of the estimated future cash flows of a collateralised financial assets reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether the group elects to foreclose or not.</td></tr>
<tr><th colspan="2">Advances</th></tr>
<tr><td colspan="2">The group continuously assesses its credit portfolios for impairment. Significant advances are monitored by the credit risk management committee and impaired in accordance with the group's impairment policy when an indication of impairment is observed.

The objective of the measurement of an impairment loss is to produce a quantitative measure of the group's credit risk exposure.

In determining the amount of the impairment, the group considers the PD, EAD and LGD.</td></tr>
</table>

Performing loans
The assessment of whether objective evidence of impairment exists requires judgement and depends on the class of the financial asset. In the retail portfolio's the account status, namely arrears versus non-arrears status, is taken as a primary indicator of an impairment event. In the commercial portfolios, other indicators such as the existence of high-risk accounts, based on internally assigned risk ratings and management judgements are used, while the wholesale portfolio assessment (which includes RMB investment banking and RMB corporate banking) includes a judgemental review of individual industries for objective signs of distress. The objective of the measurement of an impairment loss is to produce a quantitative measure of the group's credit risk exposure. In determining the amount of the impairment, the group considers the following: ➢ the probability of default (PD) which is a measure of the expectation of how likely the customer is to default; ➢ the exposure at default (EAD) which is the expected amount outstanding at the point of default; and ➢ the loss given default (LGD) which is the expected loss that will be realised at default after considering recoveries through collateral and guarantees. Where impairment is required to be determined for the performing book, the following estimates are required: ➢ the IBNR provision is calculated on this sub segment of the portfolio, based on historical analysis of loss ratios, roll rates from performing status into non-performing status and similar risk indicators 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 assessment performed, availability and frequency of updated data regarding customer creditworthiness and similar factors. Loss emergence periods differ from portfolio to portfolio. Refer to the table below for additional information; and ➢ the PSI in the decrease in future cash flows primarily estimated based on analysis of historical loss and recovery rates for comparable sub segments of the portfolio. The sensitivity of modelled provisions to key assumptions has been assessed for each portfolio. This assessment was performed by calculating the impact on modelled provisions of adjusting model inputs to reflect conservative assumptions. The impact of increasing conservatism was tested by varying assumptions individually and simultaneously. The sensitivity of modelled provisions for performing loans was assessed by adjusting loss emergence period assumptions and arrears definitions. The arrears definition was adjusted so that early and/or partial arrears are considered to be objective evidence of impairment and the loss emergence period was increased by one month. Based on the results of the sensitivity analysis performed, management is satisfied that the current total provisions held for performing accounts is appropriate.

The table below provides a breakdown of the range of loss emergence periods for the main classes of advances:

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

Aldermore	**Loss emergence range**
Invoice finance	6 months
Asset finance	5 months
Residential mortgages	12 months
Buy to let	12 months
Commercial mortgages	12 months
Property development	12 months

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

R million	2018		
	Total portfolio provisions	**Sensitivity - arrears definition**	**Sensitivity - loss emergence period**
Retail secured	**1 872**	**726**	**203**
- Residential mortgages	**566**	**80**	**54**
- VAF	**1 306**	**646**	**149**
Retail unsecured	**2 187**	**560**	**360**
- Card	**407**	**44**	**91**
- Personal loans	**1 287**	**345**	**173**
- FNB	**751**	**88**	**111**
- WesBank	**536**	**257**	**62**
Retail other	**493**	**171**	**96**
Corporate and commercial	**3 643**	**51**	**57**
- FNB commercial	**537**	**31**	**51**
- WesBank corporate	**196**	**20**	**6**
- RMB Investment banking*	**1 965**	**-** **	**-** **
- RMB corporate banking**	**945**	**-** **	**-** **
Rest of Africa	**648**	**152**	**133**
- FNB Africa	**588**	**91**	**120**
- WesBank Africa	**60**	**61**	**13**
Aldermore	**318**	**21**	**74**
FCC and other***	**175**	**-**	**-**
Total portfolio provisions	**8 843**	**1 510**	**827**

* *A significant portion of the RMB investment banking book is carried at fair value. Information about the sensitivity of the fair value of these advances to changes in the assumptions used to measure these advances are provided in note 34 Fair value measurements.*

** *The increase in the portfolio impairment of the RMB amortised cost advances, was R34 million for RMB investment banking and R104 million for RMB corporate banking. The sensitivity was calculated as follows:*

- *For the IBNR portion of the portfolio provisions the impairment was calculated based on the EAD instead of the net exposure. This assumes a stress scenario where the counterparties will draw down further; and*
- *For the PSI portion of the portfolio provision the impairment was calculated using industry stressed PD's instead of turbulent PD's. This assumes a stress scenario where counterparties falling within an industry experiencing stress are subject to a further stress event or deterioration in the industry.*

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

	2017		
R million	Total portfolio provisions	Sensitivity - arrears definition	Sensitivity - loss emergence period*
Retail secured	1 543	629	130
- Residential mortgages	526	74	30
- VAF	1 017	555	100
Retail unsecured	1 909	722	279
- Card	356	44	71
- Personal loans	1 027	426	155
- FNB	626	84	86
- WesBank	401	342	69
Retail other	526	252	53
Corporate and commercial	3 741	46	65
- FNB commercial	503	20	55
- WesBank corporate	194	26	10
- RMB Investment banking*	2 128	- **	- **
- RMB corporate banking**	916	- **	- **
Rest of Africa	453	124	107
- FNB Africa***	393	100	117
- WesBank Africa	60	24	(10)
Aldermore	-	-	-
FCC and other**	405	-	-
Total portfolio provisions	8 051	1 521	581

* *The majority of the RMB investment banking book is carried at fair value. Information about the sensitivity of the fair value of these advances to changes in the assumptions used to measure these advances are provided in note 34 Fair value measurements..*

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

- *For the IBNR portion of the portfolio provisions the impairment was calculated based on the EAD instead of the net exposure. This assumes a stress scenario where the counterparties will draw down further; and*
- *For the PSI portion of the portfolio provision the impairment was calculated using industry stressed PD's instead of turbulent PD's. This assumes a stress scenario where counterparties falling within an industry experiencing stress are subject to a further stress event or deterioration in the industry.*

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

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

Non-performing loans

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

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

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

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

	2018		
	Average NPL LGD (%)	**Total Specific provisions R million**	**Provisions sensitivity* R million**
Retail secured		**3 254**	**310**
- Residentail mortgages	**22**	**905**	**91**
- VAF	**30**	**2 349**	**219**
Retail unsecured		**2 907**	**286**
- Card	**67**	**724**	**72**
- Personal loans		**1 465**	**153**
- FNB	**60**	**800**	**80**
- WesBank	**37**	**665**	**73**
Retail other	**72**	**718**	**61**
Corporate and commercial		**2 214**	**134**
- FNB commercial	**37**	**1 015**	**81**
- WesBank corporate	**48**	**116**	**1**
- RMB Investment banking**	**45**	**1 034**	**50**
- RMB corporate banking**	**24**	**49**	**2**
Rest of Africa		**1 476**	**148**
- FNB Africa	**44**	**1 268**	**127**
- WesBank Africa	**65**	**208**	**21**
Aldermore		**141**	
FCC and other	**-**	**-**	**-**
Total specific provisions		**9 992**	**878**

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

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

	2017		
	Average NPL LGD (%)	Total Specific provisions R million	Provisions sensitivity* R million
Retail secured		2 863	260
- Residentail mortgages	22	993	99
- VAF	19 - 29	1 870	161
Retail unsecured		2 466	238
- Card	67	620	58
- Personal loans		1 271	126
- FNB	62	759	76
- WesBank	38	512	50
Retail other	67	575	54
Corporate and commercial		2 060	120
- FNB commercial	46	1 056	79
- WesBank corporate	57	147	2
- RMB Investment banking**	73	838	38
- RMB corporate banking**	48	19	1
Rest of Africa		1 100	108
- FNB Africa***	40	972	95
- WesBank Africa	54	128	13
Aldermore	-	-	-
FCC and other	-	-	-
Total specific provisions		8 489	726

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

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

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

Available-for-sale equity instruments

The group determines that available-for-sale equity instruments are impaired when there has been a significant or prolonged decline in the fair value below cost. The determination of what is significant or prolonged requires judgement. In making this judgement, the group evaluates factors such as, inter alia, the normal volatility in share prices, evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

9.5 Provisions

Provisions for litigation
The group has a policy and process in place to determine when to recognise provisions for potential litigation and claims. The recognition of such provisions is linked to the ranking of legal risk of potential litigation on the group's litigation database.

9.6 Transactions with employees

Employee benefits - defined benefit plans	
Determination of required funding levels	Funding levels are monitored on an annual basis and the current agreed contribution rate in respect of the defined benefit pension fund is 21% of pensionable salaries (in excess of the minimum recommended contribution rate set by the fund actuary). The group considers the recommended contribution rate as advised by the fund actuary with each actuarial valuation. In addition, the trustees of the fund target a funding position on the pensioner liabilities that exceeds the value of the best estimate actuarial liability. The funding position is also considered in relation to a solvency reserve basis, which makes allowance for the discontinuance cost of outsourcing the pensions. As at the last statutory actuarial valuation of the fund (during June 2017), all categories of liabilities were at least 100% funded. If the member chooses to buy into the fund, on that date the fair value of plan assets and the value of the plan liabilities on the defined benefit plan are increased by the amount of the initial contribution.

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

9.7 Insurance and investment management activities

Short-term insurance contracts	
Determination of policyholder liability for short-term insurance contracts	The liability for outstanding claims is calculated by reviewing individual claims and making allowance for IBNR, and the effect of both internal and external foreseeable events, such as changes in claims handling procedures, inflation, judicial trends, legislative changes and past experience and trends. The group does not discount its liability for unpaid claims. Claims incurred include claims handling expenses paid during the financial year together with the estimated liability for compensation owed to policyholders or third parties affected by the policyholders. Claims handling expenses include, amongst others, fees incurred for legal expenses, loss adjusters and administration fees. The provision for unearned premiums comprises the proportion of gross premiums written which are estimated to be earned in the following financial year. This is computed separately for each insurance contract using the method most reflective of any variation in the incidence of risk during the period covered by the contract.

Long-term insurance contracts	
Determination / valuation of policyholder liability for long-term insurance contracts – FSV method	Policyholder liabilities under long-term insurance contracts are valued in terms of the FSV method as is required by professional guide note 104 issued by the ASSA. This methodology is applied to each product type depending on the nature of the contract and the associated risks. Under this method the liability is determined as the best estimate of the future cash flows relating to the insurance contracts plus certain compulsory and discretionary margins.
Best estimate of future cash flows	The best estimate of future cash flows takes into account current and expected future experience as well as revised expectations of future income, claims and expenditure. The assumptions are applied to the whole policy book. Differences between the assumptions used at the start and end of the period give rise to revised liability quantification. The expected level of early terminations is incorporated into the liabilities irrespective of whether this leads to an increase or a decrease in the liabilities.
Discretionary margins	The main discretionary margins utilised in the valuation are as follows: ➢ investment stabilisation accounts are held to reduce the risk of future losses, caused by the impact of market fluctuations on capitalised fees and on assets backing guaranteed liabilities; ➢ additional prospective margins are held in respect of decrement assumptions and asset-related fees on certain product lines to avoid the premature recognition of profits that may give rise to future losses if claims experience turns out to be worse than expected; and ➢ an additional data reserve is held to protect against possible future losses due to data discrepancies.
Liabilities for claims	Intimated claims represent claims where the incident giving rise to a claim has occurred and has been reported to the insurer for settlement but has not yet been finalised and paid by the insurer. The liability is measured at the value assessed for the claim. Unintimated claims represent claims incurred but not yet reported or paid. The liability is estimated by assuming that future trends in reporting of claims will be similar to the past. The profile of claims run-off (over time) is modelled by using historic data of the group and chain-ladder techniques. The profile is then applied to actual claims data of recent periods for which the run-off is believed not to be complete.

Key assumptions to which the estimation of liabilities is particularly sensitive	
Material judgement is required in determining the liabilities and in the choice of assumptions. Assumptions in use are based on experience, current internal data, external market indices and benchmarks which reflect current observable market prices and other published information. Assumptions and prudent estimates are determined at the date of valuation and no credit is taken for possible beneficial effects of voluntary withdrawals. Assumptions are further evaluated on a continuous basis to ensure realistic and reasonable valuations. The key assumptions to which the estimation of liabilities are particularly sensitive have not changed during the financial year and are as follows:	
Mortality and morbidity rates	Assumptions are based on standard industry and national tables, per the type of contract written and the territory in which the insured person resides. They reflect recent historical experience and are adjusted when appropriate to reflect the group's own experiences. An appropriate, but not excessive, prudent allowance is made for expected future improvements. Assumptions are differentiated by gender, underwriting class and contract types. An increase in rates will lead to a larger number of claims (and claims could occur sooner than anticipated), which will increase the expenditure and reduce profits for the shareholders.
Investment return	The weighted average rate of return is derived based on a model portfolio that is assumed to back liabilities, consistent with the long-term asset allocation strategy. These estimates are based on current market backed returns as well as expectations about future economic and financial developments. An increase in investment return would lead to a reduction in expenditure and an increase in profits for the shareholders.
Expenses	Operating expense assumptions reflect the projected costs of maintaining and servicing in-force policies and associated overhead expenses. The current level of expenses is taken as an appropriate expense base, adjusted for expected expense inflation if appropriate. An increase in expenses would result in a reduction profits for shareholders.
Lapse and surrender rates	Lapses relate to the termination of policies due to non-payment of premium. Surrenders relate to the voluntary termination of policies by policyholders. Policy termination assumptions are determined using statistical measures based on the group's experience and vary by product type, policy duration and sales trends. An increase in lapse rates early in the life of the policy would tend to reduce profits for shareholders, but later increases are broadly neutral in effect.
Discount rate	Life insurance liabilities are determined as the sum of the discounted value of the expected benefits and future administration expenses directly related to the contract, less the discounted value of the expected theoretical premiums that would be required to meet these future cash outflows. Discount rates are based on current industry risk rates, adjusted for the group's own risk exposure. A decrease in the discount rate will increase the value of the insurance liability and therefore reduce the profits for the shareholders.

Investment contracts	
Valuation of policyholder liability under investment contracts	The fair value of investment contracts without fixed benefits and unit-linked contracts is determined using the current unit price that reflects the fair values of the underlying financial assets and or derivatives. For unit-linked contracts the unitised investment funds linked to the financial liability are multiplied by the number of units attributed to the policyholder at the statement of financial position date. For investment contracts with fixed and guaranteed terms, a valuation model is used to establish the fair value at inception and at each reporting date. The valuation model values the liabilities as the present value of the maturity values, using appropriate market-related yields to maturity.

CONSOLIDATED INCOME STATEMENT

for the year ended 30 June

R million	Notes	2018	2017
Interest and similar income	1.1	**90 677**	80 441
Interest expense and similar charges	1.2	**(41 579)**	(35 524)
Net interest income before impairment of advances		**49 098**	44 917
Impairment and fair value of credit of advances	12	**(8 567)**	(8 054)
Net interest income after impairment of advances		**40 531**	36 863
Non-interest revenue	2	**44 193**	40 922
Income from operations		**84 724**	77 785
Operating expenses	3	**(48 462)**	(44 585)
Net income from operations		**36 262**	33 200
Share of profit of associates after tax	16	**519**	757
Share of profit of joint ventures after tax	17	**390**	281
Income before tax		**37 171**	34 238
Indirect tax	4.1	**(1 077)**	(1 081)
Profit before tax		**36 094**	33 157
Income tax expense	4.2	**(7 950)**	(7 018)
Profit for the year		**28 144**	26 139
Attributable to			
Ordinary equityholders		**26 546**	24 572
Contingent convertible securities (AT1)		**115**	-
NCNR preference shareholders		**351**	356
Equityholders of the group		**27 012**	24 928
Non-controlling interests		**1 132**	1 211
Profit for the year		**28 144**	26 139
Earnings per share (cents)			
Basic	5	**473.3**	438.2
Diluted	5	**473.3**	438.2

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

for the year ended 30 June

R million	2018	2017
Profit for the year	**28 144**	26 139
Items that may subsequently be reclassified to profit or loss		
Cash flow hedges	**185**	(150)
Gains/(losses) arising during the year	**283**	(141)
Reclassification adjustments for amounts included in profit or loss	**(26)**	(67)
Deferred income tax	**(72)**	58
Available-for-sale financial assets	**(650)**	(282)
Losses arising during the year	**(1 009)**	(397)
Reclassification adjustments for amounts included in profit or loss	**91**	(52)
Deferred income tax	**268**	167
Exchange differences on translating foreign operations	**1 175**	(1 633)
Gains/(losses) arising during the year	**1 175**	(1 633)
Share of other comprehensive loss of associates and joint ventures after tax and non-controlling interests	**(72)**	(157)
Items that may not subsequently be reclassified to profit or loss		
Remeasurements on defined benefit post-employment plans	**38**	169
Gains arising during the year	**43**	241
Deferred income tax	**(5)**	(72)
Other comprehensive income/(loss) for the year	**676**	(2 053)
Total comprehensive income for the year	**28 820**	24 086
Attributable to		
Ordinary equityholders	**27 217**	22 574
Contingent convertible securities (AT1)	**115**	-
NCNR preference shareholders	**351**	356
Equityholders of the group	**27 683**	22 930
Non-controlling interests	**1 137**	1 156
Total comprehensive income for the year	**28 820**	24 086

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 June

R million	Notes	**2018**	2017
ASSETS			
Cash and cash equivalents	7	**96 024**	68 483
Derivative financial instruments	8	**42 499**	35 459
Commodities	9	**13 424**	14 380
Investment securities	10	**208 937**	167 427
Advances	11	**1 121 227**	893 106
- Advances to customers		**1 065 997**	848 649
- Marketable advances		**55 230**	44 457
Accounts receivable	13	**9 884**	8 878
Current tax asset		**378**	147
Non-current assets and disposal groups held for sale	14	**112**	580
Reinsurance assets	15	**84**	89
Investments in associates	16	**5 537**	5 924
Investments in joint ventures	17	**1 726**	1 430
Property and equipment	18	**17 936**	17 512
Intangible assets	19	**10 847**	1 686
Investment properties	20	**754**	399
Defined benefit post-employment asset	21	**36**	5
Deferred income tax asset	22	**2 884**	2 202
Total assets		**1 532 289**	1 217 707
EQUITY AND LIABILITIES			
Liabilities			
Short trading positions	23	**9 999**	15 276
Derivative financial instruments	8	**50 954**	44 403
Creditors, accruals and provisions	24	**19 620**	17 014
Current tax liability		**438**	277
Liabilities directly associated with disposal groups held for sale	14	**-**	195
Deposits	25	**1 267 448**	983 529
Employee liabilities	21	**11 534**	9 884
Other liabilities	26	**6 989**	6 385
Policyholder liabilities	15	**4 593**	3 795
Tier 2 liabilities	27	**28 439**	18 933
Deferred income tax liability	22	**1 477**	832
Total liabilities		**1 401 491**	1 100 523
Equity			
Ordinary shares	28	**56**	56
Share premium	28	**7 994**	7 960
Reserves		**112 975**	100 868
Capital and reserves attributable to ordinary equityholders		**121 025**	108 884
Contingent convertible securities (AT1)	29	**1 250**	-
NCNR preference shares	28	**4 519**	4 519
Capital and reserves attributable to equityholders of the group		**126 794**	113 403
Non-controlling interests		**4 004**	3 781
Total equity		**130 798**	117 184
Total equity and liabilities		**1 532 289**	1 217 707

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June

R million	Ordinary share capital and ordinary equityholders' funds					
	Share capital	Share premium	**Share capital and share premium**	Defined benefit post-employment reserve	Cash flow hedge reserve	
Balance as at 1 July 2016	56	7 952	**8 008**	(930)	308	
Net proceeds of issue of share capital	-	-	**-**	-	-	
Proceeds from the issue of share capital	-	-	**-**	-	-	
Share issue expenses	-	-	**-**	-	-	
Acquisition of subsidiaries	-	-	**-**	-	-	
Movement in other reserves	-	-	**-**	-	-	
Ordinary dividends	-	-	**-**	-	-	
Contingent convertible securities dividends	-	-	**-**	-	-	
Preference dividends	-	-	**-**	-	-	
Transfer from/(to) general risk reserves	-	-	**-**	-	-	
Changes in ownership interest of subsidiaries	-	-	**-**	-	-	
Movement in treasury shares	-	8	**8**	-	-	
Total comprehensive income for the year	-	-	**-**	169	(150)	
Vesting of share-based payments	-	-	**-**	-	-	
Balance as at 30 June 2017	56	7 960	**8 016**	(761)	158	
Net proceeds of issue of share capital	-	-	**-**	-	-	
Proceeds from the issue of share capital	-	-	**-**	-	-	
Share issue expenses	-	-	**-**	-	-	
Acquisition of subsidiaries	-	-	**-**	-	-	
Movement in other reserves	-	-	**-**	-	-	
Ordinary dividends	-	-	**-**	-	-	
Contingent convertible securities dividends	-	-	**-**	-	-	
Preference dividends	-	-	**-**	-	-	
Transfer from/(to) general risk reserves	-	-	**-**	-	-	
Changes in ownership interest of subsidiaries	-	-	**-**	-	-	
Movement in treasury shares	-	34	**34**	-	-	
Total comprehensive income for the year	-	-	**-**	38	185	
Vesting of share-based payments	-	-	**-**	-	-	
Balance as at 30 June 2018	56	7 994	**8 050**	(723)	343	

Ordinary share capital and ordinary equityholders' funds								
Share-based payment reserve	Available-for-sale reserve	Foreign currency translation reserve	Other reserves	Retained earnings	**Reserves attributable to ordinary equity-holders**	**NCNR preference shares and contingent convertible securities**	**Non-controlling interests**	**Total equity**
9	(441)	3 310	374	89 107	**91 737**	**4 519**	**3 801**	**108 065**
-	-	-	-	-	**-**	**-**	**-**	**-**
-	-	-	-	-	**-**	**-**	**-**	**-**
-	-	-	-	-	**-**	**-**	**-**	**-**
-	-	-	-	-	**-**	**-**	**8**	**8**
3	-	-	195	(167)	**31**	**-**	**81**	**112**
-	-	-	-	(13 294)	**(13 294)**	**-**	**(1 099)**	**(14 393)**
-	-	-	-	-	**-**	**-**	**-**	**-**
-	-	-	-	-	**-**	**(356)**	**-**	**(356)**
-	-	-	16	(16)	**-**	**-**	**-**	**-**
-	-	-	-	(175)	**(175)**	**-**	**(166)**	**(341)**
-	-	-	-	(8)	**(8)**	**-**	**-**	**-**
-	(274)	(1 620)	(123)	24 572	**22 574**	**356**	**1 156**	**24 086**
(3)	-	-	-	6	**3**	**-**	**-**	**3**
9	(715)	1 690	462	100 025	**100 868**	**4 519**	**3 781**	**117 184**
-	-	-	-	-	**-**	**-**	**14**	**14**
-	-	-	-	-	**-**	**-**	**14**	**14**
-	-	-	-	-	**-**	**-**	**-**	**-**
-	-	(24)	-	-	**(24)**	**1 250**	**(22)**	**1 204**
7	-	-	191	(226)	**(28)**	**-**	**12**	**(16)**
-	-	-	-	(14 921)	**(14 921)**	**-**	**(923)**	**(15 844)**
-	-	-	-	-	**-**	**(115)**	**-**	**(115)**
-	-	-	-	-	**-**	**(351)**	**-**	**(351)**
-	-	-	18	(18)	**-**	**-**	**-**	**-**
-	-	-	-	(139)	**(139)**	**-**	**5**	**(134)**
-	-	-	-	2	**2**	**-**	**-**	**36**
-	(646)	1 166	(72)	26 546	**27 217**	**466**	**1 137**	**28 820**
(12)	-	-	-	12	**-**	**-**	**-**	**-**
4	(1 361)	2 832	599	111 281	**112 975**	**5 769**	**4 004**	**130 798**

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 30 June

R million	Notes	2018	2017
Cash generated from operating activities			
Interest and fee commission receipts		**124 420**	108 306
Trading and other income		**4 693**	2 857
Interest payments		**(40 941)**	(35 285)
Other operating expenses		**(37 177)**	(35 106)
Dividends received		**5 649**	5 971
Dividends paid		**(15 387)**	(13 650)
Dividends paid to non-controlling interests		**(923)**	(1 099)
Taxation paid*		**(9 414)**	(8 237)
Cash generated from operating activities		**30 920**	23 757
Movement in operating assets and liabilities			
Liquid assets and trading securities		**(27 540)**	(24 588)
Advances		**(90 785)**	(59 143)
Deposits		**126 565**	71 085
Movement in accounts receivable and creditors		**(990)**	3 262
Employee liabilities		**(5 220)**	(5 337)
Other operating liabilities		**(3 774)**	(319)
Net cash generated from operating activities		**29 176**	8 717
Cash flows from investing activities			
Acquisition of investments in associates	16	**(308)**	(98)
Proceeds on disposal of investments in associates	16	**2 276**	38
Acquisition of investments in joint ventures	17	**(361)**	(44)
Proceeds on disposal of investments in joint ventures	17	**-**	17
Acquisition of investments in subsidiaries**	30.1	**(9 634)**	(257)
Proceeds on disposal of investments in subsidiaries	30.2	**212**	1 815
Acquisition of property and equipment		**(3 577)**	(4 581)
Proceeds on disposal of property and equipment		**519**	514
Acquisition of intangible assets and investment properties		**(586)**	(434)
Proceeds on disposal of intangible assets and investment properties		**8**	-
Proceeds on disposal of non-current assets held for sale		**219**	170
Net cash outflow from investing activities		**(11 232)**	(2 860)
Cash flows from financing activities			
Proceeds from the issue of other liabilities	26.2	**1 673**	812
Redemption of other liabilities	26.2	**(862)**	(2 487)
Proceeds from the issue of Tier 2 labilities	27.1	**9 823**	2 909
Repayment of Tier 2 liabilities	27.1	**(1 272)**	(1 968)
Acquisition of additional interest in subsidiaries from non-controlling interests		**(45)**	(162)
Issue of shares of additional interest in subsidiaries to non-controlling interests		**14**	-
Net cash inflow/(outflow) from financing activities		**9 331**	(896)
Net increase in cash and cash equivalents		**27 275**	4 961
Cash and cash equivalents at the beginning of the year		**68 483**	64 303
Effect of exchange rate changes on cash and cash equivalents		**266**	(763)
Transfer to non-current assets held for sale		**-**	(18)
Cash and cash equivalents at the end of the year	7	**96 024**	68 483

** In the current year taxation paid was reclassified from movement in operating assets and liabilities to cash generated from operations. The reclassification amounted to R8 237 million. The net impact on the prior year cash generated from operating activities was R8 237 million with a Rnil impact on net cash generated from operating activities.*

*** Gross cash paid less cash in subsidiaries on date of acquisition.*

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June

1 ANALYSIS OF INTEREST INCOME AND INTEREST EXPENSE

1.1 Interest and similar income

R million	2018	2017
Analysis of interest and similar income		
Instruments at fair value	**6 688**	4 963
Instruments at amortised costs	**83 267**	75 155
Hedging instruments	**715**	280
Non-financial instruments	**7**	43
Interest and similar income	**90 677**	80 441
Advances	**80 639**	71 836
- Overdrafts and cash management accounts	**8 605**	7 887
- Term loans	**4 874**	4 525
- Card loans	**4 485**	4 191
- Instalment sales and hire purchase agreements	**18 879**	18 018
- Lease payments receivable	**710**	766
- Property finance	**24 749**	22 660
- Home loans	**21 817**	20 005
- Commercial property finance	**2 932**	2 655
- Personal loans	**9 284**	8 542
- Preference share agreements	**884**	352
- Assets under agreement to resell	**271**	-
- Investment bank term loans	**3 406**	828
- Long-term loans to group associates and joint ventures	**75**	65
- Other customer advances	**2 491**	2 575
- Invoice finance	**45**	-
- Marketable advances	**1 881**	1 427
Cash and cash equivalents	**1 016**	2 085
Investment securities	**8 124**	6 034
Unwinding of discounted present value on NPLs	**125**	97
Accrued on off-market advances	**28**	17
Other	**745**	372
Interest and similar income	**90 677**	80 441

1 ANALYSIS OF INTEREST INCOME AND INTEREST EXPENSE continued

1.2 Interest expense and similar charges

R million	**2018**	2017
Analysis of interest expense and similar charges		
Instruments at fair value	**(102)**	(424)
Instruments at amortised costs	**(40 788)**	(34 861)
Hedging instruments	**(689)**	(213)
Non-financial instruments	**-**	(26)
Interest expense and similar charges	**(41 579)**	(35 524)
Deposits	**(51 763)**	(47 928)
Deposits from customers	**(33 564)**	(30 933)
- Current accounts	**(4 982)**	(5 017)
- Savings deposits	**(437)**	(300)
- Call deposits	**(11 226)**	(10 007)
- Fixed and notice deposits	**(16 572)**	(15 082)
- Other deposits	**(347)**	(527)
Debt securities	**(15 881)**	(13 194)
- Negotiable certificates of deposit	**(5 002)**	(5 177)
- Fixed and floating rate notes	**(10 879)**	(8 017)
Asset-backed securities	**(529)**	(381)
- Securitisation issuances	**(529)**	(381)
Other	**(1 789)**	(3 420)
- Repurchase agreements	**(1 013)**	(1 304)
- Securities lending	**(276)**	(391)
- Cash collateral and credit linked notes	**(500)**	(1 725)
Other liabilities	**(269)**	(168)
Tier 2 liabilities	**(2 097)**	(1 825)
Other	**(721)**	(280)
Gross interest expense and similar charges	**(54 850)**	(50 201)
Less: interest expense related to fair value activities reallocated to fair value income	**13 271**	14 677
Interest expense and similar charges	**(41 579)**	(35 524)

2 NON-INTEREST REVENUE

R million	Notes	2018	2017*
Analysis of non-interest revenue			
Fee and commission income		**33 317**	30 196
- Instruments at amortised cost		**27 082**	23 845
- Instruments at fair value		**157**	794
- Non-financial instruments		**6 078**	5 557
Fee and commission expenses		**(5 067)**	(4 598)
Net fee and commission income	2.1	**28 250**	25 598
Available-for-sale		**262**	600
Non-financial instruments		**3 935**	3 367
Insurance income*	2.2	**4 197**	3 967
Held for trading		**1 189**	3 626
Designated at fair value through profit or loss		**6 421**	2 683
Other		**(583)**	(78)
Fair value gains or losses	2.3	**7 027**	6 231
Designated at fair value through profit or loss		**42**	117
Available-for-sale		**22**	78
Other		**1 800**	1 971
Gains less losses from investing activities	2.4	**1 864**	2 166
Other non-interest revenue	2.5	**2 855**	2 960
Total non-interest revenue		**44 193**	40 922

* *Insurance income has been reclassified from fee and commission and other income for presentation purposes. The prior year disclosure has also been updated and there is no impact on the primary financial statements.*

2 NON-INTEREST REVENUE continued

2.1 Net fee and commission income

R million	2018	2017
Banking fee and commission income	**28 864**	25 857
- Card commissions	**4 489**	3 886
- Cash deposit fees	**1 876**	1 860
- Commitment fees	**1 542**	1 436
- Commissions: bills, drafts and cheques	**869**	779
- Exchange commissions	**1 686**	1 549
- Brokerage income	**149**	164
- Bank charges	**18 253**	16 183
- Transaction and service fees	**6 301**	5 327
- Documentation and administration fees	**8 110**	6 995
- Cash handling fees	**2 891**	2 992
- Other	**951**	869
Knowledge-based fee and commission income	**1 410**	1 482
Management, trust and fiduciary fees	**2 096**	1 945
Fee and commission income from service providers	**521**	500
Other non-banking fee and commission income	**426**	412
Fee and commission income	**33 317**	30 196
Transaction processing fees	**(1 244)**	(1 143)
Transaction based fees	**(177)**	(194)
Commission paid	**(277)**	(269)
Customer loyalty programmes	**(1 626)**	(1 473)
Cash sorting, handling and transportation charges	**(827)**	(808)
Card and cheque book related	**(422)**	(363)
ATM commissions paid	**(51)**	(40)
Other	**(443)**	(308)
Fee and commission expenses	**(5 067)**	(4 598)
Net fee and commission income	**28 250**	25 598

2.2 Insurance income

R million	2018	2017 *
Commissions, brokerage and profit share from 3rd party cells	**2 207**	2 562
Insurance risk related income	**1 990**	1 405
- Insurance premiums received	**3 032**	2 179
- Reinsurance expenses	**(108)**	(73)
- Insurance benefits and claims paid	**(832)**	(598)
- Reinsurance recoveries	**11**	5
- Transfers to policyholder liabilities (gross)	**(138)**	(159)
- Transfers from policyholder liabilities (reinsurance)	**25**	51
Insurance income	**4 197**	3 967

* *Insurance income has been reallocated from fee and commission and other income for presentation purposes. The prior year disclosure has also been updated and there is no impact on the primary financial statements.*

2 NON-INTEREST REVENUE continued

2.3 Fair value gains or losses

R million	2018	2017
Dividend income on preference shares held	**3 735**	3 932
Other fair value income	**3 292**	2 299
Fair value gains or losses	**7 027**	6 231

2.4 Gains less losses from investing activities

R million	Notes	2018	2017
Gain on disposal of investment securities		**29**	22
Impairment of investment securities		**-**	(1)
Reclassification from other comprehensive income on the derecognition/sale of available-for-sale assets		**(91)**	52
Preference share dividends from unlisted investments		**44**	40
Other dividends received		**45**	23
Gain on the disposal of investments in subsidiaries		**97**	1 817
Gain on disposal of investments in associates		**1 651**	70
Gain on partial disposal of investments in joint ventures		**-**	47
Gain on bargain purchase*		**42**	-
Fair value remeasurements	20	**29**	-
Rental income from investment properties		**49**	33
Other (losses)/gains from investing activities		**(31)**	63
Gains less losses from investing activities		**1 864**	2 166

* The group, through its private equity business, acquired a subsidiary as a result of a restructuring transaction. The at-acquisition fair values were reassessed to ensure the measurements appropriately reflect consideration of all available information as of the acquisition.

2.5 Other non-interest revenue

R million	2018	2017
Gain/(loss) on disposal of property and equipment	**63**	(14)
Rental income	**1 495**	1 305
Operating income from non-banking activities	**325**	403
Income related to direct sale and other operating lease transactions	**405**	589
- Sales	**1 892**	1 994
- Cost of sales	**(1 617)**	(1 583)
- Other operating lease transactions	**130**	178
Other income	**567**	677
Other non-interest revenue	**2 855**	2 960

3 OPERATING EXPENSES

R million	Notes	2018	2017
Auditors' remuneration		**(367)**	(311)
- Audit fees		**(321)**	(262)
- Fees for other services		**(44)**	(41)
- Prior year under accrual		**(2)**	(8)
Operating lease charges		**(1 700)**	(1 686)
Staff costs		**(28 679)**	(25 852)
- Salaries, wages and allowances		**(18 758)**	(17 308)
- Contributions to employee benefit funds		**(1 660)**	(1 525)
- Defined contribution schemes		**(1 536)**	(1 386)
- Defined benefit schemes	21.1	**(124)**	(139)
- Social security levies		**(402)**	(332)
- Share-based payments	32	**(2 229)**	(1 614)
- Movement in short-term employee benefit liabilities		**(4 649)**	(4 151)
- Other staff costs		**(981)**	(922)
Other operating costs		**(17 716)**	(16 736)
- Amortisation of intangible assets	19	**(362)**	(249)
- Depreciation of property and equipment	18	**(2 830)**	(2 728)
- Impairments incurred		**(119)**	(628)
- Impairments reversed		**9**	5
- Insurance		**(127)**	(131)
- Advertising and marketing		**(2 033)**	(1 743)
- Maintenance		**(1 224)**	(1 313)
- Property		**(1 023)**	(1 002)
- Computer		**(2 397)**	(2 186)
- Stationery		**(241)**	(236)
- Telecommunications		**(523)**	(425)
- Professional fees		**(2 032)**	(1 924)
- Donations		**(255)**	(228)
- Assets costing less than R7000		**(287)**	(251)
- Business travel		**(450)**	(401)
- Other operating expenditure		**(3 822)**	(3 296)
Total operating expenses		**(48 462)**	(44 585)

3 OPERATING EXPENSES continued

Impairments incurred during 2018

Intangible assets

FirstRand Namibia Limited impaired certain intangible assets in the current period. Management have reviewed the use of the eBank trademark and the information technology platform and found that the trademark and certain software would no longer meet their future needs. The trademark and software were impaired to a carrying amount of Rnil respectively, based on anticipated value in use to the business.

Accounts receivable

FNB, RMB and WesBank have impaired various insignificant accounts receivable balance to their recoverable amount in the current period.

Impairments incurred during 2017

Intangible assets – goodwill

The goodwill relating to certain RMB private equity subsidiaries was impaired by R119 million during the prior year, as the carrying amount of these subsidiaries exceeded the recoverable amount. The recoverable amount was based on the fair value less costs to sell, determined by applying appropriate price earnings multiples to the net asset value of these investments. Refer to the impairment of goodwill section under critical accounting estimates, assumptions and judgements in the accounting policies for more guidance on how these fair values are determined.

Software and development costs

Direct Axis (Pty) Limited, a subsidiary of FirstRand Investment Holdings (Pty) Limited that is managed by WesBank, impaired software and development costs after management reviewed their information technology strategy and found that certain software would no longer meet their future needs. This software was impaired to a carrying amount of R nil based on its anticipated value in use to the business and an impairment loss of R61 million recognised.

Property and equipment

A subsidiary of RMB Investments and Advisory (Pty) Limited recognised an impairment of R312 million on property and equipment in the prior year. The recoverable amount of the property and equipment was determined based on the fair value less costs to sell. The fair value was determined with reference to the price that potential buyers would be willing to pay for these assets. A significant amount of unobservable inputs was used to determine the fair value and the fair value was therefore classified as level 3 of the fair value hierarchy.

Disposal groups held for sale

A WesBank subsidiary met the requirements to be classified as held for sale in the prior year. Upon classification as held for sale it was found that the carrying amount of the disposal group exceeded the recoverable amount (based on the fair value less costs to sell) and an impairment loss of R95 million was recognised. Unobservable inputs were used to determine the fair value and the fair value was therefore classified in level 2 and level 3 of the fair value hierarchy.

3 OPERATING EXPENSES continued

DIRECTORS' AND PRESCRIBED OFFICERS' EMOLUMENTS

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

Directors' and prescribed officers' emoluments

	2018			2017		
	Services as directors			Services as directors		
R thousand	**FirstRand**	**Group**	**Total**	FirstRand	Group	Total
Independent non-executive directors paid in ZAR						
VW Bartlett (retired 29 November 2016)	**-**	**-**	**-**	373	124	497
G Gelink	**2 117**	**1 092**	**3 209**	1 283	1 116	2 399
PM Goss (retired 30 April 2018)	**774**	**79**	**853**	947	272	1 219
NN Gwagwa	**1 125**	**34**	**1 159**	553	508	1 061
WR Jardine (chairman, appointed 1 April 2018)	**2 751**	**97**	**2 848**	859	151	1 010
RM Loubser	**2 559**	**2 169**	**4 728**	2 294	1 970	4 264
EG Matenge-Sebesho	**1 031**	**623**	**1 654**	908	614	1 522
AT Nzimande	**1 109**	**-**	**1 109**	706	262	968
BJ van der Ross (retired 30 November 2017)	**459**	**241**	**700**	989	748	1 737
Non-executive directors paid in ZAR						
MS Bomela	**983**	**34**	**1 017**	900	106	1 006
HL Bosman (appointed 3 April 2017)	**659**	**115**	**774**	125	45	170
P Cooper (alternative to Paul Harris) (resigned 30 April 2017)	**-**	**-**	**-**	17	138	155
LL Dippenaar (chairman) (retired 31 March 2018)	**3 718**	**215**	**3 933**	5 265	301	5 566
JJ Durand	**884**	**-**	**884**	750	87	837
PK Harris (retired 30 April 2018)	**444**	**-**	**444**	553	45	598
F Knoetze	**1 274**	**965**	**2 239**	900	792	1 692
PJ Makosholo	**1 243**	**488**	**1 731**	908	496	1 404
TS Mashego (appointed 1 January 2017)	**687**	**119**	**806**	282	138	420
T Winterboer (appointed 20 April 2018)	**314**	**-**	**314**	-	-	-
Total non-executive directors paid in ZAR	**22 131**	**6 271**	**28 402**	18 612	7 913	26 525
Foreign domiciled independent non-executive directors paid in USD						
USD thousand						
D Premnarayen (retired 29 November 2016)	**-**	**-**	**-**	51	2	53
JH van Greuning (retired 30 November 2017)	**176**	**63**	**239**	360	162	522
Foreign domiciled independent non-executive directors paid in INR						
INR thousand						
D Premnarayen (retired 29 November 2016)[1]	**-**	**-**	**-**	-	7 128	7 128

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

3 OPERATING EXPENSES continued

Single figure

The following analysis provides two amounts for each individual. King IV requires a specific single figure reporting and in the prior years the group's approach was different. Prior year reporting included performance-related incentives (both cash and deferred) in respect of the year and the award of the forward-looking long-term incentive awards under CIP, which vest depending on certain corporate targets being met on a three-year cumulative basis.

King IV single figure reporting requires the reporting of the performance-related incentives (both cash and deferred) in respect of the year and delivery of the past year long-term incentive awards (CIP) dependent on the fulfilment of the conditions during the year.

As part of the reporting transition, both views have been provided. The difference between the two total reward amounts pertains only to the treatment of the long-term incentive award (CIP). The explanation of the basis of preparation of the remuneration tables is disclosed in the FirstRand annual integrated report.

3 OPERATING EXPENSES continued

R thousand	2018	2017	2016	2015	2014
JP Burger[1]					
Cash package paid during the year	**9 836**	9 328	8 461	7 040	6 591
Retirement contributions paid during the year	**166**	158	978	1 056	981
Other allowances	**228**	254	178	119	98
Guaranteed package	**10 230**	9 740	9 617	8 215	7 670
Performance related in respect of the year[2]	**14 674**	13 900	13 165	11 770	9 000
Portion of performance related deferred in share awards[3]	**12 674**	11 900	11 165	10 270	10 000
Variable pay	**27 348**	25 800	24 330	22 040	19 000
Total guaranteed and variable pay	**37 578**	35 540	33 947	30 255	26 670
Value of CIP awards during the year[4]					
Conditional share plan/conditional incentive plan	**19 500**	18 350	15 630	11 800	10 800
Total reward including CIP	**57 078**	53 890	49 577	42 055	37 470
New single figure reporting					
Total guaranteed and variable pay	**37 578**	35 540	33 947	30 255	26 670
Value of CIP awards during the year [5]					
Conditional share plan/conditional incentive plan	**11 800**	10 800	9 630	9 000	8 000
Total reward including CIP (Single figure)	**49 378**	46 340	43 577	39 255	34 670
AP Pullinger[1, 6]					
Cash package paid during the year	**7 050**	6 718	5 433	2 322	2 174
Retirement contributions paid during the year	**139**	132	1 075	464	556
Other allowances	**164**	150	154	133	13
Guaranteed package	**7 353**	7 000	6 662	2 919	2 743
Performance related in respect of the year[2]	**12 200**	11 600	11 000	11 750	15 000
Portion of performance related deferred in share awards[3]	**10 200**	9 600	9 000	10 250	9 000
Variable pay	**22 400**	21 200	20 000	22 000	24 000
Total guaranteed and variable pay	**29 753**	28 200	26 662	24 919	26 743
Value of CIP awards during the year[4]					
Conditional share plan/conditional incentive plan	**15 550**	14 630	10 000	9 250	7 500
Total reward including CIP	**45 303**	42 830	36 662	34 169	34 243
New single figure reporting					
Total guaranteed and variable pay	**29 753**	28 200	26 662	24 919	26 743
Value of CIP awards during the year [5]					
Conditional share plan/conditional incentive plan	**9 250**	7 500	7 500	7 000	7 700
Total reward including CIP (Single figure)	**39 003**	35 700	34 162	31 919	34 443

1. *FirstRand defines its prescribed officers as the group CEO, deputy group CEO, financial director and the CEOs of the group's operating franchises (FNB, RMB and WesBank) that contribute materially to group performance. All of these officers are members of the group strategic executive committee and attend board meetings.*
2. *Variable compensation paid in cash in respect of the year ended June, is paid (with an interest factor) in three tranches, during the following year ending on 30 June.*
3. *Variable compensation for performance in the current year deferred as a conditional award in terms of the FirstRand conditional incentive plan (CIP) vest two years after the award date based on continued employment and good standing. Referred to as BCIP (bonus conditional incentive plan). Refer to note 32.*

3 OPERATING EXPENSES continued

4. *Long-term incentive awards are made annually under the CIP and vesting is dependent on certain corporate targets being met on a cumulative basis over three years. The value presented in the table is the CIP allocated in the financial year and is reflected at award value at grant date. Refer to note 32.*
5. *Long-term incentive awards are made annually under the CIP and vesting is dependent on certain corporate targets being met on a cumulative basis over three years. For King IV single figure reporting, the value presented in the table is the CIP settled in the financial year at original award value. The treatment of the long-term CIP is the only difference between the prior year reporting approach and the new King IV single figure approach. Refer to note 32.*
6. *Prescribed officer appointed effective 30 September 2015. Emoluments include earnings in prior role from 1 July 2015 to 30 September 2015.*

3 OPERATING EXPENSES continued

R thousand	2018	2017	2016	2015	2014
HS Kellan[1, 6]					
Cash package paid during the year	**6 727**	5 830	4 938	4 493	4 046
Retirement contributions paid during the year	**51**	40	405	402	362
Other allowances	**143**	130	118	108	98
Guaranteed package	**6 921**	6 000	5 461	5 003	4 506
Performance related in respect of the year[2]	**6 000**	5 250	4 937	4 500	4 416
Portion of performance related deferred in share awards[3]	**4 000**	3 250	2 938	3 000	1 944
Variable pay	**10 000**	8 500	7 875	7 500	6 360
Total guaranteed and variable pay	**16 921**	14 500	13 336	12 503	10 866
Value of CIP awards during the year[4]					
Conditional share plan/conditional incentive plan	**9 500**	8 600	7 000	5 500	5 000
Total reward including CIP	**26 421**	23 100	20 336	18 003	15 866
New single figure reporting					
Total guaranteed and variable pay	**16 921**	14 500	13 336	12 503	10 866
Value of CIP awards during the year [5]					
Conditional share plan/conditional incentive plan	**5 500**	5 000	3 800	3 400	3 000
Total reward including CIP (Single figure)	**22 421**	19 500	17 136	15 903	13 866
J Formby (CEO RMB)[1, 7]					
Cash package paid during the year	**3 174**	3 013	2 630	-	-
Retirement contributions paid during the year	**55**	52	236	-	-
Other allowances	**189**	176	178	-	-
Guaranteed package	**3 418**	3 241	3 044	-	-
Performance related in respect of the year[2]	**13 000**	12 250	10 625	-	-
Portion of performance related deferred in share awards[3]	**11 000**	10 250	8 625	-	-
Variable pay	**24 000**	22 500	19 250	-	-
Total guaranteed and variable pay	**27 418**	25 741	22 294	-	-
Value of CIP awards during the year[4]					
Conditional share plan/conditional incentive plan	**7 900**	7 500	5 000	-	-
Total reward including CIP	**35 318**	33 241	27 294	-	-
New single figure reporting					
Total guaranteed and variable pay	**27 418**	25 741	22 294	-	-
Value of CIP awards during the year [5]					
Conditional share plan/conditional incentive plan	**2 900**	2 865	3 300	-	-
Total reward including CIP (Single figure)	**30 318**	28 606	25 594	**-**	**-**

1. *FirstRand defines its prescribed officers as the group CEO, deputy group CEO, financial director and the CEOs of the group's operating franchises (FNB, RMB and WesBank) that contribute materially to group performance. All of these officers are members of the group strategic executive committee and attend board meetings.*
2. *Variable compensation paid in cash in respect of the year ended June, is paid (with an interest factor) in three tranches, during the following year ending on 30 June.*

3 OPERATING EXPENSES continued

3. *Variable compensation for performance in the current year deferred as a conditional award in terms of the FirstRand conditional incentive plan (CIP) vest two years after the award date based on continued employment and good standing. Referred to as BCIP (bonus conditional incentive plan). Refer to note 32.*
4. *Long-term incentive awards are made annually under the CIP and vesting is dependent on certain corporate targets being met on a cumulative basis over three years. The value presented in the table is the CIP allocated in the financial year and is reflected at award value at grant date Refer to note 32.*
5. *Long-term incentive awards are made annually under the CIP and vesting is dependent on certain corporate targets being met on a cumulative basis over three years. The value presented in the table is the CIP settled in the financial year at original award value*
6. *Prescribed officer appointed 1 October 2013. Emoluments include earnings in prior role from 1 July 2013 to 30 September 2013.*
7. *Prescribed officer appointed effective 30 September 2015. Emoluments include earnings in prior role from 1 July 2015 to 30 September 2015.*

3 OPERATING EXPENSES continued

R thousand	2018	2017	2016	2015	2014
J Celliers (CEO FNB)[1, 6]					
Cash package paid during the year	**6 830**	6 505	5 867	5 513	4 901
Retirement contributions paid during the year	**122**	116	582	551	490
Other allowances	**143**	130	118	108	122
Guaranteed package	**7 095**	6 751	6 567	6 172	5 513
Performance related in respect of the year[2]	**8 000**	7 000	6 625	5 950	5 400
Portion of performance related deferred in share awards[3]	**6 000**	5 000	4 625	4 450	2 600
Variable pay	**14 000**	12 000	11 250	10 400	8 000
Total guaranteed and variable pay	**21 095**	18 751	17 817	16 572	13 513
Value of CIP awards during the year[4]					
Conditional share plan/conditional incentive plan	**12 850**	11 943	10 000	8 200	7 000
Total reward including CIP	**33 945**	30 694	27 817	24 772	20 513
New single figure reporting					
Total guaranteed and variable pay	**21 095**	18 751	17 817	16 572	13 513
Value of CIP awards during the year [5]					
Conditional share plan/conditional incentive plan	**8 200**	7 000	4 000	1 600	1 500
Total reward including CIP (Single figure)	**29 295**	25 751	21 817	18 172	15 013
C de Kock (CEO Wesbank)[1, 6]					
Cash package paid during the year	**4 764**	4 532	3 972	3 098	2 778
Retirement contributions paid during the year	**39**	35	347	291	266
Other allowances	**175**	136	98	69	71
Guaranteed package	**4 978**	4 703	4 417	3 458	3 115
Performance related in respect of the year[2]	**4 750**	5 250	5 000	4 250	4 200
Portion of performance related deferred in share awards[3]	**2 750**	3 250	3 000	2 750	1 800
Variable pay	**7 500**	8 500	8 000	7 000	6 000
Total guaranteed and variable pay	**12 478**	13 203	12 417	10 458	9 115
Value of CIP awards during the year[4]					
Conditional share plan/conditional incentive plan	**9 844**	9 200	7 500	7 000	6 500
Total reward including CIP	**22 322**	22 403	19 917	17 458	15 615
New single figure reporting					
Total guaranteed and variable pay	**12 478**	13 203	12 417	10 458	9 115
Value of CIP awards during the year [5]					
Conditional share plan/conditional incentive plan	**7 000**	6 500	3 750	3 600	3 500
Total reward including CIP (Single figure)	**19 478**	19 703	16 167	14 058	12 615

1. *FirstRand defines its prescribed officers as the group CEO, deputy group CEO, financial director and the CEOs of the group's operating franchises (FNB, RMB and WesBank) that contribute materially to group performance. All of these officers are members of the group strategic executive committee and attend board meetings.*
2. *Variable compensation paid in cash in respect of the year ended June, is paid (with an interest factor) in three tranches, during the following year ending on 30 June.*
3. *Variable compensation for performance in the current year deferred as a conditional award in terms of the FirstRand conditional incentive plan (CIP) vest two years after the award date based on continued employment and good standing. Referred to as BCIP (bonus conditional incentive plan). Refer to note 32.*

3 OPERATING EXPENSES continued

4. *Long-term incentive awards are made annually under the CIP and vesting is dependent on certain corporate targets being met on a cumulative basis over three years. The value presented in the table is the CIP allocated in the financial year and is reflected at award value at grant date. Refer to note 32.*
5. *Long-term incentive awards are made annually under the CIP and vesting is dependent on certain corporate targets being met on a cumulative basis over three years. The value presented in the table is the CIP settled in the financial year at original award value.*
6. *Prescribed officer appointed 1 October 2013. Emoluments include earnings in prior role from 1 July 2013 to 30 September 2013.*

Cash package, retirement contributions and other allowances reflect what was paid to the prescribed officers during the year ended 30 June 2018 although the FirstRand remuneration cycle runs from 1 August to 31 July.

The cash variable pay and variable pay deferred in CIP awards for 2018 reflect the amounts allocated to the prescribed officer in respect of the year ended 30 June 2018, however, the cash portion will be paid in future periods in terms of the group's deferral structure. The long-term CIP award, under the King IV single figure reporting reflects the award settled in respect of the year ended 30 June 2018.

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

Ownership of FirstRand Bank Limited

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

3 OPERATING EXPENSES continued

Co-investment scheme

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

R thousand	**2018**	2017
JP Burger	**3 378**	2 446
JR Formby	**6 943**	4 942
AP Pullinger	**3 363**	2 617

3 OPERATING EXPENSES continued

Long-term executive management retention scheme

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

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

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

Prescribed officers' outstanding long-term incentives

In the past, reporting did not follow the format now required by King IV. Prior year reporting included the number of shares of outstanding long-term incentive schemes. King IV reporting requires additional disclosure on the value of outstanding incentive schemes and value on settlement. The explanation of the basis of preparation of the remuneration tables is disclosed in the FirstRand annual integrated report.

3 OPERATING EXPENSES continued

	Issue date	Value at grant date R thousand	Settlement date	
Conditional incentive plan				
JP Burger				
2014 BCIP (3 year vesting)	Sep-14	680	Sep-17	
2015 BCIP	Sep-15	10 270	Sep-17	
2016 BCIP	Sep-16	11 165	Sep-18	
2017 BCIP	Sep-17	11 900	Sep-19	
2018 BCIP	Sep-18	12 674	Sep-20	
Balance BCIP		**46 689**		
2014 CIP	Sep-14	11 800	Sep-17	
2015 CIP	Sep-15	15 630	Sep-18	
2016 CIP	Sep-16	18 350	Sep-19	
2017 CIP	Sep-17	19 500	Sep-20	
Balance CIP		**65 280**		
Total long-term incentives				
AP Pullinger				
2015 BCIP	Sep-15	10 250	Sep-17	
2016 BCIP	Sep-16	9 000	Sep-18	
2017 BCIP	Sep-17	9 600	Sep-19	
2018 BCIP	Sep-18	10 200	Sep-20	
Balance BCIP		**39 050**		
2014 CIP	Sep-14	9 250	Sep-17	
2015 CIP	Sep-15	10 000	Sep-18	
2016 CIP	Sep-16	14 630	Sep-19	
2017 CIP	Sep-17	15 550	Sep-20	
Balance CIP		**49 430**		
Total long-term incentives				

	Units					
	Opening balance	Awards made during year [3]	Number of awards settled in year	Number of awards forfeited in year	Closing number of awards[2] 30-Jun-18	Value on settlement in 2018[1] R thousand
	15 025	-	(15 025)	-	-	1 004
	194 345	-	(194 345)	-	-	11 934
	236 025	-	-	-	236 025	-
	221 477	-	-	-	221 477	-
	-	-	-	-	-	-
	666 872	-	(209 370)	-	457 502	12 938
	260 728	-	(260 728)	-	-	14 340
	295 776	-	-	-	295 776	-
	387 914	-	-	-	387 914	-
	-	362 925	-	-	362 925	-
	944 418	362 925	(260 728)	-	1 046 615	14 340
	1 611 290	362 925	(470 098)	-	1 504 117	27 278
	193 967	-	(193 967)	-	-	11 910
	190 258	-	-	-	190 258	-
	178 671	-	-	-	178 671	-
	-	-	-	-	-	-
	562 896	-	(193 967)	-	368 929	11 910
	204 384	-	(204 384)	-	-	11 241
	189 236	-	-	-	189 236	-
	309 274	-	-	-	309 274	-
	-	289 410	-	-	289 410	-
	702 894	289 410	(204 384)	-	787 920	11 241
	1 265 790	289 410	(398 351)	-	1 156 849	23 151

1. *The values at settlement date include share price growth and interest earned (BCIP) from grant date.*
2. *FirstRand does not apply graded vesting to its long-term incentive schemes. BCIP vesting depends on continued employment over two years and CIP vesting depends on certain corporate targets being met on a cumulative basis over three years; however in both circumstances the remuneration committee is able to apply discretion on vesting. As such a probability of vesting has not been applied to the unvested awards and the assumption is 100% vesting up until final remuneration committee decision. For information purposes, the maximum possible value of the unvested awards at June 2018 is the market value of the total number of shares at R63.89 per share on the last trading day of the financial year (29 June 2018).*
3. *FirstRand share-linked schemes are determined on a monetary value and not on the number of shares. The BCIP allocation is determined after year end, using the average three day VWAP eight days after results announcement, therefore the number of BCIP units allocated in 2018, cannot be calculated at the time the annual financial statements are issued.*

3 OPERATING EXPENSES continued

	Issue date	Value at grant date R thousand	Settlement date	
Conditional incentive plan				
HS Kellan				
2015 BCIP	Sep-15	3 000	Sep-17	
2016 BCIP	Sep-16	2 938	Sep-18	
2017 BCIP	Sep-17	3 250	Sep-19	
2018 BCIP	Sep-18	4 000	Sep-20	
Balance BCIP		**13 188**		
2014 CIP	Sep-14	5 500	Sep-17	
2015 CIP	Sep-15	7 000	Sep-18	
2016 CIP	Sep-16	8 600	Sep-19	
2017 CIP	Sep-17	9 500	Sep-20	
Balance CIP		**30 600**		
Total long-term incentives				
J Celliers				
2015 BCIP	Sep-15	4 450	Sep-17	
2016 BCIP	Sep-16	4 625	Sep-18	
2017 BCIP	Sep-17	5 000	Sep-19	
2018 BCIP	Sep-18	6 000	Sep-20	
Balance BCIP		**20 075**		
2014 CIP	Sep-14	8 200	Sep-17	
2015 CIP	Sep-15	10 000	Sep-18	
2016 CIP	Sep-16	11 943	Sep-19	
2017 CIP	Sep-17	12 850	Sep-20	
Balance CIP		**42 993**		
Total long-term incentives				

	Units					
	Opening balance	Awards made during year[3]	Number of awards settled in year	Number of awards forfeited in year	Closing number of awards[2] 30-Jun-18	Value on settlement in 2018[1] R thousand
	56 770	-	(56 770)	-	-	3 486
	62 098	-	-	-	62 098	-
	60 487	-	-	-	60 487	-
	-	-	-	-	-	-
	179 355	-	(56 770)	-	122 585	3 486
	121 526	-	(121 526)	-	-	6 684
	132 465	-	-	-	132 465	-
	181 802	-	-	-	181 802	-
	-	176 809	-	-	176 809	-
	435 793	176 809	(121 526)	-	491 076	6 684
	615 148	176 809	(178 296)	-	613 661	10 170
	84 210	-	(84 210)	-	-	5 171
	97 772	-	-	-	97 772	-
	93 057	-	-	-	93 057	-
	-	-	-	-	-	-
	275 039	-	(84 210)	-	190 829	5 171
	181 184	-	(181 184)	-	-	9 965
	189 236	-	-	-	189 236	-
	252 472	-	-	-	252 472	-
	-	239 158	-	-	239 158	-
	622 892	239 158	(181 184)	-	680 866	9 965
	897 931	239 158	(265 394)	-	871 695	15 136

1. *The values at settlement date include share price growth and interest earned (BCIP) from grant date.*
2. *FirstRand does not apply graded vesting to its long-term incentive schemes. BCIP vesting depends on continued employment over two years and CIP vesting depends on certain corporate targets being met on a cumulative basis over three years; however in both circumstances the remuneration committee is able to apply discretion on vesting. As such a probability of vesting has not been applied to the unvested awards and the assumption is 100% vesting up until final remuneration committee decision. For information purposes, the maximum possible value of the unvested awards at June 2018 is the market value of the total number of shares at R63.89 per share on the last trading day of the financial year (29 June 2018).*
3. *FirstRand share-linked schemes are determined on a monetary value and not on the number of shares. The BCIP allocation is determined after year end, using the average three day VWAP eight days after results announcement, therefore the number of BCIP units allocated in 2018, cannot be calculated at the time the annual financial statements are issued.*

3 OPERATING EXPENSES continued

	Issue date	Value at grant date R thousand	Settlement date	
Conditional incentive plan				
J Formby				
2015 BCIP	Sep-15	8 375	Sep-17	
2016 BCIP	Sep-16	8 625	Sep-18	
2017 BCIP	Sep-17	10 250	Sep-19	
2018 BCIP	Sep-18	4 000	Sep-20	
Balance BCIP		**31 250**		
2014 CIP	Sep-14	2 900	Sep-17	
2015 CIP	Sep-15	5 000	Sep-18	
2016 CIP	Sep-16	7 500	Sep-19	
2017 CIP	Sep-17	7 900	Sep-20	
Balance CIP		**23 300**		
Total long-term incentives				
C De Kock				
2015 BCIP	Sep-15	2 750	Sep-17	
2016 BCIP	Sep-16	3 000	Sep-18	
2017 BCIP	Sep-17	3 250	Sep-19	
2018 BCIP	Sep-18	2 750	Sep-20	
Balance BCIP		**11 750**		
2014 CIP	Sep-14	7 000	Sep-17	
2015 CIP	Sep-15	7 500	Sep-18	
2016 CIP	Sep-16	9 200	Sep-19	
2017 CIP	Sep-17	9 844	Sep-20	
Balance CIP		**33 544**		
Total long-term incentives				

	Units					
	Opening balance	Awards made during year[3]	Number of awards settled in year	Number of awards forfeited in year	Closing number of awards[2] 30-Jun-18	Value on settlement in 2018[1] R thousand
	158 485	-	(158 485)	-	-	9 732
	182 330	-	-	-	182 330	-
	190 768	-	-	-	190 768	-
	-	-	-	-	-	-
	531 583	-	(158 485)	-	373 098	9 732
	64 078	-	(64 078)	-	-	3 524
	94 618	-	-	-	94 618	-
	158 548	-	-	-	158 548	-
	-	147 031	-	-	147 031	-
	317 244	147 031	(64 078)	-	400 197	3 524
	848 827	147 031	(222 563)	-	773 295	13 256
	52 039	-	(52 039)	-	-	3 195
	63 420	-	-	-	63 420	-
	60 487	-	-	-	60 487	-
	-	-	-	-	-	-
	175 946	-	(52 039)	-	123 907	3 195
	154 669	-	(154 669)	-	-	8 507
	141 927	-	-	-	141 927	-
	194 486	-	-	-	194 486	-
	-	183 212	-	-	183 212	-
	491 082	183 212	(154 669)	-	519 625	8 507
	667 028	183 212	(206 708)	-	643 532	11 702

1. *The values at settlement date include share price growth and interest earned (BCIP) from grant date.*
2. *FirstRand does not apply graded vesting to its long-term incentive schemes. BCIP vesting depends on continued employment over two years and CIP vesting depends on certain corporate targets being met on a cumulative basis over three years; however in both circumstances the remuneration committee is able to apply discretion on vesting. As such a probability of vesting has not been applied to the unvested awards and the assumption is 100% vesting up until final remuneration committee decision. For information purposes, the maximum possible value of the unvested awards at June 2018 is the market value of the total number of shares at R63.89 per share on the last trading day of the financial year (29 June 2018).*
3. *FirstRand share-linked schemes are determined on a monetary value and not on the number of shares. The BCIP allocation is determined after year end, using the average three day VWAP eight days after results announcement, therefore the number of BCIP units allocated in 2018, cannot be calculated at the time the annual financial statements are issued.*

4 INDIRECT AND INCOME TAX EXPENSE

	R million	2018	2017
4.1	**Indirect tax**		
	Value added tax (net)*	**(1 062)**	(1 067)
	Securities transfer tax	**(13)**	(14)
	Other	**(2)**	-
	Total indirect tax	**(1 077)**	(1 081)
4.2	**Income tax expense**		
	South African income tax		
	Current	**(7 207)**	(6 298)
	- Current year	**(7 229)**	(6 347)
	- Prior year adjustment	**22**	49
	Deferred income tax	**497**	391
	- Current year	**640**	298
	- Prior year adjustment	**(143)**	93
	Total South African income tax	**(6 710)**	(5 907)
	Foreign company and withholding tax		
	Current	**(1 135)**	(1 085)
	- Current year	**(1 137)**	(1 082)
	- Prior year adjustment	**2**	(3)
	Deferred income tax	**(57)**	(26)
	- Current year	**(57)**	(32)
	- Prior year adjustment	**-**	6
	Total foreign company and withholding tax	**(1 192)**	(1 111)
	Capital gains tax	**(34)**	19
	- Current	**(7)**	(12)
	- Deferred capital gains tax	**(26)**	(6)
	- Tax rate adjustment	**(1)**	37
	Total capital gains tax	**(34)**	19
	Customer tax adjustment account	**(1)**	(19)
	Withholding tax on dividends	**(13)**	-
	Total income tax expense	**(7 950)**	(7 018)

* The South African value added tax rate has increased to 15% effective 1 April in accordance with legislation.

4 INDIRECT AND INCOME TAX EXPENSE continued

Tax rate reconciliation

%	2018	2017
Standard rate of income tax	**28.0**	28.0
Total tax has been affected by:		
Dividend income	**(6.1)**	(5.5)
Other non-taxable income	**(0.1)**	0.1
Foreign tax rate differential	**(0.6)**	(0.9)
Prior year adjustments	**0.3**	(0.4)
Amounts charged directly to other comprehensive income	**(0.5)**	(0.5)
Effect of capital gains tax rate	**0.1**	(0.1)
Disallowed expenditure	**0.2**	1.6
Impact on translation differences*	**(0.6)**	0.2
Other*	**1.3**	(1.3)
Effective rate of tax	**22.0**	21.2

*Other has been disaggregated in the current year to split out Impact on translation differences. The impact on other and impact on translation differences is 0.2.

5 HEADLINE EARNINGS, EARNINGS AND DIVIDENDS PER SHARE

		Earnings attributable R million		Cents per share	
	Notes	**2018**	2017	**2018**	2017
Headline earnings					
- Basic	5.2	**26 509**	23 762	**472.7**	423.7
- Diluted	5.2	**26 509**	23 762	**472.7**	423.7
Earnings attributable to ordinary equityholders					
- Basic	5.2	**26 546**	24 572	**473.3**	438.2
- Diluted	5.2	**26 546**	24 572	**473.3**	438.2
Dividends - ordinary					
- Interim				**130.0**	119.0
- Final declared/paid				**145.0**	136.0
Dividends - preference					
- Interim				**386.2**	395.6
- Final declared/paid				**378.3**	393.6

5.1 Weighted average number of shares

	2018	2017
Weighted average number of shares before treasury shares	**5 609 488 001**	5 609 488 001
Less: treasury shares	**(1 363 218)**	(1 480 934)
- Shares for client trading	**(1 363 218)**	(1 480 934)
Weighted average number of shares in issue	**5 608 124 783**	5 608 007 067
Diluted weighted average number of shares in issue	**5 608 124 783**	5 608 007 067

The same weighted average number of shares was used for the diluted HEPS and diluted EPS as there are no potential dilutive ordinary shares in issue.

5 HEADLINE EARNINGS, EARNINGS AND DIVIDENDS PER SHARE continued

5.2 Headline earnings reconciliation

	2018		2017	
R million	Gross	Net	Gross	Net
Earnings attributable to ordinary equityholders		26 546		24 572
Adjusted for				
Gain on disposal of investment securities of a capital nature	(29)	(23)	(3)	(3)
Loss/(gain) on disposal of available-for-sale assets	91	67	(52)	(33)
Transfer from foreign currency translation reserve	108	85	-	-
Loss on disposal of non-private equity associates	-	-	5	5
Impairment of non-private equity associates	-	-	4	4
Gain on disposal of investments in subsidiaries	(97)	(75)	(1 817)	(1 361)
Loss on reclassification of non-current assets and disposal groups held for sale which were not sold	-	-	95	95
Gain/(loss) on disposal of property and equipment	(63)	(35)	14	10
Property related insurance recovery	(31)	(21)	-	-
Impairment of goodwill	12	7	119	119
Fair value movement of investment properties	(29)	(21)	-	-
Impairment of assets in terms of IAS 36	41	21	370	354
Gain from a bargain purchase*	(42)	(42)	-	-
Headline earnings attributable to ordinary equityholders		26 509		23 762

** Refer to note 30 for details on the gain from a bargain purchase.*

6 ANALYSIS OF ASSETS AND LIABILITIES

6.1 Analysis of assets

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

	Notes	2018			
		Held for trading	**Designated at fair value through profit or loss**	**Held-to-maturity**	
ASSETS					
Cash and cash equivalents	7	**-**	**-**	**-**	
Derivative financial instruments	8	**39 505**	**-**	**-**	
Investment securities	10	**50 775**	**43 074**	**35 170**	
Advances	11	**-**	**173 389**	**6**	
Accounts receivable	13	**-**	**-**	**-**	
Non-current assets and disposal groups held for sale	14	**-**	**-**	**-**	
Non-financial assets		**-**	**-**	**-**	
Total assets		**90 280**	**216 463**	**35 176**	

	Notes	2017			
		Held for trading	Designated at fair value through profit or loss	Held-to-maturity	
ASSETS					
Cash and cash equivalents	7	-	-	-	
Derivative financial instruments	8	33 883	-	-	
Investment securities	10	52 443	30 528	29 774	
Advances	11	-	211 192	9	
Accounts receivable	13	-	-	-	
Non-current assets and disposal groups held for sale	14	-	-	-	
Non-financial assets		-	-	-	
Total assets		86 326	241 720	29 783	

2018						
Loans and receivables	**Available-for-sale financial assets**	**Derivatives designated as hedging instruments**	**Non-financial instruments**	**Total carrying value**	**Current**	**Non-current**
96 024	**-**	**-**	**-**	**96 024**	**96 024**	**-**
-	**-**	**2 994**	**-**	**42 499**	**39 816**	**2 683**
895	**79 023**	**-**	**-**	**208 937**	**102 190**	**106 747**
924 159	**23 674**	**-**	**-**	**1 121 227**	**335 256**	**785 971**
6 797	**-**	**-**	**3 087**	**9 884**	**5 908**	**3 976**
49	**-**	**-**	**63**	**112**	**112**	**-**
-	**-**	**-**	**53 606**	**53 606**	**13 838**	**39 768**
1 027 924	**102 697**	**2 994**	**56 756**	**1 532 289**	**593 144**	**939 145**

2017						
Loans and receivables	Available-for-sale financial assets	Derivatives designated as hedging instruments	Non-financial instruments	Total carrying value	Current	Non-current
68 483	-	-	-	68 483	68 483	-
-	-	1 576	-	35 459	33 860	1 599
5	54 677	-	-	167 427	87 044	80 383
662 682	19 223	-	-	893 106	308 755	584 351
6 189	-	-	2 689	8 878	5 035	3 843
314	-	-	266	580	580	-
-	-	-	43 774	43 774	14 547	29 227
737 673	73 900	1 576	46 729	1 217 707	518 304	699 403

6 ANALYSIS OF ASSETS AND LIABILITIES continued

6.2 Analysis of liabilities

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

		2018		
	Notes	Held for trading	Designated at fair value through profit or loss	Financial liabilities at amortised cost
LIABILITIES				
Short trading positions	23	**9 999**	**-**	**-**
Derivative financial instruments	8	**49 251**	**-**	**-**
Creditors, accruals and provisions	24	**-**	**-**	**10 085**
Liabilities directly associated with disposal groups held for sale	14	**-**	**-**	**-**
Deposits	25	**-**	**106 254**	**1 161 194**
Other liabilities	26	**-**	**3 560**	**3 429**
Policyholder liabilities	15	**-**	**3 877**	**-**
Tier 2 liabilities	27	**-**	**-**	**28 439**
Non-financial liabilities		**-**	**-**	**-**
Total liabilities		**59 250**	**113 691**	**1 203 147**

		2017		
	Notes	Held for trading	Designated at fair value through profit or loss	Financial liabilities at amortised cost
LIABILITIES				
Short trading positions	23	15 276	-	-
Derivative financial instruments	8	43 143	-	-
Creditors, accruals and provisions	24	-	-	8 519
Liabilities directly associated with disposal groups held for sale	14	-	-	83
Deposits	25	-	88 349	895 180
Other liabilities	26	-	3 769	2 602
Policyholder liabilities	15	-	3 150	-
Tier 2 liabilities	27	-	-	18 933
Non-financial liabilities		-	-	-
Total liabilities		58 419	95 268	925 317

	2018				
	Derivatives designated as hedging instruments	**Non-financial instruments**	**Total carrying value**	**Current**	**Non-current**
	-	**-**	**9 999**	**9 999**	**-**
	1 703	**-**	**50 954**	**49 490**	**1 464**
	-	**9 535**	**19 620**	**13 387**	**6 233**
	-	**-**	**-**	**-**	**-**
	-	**-**	**1 267 448**	**1 011 991**	**255 457**
	-	**-**	**6 989**	**2 470**	**4 519**
	-	**716**	**4 593**	**422**	**4 171**
	-	**-**	**28 439**	**7 420**	**21 019**
	-	**13 449**	**13 449**	**7 662**	**5 787**
	1 703	**23 700**	**1 401 491**	**1 102 841**	**298 650**

	2017				
	Derivatives designated as hedging instruments	Non-financial instruments	Total carrying value	Current	Non-current
	-	-	15 276	15 276	-
	1 260	-	44 403	42 199	2 204
	-	8 495	17 014	12 194	4 820
	-	112	195	195	-
	-	-	983 529	838 397	145 132
	-	14	6 385	1 404	4 981
	-	645	3 795	426	3 369
	-	-	18 933	1 522	17 411
	-	10 993	10 993	6 606	4 387
	1 260	20 259	1 100 523	918 219	182 304

7 CASH AND CASH EQUIVALENTS

R million	**2018**	2017
Coins and bank notes	**8 432**	8 670
Money at call and short notice	**50 612**	34 015
Balances with central banks	**36 980**	25 798
Total cash and cash equivalents	**96 024**	68 483
Mandatory reserve balances included above	**26 303**	24 749

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

8 DERIVATIVE FINANCIAL INSTRUMENTS

Use of derivatives

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

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

The group'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.

Held for trading activities

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

R million	**2018**	2017
Gains/(losses) for the year arising from the change in fair value of fair value hedges		
- on hedging instruments	**(99)**	111
- on hedged items attributable to the hedged risk	**127**	(139)
Total fair value hedges	**28**	(28)

8 DERIVATIVE FINANCIAL INSTRUMENTS continued

Cash flow hedges

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

The group 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 group uses the following derivatives as hedging instruments:

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

During the year the hedging relationships were highly effective and the group 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	**2018**	2017
Hedge ineffectiveness recognised in profit or loss (net of tax)	**(37)**	(10)

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

	2018		2017	
R million	**Assets**	**Liabilities**	Assets	Liabilities
0 - 3 months	**21**	**(113)**	32	(40)
4 - 12 months	**162**	**(548)**	285	(344)
1 - 5 years	**698**	**(659)**	597	(1 029)
Over 5 years	**116**	**(151)**	(18)	(89)
Total cash flow hedges	**997**	**(1 471)**	896	(1 502)

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

	2018		2017	
R million	**Assets**	**Liabilities**	Assets	Liabilities
0 - 3 months	**(135)**	**39**	(52)	34
4 - 12 months	**(531)**	**212**	(323)	297
1 - 5 years	**(705)**	**696**	(746)	564
Over 5 years	**(157)**	**105**	(80)	(17)
Total cash flow hedges	**(1 528)**	**1 052**	(1 201)	878

8 DERIVATIVE FINANCIAL INSTRUMENTS continued

Derivative financial instruments - assets

	2018		2017	
R million	Notional	Fair value	Notional	Fair value
Qualifying for hedge accounting				
Cash flow hedges	**108 262**	**2 180**	99 154	1 134
- Interest rate derivatives	**105 991**	**987**	99 154	1 134
- Equity derivatives	**2 271**	**1 193**	-	-
Fair value hedges	**102 888**	**814**	35 404	442
- Interest rate derivatives	**102 888**	**814**	35 404	442
Held for trading	**7 431 553**	**39 505**	8 562 986	33 883
- Currency derivatives	**339 013**	**16 365**	315 409	9 243
- Interest rate derivatives	**7 017 133**	**20 295**	8 096 365	22 425
- Equity derivatives	**41 149**	**1 782**	96 434	1 372
- Commodity derivatives	**14 984**	**537**	32 635	526
- Energy derivatives	**1 364**	**438**	6 267	245
- Credit derivatives	**17 910**	**88**	15 876	72
Total derivative assets	**7 642 703**	**42 499**	8 697 544	35 459
Exchange traded	**19 593**	**250**	57 808	240
Over the counter	**7 623 110**	**42 249**	8 639 736	35 219
Total derivative assets	**7 642 703**	**42 499**	8 697 544	35 459

Derivative financial instruments - Liabilities

	2018		2017	
R million	Notional	Fair value	Notional	Fair value
Qualifying for hedge accounting				
Cash flow hedges	**155 771**	**1 084**	106 560	1 013
- Interest rate derivatives	**155 771**	**1 084**	105 083	931
- Equity derivatives	**-**	**-**	1 477	82
Fair value hedges	**50 220**	**619**	38 149	247
- Interest rate derivatives	**50 220**	**619**	38 149	247
Held for trading	**7 629 554**	**49 251**	8 622 105	43 143
- Currency derivatives	**306 268**	**24 066**	326 804	16 329
- Interest rate derivatives	**7 120 824**	**21 913**	8 221 339	22 905
- Equity derivatives	**176 508**	**2 741**	42 980	3 207
- Commodity derivatives	**21 577**	**235**	21 852	478
- Energy derivatives	**1 322**	**288**	6 267	203
- Credit derivatives	**3 055**	**8**	2 863	21
Total derivative liabilities	**7 835 545**	**50 954**	8 766 814	44 403
Exchange traded	**43 145**	**37**	42 110	281
Over the counter	**7 792 400**	**50 917**	8 724 704	44 122
Total derivative liabilities	**7 835 545**	**50 954**	8 766 814	44 403

9 COMMODITIES

R million	**2018**	2017
Agricultural commodities	**2 720**	2 570
Gold	**10 343**	11 222
Platinum-group metals	**361**	588
Total commodities	**13 424**	14 380

10 INVESTMENT SECURITIES

R million	2018	2017
Negotiable certificates of deposit	**3 343**	3 818
Treasury bills	**31 982**	18 558
Other government and government guaranteed stock	**126 302**	101 477
Other dated securities	**16 556**	11 443
Other undated securities	**530**	777
Non-recourse investments	**11 160**	10 369
- Dated securities	**11 160**	10 151
- Undated securities	**-**	218
Equities	**15 850**	17 683
Other	**3 214**	3 302
Total investment securities	**208 937**	167 427
Analysis of investment securities		
Equities	**15 850**	17 683
Debt	**193 087**	149 744
Total investment securities	**208 937**	167 427

R70 543 million (2017: R61 996 million) of the financial instruments form part of the group's liquid asset portfolio in terms of the SARB and other foreign banking regulators' requirements.

Information regarding other investments is kept at the group's registered offices.

Non-recourse investments designated at fair value through profit or loss

The group entered into the following conduit transactions:

Entity	Type of conduit	Underlying investment
iNdwa Investment Limited	Asset backed	Short dated investment grade commercial paper
iNkotha Investment Limited	Fixed income fund	Callable investment grade commercial paper
iVuzi Investment Limited	Asset backed	Short dated investment grade commercial paper
iNguza Investments Limited	Commercial paper programme	Debentures linked to specific underlying credit exposure

The performance on the commercial paper is directly linked to the performance and risk of the underlying portfolio of the conduit. The group has no obligations towards other investors beyond the amount already contributed and has no management control or influence over the performance of these investments, which are designated at fair value through profit or loss.

10 INVESTMENT SECURITIES continued

Repurchase agreements

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

	Investment securities		Associated liabilities recognised in deposits	
R million	**2018**	2017	**2018**	2017
Repurchase agreements	**13 754**	25 880	**15 030**	24 175

The fair value of the investment securities is R13 719 million (2017: R25 873 million) and the associated liabilities is R14 998 million (2017: R24 172 million).

11 ADVANCES

R million	Notes	2018	2017
Notional value of advances		**1 142 141**	911 720
Contractual interest suspended		**(2 079)**	(2 074)
Gross value of advances		**1 140 062**	909 646
Category analysis			
Overdrafts and cash management accounts		**74 451**	78 742
Term loans		**62 225**	53 465
Card loans		**29 753**	25 870
Instalment sales and hire purchase agreements		**215 072**	180 625
Lease payments receivable		**12 163**	5 872
Property finance		**374 027**	234 381
Personal loans		**45 324**	40 639
Preference share agreements		**48 644**	44 459
Assets under agreement to resell		**33 064**	30 885
Investment bank term loans		**150 383**	139 294
Long-term loans to group associates and joint ventures		**2 961**	1 891
Other		**36 765**	29 066
Total customer advances		**1 084 832**	865 189
Marketable advances		**55 230**	44 457
Gross value of advances		**1 140 062**	909 646
Impairment and fair value of credit of advances	12	**(18 835)**	(16 540)
Net advances		**1 121 227**	893 106

Instalment sale, hire purchase and lease payments receivable

	2018			2017		
R million	**Instalment sale, hire purchase and lease payments receivable**	**Less: unearned finance charges**	**Net**	Instalment sale, hire purchase and lease payments receivable	Less: unearned finance charges	Net
Within 1 year	**72 000**	**(11 451)**	**60 549**	57 479	(9 535)	47 944
Between 1 and 5 years	**185 150**	**(28 018)**	**157 132**	155 881	(25 738)	130 143
More than 5 years	**12 326**	**(2 696)**	**9 630**	10 934	(2 454)	8 480
Sub-total	**269 476**	**(42 165)**	**227 311**	224 294	(37 727)	186 567
Less: interest in suspense			**(76)**			(70)
Total net instalment sale, hire purchase and lease payments receivable			**227 235**			186 497

Under the terms of the lease agreements, no contingent rentals are payable. These agreements relate to motor vehicles and equipment. The accumulated allowance for uncollectible minimum lease payments receivable included in the allowance for impairments at the reporting date is R99 million (2017: R97 million).

11 ADVANCES continued

Securitisation transactions

The following bankruptcy remote structured entities were created in the current and prior financial years to facilitate traditional securitisation transactions for WesBank retail instalment sale advances: Nitro 5, Nitro 6 and FAST, MotoNovo (Turbo Finance 4, 5, 6, 7 MotoFirst, MotoPark and Motohouse) finance lease receivables and Aldermore (Oak 1) loans and advances to customers.

Name of securitisation	Established	Initial transaction value	Carrying value of assets R million		Carrying value of liabilities R million	
			2018	2017	**2018**	2017
Nitro 5	June 2015	R2.4 billion	**311**	749	**311**	749
Turbo Finance 4	November 2013	GBP374 million	**-**	692	**-**	680
Oak 1	April 2014	GBP362 million	**1 899**	-*	**1 420**	-*
Turbo Finance 5	September 2014	GBP420 million	**5**	2 233	**4**	2 203
Turbo Finance 6	February 2016	GBP392 million	**3 315**	6 264	**3 216**	6 170
Turbo Finance 7	November 2016	GBP568 million	**6 352**	11 256	**6 148**	11 009
Motohouse	July 2015	GBP295 million	**6 182**	5 820	**6 082**	5 745
FAST	July 2016	R6.8 billion	**9 734**	7 142	**9 474**	7 062
MotoFirst	October 2017	GBP400 million	**12 512**	-	**12 574**	-
MotoPark	January 2018	GBP540 million	**11 072**	-	**10 939**	-
Nitro 6	April 2018	R2 billion	**1 954**	-	**1 945**	-

* FirstRand International Limited acquired the entire issued share capital of Aldermore Group plc effective 1 April 2018.

Transfers and derecognition of advances in structured transactions

Transfers without derecognition

Other transfers

Advances of the group with the carrying amount of R431 million (2017: R951 million) have been transferred in exchange for government bonds to the value of R773 million (2017:R758 million) which is held as collateral in terms of a call swap transaction. No associated liabilities have been recognised.

12 IMPAIRMENT AND FAIR VALUE OF CREDIT OF ADVANCES

R million	FNB Retail	FNB Commercial	RMB Investment banking	RMB Corporate banking
Analysis of movement in impairment of advances per class of advance				
Balance as at 1 July 2016	5 564	1 436	3 708	848
Amounts written off	(4 474)	(460)	(1 030)	(46)
Acquisitions of subsidiaries	-	-	-	-
Disposals of advances	-	-	-	-
Transfers (to)/from other divisions	(1)	1	(4)	(5)
Transfer from non-current assets or disposal groups held for sale	-	-	(39)	-
Reclassifications	-	-	-	-
Exchange rate differences	(28)	(1)	(69)	-
Unwinding of discounted present value on NPLs	(97)	(3)	-	-
Net new impairments created/(released)	5 382	586	400	138
Balance as at 30 June 2017	6 346	1 559	2 966	935
(Increase)/decrease in impairments	(5 382)	(586)	(400)	(138)
Recoveries of bad debts previously written off	1 477	55	-	1
Impairment (loss)/profit recognised in profit or loss	(3 905)	(531)	(400)	(137)
Balance as at 1 July 2017	**6 346**	**1 559**	**2 966**	**935**
Amounts written off	**(4 282)**	**(750)**	**(251)**	**-**
Acquisitions of subsidiaries	**-**	**-**	**-**	**-**
Disposals of advances	**-**	**-**	**(18)**	**-**
Transfers (to)/from other divisions	**(69)**	**2**	**12**	**41**
Transfer to non-current assets or disposal groups held for sale	**-**	**-**	**39**	**-**
Reclassifications	**-**	**-**	**-**	**-**
Exchange rate differences	**53**	**-**	**16**	**7**
Unwinding of discounted present value on NPLs	**(119)**	**-**	**-**	**-**
Net new impairments created/(released)	**5 291**	**741**	**235**	**11**
Balance as at 30 June 2018	**7 220**	**1 552**	**2 999**	**994**
(Increase)/decrease in impairments	**(5 291)**	**(741)**	**(235)**	**(11)**
Recoveries of bad debts previously written off	**1 605**	**71**	**-**	**3**
Impairment (loss)/profit recognised in profit or loss	**(3 686)**	**(670)**	**(235)**	**(8)**

	WesBank	**Aldermore**	**FCC and other**	**Total impairment**	**Specific impairment**	**Portfolio impairment**
	3 847	-	754	16 157	8 218	7 939
	(3 494)	-	-	(9 504)	(9 504)	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	8	-	1	-	-	-
		-				
	(1)	-	-	(40)	(40)	-
	-	-	-	-	244	(244)
	(51)	-	-	(149)	(83)	(66)
	3	-	-	(97)	(97)	-
	4 017	-	(350)	10 173	9 751	422
	4 329	-	405	16 540	8 489	8 051
	(4 017)	-	350	(10 173)	(9 751)	(422)
	586	-	-	2 119	2 119	-
	(3 431)	-	350	(8 054)	(7 632)	(422)
	4 329	**-**	**405**	**16 540**	**8 489**	**8 051**
	(3 756)	**(115)**	**-**	**(9 154)**	**(9 154)**	**-**
	-	**484**	**-**	**484**	**196**	**288**
	-	**-**	**-**	**(18)**	**(18)**	**-**
	14	**-**	**-**	**-**	**-**	**-**
	-	**-**	**-**	**39**	**39**	**-**
	-	**-**	**-**	**-**	**80**	**(80)**
	50	**39**	**2**	**167**	**79**	**88**
	1	**(6)**	**-**	**(124)**	**(124)**	**-**
	4 798	**57**	**(232)**	**10 901**	**10 405**	**496**
	5 436	**459**	**175**	**18 835**	**9 992**	**8 843**
	(4 798)	**(57)**	**232**	**(10 901)**	**(10 405)**	**(496)**
	644	**11**	**-**	**2 334**	**2 334**	**-**
	(4 154)	**(46)**	**232**	**(8 567)**	**(8 071)**	**(496)**

13 ACCOUNTS RECEIVABLE

R million	Notes	2018	2017
Items in transit		**3 000**	1 938
Interest and commission accrued		**74**	154
Prepayments		**1 352**	1 453
Properties in possession	38.1.4	**49**	11
Sundry debtors		**1 164**	1 256
Fair value hedge interest rate component		**147**	56
Dividends receivable		**1 275**	1 150
- Profit share receivable on insurance cells		**1 244**	1 129
- Other dividends receivable		**31**	21
Other accounts receivable		**2 823**	2 860
Total accounts receivable		**9 884**	8 878

14 NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE

R million	**2018**	2017
Non-current assets held for sale		
Advances	**49**	58
Investments in associates	**63**	23
Total non-current assets held for sale	**112**	81
Disposal groups held for sale		
Advances	**-**	101
Cash and cash equivalents	**-**	18
Accounts receivable	**-**	113
Current tax asset	**-**	2
Deferred income tax asset	**-**	9
Property and equipment	**-**	74
Intangible assets	**-**	79
Other	**-**	103
Total assets included in disposal groups held for sale	**-**	499
Total non-current assets and disposal groups held for sale	**112**	580
Liabilities included in disposal groups held for sale		
Creditors and accruals and provisions	**-**	135
Other liabilities	**-**	11
Current tax liability	**-**	2
Deferred income tax liability	**-**	47
Total liabilities included in disposal group held for sale	**-**	195
Net assets of disposal group held for sale	**-**	304

14 NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE

Non-current assets held for sale in 2018

An investment in a RMB private equity associate and related advances met the requirements to be classified as non-current assets held for sale under IFRS 5 in the current year. A buyer for the investment has been identified and a decision to sell has been made by the investment committee. The sale will be final once the final terms have been agreed by all parties and conditions precedent have been met. It is expected that the sale will be finalised within six months for year end.

Non-current assets held for sale in 2017

Various investments in RMB private equity associates and related advances met the requirements to be classified as non-current assets held for sale under IFRS 5 in the prior period. Buyers for the investments have been identified and a decision to sell has been made by the investment committees. The sales will be final once the final terms have been agreed by all parties and conditions precedent have been met. It is expected that the sales will be finalised within six months of year end.

Disposal groups held for sale in 2017

FirstRand Rental Services (Pty) Limited, a wholly owned subsidiary of FirstRand Investment Holdings (Pty) Limited, met the requirements to be classified as held for sale in the prior year. The disposal group was re-measured to fair value less costs to sell upon classification as held for sale and an impairment of R95 million was recognised. The fair value is based on the sales price as stipulated in the draft sales agreement. Refer to note 34 for detail on the fair value.

15 POLICYHOLDER LIABILITIES AND REINSURANCE ASSETS

R million	Notes	2018	2017
Policyholder liabilities under insurance contracts and reinsurance assets	15.1	**632**	556
Policyholder liabilities under investment contracts	15.2	**3 877**	3 150
Total net policyholder liabilities		**4 509**	3 706
Reinsurance assets		**84**	89
Total gross policyholder liabilities		**4 593**	3 795

15.1 Policyholder liabilities under insurance contracts and reinsurance assets

		2018		
R million	Notes	**Gross**	**Reinsurance asset**	**Net**
Short-term insurance contracts		**357**	**(78)**	**279**
Claims outstanding and claims incurred but not reported	15.1.1	**331**	**(52)**	**279**
Unearned premiums	15.1.2	**26**	**(26)**	**-**
Long-term insurance contracts	15.1.3	**359**	**(6)**	**353**
Total policyholder liabilities under insurance contracts and reinsurance assets		**716**	**(84)**	**632**

		2017		
R million	Notes	Gross	Reinsurance asset	Net
Short-term insurance contracts		342	(83)	259
Claims outstanding and claims incurred but not reported	15.1.1	314	(82)	232
Unearned premiums	15.1.2	28	(1)	27
Long-term insurance contracts	15.1.3	303	(6)	297
Total policyholder liabilities under insurance contracts and reinsurance assets		645	(89)	556

15 POLICYHOLDER LIABILITIES AND REINSURANCE ASSETS continued

15.1.1 Reconciliation of outstanding claims and claims incurred but not reported

	2018		
R million	Gross	Reinsurance asset	Net
Opening balance	314	(82)	232
Increase in current year claims outstanding	75	-	75
Increase from prior year claims outstanding	8	(1)	7
Claims settled in the year	(66)	31	(35)
Closing balance	331	(52)	279

	2017		
R million	Gross	Reinsurance asset	Net
Opening balance	249	(36)	213
Increase in current year claims outstanding	179	(77)	102
Decrease from prior year claims outstanding	(77)	28	(49)
Claims settled in the year	(37)	3	(34)
Closing balance	314	(82)	232

15.1.2 Reconciliation of unearned premiums

	2018		
R million	Gross	Reinsurance asset	Net
Opening balance	28	(1)	27
Decrease in unearned premiums	(2)	(25)	(27)
Closing balance	26	(26)	-

	2017		
R million	Gross	Reinsurance asset	Net
Opening balance	46	-	46
Decrease in unearned premiums	(18)	(1)	(19)
Closing balance	28	(1)	27

15 POLICYHOLDER LIABILITIES AND REINSURANCE ASSETS continued

15.1.3 Reconciliation of gross long-term insurance contracts

R million	2018	2017
Opening balance	303	17
Acquisitions of portfolios	-	212
Transfer to policyholder liabilities under insurance contracts	56	74
- Increase in retrospective liabilities	10	23
- Outstanding claims reserve	46	51
Closing balance	**359**	303

15.2 Policyholder liabilities under investment contracts

R million	2018	2017
Opening balance	3 150	1 090
Acquisitions of portfolios	-	1 355
Premiums received	857	823
Fees deducted from account balances	(28)	(20)
Policyholder benefits on investment contracts	(298)	(25)
Fair value adjustments recognised in fair value gains or losses	196	(73)
Closing balance	**3 877**	3 150

16 INVESTMENTS IN ASSOCIATES

R million	2018	2017
Analysis of the carrying value of associates		
Shares at cost less impairment	**3 214**	3 612
Share of post-acquisition reserves	**2 323**	2 312
Total investments in associates	**5 537**	5 924
Movement in the carrying value of associates		
Opening balance	**5 924**	4 964
Share of profit of associates after tax	**519**	757
- Income before tax for the year	**970**	1 096
- Impairments of associates incurred	**(127)**	-
- Impairments of associates reversed	**-**	21
- Tax for the year	**(324)**	(360)
Net movement resulting from acquisitions, disposals and transfers	**(346)**	621
- Acquisition of associates	**308**	685
- Disposal of associates	**(672)**	(68)
- Acquisition of subsidiaries with an underlying associate	**81**	27
- Transfer to non-current assets and disposal groups held for sale	**(63)**	(23)
Movement in other reserves	**20**	(89)
Exchange rate differences	**12**	4
Dividends received for the year	**(592)**	(333)
Closing balance	**5 537**	5 924

During the current year R5 million (2017: Rnil) losses were recognised.

The group has exposure to contingent liabilities as a result of its relationships with associates. Refer to note 36.

16 INVESTMENTS IN ASSOCIATES continued

Financial information of significant associates

	Toyota Financial Services Proprietary Limited		Primedia Holdings Proprietary Limited		Volkswagen Financial Services SA Proprietary Limited	
Nature of relationship	Vehicle finance		Broadcasting		Vehicle finance	
Place of business	South Africa		South Africa		South Africa	
% ownership	33		22		49	
% voting rights	33		22		49	
R million	**2018**	2017	**2018**	2017	**2018**	2017
Amounts recognised in profit or loss and other comprehensive income of the investee						
Dividends received	**70**	45	**-**	-	**-**	-
Revenue	**4 823**	4 195	**4 102**	4 133	**3 772**	2 759
Profit or loss	**536**	454	**336**	(66)	**75**	150
Other comprehensive income	**-**	-	**-**	-	**-**	-
Total comprehensive income	**536**	454	**336**	(66)	**75**	150
Amounts recognised on the statement of financial position of the investee						
Total assets	**38 649**	34 666	**7 518**	7 534	**34 308**	27 008
- Current assets	**13 587**	11 823	**1 261**	1 169	**13 309**	10 241
- Non-current assets	**25 062**	22 843	**6 257**	6 365	**20 999**	16 767
Total liabilities	**(35 241)**	(31 584)	**(4 350)**	(4 670)	**(32 377)**	(25 352)
- Current liabilities	**(12 914)**	(9 973)	**(782)**	(839)	**(8 681)**	(9 006)
- Non-current liabilities	**(22 327)**	(21 611)	**(3 568)**	(3 831)	**(23 696)**	(16 346)
Net asset value	**3 408**	3 082	**3 168**	2 864	**1 931**	1 656
Group's share of net asset value	**1 125**	1 017	**697**	630	**946**	811
Notional goodwill	**26**	41	**(27)**	49	**35**	36
Carrying value of investments	**1 151**	1 058	**670**	679	**981**	847
Acquisitions of associates						
Total consideration transferred	**-**	-	**-**	-	**98**	49
- Discharged by cash	**-**	-	**-**	-	**98**	49
- Non-cash consideration and other purchases	**-**	-	**-**	-	**-**	-

Volkswagen Financial Services SA Proprietary Limited

Additional capital injection of R98 million (2017: R49 million) was provided to Volkswagen Financial Services SA Proprietary Limited. This did not result in a change in shareholding.

16 INVESTMENTS IN ASSOCIATES continued

Financial information of individually immaterial associates

	RMB private equity associates		Other individually immaterial associates	
R million	**2018**	2017	**2018**	2017
Carrying amount	**1 888**	2 142	**847**	1 198
Group's share of profit or loss after tax from continuing operations	**226**	430	**99**	71
Group's share of other comprehensive income/(loss)	**26**	(69)	**1**	(1)
Group's share of total comprehensive income	**252**	361	**100**	70
Acquisitions of associates				
Acquisition date	**Various**	Various	**Various**	Various
Interest acquired (%)	**Various**	Various	**Various**	Various
Total consideration transferred	**135**	49	**75**	587
- Discharged by cash	**135**	48	**75**	1
- Non-cash consideration and other purchases	**-**	1	**-**	586
Disposal of associates				
Disposal date	**Various**	Various	**-**	-
Interest disposed (%)	**Various**	Various	**-**	-
Total consideration received	**1 693**	52	**583**	37
- Discharged by cash	**1 693**	1	**583**	37
- Non-cash consideration and other purchases	**-**	51	**-**	-
Carrying value of the associate on disposal	**(88)**	(52)	**(584)**	(16)
Gains/(loss) on disposal of associates	**1 605**	-	**(1)**	21

Acquisition of associates 2017

During the prior year, previously consolidated investments in funds decreased and resulted in the recognition of associates. Refer to note 30.2 for details.

17 INVESTMENTS IN JOINT VENTURES

R million	**2018**	2017
Analysis of carrying value of joint ventures		
Shares at cost less impairment	**450**	84
Share of post-acquisition reserves	**1 276**	1 346
Carrying value of investments in joint ventures	**1 726**	1 430
Movement in the carrying value of joint ventures		
Opening balance	**1 430**	1 344
Share of profit of joint ventures after tax	**390**	281
- Income before tax for the year	**499**	379
- Impairments of joint ventures incurred	**-**	(25)
- Impairments of joint ventures reversed	**5**	-
- Tax for the year	**(114)**	(73)
Net movement resulting from acquisitions and disposals	**361**	15
- Acquisition of joint ventures	**361**	44
- Disposal of joint ventures	**-**	(29)
Movement in other reserves	**(92)**	(68)
Exchange rate differences	**(11)**	1
Dividends received for the year	**(352)**	(143)
Closing balance	**1 726**	1 430

17 INVESTMENTS IN JOINT VENTURES continued

Financial information of significant joint ventures

	RMB Morgan Stanley	
Nature of business	Equity sales, trading and research	
Place of business	South Africa	
% ownership	50	
% voting rights	50	
R million	**2018**	2017
Amounts recognised in profit or loss and other comprehensive income of the group		
Dividends received	**83**	100
Revenue	**857**	905
Profit or loss from continuing operations after tax	**119**	294
Total comprehensive income	**119**	294
Amounts recognised in the statement of financial position of the investee		
Total assets	**17 422**	17 810
- Current assets	**17 258**	17 767
- Non-current assets	**164**	43
Total liabilities	**(16 405)**	(16 866)
- Current liabilities	**(16 235)**	(16 837)
- Non-current liabilities	**(170)**	(29)
Net asset value	**1 017**	944
Group's share of net asset value	**509**	472
Notional goodwill	**29**	35
Carrying value of investment	**538**	507
Included in total assets, liabilities and comprehensive income		
Cash and cash equivalents	**911**	(322)
Depreciation and amortisation	**2**	3
Interest income	**56**	16
Interest expense	**(353)**	(342)
Income tax	**(88)**	(109)

17 INVESTMENTS IN JOINT VENTURES continued

Financial information of individually immaterial joint ventures

	RMB private equity joint ventures		Other	
R million	**2018**	2017	**2018**	2017
Carrying amount	**922**	683	**266**	240
Group's share of profit or loss after tax from continuing operations	**225**	162	**51**	(28)
Group's share of other comprehensive (loss)/income	**(92)**	(68)	**-**	-
Group's share of total comprehensive income/(loss)	**133**	94	**51**	(28)
Acquisition of joint ventures				
Acquisition date	**Various**	Various	**-**	-
Interest acquired (%)	**Various**	Various	**-**	-
Total consideration transferred	**355**	28	**6**	16
- Discharged by cash	**355**	28	**6**	16
- Non-cash consideration	**-**	-	**-**	-
Disposal of joint ventures				
Disposal date		-	**-**	-
Interest disposed of (%)		-	**-**	-
Total consideration received	**-**	45	**-**	31
- Discharged by cash	**-**	-	**-**	17
- Non-cash consideration and other purchases	**-**	45	**-**	14
Carrying value of the joint venture on disposal date	**-**	-	**-**	(29)
Gain on disposal of joint ventures	**-**	45	**-**	2

During the current year losses of R72 million (2017: R46 million) were not recognised as the balance of the investment in the joint venture was nil. The cumulative share of losses from joint ventures not recognised is R127 million (2017: R50 million).

18 PROPERTY AND EQUIPMENT

R million	Freehold property	Lease-hold premises	Assets held under leasing agree-ments	Computer equipment	Other equip-ment	Total
Net book value at 1 July 2016	7 195	2 449	295	3 082	3 888	16 909
Cost	8 909	4 334	454	7 514	7 149	28 360
Accumulated depreciation	(1 714)	(1 885)	(159)	(4 432)	(3 261)	(11 451)
Movement for the year	829	(164)	(84)	(325)	347	603
Acquisitions	1 477	439	23	842	1 800	4 581
Disposals	(32)	(91)	(39)	(58)	(308)	(528)
Acquisitions of subsidiaries	-	2	-	2	2	6
Exchange rate difference	(72)	(24)	-	(15)	(19)	(130)
Depreciation charge for the year	(225)	(361)	(62)	(1 090)	(990)	(2 728)
Impairments recognised	(312)	-	-	-	-	(312)
Impairments reversed	-	-	-	-	4	4
Transfer to non-current assets and disposal groups held for sale	(7)	(129)	(6)	(6)	(142)	(290)
Net book value at 30 June 2017	**8 024**	**2 285**	**211**	**2 757**	**4 235**	**17 512**
Cost	**10 232**	**4 158**	**394**	**7 546**	**7 784**	**30 114**
Accumulated depreciation	**(2 208)**	**(1 873)**	**(183)**	**(4 789)**	**(3 549)**	**(12 602)**
Movement for the year	**149**	**(221)**	**(2)**	**128**	**370**	**424**
Acquisitions	**409**	**190**	**24**	**1 193**	**1 761**	**3 577**
Disposals	**(48)**	**(15)**	**(6)**	**(10)**	**(376)**	**(455)**
Acquisitions of subsidiaries	**-**	**-**	**-**	**30**	**40**	**70**
Exchange rate difference	**46**	**3**	**1**	**9**	**3**	**62**
Depreciation charge for the year	**(258)**	**(399)**	**(21)**	**(1 094)**	**(1 058)**	**(2 830)**
Impairments recognised	**-**	**-**	**-**	**-**	**-**	**-**
Impairments reversed	**-**	**-**	**-**	**-**	**-**	**-**
Transfer to non-current assets and disposal groups held for sale	**-**	**-**	**-**	**-**	**-**	**-**
Net book value at 30 June 2018	**8 173**	**2 064**	**209**	**2 885**	**4 605**	**17 936**
Cost	**10 679**	**4 234**	**407**	**8 509**	**8 516**	**32 345**
Accumulated depreciation	**(2 506)**	**(2 170)**	**(198)**	**(5 624)**	**(3 911)**	**(14 409)**

19 INTANGIBLE ASSETS

R million	Goodwil	Broker relation-ship	Software and develop-ment costs	Trade-marks	Other	Total
Net book value as at 1 July 2016	929	-	466	12	162	1 569
Cost	1 494	-	1 675	223	256	3 648
Accumulated amortisation and impairment	(565)	-	(1 209)	(211)	(94)	(2 079)
Movement for the year	(145)	-	75	104	83	117
Acquisitions	-	-	323	1	97	421
Disposals	-	-	-	-	-	-
Acquisitions of subsidiaries	58	-	30	116	40	244
Transfer to non-current assets disposal groups held for sale	(74)	-	(24)	(8)	-	(106)
Exchange rate differences	(10)	-	-	(1)	(2)	(13)
Amortisation for the year	-	-	(193)	(4)	(52)	(249)
Impairments recognised	(119)	-	(61)	-	-	(180)
Measurement period adjustment	-	-	-	-	-	-
Net book value as at 30 June 2017	**784**	**-**	**541**	**116**	**245**	**1 686**
Cost	**1 403**	**-**	**1 723**	**307**	**387**	**3 820**
Accumulated amortisation and impairment	**(619)**	**-**	**(1 182)**	**(191)**	**(142)**	**(2 134)**
Movement for the year	**6 528**	**2 313**	**212**	**18**	**90**	**9 161**
Acquisitions	**18**		**347**	**-**	**11**	**376**
Disposals	**-**		**-**	**(2)**	**-**	**(2)**
Acquisitions of subsidiaries	**6 041**	**2 201**	**102**	**48**	**112**	**8 504**
Transfer to non-current assets disposal groups held for sale	**-**		**-**	**-**	**-**	**-**
Exchange rate differences	**493**	**193**	**12**	**3**	**9**	**710**
Amortisation for the year	**-**	**(81)**	**(220)**	**(17)**	**(44)**	**(362)**
Impairments recognised	**(12)**	**-**	**(29)**	**(14)**	**-**	**(55)**
Impairments reversed	**-**	**-**	**-**	**-**	**2**	**2**
Measurement period adjustment	**(12)**	**-**	**-**	**-**	**-**	**(12)**
Net book value as at 30 June 2018	**7 312**	**2 313**	**753**	**134**	**335**	**10 847**
Cost	**7 943**	**2 399**	**2 223**	**360**	**454**	**13 379**
Accumulated amortisation and impairment	**(631)**	**(86)**	**(1 470)**	**(226)**	**(119)**	**(2 532)**

Included in other intangible assets is the in-force book representing the acquisition of a portfolio of insurance contracts and client relationship-related intangible assets in Aldermore.

The majority of the intangible assets acquired as a result of the acquisition of subsidiaries in the current year, relates to the acquisition of Aldermore and is disclosed in note 30.1.

20 INVESTMENT PROPERTIES

R million	Notes	2018	2017
Opening balance		**399**	386
Fair value remeasurements	2.4	**29**	-
Additions		**210**	13
Acquisition of subsidiaries		**570**	-
Disposal of subsidiaries		**(448)**	-
Disposals		**(6)**	-
Closing balance		**754**	399

21 EMPLOYEE LIABILITIES AND RELATED ASSETS

R million	Notes	2018	2017
Liability for short-term employee benefits		**6 951**	6 313
Share-based payment liability		**3 320**	2 406
Defined benefit post-employment liability	21.1	**1 232**	1 131
Other long-term employee benefit liability		**31**	34
Defined contribution post-employment liability	21.2	**-**	-
Total employee liabilities		**11 534**	9 884
Defined benefit post-employment asset	21.1	**(36)**	(5)
Net amount due to employees		**11 498**	9 879

21 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

21.1 Defined benefit post-employment liability

The group operates two defined benefit plans in South Africa, a plan that provides post-employment medical benefits and a pension plan. In terms of these plans, the group is liable to the employees for specific payments on retirement and for any deficit in the provision of these benefits from the plan assets. The liabilities and assets of these plans are reflected as a net asset or liability in the statement of financial position.

Nature of benefits	
Pension	**Medical**
The pension plan provides retired employees with annuity income after service. A separate account (the fund) has been established. The account holds assets that are used solely to pay pension benefits. For current pensioners the fund pays a pension to the members and a dependants' pension to the spouse and eligible children on death of the pensioner. There are also a small number of active members whose benefit entitlement will be determined on a defined benefit basis as prescribed in the rules of the fund. For the small number of defined benefit contributing members in the pension plan, the group is liable for any deficit in the value of accrued benefits exceeding the assets in the fund earmarked for these liabilities. The liability in respect of retiring defined contribution members is equal to the member's share of the fund, which is determined as the accumulation of the member's contributions and employer's contributions (net of deduction for fund expenses and cost of death benefits) as well as any amounts transferred into the fund by the member, increased with the net investment returns earned (positive or negative) on the member's assets. In terms of the existing pensioners in the pension plan, the trustees are responsible for setting the pension increase policy and granting of pension increases subject to the assets of the fund supporting such increases.	The medical scheme provides retired employees with medical benefits after service. The employer's post-employment health care liability consists of a commitment to pay a portion of the members' post-employment medical scheme contributions. This liability is also generated in respect of dependants who are offered continued membership of the medical scheme on the death of the primary member. Members employed on or after 1 December 1998 do not qualify for a post-employment medical subsidy.

21 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

Nature of benefits	
Pension	**Medical**
Should the pension account in the fund be in a deficit to the extent that current pensions in payment cannot be maintained, the group is liable to maintain the nominal value of pensions in payment. The fund also provides death, retrenchment and withdrawal benefits. The fund provides a pension that can be purchased with the member's fund credit (equal to member and employer contributions of 7.5% of pensionable salary each year, plus net investment returns).	

Governance	
Pension	**Medical**
The pension plan is regulated by the Financial Services Board in South Africa. Responsibility for governance of the plans including investment decisions and contribution schedules lies jointly with the group and the board of trustees. The board of trustees must be composed of representatives of the group and plan participants in accordance with the plans' regulations. The board consists of four representatives of the bank and four representatives of the plan participants in accordance with the plans' regulations. The trustees serve the board for five years and may be re-elected a number of times. An external auditor performs an audit of the fund on an annual basis and such annual financial statements are submitted to the Regulator of Pension Funds (i.e. to the Financial Services Board). A full actuarial valuation of the pension fund submission to the Financial Services Board is performed every three years, with the last valuation in 2017. Annual interim actuarial valuations are performed for the trustees for IAS 19 purposes. At the last valuation date the fund was financially sound.	The medical plan is regulated by the Registrar of Council for Medical Schemes in South Africa. Governance of the post-employment medical aid subsidy policy lies with the group. The group has established a committee that meets regularly to discuss and review the management and the subsidy. The committee also considers administration and data management issues and analyses demographic and economic risks inherent in the subsidy policy.

21 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

Asset-liability matching strategies
The group 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 group'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 group actively monitors how the duration and the expected yield of the investments match the expected cash outflows arising from the pension obligations. Investments are well diversified so that the failure of any single investment would not have a material impact on the overall level of assets. The trustees of the fund have adopted an investment strategy in respect of the pensioner liabilities that largely follows a 70% exposure in fixed interest instruments to immunise the interest rate and inflation risk, and 30% exposure to local growth assets. The fixed interest instruments consist mainly of long dated South African government issued inflation linked bonds, while the growth assets are allocated to selected local asset managers. The trustees receive monthly reports on the funding level of the pensioner liabilities and an in-depth attribution analysis in respect of changes in the pensioner funding level. The trustees of the fund aim to apportion an appropriate level of balanced portfolio, conservative portfolio, inflation linked, and money market assets to match the maturing defined benefit active member liabilities. It should be noted that this is an approximate matching strategy as elements such as salary inflation and decrement rates cannot be matched. This is however an insignificant liability compared to the liability of the pension fund.

Risks associated with the plans
Through its defined benefit pension plans and post-employment medical plans, the group is exposed to a number of risks, the most significant of which are detailed below: **Asset volatility** - Assets are held in order to provide a return to back the plans' obligations, therefore any volatility in the value of these assets would create a deficit. **Inflation risk** - The plans' benefit obligations are linked to inflation and higher inflation will lead to higher liabilities. Consumer price inflation and health care cost inflation forms part of the financial assumptions used in the valuation. **Life expectancy** - The plans' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plans' liabilities. **Demographic movements** - The plans' liabilities are determined based on a number of best estimate assumptions on demographic movements of participants, including withdrawal and early retirement rates. This is especially relevant to the post-employment medical aid subsidy liabilities. Should less eligible employees withdraw and/or should more eligible employees retire earlier than assumed, the liabilities could be understated.

21 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

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

		2018			2017		
R million	Notes	**Pension**	**Medical**	**Total**	Pension	Medical	Total
Post-employment benefit fund liability							
Present value of funded obligation		**9 177**	**3 132**	**12 309**	9 357	3 123	12 480
Fair value of plan assets		**(9 339)**	**(1 934)**	**(11 273)**	(9 682)	(2 024)	(11 706)
- Listed equity instruments		**(2 173)**	**-**	**(2 173)**	(2 562)	-	(2 562)
- Cash and cash equivalents		**(323)**	**-**	**(323)**	(412)	-	(412)
- Debt instruments		**(3 250)**	**-**	**(3 250)**	(3 708)	-	(3 708)
- Derivatives		**(22)**	**-**	**(22)**	(42)	-	(42)
- Qualifying insurance policy		**-**	**(1 934)**	**(1 934)**	-	(2 024)	(2 024)
- Other		**(3 571)**	**-**	**(3 571)**	(2 958)	-	(2 958)
Total employee (asset)/liability*		**(162)**	**1 198**	**1 036**	(325)	1 099	774
Limitation imposed by IAS19 asset ceiling		**160**	**-**	**160**	352	-	352
Total post-employment liability		**(2)**	**1 198**	**1 196**	27	1 099	1 126
Total net amount recognised on the income statement (included in staff costs)	3	**(29)**	**153**	**124**	(10)	149	139
Movement in post-employment benefit fund liability							
Present value at the beginning of the year		**27**	**1 099**	**1 126**	24	1 212	1 236
Exchange differences		**5**	**2**	**7**	6	2	8
Current service cost		**4**	**41**	**45**	4	49	53
Net interest		**(33)**	**112**	**79**	(14)	100	86
Benefits paid		**(6)**	**(3)**	**(9)**	(6)	(2)	(8)
Remeasurements: recognised in OCI		**7**	**(50)**	**(43)**	19	(260)	(241)
Employer contribution		**(5)**	**(3)**	**(8)**	(5)	(2)	(7)
Employee contribution		**(1)**	**-**	**(1)**	(1)	-	(1)
Closing balance		**(2)**	**1 198**	**1 196**	27	1 099	1 126

* *The plan asset is an insurance policy with a limit of indemnity. The insurance policy is backed by assets held through an insurance cell captive. The excess assets of the cell captive belong to a fellow subsidiary of the group and is recognised as an account receivable. The FirstRand group's liability is therefore sufficiently funded.*

	2018			2017		
R million	Pension	Medical	Total	Pension	Medical	Total
Movement in the fair value of plan assets:						
Opening balance	**9 682**	**2 024**	**11 706**	9 998	2 191	12 189
Interest income	**849**	**205**	**1 054**	876	228	1 104
Remeasurements: recognised in OCI	**(530)**	**(127)**	**(657)**	(467)	(237)	(704)
Exchange differences	**18**	**-**	**18**	(41)	-	(41)
Employer contributions	**7**	**-**	**7**	7	-	7
Employee contributions	**1**	**-**	**1**	1	-	1
Benefits paid and settlements	**(688)**	**(168)**	**(856)**	(692)	(158)	(850)
Closing balance	**9 339**	**1 934**	**11 273**	9 682	2 024	11 706
Reconciliation of limitation imposed by IAS 19 asset ceiling						
Opening balance	**352**	**-**	**352**	162	-	162
Interest income	**33**	**-**	**33**	15	-	15
Change in the asset ceiling, excluding amounts included in interest	**(225)**	**-**	**(225)**	175	-	175
Closing balance	**160**	**-**	**160**	352	-	352
The actual return on plan assets was:	**9%**			9%		
Included in plan assets were the following:						
FirstRand Limited ordinary shares with fair value of	**23**	**-**	**23**	42	-	42
Total exposure to FirstRand	**23**	**-**	**23**	42	-	42

21 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

Each sensitivity analysis is based on changing one assumption while keeping all other remaining assumptions constant. In practice this is unlikely to occur, and changes in some of the assumptions may be correlated. The sensitivity analysis has been calculated in terms of the projected unit credit method and illustrates how the value of the liability would change in response to certain changes in actuarial assumptions.

	2018		2017	
%	**Pension**	**Medical**	Pension	Medical
The principal actuarial assumptions used for accounting purposes were:				
Expected rates of salary increases	**7.7**	**-**	8.2	-
Long-term increase in health cost	**-**	**7.7**	-	8.4
The effects of a 1% movement in the assumed health cost rate (medical) were and the expected rates of salary (pension) were:				
Increase of 1%				
Effect on the defined benefit obligation (R million)	**6.0**	**405.3**	6.5	419.5
Effect on the aggregate of the current service cost and interest cost (R million)	**0.7**	**48.8**	0.7	52.4
Decrease of 1%				
Effect on the defined benefit obligation (R million)	**(5.3)**	**(337.5)**	(5.9)	(347.8)
Effect on the aggregate of the current service cost and interest cost (R million)	**(0.7)**	**(40.3)**	(0.8)	(43.1)
The effects of a change in the average life expectancy of a pensioner retiring at age 65:				
Increase in life expectancy by 1 year				
Effect on the defined benefit obligation (R million)	**315.5**	**103.8**	325.0	105.6
Effect on the aggregate of the current service cost and interest cost (R million)	**29.3**	**11.5**	30.5	12.1
Decrease in life expectancy by 1 year				
Effect on the defined benefit obligation (R million)	**(312.3)**	**(103.1)**	(321.4)	(104.7)
Effect on the aggregate of the current service cost and interest cost (R million)	**(29.1)**	**(11.4)**	(30.3)	(12.0)
Estimated contributions expected to be paid to the plan in the next annual period (R million)	**4**	**-**	4	-
Net increase in rate used to value pensions, allowing for pension increases (%)	**2.7**	**2.2**	2.4	1.9
The weighted average duration of the defined benefit obligation is (years)	**9.2**	**13.0**	9.7	13.5

21 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

The expected maturity analysis of undiscounted pension and post-employment medical benefits is below.

R million	Within 1 year	Between 1-5 years	More than 5 years	Total
Pension benefits	725	3 018	25 287	29 030
Post-employment medical benefits	180	861	18 708	19 749
Total as at 30 June 2018	**905**	**3 879**	**43 995**	**48 779**

The interest income is determined using a discount rate with reference to high quality corporate bonds.

Mortality rates

The normal retirement age for active members of the pension fund and post-employment medical benefits is 60.

The mortality rate table used for active members and pensioners of the pension fund and post-employment medical benefits is PA(90)-2. PA(90)-2 refers to standard actuarial mortality tables for current and prospective pensioners on a defined benefit plan where the chance of dying after early or normal retirement is expressed at each age for each gender.

The mortality rate table used for the active members of the post-employment medical benefits is SA 85-90. SA 85-90 refers to standard actuarial mortality tables for active members on a defined benefit plan where the chance of dying before normal retirement is expressed at each age for each gender.

The average life expectancy in years of a pensioner retiring at age 65 on the reporting date for pension and medical is 17 for males and 21 for females. The average life expectancy of a pensioner retiring at age 65, 20 years after the reporting date for pension and medical is 18 for males and 22 for females.

21 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

	2018	2017
Pension		
The number of employees covered by the scheme:		
Active members	**2 315**	2 210
Pensioners	**6 225**	6 085
Deferred plan participants	**281**	282
Total employees	**8 821**	8 577
Defined benefit obligation amounts due to:		
Benefits vested at the end of the reporting period (R million)	**9 058**	9 238
Benefits accrued but not vested at the end of the reporting period (R million)	**119**	119
Conditional benefits (R million)	**34**	33
Amounts attributable to future salary increases (R million)	**102**	96
Other benefits (R million)	**9 041**	9 228
Medical		
The number of employees covered by the scheme:		
Active members	**3 673**	4 062
Pensioners	**5 291**	5 323
Total employees	**8 964**	9 385
Defined benefit obligation amounts due to:		
Benefits vested at the end of the reporting period (R million)	**2 148**	2 094
Benefits accrued but not vested at the end of the reporting period (R million)	**985**	1 029
Conditional benefits (R million)	**1 018**	1 061
Other benefits (R million)	**2 115**	2 062

21.2 Defined contribution post-employment liability

R million	**2018**	2017
Post-employment defined contribution plan		
Present value of obligation	**19 326**	17 166
Present value of assets	**(19 326)**	(17 166)
Net defined contribution liability	**-**	-

The defined contribution scheme allows active qualifying members to purchase a pension from the defined benefit plan on retirement. The purchase price for the pension is determined based on the purchasing member's demographic details, the pension structure and economic assumptions at time of purchase. Should a member elect to purchase a pension, the group becomes exposed to longevity and other actuarial risks. However, because of the way that the purchase is priced the employer is not exposed to any asset return risk prior to the election of this option. On the date of the purchase the defined benefit liability and the plan assets will increase for the purchase amount and thereafter the accounting treatment applicable to defined benefit plans will be applied to the purchased pension.

22 DEFERRED INCOME TAX

Movement on the deferred income tax account is shown below.

R million	2018	2017
Deferred income tax asset		
Opening balance	**2 202**	1 866
Acquisitions of subsidiaries	**64**	46
Exchange rate difference	**12**	(3)
Creation to profit or loss	**422**	389
Deferred income tax on amounts charged directly to other comprehensive income	**184**	(27)
Transfer to non-current assets and disposal group held for sale	**-**	(69)
Total deferred income tax asset	**2 884**	2 202
Deferred income tax liability		
Opening balance	**(832)**	(1 053)
Acquisitions of subsidiaries	**(585)**	(13)
Exchange rate difference	**(57)**	14
Creation/(release) to profit or loss	**(9)**	7
Deferred income tax on amounts charged directly to other comprehensive income	**7**	170
Transfer to non-current assets and disposal group held for sale	**-**	47
Other	**(1)**	(4)
Total deferred income tax liability	**(1 477)**	(832)
Net deferred income tax asset	**1 407**	1 370

22 DEFERRED INCOME TAX continued

Deferred income tax assets and liabilities arise from:

	As at 30 June		Recognised on income statement	
R million	**2018**	2017	**2018**	2017
Deferred income tax asset				
Tax losses	**100**	18	**84**	(171)
Provision for loan impairment	**1 132**	832	**299**	77
Provision for post-employment benefits	**334**	303	**37**	91
Other provisions*	**(191)**	34	**(225)**	(87)
Cash flow hedges	**(133)**	(61)	**-**	37
Financial instruments	**26**	5	**21**	(3)
Instalment credit assets	**(132)**	(119)	**(13)**	19
Accruals**	**-**	-	**-**	-
Available-for-sale securities	**475**	224	**-**	85
Capital gains tax	**346**	165	**136**	49
Share-based payments*	**818**	604	**214**	2
Other**	**109**	197	**(131)**	290
Total deferred income tax asset	**2 884**	2 202	**422**	389
Deferred income tax liability				
Provision for loan impairment	**90**	97	**(7)**	2
Provision for post-employment benefits	**12**	12	**-**	(53)
Other provisions	**(84)**	(127)	**44**	44
Cash flow hedges	**-**	-	**-**	(37)
Financial instruments	**234**	225	**10**	87
Instalment credit assets	**(355)**	(306)	**(41)**	(20)
Accruals*	**-**	-	**-**	-
Available-for-sale securities	**(212)**	(221)	**-**	(85)
Capital gains tax	**(21)**	(6)	**(14)**	(1)
Other*	**(1 141)**	(506)	**(1)**	70
Total deferred income tax liability	**(1 477)**	(832)	**(9)**	7
Net deferred income tax asset	**1 407**	1 370	**413**	396

* Share based payments amounting to R602 million has been reclassified from Other provisions in the prior year.

**Provisions that were classified as accruals have been reclassified to Other. The reclassification amount for the deferred income tax asset relating to the consolidated statement of financial position is R46 million (2017: R20 million) and the reclassification amount on the income statement is R66 million (2017: R69 million). The reclassification amount for the deferred income tax liability relating to the consolidated statement of financial position is R198 million (2017: R147 million) and the reclassification amount on the income statement is R51 million (2017: R11 million).

Dividends declared by South African entities are subject to shareholders' withholding tax. The group would therefore incur no additional tax if the total reserves of R112 975 million (2017: R100 868 million) were declared as dividends.

The group has not recognised a deferred tax asset amounting to R1 240 million (2017: R1 188 million) relating to tax losses because there was insufficient taxable income.

23 SHORT TRADING POSITIONS

R million	**2018**	2017
Government and government guaranteed stock	**9 860**	15 162
Other dated securities	**121**	88
Undated securities	**18**	26
Total short trading positions	**9 999**	15 276

24 CREDITORS, ACCRUALS AND PROVISIONS

R million	**2018**	2017
Other accounts payable	**13 086**	12 065
Fair value hedge interest rate component	**429**	275
Withholding tax for employees	**537**	471
Deferred income	**1 748**	1 556
Operating lease liability arising from straight lining of lease payments	**121**	106
Payments received in advance	**484**	314
Accrued interest	**-**	16
Accrued expenses	**2 706**	1 813
Audit fees accrued	**184**	133
Provisions (including litigations and claims)	**325**	265
Total creditors, accruals and provisions	**19 620**	17 014

Reconciliation of provisions

R million	**2018**	2017
Opening balance	**265**	482
Acquisitions of subsidiaries	**7**	44
Transfer to non-current assets and disposal groups held for sale	**-**	(143)
Exchange rate differences	**2**	(4)
Charge to profit or loss	**94**	(68)
- Additional provisions created	**171**	113
- Unused provisions reversed	**(77)**	(181)
Utilised	**(43)**	(46)
Closing balance	**325**	265

25 DEPOSITS

R million	2018	2017*
Category analysis		
Deposits from customers	**958 191**	699 674
- Current accounts	**225 643**	208 673
- Call deposits	**238 108**	196 314
- Savings accounts	**13 728**	11 950
- Fixed and notice deposits	**407 345**	258 550
- Other deposits from customers	**73 367**	24 187
Debt securities	**226 109**	194 542
- Negotiable certificates of deposit	**63 076**	60 987
- Fixed and floating rate notes	**161 679**	131 592
- Exchange traded notes	**1 354**	1 963
Asset-backed securities	**44 238**	35 445
- Securitisation issuances	**33 078**	25 076
- Non-recourse deposits	**11 160**	10 369
Other	**38 910**	53 868
- Repurchase agreements	**19 334**	28 377
- Securities lending	**3 509**	4 098
- Cash collateral and credit linked notes	**16 067**	21 393
Total deposits	**1 267 448**	983 529

* The SARB issued guidance clarifying that negotiable notes with an issue price, a redemption/maturity date and redemption\price of face value should be classified as debt securities (fixed and floating rate notes) rather than deposits from customers (fixed and notice deposits). The amount of the reclassification is R15 427 million. The reclassification does not impact the primary statements.

26 OTHER LIABILITIES

R million	Notes	2018	2017
Finance lease liabilities	26.1	**-**	14
Funding liabilities		**6 989**	6 371
- Preference shares		**4 206**	4 204
- Other		**2 783**	2 167
Total other liabilities		**6 989**	6 385

26.1 Finance lease liabilities

	2018	2017
Not later than 1 year	**-**	14
Later than 1 year and not later than 5 years	**-**	-
Total finance lease liabilities	**-**	14

Refer to note 18 for assets that secure finance lease liabilities.

The preference shares issued have variable interest rates that are linked to prime and their maturity dates range between 2019 and 2020.

26.2 Net other liabilities reconciliation

R million	2018	2017
Opening balance	**6 385**	8 311
Cash flow movements	**811**	(1 675)
- Proceeds on the issue of other liabilities	**1 673**	812
- Redemption of other liabilities	**(862)**	(2 487)
Non-cash flow movements	**(207)**	(251)
- Foreign exchange	**(207)**	(251)
Total other liabilities	**6 989**	6 385

27 TIER 2 LIABILITIES

Subordinated bonds issued on or after 1 January 2013 can, at the discretion of the Registrar, either be written down or converted into the most subordinated form of equity upon the occurrence of a trigger event, being the point at which the issuing bank is considered to be non-viable. The debt component of such bonds has been included in tier 2 liabilities.

R million	Maturity dates	Interest rate	2018	2017
Fixed rate bonds			**11 535**	3 519
- ZAR denominated	21 December 2018 to 2 June 2021	8.5% - 12.35%	**3 373**	3 365
- USD denominated	23 April 2023	6.25%	**6 907**	-
- GBP denominated	28 October 2021	8.50%	**1 099**	-
- Other currencies	1 December 2021 and 29 March 2022	7.48% - 10.36%	**156**	154
Floating rate bonds			**16 904**	15 414
- ZAR denominated	21 December 2018 to 8 December 2022	Three month JIBAR +225 bps to 415 bps	**13 973**	12 618
- USD denominated	9 April 2019	Six month LIBOR + 415 bps	**2 416**	2 288
- Other currencies	1 December 2021 and 29 March 2022	Three month JIBAR +250 bps and bank rate + 180 bps	**515**	508
Total tier 2 liabilities			**28 439**	18 933

As required by Basel III and the SARB Regulations relating to banks, qualifying Tier 2 instruments require a loss absorbency feature in the form of either a write-off or conversion to ordinary shareholders equity at the point of non-viability. As at 30 June, the instruments compliant with Basel III amounted to:

R million	2018	2017
With conversion feature	**2 416**	2 288
With write-off feature	**21 076**	11 417

27.1 Net tier 2 liabilities reconciliation

R million	2018	2017
Opening balance	**18 933**	18 004
Cash flow movements	**8 551**	941
- Proceeds from the issue of Tier 2 liabilities	**9 823**	2 909
- Repayment of Tier 2 liabilities	**(1 272)**	(1 968)
Non-cash flow movements	**955**	(12)
- Foreign exchange	**955**	(12)
Total tier 2 liabilities	**28 439**	18 933

28 SHARE CAPITAL AND SHARE PREMIUM

Share capital and share premium classified as equity

Authorised shares

	2018	2017
Ordinary shares	**6 001 688 450**	6 001 688 450
A preference shares - unlisted variable rate cumulative convertible redeemable	**198 311 550**	198 311 550
B preference shares - listed variable rate non-cumulative non-redeemable	**100 000 000**	100 000 000
C preference shares - unlisted variable rate convertible non-cumulative redeemable	**100 000 000**	100 000 000
D preference shares - unlisted variable rate cumulative redeemable	**100 000 000**	100 000 000

Issued shares

	2018			2017		
	Number of shares	**Ordinary share capital R million**	**Share premium R million**	Number of shares	Ordinary share capital R million	Share premium R million
Opening balance	**5 609 488 001**	**56**	**8 056**	5 609 488 001	56	8 056
Total issued ordinary share capital and share premium	**5 609 488 001**	**56**	**8 056**	5 609 488 001	56	8 056
Treasury shares	**(1 045 515)**	**-**	**(62)**	(311 919)	-	(96)
Total issued share capital attributable to ordinary equityholders	**5 608 442 486**	**56**	**7 994**	5 609 176 082	56	7 960
B preference shares	**45 000 000**	**-**	**4 519**	45 000 000	-	4 519
Total issued share capital attributable to equityholders		**56**	**12 513**		56	12 479

The unissued ordinary shares are under the control of the directors until the next annual general meeting.

The shareholding of subsidiaries in FirstRand Limited was 0.02% (2017: 0.01%) of total issued ordinary shares and these shares have been treated as treasury shares.

Dividends on the B preference shares are calculated at a rate of 75.56% of the prime lending rate of FNB, a division of FirstRand Bank Limited.

29 CONTINGENT CONVERTIBLE SECURITIES

On 9 December 2014, the group’s subsidiary Aldermore, issued R1 250 million (£75 million) fixed rate reset additional tier 1 perpetual subordinated contingent convertible securities.

The securities are perpetual and have no fixed redemption date. Redemption of the securities is at the option of Aldermore on 30 April 2020 and annually thereafter. The securities bear interest at an initial rate of 11.875 per cent per annum until 30 April 2020 and thereafter at the relevant reset Interest rate as provided in the Information Memorandum. Interest is payable on the securities annually in arrears on each interest payment date commencing 30 April 2015 and is non-cumulative. The borrower has the full discretion to cancel any interest scheduled to be paid on the securities.

These securities are convertible into ordinary shares of Aldermore in the event of Aldermore’s common equity ratio falling below 7%. Although there are a number of additional terms relating to events such as acquisition and wind up, there are no circumstances in which Aldermore has an unavoidable obligation to issue a variable number of its own shares.

30 SUBSIDIARIES AND NON-CONTROLLING INTERESTS

The group is an integrated financial services group comprising banking, insurance and asset management operations. The majority of the group's operations are in Africa and the United Kingdom. In addition, the group also has branches in the Channel Islands, India and London.

The group's operations are conducted through its six significant wholly-owned subsidiaries:

Subsidiary	**Operation**
FirstRand Bank Limited	Banking
FirstRand EMA Proprietary Limited	Financial services
FirstRand Investment Management Holdings Limited	Investment management
FirstRand Investment Holdings Proprietary Limited	Other activities
FirstRand International Limited*	Financial services
FirstRand Insurance Holdings Proprietary Limited	Insurance

* FirstRand International Limited acquired the entire issued share capital of Aldermore Group plc effective 1 April 2018.

With the exception of the mandatory balances with central banks, there are no other significant restrictions on the ability to transfer cash or other assets to or from entities within the group. Refer to section D of the annual financial statements for a simplified group structure.

30 SUBSIDIARIES AND NON-CONTROLLING INTERESTS continued

30.1 Acquisitions of subsidiaries

Identifiable assets acquired and liabilities assumed at the acquisition date fair value are as follows:

	Aldermore		Other insignificant acquisitions	
R million	**2018**	2017	**2018**	2017
ASSETS				
Cash and cash equivalents	**8 676**	-	**-**	71
Derivative financial instruments	**512**	-	**-**	-
Accounts receivable	**298**	-	**-**	43
Current tax asset	**-**	-	**-**	1
Advances	**147 447**	-	**-**	84
Investment securities	**11 922**	-	**-**	67
Investments in associates	**81**	-	**-**	28
Property and equipment	**68**	-	**2**	6
Investment properties	**-**	-	**570**	-
Deferred income tax asset	**58**	-	**173**	46
Intangible assets	**244**	-	**4**	186
Total assets acquired	**169 306**	-	**749**	532
LIABILITIES				
Derivative financial instruments	**266**	-	**-**	-
Creditors and accruals	**1 597**	-	**164**	83
Current tax liability	**164**	-	**-**	2
Deposits	**153 735**	-	**284**	159
Employee liabilities	**28**	-	**-**	1
Other liabilities	**-**	-	**2**	4
Deferred income tax liability	**10**	-	**38**	13
Tier 2 liabilities	**1 030**	-	**-**	-
Total liabilities acquired	**156 830**	-	**488**	262
Net asset value as at date of acquisition	**12 476**	-	**261**	270
Total goodwill is calculated as follows:				
Total cash consideration transferred	**18 311**	-	**-**	328
Total non-cash consideration transferred	**-**	-	**219**	-
Contingent consideration transferred	**-**	-	**-**	-
Less: net identifiable asset value at date of acquisition	**(12 476)**	-	**(261)**	(270)
Add: effective cash flow hedge	**651**	-	**-**	-
Less: intangible assets identified	**(2 362)**	-	**-**	-
Add: deferred tax	**537**	-	**-**	-
Add: Non-controlling interests at acquisition of contingent convertible securities (AT1)	**1 234**	-	**-**	-
Goodwill on acquisition/ (Gain from a bargain purchase)	**5 895**	-	**(42)**	58

30 SUBSIDIARIES AND NON-CONTROLLING INTERESTS continued

Significant acquisitions in 2018

Aldermore

FirstRand Limited acquired control by obtaining the entire issued share capital of Aldermore Group plc (Aldermore) through FirstRand International Limited. Aldermore is a UK-based specialist lender and savings bank. The acquisition will allow the group to expand its current UK operations, which focus on vehicle asset financing through MotoNovo. It allows the group immediate product diversification and potential subsequent cross-selling opportunities between MotoNovo and Aldermore's customer bases. The effective date of the acquisition was 1 April 2018. Aldermore is a separately reportable segment of the group.

The group's functional currency is rand and the purchase price was settled in pounds which resulted in foreign currency exposure for the group. The group hedged a portion of the purchase price in two tranches, which qualified for cash flow hedge accounting with effect from 27 September and 17 October 2017, with the fair value movements of the effective portion of the hedge recognised in other comprehensive income. At the date of acquisition, the amount of R651 million accumulated in other comprehensive income was released and adjusted against the investment in Aldermore, effectively resulting in an adjustment to the amount of goodwill recognised on consolidation.

On the acquisition of Aldermore, the outstanding deferred bonuses and long-term incentive awards of Aldermore employees were replaced with a deferred cash instrument aligned to the outstanding term of the awards. This cash instrument will vest on the same date as the original awards.

The accounting for the Aldermore business combination is provisional at 30 June 2018 due to the inherent complexity and judgement associated with identifying intangible assets, and determining the fair value of identified intangible assets and certain on-balance sheet items.

30 SUBSIDIARIES AND NON-CONTROLLING INTERESTS continued

The acquisition resulted in the recognition of the following intangible assets:

Intangible assets	Amount (R million)	Description
Broker relationship	2 201	Brokers are a vital element of the Aldermore business model. The majority of new loans are sourced through a network of non-exclusive brokers. These brokers do not have the authority to underwrite the loans, but are responsible for business origination. These relationships have been disclosed in note 19 and is amortised on a straight line basis over seven years.
Core deposit	113	The core deposit intangible asset has been recognised for the unique funding model of Aldermore. Aldermore has a cost-efficient funding structure of readily available customer and wholesale market deposits. This core deposit intangible asset has been disclosed in note 19 and is amortised on a straight line basis over two years.
Trademark (brand)	48	The Aldermore trademark is established in the challenger bank market in the UK. This trademark has been disclosed in note 19 and is amortised on a straight line basis over two years.
Goodwill	5 895	Goodwill is attributable to the synergies arising from the acquisition of Aldermore as it provides the group with access to the UK market, opportunities to diversify its business, cross-selling of products, as well as the skills and technical talent of the Aldermore workforce.

Management, together with external valuation experts, have applied judgement in identifying the intangible assets that result from the acquisition of Aldermore and have made use of estimates and assumptions in order to determine the value of each of these intangibles. The most significant intangible, other than goodwill, relates to broker relationships. The value of these broker relationships was determined by discounting the cash flows from the underlying book of advances, using a discount rate of 11.5%. The cash flows used in the calculation of the carrying value was determined after an appropriate broker attrition rate was applied. The key assumptions used in determining the carrying value of the broker relationship intangible asset is the discount rate and the attrition rates applied to the underlying advances books.

30 SUBSIDIARIES AND NON-CONTROLLING INTERESTS continued

The table below illustrates the sensitivity of the carrying value of the broker relationship intangible asset to a reasonable possible change in the discount rate or attrition rate. This assessment was performed by calculating a 1% absolute adjustment to the attrition rates applied to the underlying advances book and a 1% absolute adjustment to the discount rate applied to the cash flows. Based on the results of the sensitivity analysis performed, management is satisfied that the carrying amount of the broker relationship intangible asset is appropriate.

R million	**Sensitivity**		
	Discount rates		
	10.50%	**11.50%**	**12.50%**
Attrition rate			
+1%	**2 351**	**2 084**	**1 829**
Base case	**2 483**	**2 201**	**1 921**
-1%	**2 613**	**2 304**	**2 013**

The core deposit and trademark intangible assets are not sensitive to changes in the significant inputs and assumptions used to calculate these intangibles.

The acquired receivables consisted of advances, accounts receivable and debt investment securities. The fair value of these receivables was a reasonable approximation of the carrying value (contractual cash less cash flows not expected to be collected) of these receivables at the acquisition date. Acquisition-related expenditure of R133 million has been disclosed as operating expenditure in the consolidated income statement.

From the date of acquisition, Aldermore contributed R1 344 million of revenue (NII and NIR) and R549 million to profit before tax of the group. If the acquisition had taken place at the beginning of the current period, the group revenue and profit before tax would have been R98 298 million and R37 517 million respectively.

Other insignificant acquisitions in 2018

The group, through RMB IBD, acquired a subsidiary as a result of a restructuring transaction. This acquisition resulted in a gain on bargain purchase of R42 million. The at-acquisition fair values were reassessed to ensure the measurements appropriately reflect consideration of all available information as of the acquisition.

Other insignificant acquisitions in 2017

Other insignificant acquisitions include the acquisition of a 100% equity interest in a number of companies to enable FNB to become a leading financial services provider in Namibia. The effective date of the acquisition was 30 March 2017. This transaction included the acquisition of a commercial bank and a group of companies that provide investment and wealth management services. This acquisition resulted in the recognition of goodwill of R45 million.

30 SUBSIDIARIES AND NON-CONTROLLING INTERESTS continued

30.1.1 Acquisitions that do not result in a change of control

	RMB private equity		Other insignificant acquisitions	
R million	**2018**	2017	**2018**	2017
Carrying amount of non-controlling interest acquired	**(17)**	32	**28**	134
Consideration paid to non-controlling interest acquired	**(101)**	(121)	**(78)**	(41)
- Discharged by cash consideration	**(1)**	(121)	**(44)**	(41)
- Non-cash consideration	**(100)**	-	**(34)**	-
(Loss)/gain recognised directly in equity	**(118)**	(89)	**(50)**	93

30 SUBSIDIARIES AND NON-CONTROLLING INTERESTS continued

30.2 Disposals of subsidiaries

30.2.1 Disposals of interest in subsidiaries with loss in control

	RMB private equity		Other insignificant disposals	
R million	**2018**	2017	**2018**	2017
ASSETS				
Cash and cash equivalents	**5**	-	**401**	-
Accounts receivable	**3**	-	**-**	-
Advances	**679**	-	**-**	2 391
Investments in associates	**9**	-	**-**	-
Property and equipment	**2**	-	**-**	-
Investment properties	**448**	-	**-**	-
Deferred income tax asset	**167**	-	**-**	-
Non-current assets and disposal groups held for sale	**234**	674	**150**	-
Total assets disposed of	**1 547**	674	**551**	2 391
LIABILITIES				
Creditors and accruals	**459**	-	**-**	2 391
Current tax liability	**1**	-	**-**	-
Liabilities directly associated with disposal groups held for sale	**171**	647	**-**	-
Intergroup banking accounts	**5**	-	**-**	-
Amounts due to holding company and fellow subsidiary companies	**979**	-	**-**	-
Total liabilities disposed of	**1 615**	647	**-**	2 391
Net asset value as at date of disposal	**(68)**	27	**551**	-
Total gain on disposal is calculated as follows:				
Total consideration received	**149**	1 823	**512**	-
Total cash consideration received	**149**	1 815	**469**	-
Total non-cash consideration received	**-**	8	**43**	-
Add: non-controlling share of net asset value at disposal date	**(11)**	(8)	**18**	-
Less: group's portion of the net asset value on disposal	**68**	(27)	**(551)**	-
Gain/(loss) on disposal of controlling interest in a subsidiary	**206**	1 788	**(21)**	-
Cash flow information				
Discharged by cash consideration	**149**	1 815	**469**	-
Less: cash and cash equivalents/(overdrafts) disposed of in the subsidiary	**(5)**	-	**(401)**	-
Net cash inflow on disposal of subsidiaries	**144**	1 815	**68**	-

30 SUBSIDIARIES AND NON-CONTROLLING INTERESTS continued

Disposals in 2018

RMB Private Equity

FirstRand Investment Holdings Proprietary Limited disposed of a private equity subsidiary that was held via Corvest Holdings Proprietary Limited. A gain of R206 million was made on the disposal of the subsidiary.

Disposals in 2017

RMB Private Equity

FirstRand Investment Holdings (Pty) Limited disposed of a private equity subsidiary that was held via RMB Investments and Advisory (Pty) Limited (RMBIA). A gain of R1 788 million was made on the disposal of the subsidiary.

The group consolidates entities, including investment funds, that it controls. When the investment funds are initially established the group provides seed capital and as a result of a significant interest and other factors, the group consolidate these funds. Refer to the basis of consolidation and equity accounting section of the accounting policies for details of when the group controls investment funds in line with the requirements of IFRS 10. As the external investors increase, the group's interest decreases and the group may lose control over the fund.

Other insignificant disposals

The group consolidates entities, including investment funds, that it controls. When the investment funds are initially established the group provides seed capital and as a result of a significant interest and other factors, the group consolidate these funds. Refer to the basis of consolidation and equity accounting section of the accounting policies for details of when the group controls investment funds in line with the requirements of IFRS 10. As the external investors increase, the group's interest decreases and the group may lose control over the fund.

During the prior financial year, it was assessed that the group no longer controls one of these investment funds, but retains significant influence. The fund was no longer consolidated, but accounted for as an investment in associate.

30 SUBSIDIARIES AND NON-CONTROLLING INTERESTS continued

30.3 Non-controlling interests

The only subsidiaries that give rise to a significant non-controlling interest are First National Bank of Namibia Holdings Limited and First National Bank of Botswana Holdings Limited.

The group holds 100% of the shares in First National Bank Holdings Botswana Limited. The non-controlling interests recognised by the group results from First National Bank Holdings Botswana Limited's shareholding in FNB Botswana Limited. The non-controlling interests own 30.54% of FNB Botswana Limited.

In addition to the above the group owns less than 100% of the issued share capital of a number of private equity subsidiaries and other investments in the RMBIA sub-consolidation. The non-controlling interests recognised by the group result from RMBIA's shareholding in these subsidiaries. There is no individually significant non-controlling interest.

	First National Bank of Namibia Holdings Limited		**First National Bank Botswana Limited**	
Country of incorporation		**Namibia**		**Botswana**
% ownership held by NCI		**40.1**		**30.5**
% voting rights by NCI		**40.1**		**30.5**
R million	**2018**	2017	**2018**	2017
Balances included in the consolidated statement of financial position				
Total assets	**39 430**	37 810	**32 952**	30 129
Balances with central banks*	**345**	334	**1 014**	1 178
Total liabilities	**34 414**	33 269	**28 812**	26 573
Balances included in the consolidated statement of comprehensive income				
Interest and similar income	**3 582**	3 283	**1 928**	1 844
Non-interest revenue	**1 902**	1 654	**1 379**	1 255
Profit or loss before tax	**1 551**	1 637	**1 072**	877
Total comprehensive income	**1 059**	1 100	**951**	446
Amounts attributable to non-controlling interests				
Dividends paid to non-controlling interests	**224**	232	**133**	128
Profit or loss attributable to non-controlling interests	**439**	459	**251**	209
Accumulated balance of non-controlling interests	**2 050**	1 859	**1 195**	1 036

** These balances are not available to the group for day-to-day operational use.*

31 INVESTMENT MANAGEMENT ACTIVITIES

The following table sets out the market value of assets for which the group provides investment management services, but does not recognise the asset on its statement of financial position.

R million	2018	2017*
Assets under management	**145 678**	136 163
- Traditional products	**99 342**	81 138
- Alternative products	**46 336**	55 025

* The prior year balance has been restated by R5 450 million due to reclassification from assets under management – traditional products.

Traditional products usually comprise investments in assets such as equity shares, bonds and cash, primarily listed instruments. Alternative products managed by the group include RMB Westport associate, ETFs, credit funds, private equity funds and structured products.

32 REMUNERATION SCHEMES

R million	Notes	2018	2017
The charge to profit or loss for share-based payments is as follows:			
Conditional incentive plan		**2 214**	1 613
Other subsidiary schemes		**15**	1
Amount included in profit or loss	3	**2 229**	1 614

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

32 REMUNERATION SCHEMES continued

Description of the scheme and vesting conditions:

Conditional incentive plan	
IFRS 2 treatment	Cash settled
Description	The conditional award is a notional share based on the FirstRand Limited share price.
Vesting conditions	These awards vest after three years. The awards vest if the employment and performance conditions are met. Conditional awards are made annually and vesting is subject to specified financial and non-financial performance targets set annually by the group's remuneration committee. These corporate performance targets (CPTs) are set out below.
Valuation methodology	The conditional incentive plan (CIP) is valued using the Black Scholes option pricing model. The scheme is cash settled and is therefore repriced at each reporting date.
Valuation assumptions	
Dividend data	Management's estimates of future discrete dividends.
Market related	Interest rate is the risk free rate of return as recorded on the last day of the financial year, on a swap curve of a term equal to the expected life of the plan.
Employee related	The weighted average forfeiture rate used is based on historical forfeiture data over all schemes.

Bonuses of certain employees are deferred into a bonus conditional incentive plan. These incentives require continuous employment over the vesting period. Performance conditions consider the profitability of the relevant division. These awards vest over two years.

Corporate performance targets

The FirstRand Limited group remuneration committee sets the CPTs for each award based on the expected macroeconomic conditions and group earnings forecast over the performance period. These criteria vary from year-to-year, depending on the expectations for each of the afore mentioned variables. For vesting, the criteria must be met or exceeded, however, to avoid a binary outcome of 0% or 100% vesting, the scheme rules allow the remuneration committee the discretion to determine that the conditional awards will vest, in whole or partially, in circumstances where the performance conditions were not fulfilled.

In terms of the scheme rules, participants are not entitled to dividends on their conditional share awards during the vesting period.

32 REMUNERATION SCHEMES continued

Corporate performance targets

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

Expired schemes

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.

Currently open

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 end 30 June 2015 to the financial year end immediately preceding the vesting date. Nominal GDP is advised by the FirstRand Limited Group Treasury, Macro Strategy UnitIn addition, ROE must be equal to or greater than the cost of equity plus 5% over the three-year performance period. For vesting, the criteria must be met or exceeded, however, to avoid a binary outcome of 0% or 100% vesting, the scheme rules allow the remuneration committee the discretion to determine that the conditional awards will vest, in whole or partially, in circumstances where the performance conditions were not fulfilled.

2016 (vests in 2019) – FirstRand Limited must achieve growth in normalised EPS which equals or exceeds South African nominal GDP growth, on a cumulative basis, over the performance period from the base year-end immediately preceding the vesting period date. Nominal GDP is advised by the FirstRand group treasury, macro strategy unit; and the company delivers ROE of 18-22% over the performance period. For vesting, the criteria must be met or exceeded, however, to avoid a binary outcome of 0% or 100% vesting, the scheme rules allow the remuneration committee the discretion to determine that the conditional awards will vest, in whole or partially, in circumstances where the performance conditions were not fulfilled.

2017 (vests in 2020) – FirstRand Limited must achieve growth in normalised earnings per share, adjusted for CPI, which equals or exceeds the South African Real Gross Domestic Product (“GDP”) growth, on a cumulative basis, over the performance period from the base year-end, being 30 June 2017, to the year-end immediately preceding the vesting date. Real GDP is advised by the FirstRand Limited Group Treasury macro strategy unit and the company delivers ROE of at least 18% over the performance period. For vesting, the criteria must be met or exceeded, however, to avoid a binary outcome of 0% or 100% vesting, the scheme rules allow the remuneration committee the discretion to determine that the conditional awards will vest, in whole or partially, in circumstances where the performance conditions were not fulfilled.

32 REMUNERATION SCHEMES continued

The significant weighted average assumptions used to estimate the fair value of the conditional share awards granted are detailed below.

	2018			2017		
	Conditional incentive plan	**FNB Botswana**	**FNB Namibia**	Conditional incentive plan	FNB Botswana	FNB Namibia
Award life (years)	**2 - 3**	**5**	**5**	2 - 3	5	5
Risk free rate (%)	**6.99 - 7.61**	**7.29 - 9.45**	**5.81 - 7.69**	6.92 - 7.46	7.29 - 9.45	5.81 - 7.69
Expected dividend yield (%)	**-**	**-**	**4.52**	-	-	4.52
Expected dividend growth (%)	**-**	**15 - 20**	**-**	-	15 - 20	-

	Conditional incentive plan	
Share awards outstanding	**2018**	2017
Number of awards in force at the beginning of the year (millions)	**90.3**	89.7
Number of awards granted during the year (millions)	**38.7**	39.5
Number of awards exercised/released during the year (millions)	**(30.2)**	(35.2)
- Market value range at date of exercise/released (cents)*	**2 968 - 7 541**	1 969 - 5 317
- Weighted average (cents)	**5 443**	4 813
Number of awards forfeited during the year (millions)	**(5.6)**	(3.6)
Number of awards in force at the end of the year (millions)	**93.2**	90.4

	Conditional incentive plan			
	2018		2017	
Conditional outstanding**	**Weighted average remaining life (years)**	**Outstanding awards (millions)**	Weighted average remaining life (years)	Outstanding awards (millions)
Vesting during 2017	**-**	**-**	0.29	29.3
Vesting during 2018	**0.31**	**27.8**	1.31	29.7
Vesting during 2019	**1.31**	**35.2**	2.32	31.2
Vesting during 2020	**2.30**	**30.2**	-	-
Total conditional awards		**93.2**		90.2
Number of participants		**4 095**		3 569

* *Market values indicated above include those instances where a probability of vesting is applied to accelerated share award vesting prices due to a no-fault termination, as per the rules of the scheme.*

** *Years referenced in the rows relate to calendar years and not financial years.*

33 CONTINGENCIES AND COMMITMENTS

R million	**2018**	2017
Contingencies and commitments		
Guarantees (endorsements and performance guarantees)	**36 977**	34 006
Letters of credit	**10 681**	6 731
Total contingencies	**47 658**	40 737
Irrevocable commitments	**126 631**	119 325
Committed capital expenditure	**2 915**	3 936
Operating lease commitments	**3 588**	3 779
Other	**166**	306
Contingencies and commitments	**180 958**	168 083
Legal proceedings		
There are a number of legal or potential claims against the group, 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 made for liabilities that are expected to materialise	**181**	129
Commitments		
Commitments in respect of capital expenditure and long-term investments approved by the directors	**2 915**	3 936

33 CONTINGENCIES AND COMMITMENTS continued

33.1 Commitments under operating leases where the group is the lessee

The group'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.

	2018		
R million	**Within 1 year**	**Between 1 and 5 years**	**More than 5 years**
Office premises	**1 141**	**1 653**	**195**
Recoverable under subleases	**(4)**	**(17)**	**-**
Net office premises	**1 137**	**1 636**	**195**
Equipment and motor vehicles	**178**	**257**	**185**
Total operating lease commitments	**1 315**	**1 893**	**380**

	2017		
R million	Within 1 year	Between 1 and 5 years	More than 5 years
Office premises	1 031	2 097	138
Recoverable under subleases	(10)	(63)	(12)
Net office premises	1 021	2 034	126
Equipment and motor vehicles	188	213	197
Total operating lease commitments	1 209	2 247	323

33 CONTINGENCIES AND COMMITMENTS continued

33.2 Future minimum lease payments receivable under operating leases where the group is the lessor

The group owns various assets that are leased to third parties under non-cancellable operating leases as part of the group'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 group is the lessor are detailed below.

	2018		
R million	**Within 1 year**	**Between 1 and 5 years**	**More than 5 years**
Property	**45**	**133**	**68**
Motor vehicles	**993**	**1 390**	**-**
Total operating lease commitments	**1 038**	**1 523**	**68**

	2017		
R million	Within 1 year	Between 1 and 5 years	More than 5 years
Property	40	86	60
Motor vehicles	914	1 549	-
Total operating lease commitments	954	1 635	60

34 FAIR VALUE MEASUREMENTS

34.1 Valuation methodology

In terms of IFRS, the group is required to or elects to measure and/or disclose certain assets and liabilities at fair value. The group has established control frameworks and processes at a franchise level to independently validate its valuation techniques and inputs used to determine its fair value measurements. At a franchise level, valuation specialists are responsible for the selection, implementation and any changes to the valuation techniques used to determine fair value measurements. Valuation committees comprising representatives from key management have been established within each franchise and at an overall group level and are responsible for overseeing the valuation control process and considering the appropriateness of the valuation techniques applied in fair value measurement. The valuation models and methodologies are subject to independent review and approval at a franchise level by the required valuation specialists, valuation committees and relevant risk committees annually or more frequently if considered appropriate.

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

Non-recurring fair value measurements

Non-recurring fair value measurements are those triggered by particular circumstances and include:

- the classification of assets and liabilities as non-current assets or disposal groups held for sale under IFRS 5 where the recoverable amount is based on the fair value less costs to sell; and
- IAS 36 where the recoverable amount is based on the fair value less costs to sell.

These fair value measurements are determined on a case by case basis as they occur within each reporting period.

Financial instruments

When determining the fair value of a financial instrument, where the financial instrument has a bid or ask price (e.g. in a dealer market), the group uses a price within the bid-ask spread that is most representative of fair value in the circumstances.

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

Financial instruments not measured at fair value

This category includes assets and liabilities not measured at fair value but for which fair value disclosures are required under another IFRS e.g. financial instruments at amortised cost. Except for the amounts included under section 34.4 below, for all other financial instruments at amortised cost the carrying value is equal to or a reasonable approximation of the fair value.

34 FAIR VALUE MEASUREMENTS continued

34.2 Fair value hierarchy and measurements

The group classifies assets and liabilities measured at fair value using a fair value hierarchy that reflects whether observable or unobservable inputs are used in determining the fair value of the item. Fair value may be determined using unadjusted quoted prices in active markets for identical assets or liabilities where this is readily available and the price represents actual and regularly occurring market transactions. If this information is not available, fair value is measured using another valuation technique that maximises the use of relevant observable inputs and minimises the use of unobservable inputs.

Where a valuation model is applied and the group 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 group 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 group considers factors such as counterparty and own credit risk when making appropriate valuation adjustments.

34 FAIR VALUE MEASUREMENTS continued

Measurement of assets and liabilities at level 2

The table below sets out the valuation techniques applied by the group for recurring fair value measurements of assets and liabilities categorised as level 2.

Instrument	Valuation technique	Description of valuation technique and main assumptions	Observable inputs
Derivative financial instruments			
Forward rate agreements	Discounted cash flows	Future cash flows are projected using a forward curve and then discounted using a market-related discount curve over the contractual period. The reset date is determined in terms of legal documents.	Market interest rates, interest rate curves and credit spreads
Swaps	Discounted cash flows	Future cash flows are projected using a forward curve and then discounted using a market-related discount curve over the contractual period. The reset date of each cash flows is determined in terms of legal documents.	Market interest rates and interest rate, credit and currency basis curves
Options	Option pricing model	The Black Scholes model is used.	Strike price of the option, market related discount rate and forward rate
Forwards	Discounted cash flows	Future cash flows are projected using a forward curve and then discounted using a market-related discount curve over the contractual period. Projected cash flows are obtained by subtracting the strike price of the forward contract from the market projected forward value.	Spot price of underlying instrument, interest rate curves and dividend yield
Equity derivatives	Industry standard models	The models calculate fair value based on input parameters such as share prices, dividends, volatilities, interest rates, equity repo curves and, for multi-asset products, correlations. Unobservable model inputs are determined by reference to liquid market instruments and applying extrapolation techniques to match the appropriate risk profile.	Market interest rates, interest rate curves, volatilities, dividends and share prices

34 FAIR VALUE MEASUREMENTS continued

Instrument	Valuation technique	Description of valuation technique and main assumptions	Observable inputs
Loans and advances to customers			
Other loans and advances	Discounted cash flows	Future cash flows are discounted using market-related interest rates adjusted for credit inputs, over the contractual period. In the event that credit spreads are observable for a counterparty, loans and advances to customers are classified as level 2 of the fair value hierarchy.	Market interest rates, interest rate curves and credit spreads
Investment securities			
Equities listed in an inactive market	Discounted cash flows	For listed equities, the listed price is used where the market is active (i.e. level 1). However, if the market is not active and the listed price is not representative of fair value, a valuation technique is used to determine the fair value. The valuation technique will be based on risk parameters of comparable securities and the potential pricing difference in spread and/or price terms with the traded comparable is considered. Future cash flows are discounted using market-related interest rates. Where the valuation technique incorporates observable inputs, level 2 of the fair value hierarchy is deemed appropriate.	Market interest rates and interest rate curves
Unlisted bonds or bonds listed in an inactive market	Discounted cash flows	Unlisted bonds or bonds listed in an inactive market are valued similarly to advances measured at fair value. Future cash flows are discounted using market-related interest rates adjusted for credit inputs, over the contractual period. Where the valuation technique incorporates observable inputs for credit risk, level 2 of the fair value hierarchy is deemed appropriate.	Market interest rates and interest rate curves
Unlisted equities	Price earnings (P/E) model and discounted cash flows	For unlisted equities, the earnings included in the model are derived from a combination of historical and budgeted earnings depending on the specific circumstances of the entity whose equity is being valued. The P/E multiple is derived from current market observations taking into account an appropriate discount for unlisted companies. The valuation of these instruments may be corroborated by a discounted cash flow valuation or by the observation of other market transactions that have taken place in which case level 2 classifications are used.	Market transactions

34 FAIR VALUE MEASUREMENTS continued

Instrument	Valuation technique	Description of valuation technique and main assumptions	Observable inputs
Investment securities continued			
Negotiable certificates of deposit	Discounted cash flows	Future cash flows are discounted using market-related interest rates. Inputs to these models include information that is consistent with similar market quoted instruments, where available.	Market interest rates and interest rate curves
Treasury bills and other government and government guaranteed stock	JSE Debt Market bond pricing model	The JSE Debt Market bond pricing model uses the JSE Debt Market mark-to-market bond yield.	Market interest rates and interest rate curves
Non-recourse investments	Discounted cash flows	Future cash flows are discounted using a discount rate which is determined as a base rate plus a spread. The base rate is determined by the legal agreements as either a bond or swap curve. The spread approximates the level of risk attached to the cash flows. When there is a change in the base rate in the market, the valuation is adjusted accordingly. The valuation model is calibrated to reflect transaction price at initial recognition.	Market interest rates and interest rate curves
Investments in funds and unit trusts	Third party valuations	For certain investments in funds (such as hedge funds) or unit trusts, where an internal valuation technique is not applied, the group places reliance on valuations from third parties such as broker quotes or valuations from asset managers. Where considered necessary, the group applies minority and marketability or liquidity discount adjustments to these third party valuations. Third party valuations are reviewed by the relevant franchise's investment committee on a regular basis. Where these underlying investments are listed, these third party valuations can be corroborated with reference to listed share prices and other market data and are thus classified in level 2 of the fair value hierarchy.	Market transactions (listed)

34 FAIR VALUE MEASUREMENTS continued

Instrument	Valuation technique	Description of valuation technique and main assumptions	Observable inputs
Deposits			
Call and non-term deposits	None - the undiscounted amount is used	The undiscounted amount of the deposit is the fair value due to the short-term nature of the instruments. These deposits are financial liabilities with a demand feature and the fair value is not less than the amount payable on demand i.e. the undiscounted amount of the deposit.	None - the undiscounted amount approximates fair value and no valuation is performed
Non-recourse deposits	Discounted cash flows	Fair value for interest rate and foreign exchange risk with no valuation adjustment for own credit risk. Valuation adjustments are affected by changes in the applicable credit ratings of the assets.	Market interest rates, foreign exchange rates and credit inputs
Other deposits	Discounted cash flows	The forward curve adjusted for liquidity premiums and business unit margins. The valuation methodology does not take early withdrawals and other behavioural aspects into account.	Market interest rates and interest rate curves
Other liabilities	Discounted cash flows	Future cash flows are discounted using market-related interest rates. Where the value of a liability is linked to the performance of an underlying and the underlying is observable, these liabilities are classified at level 2.	Market interest rates or performance of underlying
Policyholder liabilities under investment contracts			
Unit-linked contracts or contracts without fixed benefits	Adjusted value of underlying assets	The underlying assets related to the contracts are recognised by the group. The investment contracts require the group to use these assets to settle the liabilities. The fair value of investment contract liabilities, therefore, is determined with reference to the fair value of the underlying assets. The fair value is determined using the current unit price of the underlying unitised assets linked to the liability and multiplying this by the number of units attributed to the policyholders at reporting date. The fair value of the liability is never less than the amount payable on surrender, discounted for the required notice period where applicable.	Spot price of underlying

34 FAIR VALUE MEASUREMENTS continued

Instrument	Valuation technique	Description of valuation technique and main assumptions	Observable inputs
Policyholder liabilities under investment contracts continued			
Contracts with fixed and guaranteed terms	Discounted cash flows	The liability fair value is the present value of the future payments, adjusted using appropriate market-related yield curves to maturity.	Market interest rates and interest rate curves
Financial assets and liabilities not measured at fair value but for which fair value is disclosed	Discounted cash flows	Future cash flows are discounted using market-related interest rates and curves adjusted for credit inputs.	Market interest rates and interest rate curves

Measurement of assets and liabilities at level 3

The table below sets out the valuation techniques applied by the group for recurring fair value measurements of assets and liabilities categorised as level 3.

Instrument	Valuation technique	Description of valuation technique and main assumptions	Significant unobservable inputs of level 3 items
Derivative financial instruments			
Option	Option pricing model	The Black Scholes model is used.	Volatilities
Equity derivatives	Industry standard models	The models calculate fair value based on input parameters such as share prices, dividends, volatilities, interest rates, equity repo curves and, for multi-asset products, correlations. Unobservable model inputs are determined by reference to liquid market instruments and applying extrapolation techniques to match the appropriate risk profile.	Volatilities and unlisted share prices

34 FAIR VALUE MEASUREMENTS continued

Instrument	Valuation technique	Description of valuation technique and main assumptions	Significant unobservable inputs of level 3 items
Loans and advances to customers			
Investment banking book	Discounted cash flows	The group has elected to designate a significant portion of the investment banking book of advances at fair value through profit or loss. Credit risk is not observable and could have a significant impact on the fair value measurement of these advances and as such, these advances are classified as level 3 on the fair value hierarchy. Future cash flows are discounted using market-related interest rates, adjusted for credit inputs. To calculate the fair value of credit the group uses a valuation methodology based on the credit spread matrix, which considers loss given default, tenor and the internal credit committee rating criteria. The fair value measurement includes the original credit spread and is repriced when there is a change in rating of the counterparty. A decline in credit rating would result in an increase in the spread above the base rate for discounting purposes and consequently a reduction of the fair value of the advance. Similarly an increase in credit rating would result in a decrease in the spread below the base rate and an increase of the fair value of the advance.	Credit inputs
Other loans and advances	Discounted cash flows	Future cash flows are discounted using market-related interest rates adjusted for credit inputs, over the contractual period. Although the fair value of credit is not significant year-on-year it may become significant in future. For this reason, together with the fact that the majority of South African counterparties do not have actively traded or observable credit spreads, the group has classified other loans and advances to customers at level 3 of the fair value hierarchy.	Credit inputs

34 FAIR VALUE MEASUREMENTS continued

Instrument	Valuation technique	Description of valuation technique and main assumptions	Significant unobservable inputs of level 3 items
Investment securities			
Equities listed in an inactive market	Discounted cash flows	For listed equities, the listed price is used where the market is active (i.e. level 1). However, if the market is not active and the listed price is not representative of fair value, a valuation technique is used to determine the fair value. The valuation technique will be based on risk parameters of comparable securities and the potential pricing difference in spread and/or price terms with the traded comparable is considered. Future cash flows are discounted using market-related interest rates. Where the valuation technique incorporates unobservable inputs for equities, e.g. PE ratios, level 3 of the fair value hierarchy is deemed appropriate.	Unobservable P/E ratios
Unlisted bonds or bonds listed in an inactive market	Discounted cash flows	Unlisted bonds or bonds in an inactive market are valued similarly to advances measured at fair value. Future cash flows are discounted using market-related interest rates adjusted for credit inputs, over the contractual period. Where the valuation technique incorporates unobservable inputs for credit risk, level 3 of the fair value hierarchy is deemed appropriate.	Credit inputs
Unlisted equities	P/E model and discounted cash flows	For unlisted equities, the earnings included in the model are derived from a combination of historical and budgeted earnings depending on the specific circumstances of the entity whose equity is being valued. The P/E multiple is derived from current market observations taking into account an appropriate discount rate for unlisted companies. The valuation of these instruments may be corroborated by a discounted cash flow valuation or by the observation of other market transactions that have taken place.	Growth rates and P/E ratios

34 FAIR VALUE MEASUREMENTS continued

Instrument	Valuation technique	Description of valuation technique and main assumptions	Significant unobservable inputs of level 3 items
Investment securities continued			
Investments in funds and unit trusts	Third party valuations	For certain investments in funds (such as hedge funds) or unit trusts, where an internal valuation technique is not applied, the group places reliance on valuations from third parties such as broker quotes or valuations from asset managers. Where considered necessary, the group applies minority and marketability or liquidity discount adjustments to these third party valuations. Third party valuations are reviewed by the relevant franchise's investment committee on a regular basis. Where these underlying investments are unlisted, the group has classified these at level 3 of the fair value hierarchy, as there is no observable market data to which to compare the third party valuations.	None (unlisted) – third party valuations used, minority and marketability adjustments
Investment properties	Adjusted market prices	The fair value of investment properties is determined by obtaining a valuation from an independent professional valuer not related to the group. This fair value is based on observable market prices adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. Variables are obtained through surveys and comparable recent market transactions not publicly quoted. These valuations are reviewed annually by a combination of independent and internal valuation experts. The fair value is based on unobservable income capitalisation rate inputs. These rates are impacted predominantly by expected market rental growth, contract tenure, occupancy rates and vacant periods that arise on expiry of existing contracts. The fair value of these properties will change favourably with increases in the expected market rental growth, contract tenure and occupancy rates and decreases in the average vacant period; and unfavourably if the inverse occurs.	Income capitalisation rates

34 FAIR VALUE MEASUREMENTS continued

Instrument	Valuation technique	Description of valuation technique and main assumptions	Significant unobservable inputs of level 3 items
Deposits			
Deposits that represent collateral on credit-linked notes	Discounted cash flows	These deposits represent the collateral leg of credit-linked notes. The forward curve adjusted for liquidity premiums and business unit margins is used. The valuation methodology does not take early withdrawals and other behavioural aspects into account.	Credit inputs on related advances
Other deposits	Discounted cash flows	The forward curve adjusted for liquidity premiums and business unit margins. The valuation methodology does not take early withdrawals and other behavioural aspects into account.	Credit inputs
Other liabilities	Discounted cash flows	For preference shares which require the group to share a portion of profits of underlying contracts with a third party, the value of the liability is linked to the performance of the underlying. Where the underlying is not observable, these liabilities are classified as level 3. Future cash flows are discounted using market-related interest rates, adjusted for the performance of the underlying contracts.	Performance of underlying contracts
Financial assets and liabilities not measured at fair value but for which fair value is disclosed	Discounted cash flows	Future cash flows are discounted using market-related interest rates and curves adjusted for credit inputs.	Credit inputs

34 FAIR VALUE MEASUREMENTS continued

Non-recurring fair value measurements

For non-recurring fair value measurements, the fair value hierarchy classification and valuation technique applied in determining fair value will depend on the underlying asset or liability being measured. Where the underlying assets or liabilities are those for which recurring fair value measurements are required as listed in the table above, the technique applied and the inputs into the models would be in line with those as set out in the table.

2018

There were no non-recurring fair value measurements during the year.

2017

An investment in a subsidiary was classified as a disposal group held for sale in the prior year. The assets and liabilities in the disposal group were measured at fair value less costs to sell and classified as level 2 and level 3 on the fair value hierarchy, depending on the nature of the specific underlying asset and liability. Further details have been provided in note 14.

During the prior year impairments were recognised for assets that are measured at fair value on a non-recurring basis. Further details have been provided in note 3.

34 FAIR VALUE MEASUREMENTS continued

34.2.1 Fair value hierarchy

The following table presents the fair value measurements and fair value hierarchy of assets and liabilities of the group which are recognised at fair value.

	2018			
R million	Level 1	Level 2	Level 3	Total fair value
Assets				
Recurring fair value measurements				
Derivative financial instruments	244	41 692	563	42 499
Advances	-	25 826	171 237	197 063
Investment securities	122 031	37 287	2 394	161 712
Non-recourse investments	-	11 160	-	11 160
Commodities	13 424	-	-	13 424
Investment properties	-	-	754	754
Total fair value assets - recurring	135 699	115 965	174 948	426 612
Non-recurring fair value measurements				
Non-current assets and disposal groups held for sale	-	-	-	-
Total fair value assets - non-recurring	-	-	-	-
Liabilities				
Recurring fair value measurements				
Short trading positions	9 999	-	-	9 999
Derivative financial instruments	21	50 303	630	50 954
Deposits	1 354	93 226	514	95 094
Non-recourse deposits	-	11 160	-	11 160
Other liabilities	-	1 974	1 586	3 560
Policyholder liabilities under investment contracts	3 877	-	-	3 877
Total fair value liabilities - recurring	15 251	156 663	2 730	174 644
Non-recurring fair value measurements				
Liabilities associated with disposal groups held for sale	-	-	-	-
Total fair value liabilities - non-recurring	-	-	-	-

34 FAIR VALUE MEASUREMENTS continued

	2017			
R million	Level 1	Level 2	Level 3	Total fair value
Assets				
Recurring fair value measurements				
Derivative financial instruments	268	35 183	8	35 459
Advances	-	31 236	199 179	230 415
Investment securities	86 118	38 931	2 230	127 279
Non-recourse investments	-	10 369	-	10 369
Commodities	14 380	-	-	14 380
Investment properties	-	-	399	399
Total fair value assets - recurring	100 766	115 719	201 816	418 301
Non-recurring fair value measurements				
Non-current assets and disposal groups held for sale	-	188	79	267
Total fair value assets - non-recurring	-	188	79	267
Liabilities				
Recurring fair value measurements				
Short trading positions	15 276	-	-	15 276
Derivative financial instruments	307	43 863	233	44 403
Deposits	1 962	75 482	536	77 980
Non-recourse deposits	-	10 369	-	10 369
Other liabilities	-	2 226	1 543	3 769
Policyholder liabilities under investment contracts	-	3 150	-	3 150
Total fair value liabilities - recurring	17 545	135 090	2 312	154 947
Non-recurring fair value measurements				
Liabilities associated with disposal groups held for sale	-	123	-	123
Total fair value liabilities - non-recurring	-	123	-	123

34 FAIR VALUE MEASUREMENTS continued

34.3 Additional disclosures for level 3 financial instruments

34.3.1 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.

	2018		
R million	**Transfers in**	**Transfers out**	**Reasons for significant transfers in**
Level 1	**-**	**-**	There were no transfers into level 1.
Level 2	**34**	**(1 101)**	Certain over the counter equity options have been transferred to level 2 in the current year because the inputs used in the valuation of these positions have become observable as the maturity of these trades are less than twelve months.
Level 3	**1 101**	**(34)**	Market volatilities are only available for a limited range of strike prices. The further away over the counter equity options are from their trade date, the more likely it becomes that their strike prices are outside the prevailing range of strike prices for which volatilities are available. During the current year, the observability of volatilities used in determining the fair value of certain over the counter equity options became unobservable and resulted in the transfer into level 3 of the fair value hierarchy.
Total transfers	**1 135**	**(1 135)**	

	2017		
R million	Transfers in	Transfers out	Reasons for significant transfers in
Level 1	-	-	There were no transfers into level 1.
Level 2	-	(38)	There were no transfers into level 2.
Level 3	38	-	The JSE publishes volatilities of strike prices of options between 70% and 130%. Any volatility above or below this range results in inputs becoming unobservable. During the year the observability of volatilities used in determining the fair value of certain over the counter options became unobservable and resulted in the transfer of R38 million out of level 2 into level 3 of the fair value hierarchy.
Total transfers	38	(38)	

34 FAIR VALUE MEASUREMENTS continued

34.3 Additional disclosures for level 3 financial instruments

34.3.2 Changes in level 3 instruments with recurring fair value measurements

The following table shows a reconciliation of the opening and closing balances for assets and liabilities measured at fair value on a recurring basis classified as level 3 in terms of the fair value hierarchy.

R million	Derivative financial assets	Advances	Investment securities	Investment properties
Balance as at 30 June 2016	62	204 736	2 380	386
Gains/losses recognised in profit or loss	(54)	15 295	80	-
Gains/losses recognised in other comprehensive income	-	(1)	(21)	-
Purchases, sales, issue and settlements	-	(18 910)	(192)	13
Acquisitions/disposals of subsidiaries	-	(947)	-	-
Net transfer into level 3	-	-	-	-
Exchange rate differences	-	(994)	(17)	-
Balance as at 30 June 2017	**8**	**199 179**	**2 230**	**399**
Gains/losses recognised in profit or loss	**(17)**	**15 889**	**186**	**33**
Gains/losses recognised in other comprehensive income	**-**	**(1)**	**(7)**	**-**
Purchases, sales, issue and settlements	**40**	**(44 096)**	**(63)**	**2**
Acquisitions/disposals of subsidiaries	**-**	**-**	**-**	**320**
Net transfer into level 3	**532**	**-**	**31**	**-**
Exchange rate differences	**-**	**266**	**17**	**-**
Balance as at 30 June 2018	**563**	**171 237**	**2 394**	**754**

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.

Gains/losses on advances classified in level 3 of the hierarchy comprise gross interest income on advances, fair value of credit adjustments and adjustments to changes in currency and base rates. These instruments are funded by liabilities and the risk inherent is hedged by interest rate or foreign currency swaps. The corresponding gross interest expense is not disclosed in the fair value note as these items are typically measured at amortised cost.

	Derivative financial liabilities	Other liabilities	Deposits
	128	1 479	679
	71	175	(33)
	-	-	-
	(5)	(110)	(103)
	-	-	-
	38	-	-
	1	(1)	(7)
	233	**1 543**	**536**
	(107)	**160**	**23**
	-	**-**	**-**
	1	**(151)**	**(51)**
	-	**33**	**-**
	504	**-**	**-**
	(1)	**1**	**6**
	630	**1 586**	**514**

34 FAIR VALUE MEASUREMENTS continued

34.3.2 Unrealised gains or losses on level 3 instruments with recurring fair value measurements

The valuation model for level 3 assets or liabilities typically relies on a number of inputs that are readily observable either directly or indirectly. Thus, the gains and losses presented below include changes in the fair value related to both observable and unobservable inputs.

The table below presents the total gains/losses relating to remeasurement of assets and liabilities carried at fair value on a recurring basis classified in level 3 that are still held at reporting date. With the exception of interest on funding instruments and available-for-sale financial assets, all gains or losses are recognised in non-interest revenue.

	2018		2017	
R million	**Gains/losses recognised in the income statement**	**Gains/losses recognised in other comprehensive income**	Gains/losses recognised in the income statement	Gains/losses recognised in other comprehensive income
Assets				
Derivative financial instruments	**11**	**-**	8	-
Advances*	**12 026**	**(1)**	12 148	(1)
Investment securities	**84**	**(7)**	257	(21)
Investment properties	**29**	**-**	-	-
Total	**12 150**	**(8)**	12 413	(22)
Liabilities				
Derivative financial instruments	**(299)**	**-**	(72)	-
Deposits	**24**	**-**	(27)	-
Other liabilities	**43**	**-**	97	-
Total	**(232)**	**-**	(2)	-

* *Amount is mainly accrued interest on fair value loans and advances and movements in interest rates and foreign currency that have been economically hedged. This is the portion of RMB's advances that are classified as fair value to effectively manage the interest rate and foreign exchange risk on these portfolios. These are classified as level 3 primarily as credit spreads could be a significant input, and are not observable for loans and advances in most of RMB's key markets. Refer to page C195 where the income statement impact of the credit fair value adjustments is disclosed. Inputs relating to interest rates and foreign currencies are regarded as observable.*

Decreases in level 3 assets and liabilities are included in brackets. Decreases in the value of assets may be as a result of losses, sales and settlements or the disposal of subsidiaries. Decreases in the value of liabilities may be as a result of gains, settlements or the acquisition of subsidiaries.

34 FAIR VALUE MEASUREMENTS continued

34.3.3 Effect of changes in significant unobservable assumptions of level 3 financial instruments to reasonably possible alternatives

The table below illustrates the sensitivity of the significant inputs when changed to reasonably possible alternative inputs.

Asset/liability	Significant unobservable inputs	Unobservable input to which reasonably possible changes are applied	Reasonably possible changes applied
Derivative financial instruments	Volatilities	Volatilities	Increased and decreased by 10%.
Advances	Credit	Scenario analysis	A range of scenarios are run as part of the group's credit risk management process for advances measured at fair value through profit or loss to determine credit losses and change in credit spreads in various economic conditions. The probability of default is adjusted either upwards or downwards versus the base case.
Investment securities	Credit, growth rates and P/E ratios of unlisted investments	Credit, growth rates or P/E ratios of unlisted investments	Increased and decreased by 10%.
Deposits	Credit risk of the cash collateral leg of credit linked notes	Credit migration matrix	The deposits included in level 3 of the hierarchy represent the collateral leg of credit-linked notes. The most significant unobservable input in determining the fair value of the credit-linked notes is the credit risk component. The sensitivity to credit risk has been assessed in the same way as for advances using the credit migration matrix with the deposit representing the cash collateral component thereof.
Other liabilities	Performance of underlying contracts	Profits on the underlying contracts	Increased and decreased by 1%.

34 FAIR VALUE MEASUREMENTS continued

R million	2018 Reasonably possible alternative fair value			2017 Reasonably possible alternative fair value		
	Fair value	Using more positive assump-tions	Using more negative assump-tions	Fair value	Using more positive assump-tions	Using more negative assump-tions
Assets						
Derivative financial instruments	**563**	**569**	**556**	8	11	4
Advances	**171 237**	**171 958**	**170 603**	199 179	199 854	198 783
Investment securities	**2 394**	**2 598**	**2 254**	2 230	2 394	2 100
Total financial assets measured at fair value in level 3	**174 194**	**175 125**	**173 413**	201 417	202 259	200 887
Liabilities						
Derivative financial instruments	**630**	**624**	**637**	233	227	246
Deposits	**514**	**460**	**551**	536	526	547
Other liabilities	**1 586**	**1 566**	**1 607**	1 543	1 526	1 561
Total financial liabilities measured at fair value in level 3	**2 730**	**2 650**	**2 795**	2 312	2 279	2 354

34 FAIR VALUE MEASUREMENTS continued

34.4 Financial instruments not measured at fair value

The following represents the fair values of financial instruments not carried at fair value on the statement of financial position but for which fair value is required to be disclosed. For all other financial instruments, the carrying value is equal to or a reasonable approximation of the fair value.

	2018				
R million	Carrying value	Total fair value	Level 1	Level 2	Level 3
Assets					
Advances	**924 165**	**928 641**	**-**	**112 085**	**816 556**
Investment securities	**36 065**	**35 985**	**31 917**	**2 827**	**1 241**
Total financial assets at amortised cost	**960 230**	**964 626**	**31 917**	**114 912**	**817 797**
Liabilities					
Deposits	**1 161 194**	**1 161 975**	**3 959**	**980 291**	**177 725**
Other liabilities	**3 429**	**3 429**	**-**	**1 289**	**2 140**
Tier 2 liabilities	**28 439**	**28 881**	**-**	**28 881**	**-**
Total financial liabilities at amortised cost	**1 193 062**	**1 194 285**	**3 959**	**1 010 461**	**179 865**

	2017				
R million	Carrying value	Total fair value	Level 1	Level 2	Level 3
Assets					
Advances	662 691	667 600	-	105 381	562 219
Investment securities	29 779	29 843	22 121	6 995	727
Total financial assets at amortised cost	692 470	697 443	22 121	112 376	562 946
Liabilities					
Deposits	895 180	897 677	41	888 725	8 911
Other liabilities	2 602	2 601	-	967	1 634
Tier 2 liabilities	18 933	19 242	-	19 242	-
Total financial liabilities at amortised cost	916 715	919 520	41	908 934	10 545

34.5 Day 1 profit or loss

The following table represents the aggregate difference between transaction price and fair value based on a valuation technique yet to be recognised in profit or loss.

R million	2018	2017
Opening balance	**51**	39
Day 1 profits or losses not recognised on financial instruments initially recognised in the current year	**13**	17
Amount recognised in profit or loss as a result of changes which would be observable by market participants	**(10)**	(5)
Closing balance	**54**	51

34 FAIR VALUE MEASUREMENTS continued

34.6 Financial instruments designated at fair value through profit or loss

Financial instruments designated at fair value through profit or loss	
Different methods are used to determine the current period and cumulative changes in fair value attributable to credit risk due to the differing inherent credit risk of these instruments. The methods used are:	
Financial assets	**Advances** The change in credit risk is the difference between the fair value of advances based on the original credit spreads (as determined using the group's credit spread pricing matrix) and the fair value of advances based on the most recent credit spreads where there has been a change in the credit risk of the counterparty. The group uses its own annual credit review process to determine if there has been a change in the credit rating or PD of the counterparty. **Investment securities** The change in fair value due to credit risk for investments designated at fair value through profit or loss is calculated by stripping out the movements that result from a change in market factors that give rise to market risk. The change in fair value due to credit risk is then calculated as the balancing figure, after deducting the movement due to market risk from the total movement in fair value.
Financial liabilities	Determined with reference to changes in the mark-to-market yields of own issued bonds. The change in fair value of financial liabilities due to changes in credit risk is immaterial.

34 FAIR VALUE MEASUREMENTS continued

34.6.1 Loans and receivables designated as at fair value through profit or loss

Certain financial assets designated at fair value also meet the definition of loans and receivables in terms of IAS 39. The table below contains details on the change in credit risk attributable to these financial assets.

	2018			
			Change in fair value	
			Due to credit risk	
R million	Carrying value	Mitigated credit risk	Current period	Cumulative
Advances	**173 389**	**4 325**	**405**	**(1 702)**
Investment securities	**10 178**	**-**	**-**	**-**
Non-recourse investments	**11 160**	**-**	**-**	**-**
Total	**194 727**	**4 325**	**405**	**(1 702)**

	2017			
			Change in fair value	
			Due to credit risk	
R million	Carrying value	Mitigated credit risk	Current period	Cumulative
Advances	211 192	4 460	(63)	(2 137)
Investment securities	6 416	-	-	-
Non-recourse investments	10 369	-	-	-
Total	227 977	4 460	(63)	(2 137)

Losses are indicated with brackets.

34.6.2 Financial liabilities designated at fair value through profit or loss

	2018		2017	
R million	Fair value	Contractually payable at maturity	Fair value	Contractually payable at maturity
Deposits	**95 094**	**95 708**	77 980	78 068
Non-recourse deposits	**11 160**	**11 816**	10 369	6 263
Other liabilities	**3 560**	**3 690**	3 769	3 706
Policyholder liabilities under investment contracts	**3 877**	**3 877**	3 150	3 150
Total	**113 691**	**115 091**	95 268	91 187

The change in the fair value of these liabilities due to own credit risk is not material.

34.7 Total fair value income included in profit or loss for the year

R million	2018	2017
Total fair value income for the year has been disclosed as:		
Fair value gains and losses included in non-interest revenue	**7 027**	6 231
Fair value of credit of advances included in impairment of advances	**376**	(274)

35 SEGMENT INFORMATION

35.1 Reportable segments

Segment reporting		
Group's chief operating decision maker	Chief executive officer.	
Identification and measurement of operating segments	Aligned with internal reporting provided to the CEO and reflects the risks and rewards related to the segments' specific products and services offered in their specific markets. Operating segments whose total revenue, absolute profit or loss for the period or total assets are 10% or more of all the segments' revenue, profit or loss or total assets, are reported separately.	
Major customers	The FirstRand group has no major customer as defined (i.e. revenue from the customer exceeds 10% of total revenue) and is, therefore, not reliant on the revenue from one or more major customers.	
Reportable segments		
	Products and services	**Footprint**
FNB *Retail and commercial*	FNB offers a diverse set of financial products and services to market segments including consumer, small business, agricultural, medium corporate, parastatals and government entities. FNB's products cover the entire spectrum of financial services – transactional, lending, insurance, investment and savings – and include mortgage loans, credit and debit cards, personal loans, funeral and credit life insurance policies, and savings and investment products. Services include transactional and deposit-taking, card acquiring, credit facilities, insurance and FNB distribution channels (branch network, ATMs, call centres, cellphone and online).	FNB operates in South Africa, Namibia, Botswana, Lesotho, Swaziland, Zambia, Mozambique, Tanzania and Ghana.

35 SEGMENT INFORMATION CONTINUED

	Products and services	Footprint
RMB *Corporate and investment banking*	RMB offers advisory, financing, trading, corporate banking and principal investing solutions. RMB's business units include global markets, investment banking, private equity and corporate banking.	RMB has offices in South Africa, Namibia, Botswana and Nigeria, and manages FirstRand Bank's representative offices in Kenya. It also operates in the UK, India, China and the Middle East (through FirstRand Bank branches and representative offices), and in Zambia, Tanzania, Mozambique, Swaziland, Lesotho and Ghana through FirstRand subsidiaries.
Reportable segments		
	Products and services	**Footprint**
WesBank *Instalment finance*	WesBank offers asset-based finance in the retail, commercial and corporate segments, operating primarily through alliances and JVs with leading motor manufacturers, suppliers and dealer groups where it has built up a strong point-of-sale presence. WesBank also provides personal loans through its subsidiary, Direct Axis. Through the MotoVantage brand, WesBank provides insurance and related value-added products into the motor sector.	WesBank offers asset-based finance and personal loans in South Africa and Africa. Through MotoNovo Finance, it operates in the asset-based motor finance sector in the UK.
	Products and services	**Footprint**
Aldermore	Aldermore offers a diverse set of products and services to market segments including small and medium enterprises (SMEs), commercial property investors, individuals and companies. Aldermore offers asset finance, invoice finance, SME commercial mortgages, buy-to-let mortgages and residential mortgages.	Aldermore operates in the UK.

35 SEGMENT INFORMATION CONTINUED

FCC and other	
Key group-wide functions	Group-wide functions include group treasury (capital, liquidity and financial resource management), group finance, group tax, enterprise risk management, regulatory risk management and group internal audit. FCC has a custodianship mandate which includes managing relationships on behalf of the group with key external stakeholders (e.g. shareholders, debt holders, regulators) and the ownership of key group strategic frameworks (e.g. performance measurement, risk/reward). Its objective is to ensure the group delivers on its commitments to stakeholders. The reportable segment includes all management accounting and consolidated entries. Ashburton Investments offers focused traditional and alternative investment solutions to individual and institutional investors and combines established active fund management expertise with alternative investment solutions from product providers across the FirstRand group. Ashburton Investments' results are included in this reportable segment as these are not material on a segmental basis.

35.2 Description of normalised adjustments

Normalised adjustments
The group believes that normalised earnings more accurately reflect its economic performance. Headline earnings are adjusted to take into account non-operational items and accounting anomalies. IFRS earnings are, therefore, adjusted to take into account headline earnings adjustments, non-operational items and accounting anomalies. This is, therefore, the measurement basis used by the chief operating decision maker to manage the group. These adjustments include reallocation entries where amounts are moved between income statement lines and lines of the statement of financial position, without having an impact on the IFRS profit or loss for the year, and total assets and total liabilities reported in terms of IFRS. Other normalised adjustments have an impact on the profit or loss reported for the period. In the past, these normalised adjustments were processed at a total profit for the year level. Based on a change in the internal method of management reporting, these entries are now processed above the profit line on a line-by-line basis at a franchise level.

35 SEGMENT INFORMATION CONTINUED

35.2 Description of normalised adjustments continued

Normalised adjustments	
Consolidated private equity subsidiaries	In accordance with IFRS, operating costs of consolidated private equity subsidiaries are included in profit or loss as part of operating expenses. When calculating normalised results, these operating costs are reclassified to NIR, where income earned from these entities is included. This presentation of net income earned from consolidated private equity subsidiaries more accurately reflects the underlying economic substance of the group's relationship with these entities.
FirstRand shares held for client trading activities	The group invests in FirstRand shares to offset its exposure as a result of client trading positions. Depending on the nature of the client trading position and resulting risks, FirstRand shares may be held long or sold short by the group. In terms of IAS 32, FirstRand shares held by the group are deemed to be treasury shares for accounting purposes. For the statement of financial position, the cost price of FirstRand shares held long is deducted from equity and the consideration received from selling FirstRand shares short is added back to equity. All associated gains and losses on FirstRand shares are eliminated to profit or loss. In addition, in terms of IAS 28, upstream and downstream profits are eliminated when equity accounting is applied, and, in terms of IAS 32, profits or losses cannot be recognised on an entity's own equity instruments. For the income statement, the group's portion of the fair value change in FirstRand shares is, therefore, deducted from equity-accounted earnings and the investment recognised using the equity-accounted method. Changes in the fair value of FirstRand shares and dividends declared on these shares affect the fair value of client trading positions reflected in the statement of financial position, unless the client trading position is itself an equity instrument. The change in the fair value of client trading positions is recognised in profit or loss. However, because of the rules relating to treasury shares and the elimination of upstream and downstream profits when equity accounting is applied, the corresponding fair value changes (or the group's portion of the fair value changes) in the FirstRand shares held to match client trading positions are reversed or eliminated. This results in a mismatch in the overall equity and profit or loss of the group. For purposes of calculating normalised results, the adjustments described above are reversed and FirstRand shares held for client trading positions are treated as issued to parties external to the group. Where the client trading position is itself an equity instrument, then neither gains nor losses on client trading positions or FirstRand shares held to hedge these are reflected in profit or loss or on the statement of financial position.

35 SEGMENT INFORMATION CONTINUED

Normalised adjustments	
Margin-related items included in fair value income	In terms of IFRS, the bank is required to or has elected to measure certain financial assets and liabilities at fair value through profit or loss. In terms of the group's IFRS accounting policies, the gains or losses on these assets and liabilities are included in fair value income within non-interest revenue (NIR). This results in NIR including gains or losses that are related to lending, borrowing and economic interest rate hedges. In order to reflect the economic substance of these amounts, the amount of fair value income that relates to margin is presented in net-interest income (NII) in the normalised results. The amount reclassified from NIR to NII includes the following items: • net interest income on the wholesale advances book in RMB; • fair value gains on derivatives that are used as interest rate hedges but which do not qualify for hedge accounting; and • currency translations and associated costs inherent to the USD funding and liquidity pool.
Classification of impairment on restructured advance	Included in gross advances and impairment of advances is an amount in respect of an advance that was restructured to an equity investment. Post the restructure the group has significant influence over the counterparty and an investment in associate was recognised. The group believes that the circumstances that led to the impairment arose prior to the restructure while the advance relates to credit events rather than equity performance of the associate. For normalised reporting, therefore, the group retained the gross advance and impairment. These amounts are classified in advances rather than investments in associates as this more accurately reflects the nature of the balance.
IAS 19 Remeasurement of plan assets	In terms of IAS 19, interest income is recognised on the plan assets and set off against staff costs in the income statement. All other remeasurements of plan assets are recognised in other comprehensive income. In instances where the plan asset is a qualifying insurance policy, which has a limit of indemnity, the fair value of the plan asset is limited to that limit of indemnity. The limit of indemnity continually reduces as payments are made in terms of the insurance policy. After the recognition of interest income on the plan asset, any further adjustment required to revalue the plan asset to the limit of indemnity is recognised in other comprehensive income. To the extent, therefore, that interest income on plan assets results in an increase in the fair value of the plan asset above the limit of indemnity, a downward fair value measurement is recognised in other comprehensive income. Economically, the value of the plan asset has simply reduced with claims paid. Normalised results are adjusted to reflect this by increasing staff costs for the value of the interest on the plan assets and increasing other comprehensive income.

35 SEGMENT INFORMATION CONTINUED

Normalised adjustments	
Realisations on the sale of private equity subsidiaries	In terms of *Circular 4/2018 Headline Earnings*, gains or losses from the sale of subsidiaries are excluded from headline earnings. The circular includes specific industry rules. Rule 1 allows entities to include in headline earnings gains or losses associated with private equity investments that are associates or joint ventures, which form part of trading or operating activities. This exclusion, however, does not apply to gains or losses associated with private equity investments that are subsidiaries. The group includes gains or losses on the sale of private equity subsidiaries in normalised results to reflect the nature of these investments.
Cash settled share-based payments and the economic hedge	The group entered into a total return swap (TRS) with external parties to economically hedge itself against the exposure to changes in the FirstRand share price associated with the group's share 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 group defers the recognition of the fair value gain or loss on the hedging instrument to the specific reporting period in which the IFRS 2 impact will manifest in the group's results. This reflects the economic substance of the hedge and associated IFRS 2 impact for the group. 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 4/2018 Headline Earnings* in calculating headline earnings are included in normalised earnings on a line-by-line basis based on the nature of the adjustment. The description and amount of these adjustments are provided in the reconciliation between headline earnings and IFRS profit.

35 SEGMENT INFORMATION continued

	2018		
	FNB		
R million	FNB SA	FNB Africa	
Net interest income before impairment of advances	**26 366**	**3 027**	
Impairment and fair value of credit of advances	**(3 453)**	**(903)**	
Net interest income after impairment of advances	**22 913**	**2 124**	
Non-interest revenue	**23 780**	**3 638**	
Net income from operations	**46 693**	**5 762**	
Operating expenses	**(25 675)**	**(4 706)**	
Share of profit of associates after tax	**11**	**1**	
Share of profit of joint ventures after tax	**6**	**-**	
Income before tax	**21 035**	**1 057**	
Indirect tax	**(525)**	**(151)**	
Profit for the year before tax	**20 510**	**906**	
Income tax expense	**(5 743)**	**(354)**	
Profit for the year	**14 767**	**552**	
The income statement includes:			
Depreciation	**(1 569)**	**(296)**	
Amortisation	**(129)**	**(28)**	
Net impairment charges	**(25)**	**-**	
The statement of financial position includes:			
Investments in associated companies	**239**	**9**	
Investments in joint ventures	**-**	**-**	
Total assets	**379 397**	**49 837**	
Total liabilities*	**359 120**	**50 031**	

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

* *Total liabilities are net of interdivisional balances.*

Geographical segments

	2018					
R million	South Africa	Other Africa	United Kingdom	Austra-lasia	Other	Total
Net interest income after impairment	**32 635**	**3 956**	**3 816**	**52**	**72**	**40 531**
Non-interest revenue*	**39 390**	**5 171**	**407**	**29**	**105**	**45 102**
Non-current assets**	**25 473**	**2 402**	**8 921**	**1**	**3**	**36 800**

* *Includes share of profit of associates and joint ventures after tax.*

** *Excludes financial instruments, accounts receivable, deferred income tax assets, current tax assets, post-employment benefit assets and rights arising under insurance contracts.*

	2018							
	RMB							
	Investment banking	Corporate banking	WesBank	Aldermore	FCC (including Group Treasury) and other	FirstRand group - normalised	Normalised adjustments	FirstRand group - IFRS
	4 726	2 189	11 193	1 224	2 529	51 254	(2 156)	49 098
	(235)	(8)	(4 154)	(46)	232	(8 567)	-	(8 567)
	4 491	2 181	7 039	1 178	2 761	42 687	(2 156)	40 531
	8 974	2 352	4 734	118	(2 584)	41 012	3 181	44 193
	13 465	4 533	11 773	1 296	177	83 699	1 025	84 724
	(5 755)	(2 662)	(6 895)	(706)	(1 265)	(47 664)	(798)	(48 462)
	901	-	279	2	(675)	519	-	519
	-	-	130	-	259	395	(5)	390
	8 611	1 871	5 287	592	(1 504)	36 949	222	37 171
	(122)	(10)	(157)	(43)	(69)	(1 077)	-	(1 077)
	8 489	1 861	5 130	549	(1 573)	35 872	222	36 094
	(2 379)	(521)	(1 447)	(158)	2 737	(7 865)	(85)	(7 950)
	6 110	1 340	3 683	391	1 164	28 007	137	28 144
	(135)	(10)	(726)	(6)	(88)	(2 830)	-	(2 830)
	(40)	-	(51)	(10)	(104)	(362)	-	(362)
	-	(11)	(13)	-	-	(49)	(61)	(110)
	2 657	-	2 539	92	1	5 537	-	5 537
	1 693	-	3	-	(16)	1 680	46	1 726
	399 444	53 640	228 433	189 867	231 692	1 532 310	(21)	1 532 289
	390 143	52 373	221 953	176 089	151 782	1 401 491	-	1 401 491

35 SEGMENT INFORMATION continued

	2017		
	FNB		
R million	FNB SA	FNB Africa**	
Net interest income before impairment of advances	24 109	3 178	
Impairment and fair value of credit of advances	(3 648)	(788)	
Net interest income after impairment of advances	20 461	2 390	
Non-interest revenue	21 626	3 237	
Net income from operations	42 087	5 627	
Operating expenses	(23 820)	(4 603)	
Share of profit of associates after tax	(4)	3	
Share of profit of joint ventures after tax	6	-	
Income before tax	18 269	1 027	
Indirect tax	(525)	(147)	
Profit for the year before tax	17 744	880	
Income tax expense	(4 968)	(415)	
Profit for the year	12 776	465	
The income statement includes:			
Depreciation	(1 604)	(264)	
Amortisation	(120)	(16)	
Net impairment charges	(9)	-	
The statement of financial position includes:			
Investments in associated companies	233	8	
Investments in joint ventures	12	-	
Total assets	351 978	49 959	
Total liabilities*	333 698	49 982	

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

* *Total liabilities are net of interdivisional balances.*

** *Includes FNB's activities in India in the prior year.*

Geographical segments

	2017					
R million	South Africa	Other Africa	United Kingdom	Austra-lasia	Other	Total
Net interest income after impairment	29 383	3 913	3 371	72	124	36 863
Non-interest revenue*	37 530	4 211	(387)	151	455	41 960
Non-current assets**	24 143	2 563	238	2	5	26 951

* *Includes share of profit of associates and joint ventures after tax.*

** *Excludes financial instruments, accounts receivable, deferred income tax assets, current tax assets, post-employment benefit assets and rights arising under insurance contracts.*

	2017							
	RMB							
	Investment banking	Corporate banking	WesBank	Aldermore	FCC (including Group Treasury) and other	FirstRand group - normalised	Normalised adjustments	FirstRand group - IFRS
	4 466	2 023	10 510	-	2 340	46 626	(1 709)	44 917
	(400)	(137)	(3 431)	-	350	(8 054)	-	(8 054)
	4 066	1 886	7 079	-	2 690	38 572	(1 709)	36 863
	8 623	2 325	4 552	-	(2 136)	38 227	2 695	40 922
	12 689	4 211	11 631	-	554	76 799	986	77 785
	(5 544)	(2 468)	(6 225)	-	(1 113)	(43 773)	(812)	(44 585)
	1 020	-	439	-	(701)	757	-	757
	-	-	-	-	278	284	(3)	281
	8 165	1 743	5 845	-	(982)	34 067	171	34 238
	(115)	(12)	(233)	-	(49)	(1 081)	-	(1 081)
	8 050	1 731	5 612	-	(1 031)	32 986	171	33 157
	(2 258)	(485)	(1 543)	-	2 718	(6 951)	(67)	(7 018)
	5 792	1 246	4 069	-	1 687	26 035	104	26 139
	(127)	(5)	(671)	-	(19)	(2 690)	(38)	(2 728)
	(47)	-	(60)	-	(4)	(247)	(2)	(249)
	(1)	(9)	(1)	-	(17)	(37)	(586)	(623)
	2 851	-	2 238	-	594	5 924	-	5 924
	1 384	-	-	-	(17)	1 379	51	1 430
	386 780	45 872	214 222	-	168 934	1 217 745	(38)	1 217 707
	377 349	43 634	207 809	-	88 051	1 100 523	-	1 100 523

36 RELATED PARTIES

36.1 Balances with related parties

R million	2018	2017
Advances		
Entities that have significant influence over the group and its subsidiaries	**6 461**	5 577
Associates	**16 566**	16 867
Joint ventures	**16 737**	13 086
Key management personnel	**16**	29
Accounts receivable		
Associates	**521**	400
Joint ventures	**12**	33
Derivative assets		
Fair value		
Associates	**-**	4
Joint ventures	**178**	9
Investment securities		
Associates	**36**	266
Investments under the co-investment scheme		
Key management personnel	**75**	66
Deposits		
Entities that have significant influence over the group and its subsidiaries	**44**	45
Associates	**2 430**	1 042
Joint ventures	**1 960**	3 354
Key management personnel	**73**	224
Accounts payable		
Entities that have significant influence over the group and its subsidiaries	**-**	2
Associates	**5**	48
Joint ventures	**16**	42
Derivative liabilities		
Fair value		
Joint ventures	**89**	1
Commitments		
Associates	**1 629**	1 219
Joint ventures	**55**	1

The amounts advanced to key management personnel consist of mortgages, instalment finance agreements, credit cards and other loans. The amounts deposited by key management personnel are held in cheque and current accounts and other term accounts and are at market related rates, terms and conditions.

36 RELATED PARTIES continued

36.2 Transactions with related parties

R million	2018	2017
Interest received		
Entities that have significant influence over the group and its subsidiaries	**16**	-
Associates	**731**	566
Joint ventures	**749**	468
Key management personnel	**3**	3
Interest paid		
Entities that have significant influence over the group and its subsidiaries	**-**	(1)
Associates	**(66)**	(41)
Joint ventures	**(195)**	(220)
Key management personnel	**(9)**	(7)
Non-interest revenue		
Entities that have significant influence over the group and its subsidiaries	**473**	111
Associates	**657**	700
Joint ventures	**1 174**	512
Operating expenses		
Associates	**(547)**	(825)
Joint ventures	**(47)**	(118)
Dividends received		
Associates	**364**	215
Joint ventures	**44**	16
Net investment return credited in respect of investments under the co-investment scheme		
Key management personnel	**14**	12
Financial consulting fees and other		
Key management personnel	**3**	4
Salaries and other employee benefits		
Key management personnel	**221**	241
- Salaries and other short-term benefits	**167**	158
- Share-based payments	**54**	83

Deferred compensation of R51 million (2017: R48 million) is due to key management personnel and is payable in FirstRand shares. A list of the board of directors of the group is available in the corporate governance section.

During the financial year, no contracts were entered into in which directors or officers of the company had an interest and which significantly affected the business of the group.

The directors had no interest in any third party or company responsible for managing any of the business activities of the group except to the extent that they are shareholders in RMB Holdings Limited, which together with Remgro, has significant influence over FirstRand.

36 RELATED PARTIES continued

36.3 Post-retirement benefit fund

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

R million	**2018**	2017
Dividend income	**7**	10
Deposits held with the group	**374**	450
Interest income	**31**	36

37 STRUCTURED ENTITIES

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

Consolidated structured entities

Consolidated structured entities include securitisation vehicles, conduit vehicles, investment funds and a structured entity that has been established for the purpose of creating high quality liquid assets that can be pledged as collateral under the SARB's committed liquidity facility, if required. For details on any financial or other support provided to the group's securitisation and conduit vehicles refer to the liquidity facilities section later in this note.

Other than these facilities specified the group has not provided any additional financial or other support to these entities in the current year. The group 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

In addition to the controlled structured entities above, the FRIHL group has financial interests in other structured entities that expose the group to the variable income of those entities without resulting in control. The table below sets out the nature of those relationships and the impact of those relationships on the financial position and performance of the group.

	Joint funding SPV
Nature of the relationship	The group together with a co-funder has provided preference share funding to a SPV structure which in turn has provided funding to a corporate counterparty. The group has exposure to variable returns due to the preference share funding it provides to the SPV. The group does not have the power over the SPV as its rights are limited to protective lender rights, alongside other lenders.

37 STRUCTURED ENTITIES continued

Impact on statement of financial position of the group is below.

	Joint funding SPV	
R million	**2018**	2017
Advances	**191**	252
Investment securities	**58**	-
Maximum exposure to loss	**249**	252

The group has not made any commitments on behalf of these entities and has not provided any additional financial support to these entities in the current or prior year. The group 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.

Sponsorships of unconsolidated structured entities

The group has also provided letters of support to several external structured entities. None of these entities are consolidated by the group. However, a subsidiary of the group, FRIHL, does hold immaterial interests in some of these entities. During the current and prior year no assets were transferred by the group to these sponsored entities.

Liquidity facilities

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

R million	**2018**	2017
Own transactions	**2 213**	1 531
- iVuzi	**2 213**	1 531
Third party transactions	**-**	31
Total liquidity facilities	**2 213**	1 562

All liquid 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 iVuzi as if the underlying assets were held by the group.

38 FINANCIAL AND INSURANCE RISK

Overview of financial and insurance risks

The financial instruments recognised on the group's statement of financial position, expose the group to various financial risks.

The information presented in this note represents the quantitative information required by IFRS 7 and sets out the group's exposure to these financial and insurance risks. This section also contains details about the group's capital management process. For additional information, about the group's overall risk management processes refer to the summary risk and capital management report in section A.

<table>
<tr><th colspan="3">Overview of financial and insurance risks</th></tr>
<tr><td rowspan="2">Credit risk</td><td colspan="2">Credit risk is the risk of loss due to the non-performance of a counterparty in respect of any financial or other obligation. For fair value portfolios, the definition of credit risk is expanded to include the risk of losses through fair value changes arising from changes in credit spreads.</td></tr>
<tr><td>Credit risk arises primarily from the following instruments:
➢ advances; and
➢ certain investment securities.

Other sources of credit risk are:
➢ reinsurance assets;
➢ cash and cash equivalents;
➢ accounts receivable;
➢ derivative balances; and
➢ off-balance sheet exposures.</td><td>The following information is presented for these assets:
➢ Summary of all credit assets (38.1.1);
➢ Information about the quality of credit assets (38.1.2);
➢ Exposure to concentration risk (38.1.3); and
➢ Credit risk mitigation techniques and collateral held (38.1.4).</td></tr>
<tr><td rowspan="2">Liquidity risk</td><td colspan="2">Liquidity risk is the risk that the group is unable to meet its obligations when these fall due and payable. It is also the risk of not being able to realise assets when required to meet repayment obligations in a stress scenario.</td></tr>
<tr><td>All assets and liabilities with differing maturity profiles expose the group to liquidity risk.</td><td>The following information is presented for these assets and liabilities:
➢ Undiscounted cash flow analysis of financial liabilities (38.2.1);
➢ Discounted cash flow analysis of total assets and liabilities (38.2.2); and
➢ Collateral pledged (38.2.3).</td></tr>
</table>

38 FINANCIAL AND INSURANCE RISK continued

<table>
<tr><th colspan="3">Overview of financial and insurance risks</th></tr>
<tr><td rowspan="4">Market risk</td><td colspan="2">The group distinguishes between market risk in the trading book and non-traded market risk. For non-traded market risk, the group distinguishes between interest rate risk in the banking book and structural foreign exchange risk.

Market risk in the trading book is the risk of adverse revaluation of any financial instrument as a consequence of changes in the market prices or rates.</td></tr>
<tr><td>Market risk in the trading book (38.3.1) emanates mainly from the provision of hedging solutions for clients, market-making activities and term-lending products and is taken and managed by RMB.</td><td>The following information is presented for market risk in the trading book:
➢ 1 day 99% value at risk (VaR) analysis; and
➢ 10 day 99% VaR analysis.</td></tr>
<tr><td>Interest rate risk in the banking book (38.4.1) originates from the differing repricing characteristics of balance sheet positions/instruments, yield curve risk, basis risk and client optionality embedded in banking book products.</td><td>The following information is presented for interest rate risk in the banking book:
➢ projected NII sensitivity to interest rate movements; and
➢ banking book NAV sensitivity to interest rate movements as a percentage of total group capital.</td></tr>
<tr><td>Structural foreign exchange risk (38.4.2) arises from balances denominated in foreign currencies and group entities with functional currencies other than the South African rand.</td><td>Information about the group’s net structural foreign exposure and the sensitivity of the exposure is presented.</td></tr>
</table>

38 FINANCIAL AND INSURANCE RISK continued

<table>
<tr><th colspan="3">Overview of financial and insurance risks</th></tr>
<tr><td rowspan="2">Equity investment risk</td><td colspan="2">The risk of an adverse change in the fair value of an investment in a company, fund or any other financial instrument, whether listed, unlisted or bespoke.</td></tr>
<tr><td>Equity investment risk (38.5) arises primarily from equity exposures from private equity and investment banking activities in RMB, and strategic investments held by WesBank, FNB and FCC. Ashburton Investments also exposes the group to equity investment risk through the seeding of new traditional and alternative funds, both locally and offshore, which exposes the group until these investments are taken up by external parties.</td><td>The following information is presented for these assets
➢ investment risk exposure and sensitivity of investment risk exposure; and
➢ estimated sensitivity of remaining investment balances.</td></tr>
<tr><td rowspan="2">Insurance risk</td><td colspan="2">Insurance risk exists when it is expected that the present value of the benefits payable in terms of the policy on the occurrence of an insured event will materially differ from the amount payable had the insured event not occurred.</td></tr>
<tr><td colspan="2">The risk arises from the group's long and short-term insurance operations, underwritten through its subsidiaries FirstRand Life Assurance Limited and FirstRand Insurance Services Company Limited.</td></tr>
<tr><td>Capital management</td><td colspan="2">The overall capital management objective is to maintain sound capital ratios and a strong credit rating to ensure confidence in the group's solvency and quality of capital during calm and turbulent periods in the economy and financial markets. The group, therefore, maintains capitalisation ratios aligned to its risk appetite and appropriate to safeguard operations and stakeholder interests. The key focus areas and considerations of capital management are to ensure an optimal level and composition of capital, effective allocation of resources including capital and risk capacity and a sustainable dividend policy.</td></tr>
</table>

38 FINANCIAL AND INSURANCE RISK continued

38.1 Credit risk

Objective

Credit risk management objectives are two-fold:

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

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

Assessment and management

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

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

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

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

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

38 FINANCIAL AND INSURANCE RISK continued

Mapping of FR grades to rating agency scales

FirstRand rating	Midpoint PD	RMB rating (based on S&P)
FR 1 – 14	0.06%	AAA, AA+, AA, AA-, A+, A, A-
FR 15 – 25	0.29%	BBB+, BBB(upper), BBB, BBB-(upper), BBB-, BB+(upper)
FR 26 – 32	0.77%	BB+, BB(upper), BB, BB-(upper)
FR 33 - 39	1.44%	BB-, B+(upper)
FR 40 – 53	2.52%	B+
FR 54 – 83	6.18%	B(upper), B, B-(upper)
FR 84 – 90	13.68%	B-
FR 91 – 99	59.11%	CCC
FR 100	100%	D (Defaulted)

38 FINANCIAL AND INSURANCE RISK continued

38.1.1 Credit assets

The following assets and off-balance sheet amounts expose the group to credit risk. For all on-balance sheet exposures, the carrying amount recognised on the statement of financial position represents the maximum exposure to credit risk, before taking into account collateral and other credit enhancements.

R million	2018	2017
On-balance sheet exposures		
Cash and short-term funds	**87 592**	59 813
- Money at call and short notice	**50 612**	34 015
- Balances with central banks	**36 980**	25 798
Gross advances	**1 140 062**	909 646
- FNB	**404 354**	377 569
- Retail	**265 122**	248 533
- Commercial*	**93 987**	84 146
- Rest of Africa**	**45 245**	44 890
- WesBank	**221 233**	208 470
- RMB	**294 901**	282 541
- Investment banking	**245 094**	240 305
- Corporate banking	**49 807**	42 236
- Aldermore	**163 876**	-
- FCC (including Group Treasury)	**55 698**	41 066
Derivatives	**42 499**	35 459
Debt investment securities (excluding non-recourse investments)	**181 927**	139 375
Financial accounts receivable	**6 798**	6 187
Reinsurance assets	**84**	89
Off-balance sheet exposures	**177 896**	164 209
Total contingencies	**47 658**	40 737
- Guarantees	**36 977**	34 006
- Letters of credit#	**10 681**	6 731
Irrevocable commitments	**126 631**	119 325
Credit derivatives	**3 607**	4 147
Total	**1 636 858**	1 314 778

* *Includes public sector.*
*** Includes FNB's activities in India in the prior year.*
\# *Includes acceptances.*

38 FINANCIAL AND INSURANCE RISK continued

38.1.2 Quality of credit assets

Age analysis of advances

R million	2018				
	Neither past due nor impaired	Past due but not specifically impaired: One full instalment past due	Past due but not specifically impaired: Two full instalments past due	Impaired (NPLs)	Total
FNB	**379 960**	**6 955**	**3 373**	**14 066**	**404 354**
- Retail	**249 890**	**4 457**	**2 290**	**8 485**	**265 122**
- Commercial*	**90 752**	**221**	**300**	**2 714**	**93 987**
- Rest of Africa	**39 318**	**2 277**	**783**	**2 867**	**45 245**
WesBank	**203 466**	**5 169**	**2 838**	**9 760**	**221 233**
RMB	**291 483**	**727**	**186**	**2 505**	**294 901**
- Investment banking**	**241 946**	**690**	**159**	**2 299**	**245 094**
- Corporate banking	**49 537**	**37**	**27**	**206**	**49 807**
Aldermore	**162 208**	**680**	**372**	**616**	**163 876**
FCC (including Group Treasury)	**55 698**	**-**	**-**	**-**	**55 698**
Total	**1 092 815**	**13 531**	**6 769**	**26 947**	**1 140 062**
Percentage of total book (%)	**95.8**	**1.2**	**0.6**	**2.4**	**100.0**

* *Includes public sector.*

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

R million	2017				
	Neither past due nor impaired	Past due but not specifically impaired: One full instalment past due	Past due but not specifically impaired: Two full instalments past due	Impaired (NPLs)	Total
FNB	354 550	6 743	4 048	12 228	377 569
- Retail	234 448	4 008	2 506	7 571	248 533
- Commercial*	81 191	175	500	2 280	84 146
- Rest of Africa**	38 911	2 560	1 042	2 377	44 890
WesBank	193 086	4 944	2 509	7 931	208 470
RMB	280 730	62	3	1 746	282 541
- Investment banking#	238 559	37	3	1 706	240 305
- Corporate banking	42 171	25	-	40	42 236
Aldermore	-	-	-	-	-
FCC (including Group Treasury)	41 066	-	-	-	41 066
Total	869 432	11 749	6 560	21 905	909 646
Percentage of total book (%)	95.6	1.3	0.7	2.4	100.0

* *Includes public sector.*

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

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

38 FINANCIAL AND INSURANCE RISK continued

The following tables provide the credit quality of advances in the in-force portfolio.

Credit quality of performing advances (neither past due nor impaired)

	2018					
		FNB				
R million	**Total**	**Retail**	**Commercial***	**Rest of Africa**	**WesBank**	
FR 1 - 25	**334 132**	**36 081**	**-**	**1 591**	**917**	
FR 26 - 90	**746 376**	**208 179**	**89 704**	**36 266**	**200 311**	
Above FR 90	**12 307**	**5 630**	**1 048**	**1 461**	**2 238**	
Total	**1 092 815**	**249 890**	**90 752**	**39 318**	**203 466**	

	2017					
		FNB				
R million	Total	Retail	Commercial*	Rest of Africa**	WesBank	
FR 1 - 25	251 729	38 457	9 800	5 913	15 332	
FR 26 - 90	604 675	189 781	70 214	30 020	175 274	
Above FR 90	13 028	6 210	1 177	2 978	2 480	
Total	869 432	234 448	81 191	38 911	193 086	

* *Includes public sector.*

** *Includes FNB's activities in India in the prior year.*

For more detail about the FR rating scales and the link to rating agency scales refer to the credit risk section in the summary risk and capital management report in section A.

2018				
	RMB investment banking	**RMB corporate banking**	**Aldermore**	**FCC (including Group Treasury)**
	110 976	**24 887**	**106 783**	**52 897**
	130 850	**23 647**	**54 548**	**2 871**
	120	**1 003**	**877**	**(70)**
	241 946	**49 537**	**162 208**	**55 698**

2017				
	RMB investment banking	RMB corporate banking	Aldermore	FCC (including Group Treasury)
	119 285	21 516	-	41 426
	119 097	20 652	-	(363)
	177	3	-	3
	238 559	42 171	-	41 066

38 FINANCIAL AND INSURANCE RISK continued

Analysis of impaired advances (NPLs)

	2018		
R million	Total net of interest in suspense	Security held and expected recoveries	Specific impairment
NPLs by class			
FNB	14 066	8 636	5 430
- Retail	8 486	5 339	3 147
- Commercial	2 714	1 699	1 015
- Rest of Africa	2 866	1 598	1 268
WesBank	9 760	6 422	3 338
RMB	2 505	1 422	1 083
- Investment banking	2 299	1 265	1 034
- Corporate banking	206	157	49
Aldermore	616	475	141
Total NPLs	26 947	16 955	9 992
NPLs by category			
Overdrafts and cash management accounts	2 797	1 356	1 441
Term loans	1 951	1 060	891
Card loans	1 154	374	780
Instalment sales and hire purchase agreements	7 913	5 269	2 644
Lease payments receivable	325	155	170
Property finance	6 824	5 575	1 249
Personal loans	3 742	1 896	1 846
Preference share agreements	890	523	367
Investment bank term loans	550	351	199
Long-term loans to group associates and joint ventures	772	393	379
Other	29	3	26
Total NPLs	26 947	16 955	9 992

38 FINANCIAL AND INSURANCE RISK continued

	2017		
R million	Total net of interest in suspense	Security held and expected recoveries	Specific impairment
NPLs by class			
FNB	12 228	7 253	4 975
- Retail	7 571	4 624	2 947
- Commercial	2 280	1 224	1 056
- Rest of Africa	2 377	1 405	972
WesBank	7 931	5 274	2 657
RMB	1 746	889	857
- Investment banking	1 706	868	838
- Corporate banking	40	21	19
Aldermore	-	-	-
Total NPLs	21 905	13 416	8 489
NPLs by category			
Overdrafts and cash management accounts	2 382	1 042	1 340
Term loans	1 659	874	785
Card loans	982	319	663
Instalment sales and hire purchase agreements	6 536	4 387	2 149
Lease payments receivable	243	141	102
Property finance	5 648	4 472	1 176
Personal loans	2 922	1 396	1 526
Preference share agreements	387	324	63
Investment bank term loans	721	337	384
Long-term loans to group associates and joint ventures	400	117	283
Other	25	7	18
Total NPLs	21 905	13 416	8 489

38 FINANCIAL AND INSURANCE RISK continued

Other credit assets (excluding advances)

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

	2018					
R million	**Debt investment securities**	**Derivatives**	**Cash and short-term funds**	**Reinsurance assets**	**Accounts receivable**	**Total**
AAA- to BBB-	**147 820**	**36 017**	**67 319**	**45**	**540**	**251 741**
BB+ to B-	**33 235**	**6 456**	**19 759**	**39**	**6 019**	**65 508**
CCC	**872**	**26**	**499**	**-**	**13**	**1 410**
Unrated	**-**	**-**	**15**	**-**	**-**	**15**
Total	**181 927**	**42 499**	**87 592**	**84**	**6 572**	**318 674**

	2017					
R million	Debt investment securities	Derivatives	Cash and short-term funds	Reinsurance assets	Accounts receivable	Total
AAA- to BBB-	117 588	29 190	55 075	46	2 222	204 121
BB+ to B-	21 268	6 264	4 368	43	3 721	35 664
CCC	519	-	354	-	3	876
Unrated	-	5	16	-	15	36
Total	139 375	35 459	59 813	89	5 961	240 697

38 FINANCIAL AND INSURANCE RISK continued

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

	2018					
	Neither past due nor impaired	Past due but not impaired				
R million		1 - 30 days	31 - 60 days	61 - 90 days	Impaired	Total
Items in transit	**2 536**	**-**	**-**	**-**	**-**	**2 536**
Interest and commission accrued	**74**	**-**	**-**	**-**	**-**	**74**
Sundry debtors	**1 156**	**7**	**-**	**-**	**-**	**1 163**
Other accounts receivable	**2 806**	**70**	**84**	**64**	**1**	**3 025**
Total financial accounts receivable	**6 572**	**77**	**84**	**64**	**1**	**6 798**

	2017					
	Neither past due nor impaired	Past due but not impaired				
R million		1 - 30 days	31 - 60 days	61 - 90 days	Impaired	Total
Items in transit	1 708	-	-	1	-	1 709
Interest and commission accrued	154	-	-	-	-	154
Sundry debtors	1 236	4	2	5	9	1 256
Other accounts receivable	2 863	113	35	50	7	3 068
Total financial accounts receivable	5 961	117	37	56	16	6 187

38.1.3 Concentration risk

Credit concentration risk is the risk of loss to the group arising from an excessive concentration of exposure to a single counterparty, industry, market, product, financial instrument or type of security, country or region, or maturity. This concentration typically exists when a number of counterparties are engaged in similar activities and have similar characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

Concentration risk is managed based on the nature of the credit concentration in each portfolio. The group's credit portfolio is well diversified, achieved through setting maximum exposure guidelines to individual counterparties. The group constantly reviews its concentration levels and sets maximum exposure guidelines for these.

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

38 FINANCIAL AND INSURANCE RISK continued

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

Geographic concentration of significant credit asset exposure

	2018							
R million	South Africa	Rest of Africa	United Kingdom	Other Europe	North and South America	Austra-lasia	Asia	Total
On-balance sheet exposures								
Cash and short-term funds	**58 281**	**5 924**	**18 030**	**1 247**	**3 508**	**356**	**246**	**87 592**
Total advances	**789 438**	**95 521**	**235 719**	**12 177**	**1 877**	**631**	**4 699**	**1 140 062**
NPLs	**22 121**	**3 430**	**1 193**	**75**	**-**	**128**	**-**	**26 947**
Derivatives	**23 585**	**702**	**14 381**	**2 436**	**297**	**23**	**1 075**	**42 499**
Debt investment securities (excluding non-recourse investments)	**127 426**	**20 085**	**10 269**	**9 265**	**10 627**	**-**	**4 255**	**181 927**
Accounts receivable	**6 757**	**1 332**	**1 020**	**32**	**607**	**62**	**74**	**9 884**
Reinsurance assets	**39**	**-**	**-**	**45**	**-**	**-**	**-**	**84**
Off-balance sheet exposures								
Guarantees, acceptances, and letters of credit	**35 092**	**7 876**	**304**	**445**	**564**	**118**	**3 259**	**47 658**
Irrevocable commitments	**102 574**	**12 719**	**9 703**	**939**	**603**	**10**	**83**	**126 631**

38 FINANCIAL AND INSURANCE RISK continued

Geographic concentration of significant credit asset exposure continued

	2017							
R million	South Africa	Rest of Africa	United Kingdom	Other Europe	North and South America	Austra-lasia	Asia	Total
On-balance sheet exposures								
Cash and short-term funds	38 701	6 142	7 736	2 145	4 636	274	179	59 813
Total advances	751 596	86 003	59 041	5 521	1 890	1 474	4 121	909 646
NPLs	18 690	2 681	294	103	88	-	49	21 905
Derivatives	20 463	799	11 706	1 682	475	-	334	35 459
Debt investment securities (excluding non-recourse investments)	113 641	15 576	2 173	1 207	2 062	-	4 716	139 375
Accounts receivable	6 253	1 152	931	32	279	165	66	8 878
Reinsurance assets	52	-	37	-	-	-	-	89
Off-balance sheet exposures								
Guarantees, acceptances, and letters of credit	31 287	5 326	30	719	263	95	3 017	40 737
Irrevocable commitments	105 624	9 995	636	2 731	176	34	129	119 325

38 FINANCIAL AND INSURANCE RISK continued

Sector analysis concentration of advances

Advances expose the group to concentration risk to the various industry sectors. The tables below set out the group's exposure to the various industry sectors for total advances and NPLs.

	2018			
		NPLs		
R million	Total advances	Total value net of ISP	Security held and expected recoveries	Specific impairment
Sector analysis				
Agriculture	**37 323**	**1 307**	**1 052**	**255**
Banks	**21 729**	**-**	**-**	**-**
Financial institutions	**143 962**	**471**	**192**	**279**
Building and property development	**63 603**	**1 191**	**645**	**546**
Government, Land Bank and public authorities	**24 406**	**322**	**310**	**12**
Individuals	**564 685**	**18 286**	**11 973**	**6 313**
Manufacturing and commerce	**127 665**	**3 256**	**1 694**	**1 562**
Mining	**12 974**	**169**	**53**	**116**
Transport and communication	**26 004**	**342**	**164**	**178**
Other services	**117 711**	**1 603**	**872**	**731**
Gross value of advances	**1 140 062**	**26 947**	**16 955**	**9 992**
Impairment and fair value of credit of advances	**(18 835)**			
Net advances	**1 121 227**			

	2017			
		NPLs		
R million	Total advances	Total value net of ISP	Security held and expected recoveries	Specific impairment
Sector analysis				
Agriculture	33 147	788	619	169
Banks	4 960	3	-	3
Financial institutions	134 248	113	60	53
Building and property development	48 460	1 396	699	697
Government, Land Bank and public authorities	25 096	28	8	20
Individuals	433 989	15 171	9 731	5 440
Manufacturing and commerce	105 415	2 416	1 339	1 077
Mining	18 827	277	161	116
Transport and communication	20 121	310	169	141
Other services	85 383	1 403	630	773
Gross value of advances	909 646	21 905	13 416	8 489
Impairment and fair value of credit of advances	(16 540)			
Net advances	893 106			

38 FINANCIAL AND INSURANCE RISK continued

38.1.4 Credit risk mitigation and collateral held

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, 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 group's lending risk, resulting in security against the majority of exposures. These include financial or other collateral, netting agreements, guarantees or credit derivatives. The collateral types are driven by portfolio, product or counterparty type.

Credit risk mitigation instruments
- Mortgage and instalment sale finance portfolios in FNB, WesBank and Aldermore are secured by the underlying assets financed;
- FNB and Aldermore commercial credit exposures are secured by the assets of the SME counterparties and commercial property finance deals are secured by the underlying property and associated cash flows.
- Structured facilities in RMB are secured as part of the structure through financial or other collateral, including guarantees, credit derivative instruments and assets.
- Counterparty credit risk in RMB is mitigated through the use of netting agreements and financial collateral. For additional information relating to the use of the netting agreements refer to page C230.
- Personal loans, overdrafts and credit card exposures are generally unsecured or secured by guarantees and securities;
- Invoice finance within Aldermore is secured by the underlying receivables (trade invoices); and
- Working capital facilities in RMB corporate banking are secured.

The group employs strict policies governing the valuation and management of collateral across all business areas. Collateral is managed internally to ensure that title is retained over collateral taken over the life of the transaction. Collateral is valued at inception of the credit agreement and subsequently where necessary through physical inspection or index valuation methods. For corporate and commercial counterparties, collateral is reassessed during the annual review of the counterparty's creditworthiness to ensure that proper title is retained. For mortgage portfolios, collateral is revalued on an ongoing basis using an index model and physical inspection are performed at the beginning of the recovery process. For asset finance, the total security reflected represents only the realisation value estimates of the vehicles repossessed at the date of repossession. Where the repossession has not yet occurred, the realisation value of the vehicle is estimated using internal models and is included as part of total recoveries.

Concentrations in credit risk mitigation types, such as property, are monitored and managed at a product and credit segment level, in-line with the requirements of the group credit risk appetite framework.

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.

38 FINANCIAL AND INSURANCE RISK continued

38.1.4 Credit risk mitigation and collateral held continued

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

Collateral held per class of advance

R million	**2018**	2017
FNB	**6 689**	6 102
- Retail	**4 222**	4 696
- Commercial	**2 125**	1 119
- Rest of Africa	**342**	287
WesBank	**3 810**	2 361
RMB	**1 397**	1 589
- Investment banking	**1 089**	1 306
- Corporate banking	**308**	283
Aldermore	**152 724**	-
Total	**164 620**	10 052

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 on the statement of financial position using the actual LGD and a proxy unsecured LGD for all secured portfolios. The proxy unsecured LGD is based on the LGD used to determine the impairment recognised on the statement of financial position for unsecured portfolios.

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

38 FINANCIAL AND INSURANCE RISK continued

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

Collateral held against derivative positions

R million	2018	2017
Cash collateral held	**17 352**	3 942

This is the collateral that the group holds that it has the ability to sell or repledge in the absence of default by the owner of the collateral.

Collateral held in structured transactions

	2018		2017	
R million	Fair value	Fair value of collateral sold or repledged in the absence of default	Fair value	Fair value of collateral sold or repledged in the absence of default
Cash and cash equivalents	**8 535**	**2 819**	5 878	-
Investment securities	**33 064**	**16 333**	35 525	23 195
Total collateral pledged	**41 599**	**19 152**	41 403	23 195

Investment securities exclude securities lending transactions where securities are obtained as collateral for securities lent. This is in line with industry practice.

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

Collateral taken possession of

		Property	
R million	Notes	2018	2017
Opening balance		**11**	3
Additions		**38**	8
Closing balance	13	**49**	11

When the group takes possession of collateral that is not cash or not readily convertible into cash, the group determines a minimum sale amount (pre-set sale amount) and auctions the asset for the pre-set sale amount. Where the group is unable to obtain the pre-set sale amount in an auction, the group will continue to hold the asset while actively marketing it to ensure an appropriate value is obtained.

38 FINANCIAL AND INSURANCE RISK continued

Offsetting of financial assets and financial liabilities

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

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

The tables below include information about financial assets and financial liabilities that are:

- offset and the net amount presented in the group's statement of financial position in accordance with the requirements of IAS 32; and
- subject to enforceable MNA or similar agreements where the amounts have not been offset because one or both of the requirements of IAS 32 are not met or the amounts relate to financial collateral (cash or non-cash) that mitigates credit risk.

Structured transactions refer to reverse repurchase, securities borrowing and similar arrangements, repurchase in the asset table, securities lending and similar arrangements on the liability section of the table.

The net amount reported on the statement of financial position represents the net amount of financial assets and financial liabilities where offsetting has been applied in terms of IAS 32 and financial instruments that are subject to MNA and similar agreements but no offsetting has been applied.

38 FINANCIAL AND INSURANCE RISK continued

The financial collateral included in the table below is limited to the net statement of financial position exposure-in line with the requirements of IFRS 7 and excludes the effect of any over-collateralisation. The amount of collateral included in the table for IFRS 7 disclosure purposes has been determined at a business unit level. If these limits were determined on a group 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 reported in the statement of financial position and the amount of financial instruments not subject to set off or MNA.

	Derivatives		Structured transactions		Other advances/deposits	
R million	**2018**	2017	**2018**	2017	**2018**	2017
Assets						
Offsetting applied						
Gross amount	**50 269**	43 987	**40 261**	37 490	**-**	-
Amount set off	**(11 003)**	(10 478)	**(18 092)**	(9 305)	**-**	-
Net amount reported on the statement of financial positions	**39 266**	33 509	**22 169**	28 185	**-**	-
Offsetting not applied						
Financial instruments subject to MNA and similar agreements	**(30 487)**	(27 480)	**(88)**	(44)	**-**	-
Financial collateral	**(1 498)**	(2 277)	**(22 081)**	(28 141)	**-**	-
Net amount	**7 281**	3 752	**-**	-	**-**	-
Financial instruments not subject to set off or MNA	**3 233**	1 950	**10 895**	2 700	**1 088 163**	862 221
Total statement of financial position	**42 499**	35 459	**33 064**	30 885	**1 088 163**	862 221
Liabilities						
Offsetting applied						
Gross amount	**55 332**	49 796	**51 498**	37 681	**-**	-
Amount set off	**(11 003)**	(10 477)	**(18 092)**	(9 305)	**-**	-
Net amount reported on the statement of financial positions	**44 329**	39 319	**33 406**	28 376	**-**	-
Offsetting not applied						
Financial instruments subject to MNA and similar agreements	**(30 487)**	(27 480)	**(88)**	(44)	**-**	-
Financial collateral	**(3 151)**	(929)	**(19 693)**	(27 660)	**-**	-
Net amount	**10 691**	10 910	**13 625**	672	**-**	-
Financial instruments not subject to set off or MNA	**6 625**	5 084	**(10 563)**	4 099	**1 244 605**	951 054
Total statement of financial position	**50 954**	44 403	**22 843**	32 475	**1 244 605**	951 054

38 FINANCIAL AND INSURANCE RISK continued

38.2 Liquidity risk

Objective

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

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

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

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

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

Assessment and management

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

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

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

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

38 FINANCIAL AND INSURANCE RISK continued

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

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

38.2.1 Undiscounted cash flows

The following table presents the group's undiscounted cash flows of financial liabilities and off-balance sheet amounts and includes all cash outflows related to principal amounts as well as future payments. These balances will not reconcile to the statement of financial position for the following reasons:

- balances are undiscounted amounts whereas the statement of financial position is prepared using discounted amounts;
- table includes cash flows not recognised on the statement of financial position;
- all instruments held for trading purposes are included in the call to three-month bucket and not by maturity as trading instruments are typically held for short periods; and
- cash flows relating to principal and associated future coupon payments have been included on an undiscounted basis.

	2018			
		Term to maturity		
R million	Total	Call - 3 months	4 - 12 months	> 12 months and non-contractual
On-balance sheet exposures				
Deposits and current accounts	**1 366 250**	**818 740**	**210 632**	**336 878**
Short trading positions	**9 999**	**9 999**	**-**	**-**
Derivative financial instruments	**51 480**	**49 567**	**257**	**1 656**
Creditors, accruals and provisions	**19 703**	**11 872**	**1 597**	**6 234**
Tier 2 liabilities	**36 520**	**364**	**9 273**	**26 883**
Other liabilities	**7 438**	**653**	**1 933**	**4 852**
Policyholder liabilities	**4 593**	**275**	**147**	**4 171**
Off-balance sheet exposures				
Financial and other guarantees	**47 658**	**43 711**	**2 842**	**1 105**
Operating lease commitments	**3 588**	**376**	**939**	**2 273**
Other contingencies and commitments	**3 081**	**1 344**	**1 615**	**122**
Facilities not drawn	**126 631**	**126 631**	**-**	**-**

38 FINANCIAL AND INSURANCE RISK continued

R million	Total	Call - 3 months	4 - 12 months	> 12 months and non-contractual
	2017			
		Term to maturity		
On-balance sheet exposures				
Deposits and current accounts	1 062 815	692 110	161 927	208 778
Short trading positions	15 276	15 276	-	-
Derivative financial instruments	44 651	41 951	716	1 984
Creditors, accruals and provisions	17 009	10 902	1 299	4 808
Tier 2 liabilities	25 413	349	2 927	22 137
Other liabilities	7 168	756	810	5 602
Policyholder liabilities	3 795	217	209	3 369
Off-balance sheet exposures				
Financial and other guarantees	40 737	39 281	1 149	307
Operating lease commitments	3 779	343	866	2 570
Other contingencies and commitments	4 249	1 540	2 146	563
Facilities not drawn	119 325	119 325	-	-

38 FINANCIAL AND INSURANCE RISK continued

38.2.2 Discounted cash flows

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

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

Discounted cash flow analysis - maturity analysis of total assets, liabilities and equity based on the present value of the expected payment

	2018			
		Term to maturity		
R million	**Carrying amount**	**Call - 3 months**	**4 - 12 months**	**> 12 months**
Total assets	**1 532 289**	**430 783**	**162 361**	**939 145**
Total equity and liabilities	**1 532 289**	**892 101**	**210 740**	**429 448**
Net liquidity gap	**-**	**(461 318)**	**(48 379)**	**509 697**
Cumulative liquidity gap	**-**	**(461 318)**	**(509 697)**	**-**

	2017			
		Term to maturity		
R million	Carrying amount	Call - 3 months	4 - 12 months	> 12 months
Total assets	1 217 707	385 508	132 796	699 403
Total equity and liabilities	1 217 707	762 794	155 425	299 488
Net liquidity gap	-	(377 286)	(22 629)	399 915
Cumulative liquidity gap	-	(377 286)	(399 915)	-

As illustrated in the table above, the negative liquidity short-term gap increased in the short end on a cumulative basis. This is aligned to the funding strategy to grow the deposit franchise via transactional deposit accounts. Management continues to align stress funding buffers both locally and offshore, taking into account prevailing economic and market conditions.

38 FINANCIAL AND INSURANCE RISK continued

38.2.3 Collateral pledged

The group 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 group's day-to-day operations;
- assets are pledged as collateral under repurchase agreements with other banks and for security deposits relating to local futures and options; and
- collateral in the form of cash and other investment securities is pledged when the group 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.
The following assets have been pledged to secure the liabilities set out in the table below. These assets are not available in the normal course of business.

R million	**2018**	2017
Cash and cash equivalents	**16 932**	2 259
Advances	**69 919**	1 801
Investment securities - held under repurchase agreements	**13 754**	25 880
Investment securities - other	**5 192**	1 677
Total assets pledged	**105 797**	31 617

The following liabilities have been secured by the group pledging either its own or borrowed financial assets, except for the short trading positions which are covered by borrowed securities only.

R million	**2018**	2017
Short trading positions	**9 999**	15 276
Creditors and accruals	**85**	-
Total deposits	**66 170**	33 495
- Deposits under repurchase agreements	**19 334**	28 377
- Deposits in securities lending transactions	**3 509**	4 098
- Other secured deposits	**43 327**	1 020
Other	**20 950**	4 052
Total liabilities secured	**97 204**	52 823

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.

38 FINANCIAL AND INSURANCE RISK continued

38.2.4 Concentration analysis of deposits

R million	2018	2017
Sector analysis		
Deposit current accounts and other loans		
Sovereigns, including central banks	**128 299**	70 264
Public sector entities	**35 069**	39 062
Local authorities	**10 170**	8 426
Banks	**81 309**	72 700
Securities firms	**7 370**	14 567
Corporate customers	**644 978**	503 703
Retail customers	**353 749**	272 452
Other	**6 504**	2 355
Total deposits	**1 267 448**	983 529
Geographical analysis		
South Africa	**884 404**	820 690
Rest of Africa	**96 781**	93 526
UK	**257 772**	52 715
Other	**28 491**	16 598
Total deposits	**1 267 448**	983 529

38 FINANCIAL AND INSURANCE RISK continued

38.3 Market risk

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

38.3.1 Market risk in the trading book

Objective

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

Assessment and management

Management and monitoring of the FirstRand domestic banking book is split between the RMB book and the remaining domestic banking book. RMB manages the majority of its banking book under the market risk framework, with risk measured and monitored in conjunction with the trading book and management oversight provided by the market and investment risk committee. The RMB banking book interest rate risk exposure was R45 million on a 10-day expected tail loss (ETL) basis at 30 June 2018 (2017: R56.8 million). Interest rate risk in the remaining domestic banking book is discussed in the interest rate risk in the banking book section.

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

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

VaR analysis by risk type

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

1-day 99% VaR analysis by instrument

	2018				2017
R million	Min*	Max*	Average	Period end	Period end
Risk type#					
Equities	**0.7**	**124.3**	**21.5**	**1.7**	5.3
Interest rates**	**17.8**	**161.0**	**39.9**	**25.9**	59.0
Foreign exchange	**13.3**	**89.5**	**33.1**	**40.5**	23.8
Commodities	**3.8**	**34.2**	**15.5**	**12.0**	19.2
Traded credit	**6.5**	**23.2**	**12.7**	**10.6**	8.0
Diversification effect				**(30.7)**	(75.0)
Diversified total	**31.9**	**298.2**	**77.1**	**60.0**	40.3

* *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.*

Excludes foreign branches and subsidiaries, which are reported on the standardised approach for market risk.

The following table reflects the 10-day VaR and sVaR at the 99% confidence level.

The 10-day VaR calculation is performed using 10-day scenarios created from the past 260 trading days, whereas the 10-day sVaR is calculated using scenario data from the static stress period.

	2018								2017	
	VaR				sVaR				Period end	
R million	Min*	Max*	Average	Period end	Min	Max	Average	Period end	VaR	sVaR
Risk type#										
Equities	**1.4**	**298.7**	**43.0**	**9.1**	**2.5**	**60.6**	**21.9**	**8.8**	12.0	27.0
Interest rates**	**31.7**	**242.9**	**89.1**	**97.1**	**84.9**	**313.7**	**188.7**	**94.4**	85.4	115.2
Foreign exchange	**22.4**	**303.5**	**75.1**	**141.9**	**18.4**	**439.2**	**74.2**	**182.7**	86.8	116.6
Commodities	**5.0**	**77.4**	**29.5**	**18.8**	**6.8**	**106.2**	**29.5**	**37.7**	38.6	35.4
Traded credit	**13.7**	**78.8**	**37.9**	**59.3**	**8.5**	**28.4**	**16.5**	**12.2**	17.9	21.9
Diversification effect				**(124.9)**				**(118.0)**	(152.8)	(115.3)
Diversified total	**64.5**	**389.4**	**148.0**	**201.3**	**97.1**	**343.7**	**181.5**	**217.8**	88.0	200.8

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

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

Excludes foreign branches and subsidiaries, which are reported on the standardised approach for market risk. The sVaR numbers relates to FirstRand Bank SA only.

38 FINANCIAL AND INSURANCE RISK continued

38.4 Non-traded market risk

38.4.1 Interest rate risk in the banking book (IRRBB)

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

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.

Foreign operations

Management of subsidiaries and international branches is performed by in-country management teams with oversight provided by Group Treasury and FCC Risk Management. For subsidiaries, earnings sensitivity measures are used to monitor and manage interest rate risk in line with the group's appetite. Where applicable, PV01 and ETL risk limits are also used for endowment hedges.

Sensitivity analysis

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

38 FINANCIAL AND INSURANCE RISK continued

Earning 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 and behavioural adjustments are applied where relevant. The calculation assumes, a constant balance sheet size and product mix over the forecast horizon. Bahavioural assumption is applied in relation to non-maturing deposits, which reprice at management of the group's discretion. This assumption is based on historical product behaviour.

The following tables show the 12-month NII sensitivity for a sustained, instantaneous parallel 200 bps downward and upward shock to interest rates.

Most of the NII sensitivity relates to the endowment book mismatch. The group's average endowment book was R223 billion (2017: R192 billion) for the year.

Projected ZAR NII sensitivity to interest rate movements

	2018		
	Change in projected 12-month NII		
R million	**FirstRand Bank**	**Foreign subsidiaries and branches**	**FirstRand**
Downward 200 bps	**(3 045)**	**(339)**	**(3 384)**
Upward 200 bps	**2 551**	**540**	**3 091**

	2017		
	Change in projected 12-month NII		
R million	FirstRand Bank	Foreign subsidiaries and branches	FirstRand
Downward 200 bps	(1 498)	(568)	(2 066)
Upward 200 bps	957	409	1 366

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 R3 384 million (2017: R2 066 million). A similar increase in interest rates would result in an increase in projected 12-month NII of R3 091 million (2017: R1 366 million).

38 FINANCIAL AND INSURANCE RISK continued

38.4.1 Interest rate risk in the banking book continued

Economic value of equity (EVE)

An EVE sensitivity measure is used to assess the impact on the total NAV of the group 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 to varying degrees and is reflected in the NII margin more as an opportunity cost/benefit over the life of the underlying positions. As a result, a purely forward-looking EVE sensitivity measure is applied to the banking book, be it a 1 bps shock or a full stress shock, which is monitored relative to total risk limit, appetite levels and current economic conditions.

The EVE shock applied is based on regulatory guidelines and is a sustained, instantaneous parallel 200 bps downward and upward shock to interest rates. This is applied to risk portfolios as managed by Group Treasury which, as a result of the risk transfer through the internal funds transfer pricing process, captures relevant open risk positions in the banking book. This measure does not take into account the unrealised economic benefit embedded as a result of the banking book products which are not recognised at fair value.

The following table:
- highlights the sensitivity of banking book NAV as a percentage of total capital; and
- reflects a point-in-time view which is dynamically managed and can fluctuate over time.

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

%	**2018**	2017
Downward 200 bps	**2.35**	1.91
Upward 200 bps	**(2.05)**	(1.71)

38 FINANCIAL AND INSURANCE RISK continued

38.4.2 Structural foreign exchange risk

Objective

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

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

Assessment and management

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

Foreign exchange risk in the banking book comprises funding and liquidity management, and risk mitigating activities which are managed to low levels. To minimise funding risk across the group, foreign currency transactions are matched where possible, with residual liquidity risk managed centrally by Group Treasury. 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.

The table below provides an overview of the group's exposure to entities with functional currencies other than the South African rand and the pre-tax impact on equity of a 15% change in the exchange rate between the South African rand and the relevant functional foreign currencies. Note that the acquisition of the Aldermore Group plc was the primary cause in the increase in Sterling below.

38 FINANCIAL AND INSURANCE RISK continued

Net structural foreign exposures

Currency million	2018		2017	
	Carrying value of net investment	**Pre-tax impact on equity from 15% currency translation shock**	Carrying value of net investment	Pre-tax impact on equity from 15% currency translation shock
Functional currency				
Botswana pula	**4 410**	**661**	3 819	573
United States dollar	**4 168**	**625**	3 696	554
British pound sterling	**14 667**	**2 200**	3 015	452
Nigerian naira	**1 349**	**202**	1 069	160
Australian dollar	**385**	**58**	756	113
Zambian kwacha	**805**	**121**	1 004	151
Mozambican metical	**370**	**56**	520	78
Indian rupee	**676**	**101**	634	95
Ghanaian cedi	**365**	**55**	403	60
Tanzanian shilling	**413**	**62**	539	81
Common Monetary Area (CMA) countries*	**6 533**	**980**	5 876	881
Total	**34 141**	**5 121**	21 331	3 198

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

38 FINANCIAL AND INSURANCE RISK continued

38.5 Equity investment risk

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

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

Ashburton Investments, which provides a wider asset management service, also contributes to equity investment risk. This risk emanates from long-term or short-term seeding activities both locally and offshore.

Assessment and management

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

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

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

The table below shows the equity investment risk exposure and sensitivity. The 10% sensitivity movement is calculated on the carrying value of investments excluding investments subject to the expected tail loss (ETL) process and includes the carrying value of investments in associates and joint ventures. The impact of the sensitivity movements would be recognised in profit or loss.

Investment risk exposure and sensitivity of investment risk exposure

R million	**2018**	2017
Listed investment risk exposure included in the equity investment risk ETL process	**1**	21
ETL on above equity investment risk exposures	**-**	-
Estimated sensitivity of remaining investment balances		
Sensitivity to 10% movement in market value on investment fair value	**245**	238

38 FINANCIAL AND INSURANCE RISK continued

38.6 Insurance risk

Long-term insurance products

The risk arises from the group's long-term insurance operations, underwritten through its subsidiary, FirstRand Life Assurance Limited (FirstRand Life).

FirstRand Life currently underwrites funeral policies and credit life policies (against FNB credit products). These policies are all originated through the FNB franchise.

The main risks FirstRand Life is exposed to as a result of underwriting long-term insurance products are as follows:

- Mortality risk – risk of loss arising due to policyholder death experience being different than expected.
- Morbidity risk – risk of loss arising due to policyholder health experience being different than expected.
- Expense risk – risk of loss arising from expense experience being different than expected.
- Lapse risk – risk of loss arising from policyholder behaviour being different than expected.
- Retrenchment risk - risk of loss arising due to policyholder being retrenched.

Funeral policies pay benefits upon death of the policyholder and, therefore, expose the group to mortality risk. The underwritten credit life policies further cover policyholders for disability and critical illness, which are morbidity risks. Credit life policies also cover retrenchment risk. As a result of these insurance risk exposures, the group is exposed to catastrophe risk, stemming from the possibility of an extreme event linked to any of the above.

For all of the above, the risk is that the decrement rates (e.g. mortality rates, morbidity rates, etc.) and associated cash flows are different from those assumed when pricing or reserving. Mortality, morbidity and retrenchment risk can further be broken down into parameter risk, random fluctuations and trend risk, which may result in the parameter value assumed differing from actual experience.

Over the past year, policies underwritten by FirstRand Life have become available through all of FNB's distribution channels. Some of these channels introduce the possibility of anti-selection which also impacts the level of insurance risk.

FirstRand Life also writes linked-investment policies distributed by Ashburton Investments. There is, however, no insurance risk associated with these policies as they are not guaranteed.

38 FINANCIAL AND INSURANCE RISK continued

Mortality and Morbidity risk

Exposure by size of sum assured

	Before Reinsurance		After Reinsurance	
Retail sums assured at risk	**R million**	**%**	**R million**	**%**
2018				
1 - 499 999	**133 906**	**57.5**	**126 504**	**64.1**
500 000 - 999 999	**51 102**	**21.9**	**46 216**	**23.4**
1 000 000 - 1 999 999	**40 036**	**17.2**	**23 928**	**12.1**
2 000 000 and above	**7 884**	**3.4**	**698**	**0.4**
Total	**232 928**	**100.0**	**197 346**	**100.0**
2017				
1 - 499 999	100 394	84.4	98 932	92.4
500 000 - 999 999	9 174	7.7	7 504	7.0
1 000 000 - 1 999 999	5 672	4.8	632	0.6
2 000 000 and above	3 700	3.1	2	-
Total	118 940	100.0	107 070	100.0

38 FINANCIAL AND INSURANCE RISK continued

Assessment and management

The assessment and management of insurance risk is influenced by the frequency and severity of claims, especially if actual benefits paid are greater than originally estimated, and the subsequent impact on estimated long-term claims.

FirstRand Life manages the insurance risk of its funeral and credit life policies through monitoring incidence rates, claims ratios and business mix as policies are not underwritten and pricing is flat. Any other risk policies sold to a different target market will be underwritten. This will allow underwriting limits and risk-based pricing to be applied to manage the insurance risk. Where various channels introduce the risk of anti-selection, mix of business by channel is monitored. There is also a reinsurance agreement in place to manage catastrophe risk.

Rigorous and proactive risk management processes are in place to ensure sound product design and accurate pricing, these include:

- Independent model validation;
- Challenging assumptions, methodologies and results;
- Debating and challenging design, relevance, target market, market competitiveness and treating customers fairly;
- Identifying potential risks;
- Monitoring business mix and mortality risk of new business; and
- Thoroughly reviewing policy terms and conditions.

Insurance risk mitigation

The risk exposure is mitigated by diversification across a portfolio of insurance contracts and geographical areas. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.

FirstRand Life purchases reinsurance as part of its risk mitigation programme. The reinsurances agreements spread the risk and of loss and minimise the effect of losses. The risk retention levels depend on the evaluation of specific risk, subject to certain circumstance, to maximum limits based on the characteristics of coverage. For life insurance products reinsurance ceded is placed on both a proportional and non-proportional basis. The majority of proportional reinsurance is quota-share reinsurance which is taken out to reduce the overall exposure to certain classes of business. Non-proportional reinsurance is primarily excess-of-loss reinsurance designed to mitigate the group’s net exposure to catastrophe losses. Amounts recoverable from reinsurers are estimated in a manner consistent with outstanding claims.

38 FINANCIAL AND INSURANCE RISK continued

Sensitivities

An analysis was performed in the current year for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities, profit before tax and equity. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities. To demonstrate the impact of changes in assumptions, assumptions had to be changed on an individual basis. It should be noted that the movements in these assumptions are non-linear. Sensitivity information also varies according to the current economic assumptions, mainly due to the impact of the changes to both the intrinsic cost and time value of options and guarantees. When options and guarantees exist, these are the main reason for the asymmetry of sensitivities. Since the policyholder liabilities are retrospective in nature, there is no sensitivity because of changes in assumptions in the current financial year. Due to the zerorisation of negative reserves, sensitivities are absorbed in the margins, therefore if the inputs listed below were to increase or decrease by 10%, the impact on the negative reserve will be insignificant:

- Mortality/morbidity rate;
- Longevity;
- Investment return;
- Expenses; and
- Lapse and surrenders rate

Short-term insurance products

The risk arises from the group's short-term insurance operations, underwritten through FirstRand Insurance Services Company Limited (FRISCOL), a wholly owned subsidiary of FirstRand Insurance Holdings Proprietary Limited.

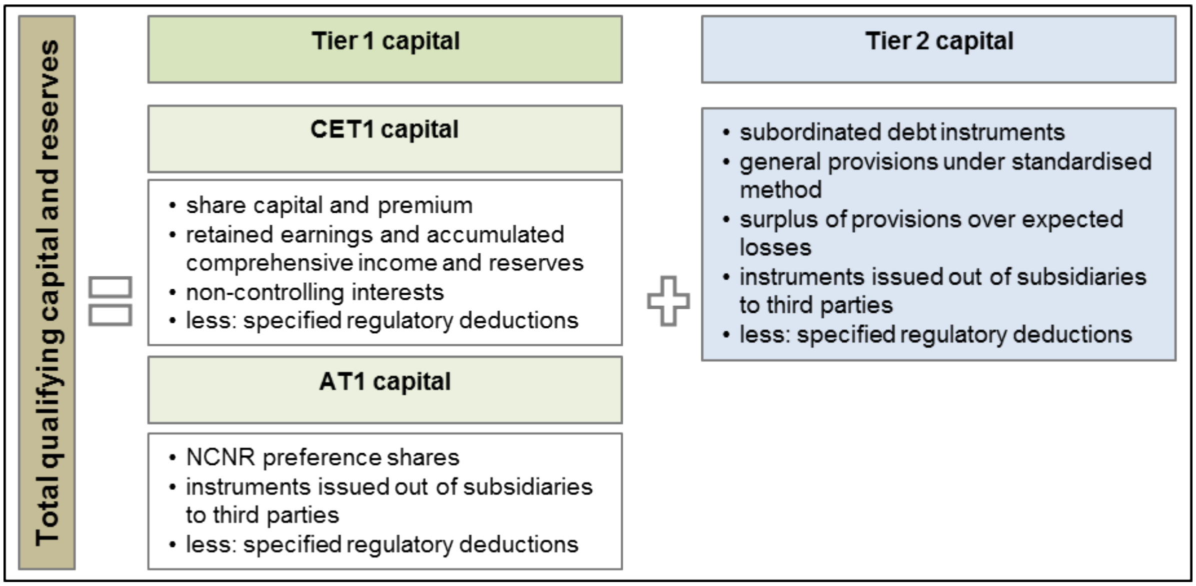
The terms and conditions of short-term insurance contracts have a material effect on the amount, timing and uncertainty of future cash flows. The key risks associated with general insurance contracts are claims experience. The provisions for these contracts are refined at least annually. As claims experience develops, certain claims are settled, further claims are revised and new claims are reported. The reasonableness of the estimation process is tested by management and reviewed on a regular basis. The group believes that the liability for claims carried at the end of the year is adequate.

The short-term insurance products offered by the group include:

- Liability – provides cover for risks relating to the incurring of a liability other than from risk covered more specifically under another insurance contract.
- Motor – provides indemnity cover relating to the possession, use or ownership of a motor vehicle. The cover includes comprehensive cover, third party, fire and theft, and third party liabilities.
- Personal accident – provides compensation arising out of the death or disability directly caused by an accident occurring anywhere in the world, provided that death or disability occurs within 12 months of this injury.
- Property – provides indemnity relating to movable and immovable property caused by perils such as fire, explosion, earthquakes, acts of nature, burst geysers and pipes, malicious damage, impact, alterations and additions.

38 FINANCIAL AND INSURANCE RISK continued

38.7 Capital management



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

The group operated above its capital and leverage targets during the year. The internal targets are approved by the board and subject to ongoing review and consideration of various stakeholder requirements. The group continues to focus on maintaining strong capital and leverage levels, with focus on the quality of capital and optimisation of the group's RWA and capital mix.

The group's registered banking subsidiaries and foreign branch must comply with SARB regulations and those of the respective in-country regulators, with primary focus placed on Tier 1 capital and total capital adequacy ratios. Based on the outcome of detailed stress testing, each entity targets a capital level in excess of the regulatory minimum. Adequate controls and processes are in place to ensure that each entity is adequately capitalised to meet local and SARB regulatory requirements

38 FINANCIAL AND INSURANCE RISK continued

Composition of capital analysis

	CET1 capital	Tier 1 capital	Total qualifying capital
Internal targets	**10% - 11%**	**>12%**	**>14%**

Capital adequacy for the group's regulated subsidiaries and foreign branches

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

39 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The following new and revised standards and interpretations are applicable to the business of the group. The group will comply with these from the stated effective date.

Standard	Impact assessment	Effective date
IFRS 2 (amended)	**Classification and Measurement of Share-Based Payment Transactions** As a result of work by the IFRS Interpretations Committee, several amendments have been made to IFRS 2 to clarify how to account for certain share-based payment transactions. The amendments to IFRS 2 are related to the following areas: ➢ Accounting for the effects of vesting and non-vesting conditions on the measurement of the liability of cash-settled share-based payment transactions; ➢ The classification of share-based payment transactions with net settlement features for withholding tax obligations; and ➢ Accounting for a modification to the terms and conditions of a share-based payment that changes the transaction from cash-settled to equity-settled. The FirstRand group currently only has cash-settled share-based payment schemes. The group is currently in line with the first two amendments as the group is accounting for these items in line with the clarifications. The third amendment will be considered when such transactions take place and will be applied prospectively to any modifications made on or after the adoption date.	Annual periods commencing on or after 1 January 2018

39 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE continued

Standard	Impact assessment	Effective date
IFRS 4 (amended)	**Applying IFRS 9 with IFRS 4** The amendment addresses concerns around temporary volatility in reported results arising from implementing IFRS 9 before implementing the insurance contracts standard that is being developed and that will replace IFRS 4. The amendment introduces two approaches: ➢ The overlay approach - An option for all issuers of insurance contracts to remove from profit or loss the effects of some mismatches that may occur before adoption of IFRS 4, and recognise those impacts temporarily. The adjustment only applies to financial assets that are designated as relating to contracts in scope of IFRS 4 and measured at FVTPL in accordance with IFRS 9, but would have been measured in their entirety as at FVTPL under IAS 39. ➢ Temporary exemption - Reporting entities whose activities are predominantly connected with insurance are temporarily exempt from applying IFRS 9 and will continue to apply IAS 39 until the new insurance contracts standard is issued. All entities in the FirstRand group, including those who issue insurance contracts, will apply IFRS 9 for annual periods commencing on or after 1 January 2018 and therefore the two approaches made available under this amendment will not be elected and the amendment will have no impact on the group.	Annual periods commencing on or after 1 January 2018

39 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE continued

Standard	Impact assessment	Effective date
IFRS 9	**Financial Instruments** IFRS 9 is effective and has been implemented by the group on 1 July 2018. IFRS 9 replaces IAS 39 and the revised requirements specifically deal with the classification and measurement of financial instruments, the measurement of impairment losses based on an expected credit loss model and includes revised requirements relating to hedge accounting. The group has elected not to restate its comparative information included in the annual financial statements for the year ending 30 June 2019. The impact of implementing IFRS 9 will be reflected as an adjustment to the opening retained earnings as at 1 July 2018. In the annual financial statements for the year ended 30 June 2019, the 2019 financial information will be based on IFRS 9 and the 2018 financial information will be based on IAS 39. The amended disclosure requirements of IFRS 7 will also be prospectively applied by the group. The group will publish detailed information about the impact of transitioning to IFRS 9 during the 4th quarter of calendar year 2018. This will facilitate compliance with the South African Reserve Bank's (SARB) Directive 5/2017, Regulatory treatment of accounting provisions – interim approach and transitional arrangements including disclosure and auditing aspects, which requires the IFRS 9 transition adjustment to be audited within 5 months of the effective date. Based on the work performed, the main impact of the revised classification and measurement requirements is: ➢ Certain portfolios of advances in the RMB Investment Banking Division, that meet the relevant classification criteria, will be reclassified from FVTPL to amortised cost as these advances are held with the intention of collecting the cash flows and earning a lending margin; ➢ Certain investment securities held in the group's liquidity portfolio will be reclassified from available-for-sale to amortised cost because they are held to collect contractual cash flows and those contractual cash flows are solely for the repayment of principal and interest; and ➢ Certain deposits and other liabilities will be reclassified from amortised cost to FVTPL to ensure that the measurement of liabilities matches the measurement of assets which they fund.	Annual periods commencing on or after 1 January 2018

39 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE continued

Standard	Impact assessment	Effective date
IFRS 9 continued	The revised hedge accounting requirements will be applied by the group prospectively and as such will not have an impact on the amounts recognised in the annual financial statements as at 1 July 2018. The introduction of IFRS 9 results in earlier loss recognition than under IAS 39 due to the requirement to calculate provisions for expected credit losses rather than incurred losses. In addition, IFRS 9 requires the calculation of expected credit losses to incorporate probability-weighted forward-looking macro-economic information, whereas under IAS 39 only current macro-economic conditions are considered. IFRS 9 also requires expected credit losses to be calculated for off-balance sheet exposures such as undrawn amounts, loan commitments and financial guarantees. IAS 39 did not apply to these off-balance-sheet exposures. The group developed and/or amended the applicable credit and accounting policies to incorporate the new requirements of IFRS 9. The group will continue to further refine certain models during the upcoming financial year and will update, as appropriate, in line with local and industry trends. In addition, group-wide definitions, such as the definition of default and significant increase in credit risk, have been finalised to ensure consistent application of key terms in model development across the group. Refer below for an overview of the governance process around approval of the models, modelling process and key terms applied by the group in the modelling process. **Governance** Existing governance frameworks were utilised for the governance of IFRS 9-related processes. Overall, no significant changes are anticipated in the governance processes related to impairments. Where necessary, these frameworks have been amended to incorporate elements not presently catered for in existing frameworks. One such amendment is the governance process to ensure the independence of the production of forward-looking macroeconomic information which is incorporated into the ECL models.	

39 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE continued

Standard	Impact assessment	Effective date
IFRS 9 continued	**Modelling overview** The group adopted the PD/LGD approach for the calculation of expected credit losses (ECL) for material advances and a simplified approach for less material balances, such as non-advances e.g. accounts receivable. The ECL is based on a probability-weighted average of three macroeconomic scenarios weighted by the probability of occurrence. This has resulted in the need for development of the appropriate ECL models, including underlying PD, LGD and EAD models and parameter term structures, to facilitate the calculation of ECL. All required models have been developed within the group and are validated independently both internally by the independent validation unit within ERM. Model development has been guided by appropriate frameworks, which articulate minimum required standards and reference industry guidance and best practice. Where possible, existing methodology used in the regulatory models has been leveraged for the development of IFRS 9 models, e.g. through-the-cycle PDs have been adjusted to IFRS 9 PDs using PD term structures and forward-looking macroeconomic information. **Significant increase in credit risk** To determine whether an advance has experienced a significant increase in credit risk, the lifetime PD of the asset calculated at the origination date is compared to that calculated at the reporting date. The origination date is defined to be the date the loan was granted to the borrower or the most recent date at which the group re-priced based on the outcome of either the original or an up-to-date risk assessment. Any facility that is more than 30 days past due, or in the case of instalment-based products one instalment past due, is automatically considered to have experienced a significant increase in credit risk. In addition to the quantitative assessment based on PDs, qualitative considerations are applied when determining whether individual exposures have experienced a significant increase in credit risk. One such qualitative consideration is the appearance of wholesale and commercial SME facilities on a credit watch list. Any up-to-date facility that has undergone a distressed restructure (i.e. a modification of contractual cash flows to prevent a client from going into arrears) will be considered to have experienced a significant increase in credit risk.	

39 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE continued

Standard	Impact assessment	Effective date
IFRS 9 continued	The credit risk on an exposure is no longer considered to be significantly higher than at origination if no qualitative indicators of a significant increase in credit risk are triggered, and if comparison of the reporting date PD to the origination date PD no longer indicates that a significant increase in credit risk has occurred. **Period of exposure to credit risk** Lifetime expected losses are measured over the period that the entity is exposed to credit risk. This period is determined through analysis of historical behavioural data, incorporating pre-payments and early settlements. For non-revolving products, this period is capped at the remaining contractual term of the financial instrument. For revolving products, such as credit cards and overdrafts, no restrictions are imposed on the length of the period of exposure to credit risk. **Incorporation of forward-looking information** Forward-looking macro-economic information will be incorporated into expected loss estimates through the application of quantitative modelling and expert-judgement-based adjustments. ECL will be calculated for the core (best-estimate) scenario, an upside scenario and a downside scenario. The probability-weighted average of the ECL figures calculated under each of these scenarios will be the final ECL figure for the portfolio. Where credit experts have determined that the three macro-economic scenarios catered for through the quantitative modelling process are not adequately reflective of potential macro-economic event risk, expert judgement-based adjustments will be made to staging and/or ECL estimates to better reflect potential portfolio-specific impacts. In addition to forward-looking macro-economic information, other types of forward-looking information, such as specific event risk, will be considered in ECL estimates when required through the application of out-of-model adjustments. **Impact on taxation** The Income Tax Act contains the updated requirements for the deductibility of impairments in accordance with IFRS 9. The group's South African banking entity will be able to claim the following impairment provisions with effect from the reporting period beginning 1 July 2018: ➢ 25 % on stage 1 exposures; ➢ 40% on stage 2 exposures; ➢ 85% in stage 3 exposures; and ➢ 100% on written off advances.	

39 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE continued

Standard	Impact assessment	Effective date
IFRS 9 continued	**Expected impact** Management used assumptions and judgement in applying the group's IFRS 9 accounting policies to determine the estimated impact of the implementation of IFRS 9. The revised impairment models are expected to result in an overall increase of impairment provisions on the statement of financial position, impacting opening retained earnings for the 2019 financial year. In addition, the impact of remeasurement of financial assets and liabilities as a result of the classification and measurement changes noted above will result in an additional adjustment to retained earnings. The expected impact of this retrospective adjustment is a reduction of between 47 and 57 basis points (on a fully loaded basis) in the CET1 ratio of the group. The group elected to phase in the impact of the incremental IFRS 9 provisions over a three-year period in line with Directive 5/2017 issued by the SARB. The impact of implementing IFRS 9 has been considered in the group's capital planning. The IASB issued an amendment and a clarification to IFRS 9 - Prepayment Features with Negative Compensation. These amendments address the treatment of financial assets with specific prepayment features and also clarifies an aspect of the accounting for financial liabilities following a modification. These amendments are applicable to financial year ends beginning on or after 1 January 2019 while the clarification is applicable to financial year ends beginning on or after 1 January 2018. The group is in the process of determining the impact on the group, but these amendments are not expected to have a significant impact.	

39 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE continued

Standard	Impact assessment	Effective date
IFRS 15	**Revenue from Contracts with Customers** IFRS 15 replaces several existing revenue standards and interpretations and introduces a new five-step principle model that an entity must apply to determine the measurement and timing of revenue recognition. The core principle of the new standard is that an entity will recognise revenue to depict the transfer of control of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods and services. Under the new model, revenue is recognised based on when the entity satisfies its performance obligations. IFRS 15 will be effective for the group from 1 July 2018. The group's main source of revenue is out of scope of IFRS 15 and as a result, IFRS 15 is not expected to have a significant impact on the group. The group has identified and reviewed the contracts with customers that are within the scope of this standard. The outcome of the reviews has resulted in the identification of additional performance obligations for certain products and as a result thereof a deferral of revenue relating to those products. The impact on retained earnings is not expected to be more than R150 million, which will have a negligible impact on the group's CET1 ratio.	Annual periods commencing on or after 1 January 2018
IFRS 16	**Leases** IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions. IFRS 16 will be effective for the group from 1 July 2019. The biggest impact of the standard will be on lessee accounting because of the requirement for lessees to recognise an asset and corresponding liability in respect of operating leases. Under the current standard on leases, operating lease payments were expensed by the lessee when incurred, with no recognition on the statement of financial position. IFRS 16 requires that at the commencement date of the lease (regardless of whether it is finance or operating lease), a lessee shall recognise nearly all leases on the balance sheet which will reflect their right to use an asset for a period of time and the associated liability for payment. The exceptions available for lessees are leases of a short term (less than 12 months) or low-value assets.	Annual periods commencing on or after 1 January 2019

39 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE continued

Standard	Impact assessment	Effective date
IFRS 16 continued	IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17; however, there are also enhanced disclosure requirements for lessors. IFRS 16 is expected to impact the group's recognition of future operating lease commitments of circa R4 billion, as currently disclosed in the contingencies and commitments note. The implementation of IFRS 16 will result in a lease liability and right-of-use asset being recognised on balance sheet. The value of the right-of-use asset will approximate the lease liability.	
IFRS 17	**Insurance Contracts** IFRS 17 is the new standard that prescribes the accounting for insurance contracts and will replace the current insurance contracts standard, IFRS 4. IFRS 17 aims to provide more transparency and comparability between insurance companies and other industries by providing a prescriptive approach to determining policyholder liabilities as well as the release of profits on these contracts to the income statement. IFRS 17 will be effective for the group from 1 July 2021. The recognition of insurance revenue will be consistent with that of IFRS 15. Insurance revenue is derived by the movement in the liability for the remaining insurance coverage period. The insurance contract liability is initially made up of: the fulfilment cash flows, which represent the risk-adjusted present value of the entity's rights and obligations to the policyholders; and the contractual service margin (CSM), which represents the unearned profit the entity will recognise as it provides services over the coverage period. Subsequently, the liability will comprise two components, namely, the liability for remaining coverage (fulfilment cash flows and the CSM) and the liability for incurred claims (fulfilment cash flows for claims and expenses incurred but not yet paid). To prepare for implementation, the group has constituted a steering committee which will be supported by several working groups. The working groups will be responsible for the implementation of the different elements of the new standard and work has commenced. The impact of IFRS 17 will only be reliably determinable once the implementation project has progressed further.	Annual periods commencing on or after 1 January 2021

39 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE continued

Standard	Impact assessment	Effective date
IAS 28	**Long-term Interests in Associates (Amendments to IAS 28)** The amendments clarify that an entity should apply IFRS 9, including impairment requirements, to long-term interests in associates and joint ventures that in substance form part of the net investment in the associate or joint venture. The group has assessed the impact of this amendment on the annual financial statements as part of the overall adoption of IFRS 9 and confirmed that we currently comply with this amendment.	Annual periods commencing on or after 1 January 2019
IAS 40	**Transfers of Investment Property (Amendments to IAS 40)** The amendments introduce clarification of the requirements on transfers to, or from investment properties when there has been a change in use of the property The clarified requirements will be applied by the group to any transfer to or from investment property, when these transactions take place.	Annual periods commencing on or after 1 January 2018
IFRIC 22	**Foreign Currency Transaction and Advance Consideration** This interpretation clarifies the accounting treatment for transactions that involves the advance receipt or payment of consideration in a foreign currency. The group is in the process of assessing the impact on the annual financial statements but it is not expected to have a significant impact.	Annual periods commencing on or after 1 January 2018
IFRS 23	**Uncertainty over Income Tax Treatments** This interpretation is to be applied to the determination of taxable profit or loss, tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. This interpretation clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency. When considering that the filing deadlines for tax returns and financial statement may be months apart, IFRIC 23 may require more rigour when finalising the judgements about the amounts to be included in the tax return before the financial statements are finalised. The group has always been in compliance with the guidance issued by the IFRIC.	Annual periods commencing on or after 1 January 2019

39 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE continued

Standard	Impact assessment	Effective date
Annual Improvements 2014-2016 cycle	**Improvements to IFRS** The IASB issued the *Annual Improvements to IFRS Standards 2014-2016 Cycle*. These annual improvements include amendments to IAS 12 and IAS 28. The annual improvement project's aim is to clarify and improve accounting standards. The amendments have been assessed and are not expected to have a significant impact on the group.	Annual periods commencing on or after 1 January 2018 (IAS 12 and IAS 28)
Annual Improvements 2015-2017 cycle	**Improvements to IFRS** The IASB issued the Annual Improvements to IFRS Standards 2015-2017 Cycle. These annual improvements include amendments to the following standards: ➢ IFRS 3 and IFRS 11 - The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business. ➢ IAS 12 - The amendments clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognised in profit or loss, regardless of how the tax arises. ➢ IAS 23 - The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.	Annual periods commencing on or after 1 January 2019

40 EVENTS AFTER REPORTING PERIOD

DISCOVERY CARD

Subsequent to the year end, the group concluded a transaction with Discovery, through the issuance of preference shares, for the ultimate transfer and disposal of its remaining effective 25.01% interest in Discovery Card and Discovery Bank, respectively. The consideration of this transaction is R1.8 billion, which together with the preference share issuance of R1.3 billion in 2016, results in a total value unlock for FirstRand shareholders of approximately R3 billion. This transaction is expected to be concluded during the financial year ending 30 June 2019.

At 30 June 2018, FNB includes Discovery Card advances with a gross value of R4.3 billion which will also be transferred at carrying value.

FNB SWAZILAND

During the next financial year, a minority interest in FNB Swaziland will be offered to local investors through a listing.

Audited
Financial statements
for the year ended
30 June 2018

FirstRand Company

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June

R million	Notes	2018	2017
Revenue	2	**23 914**	14 134
Net interest (expense)/income	3	**(35)**	20
Interest and similar income	3	**50**	22
Interest expense and similar charges	3	**(85)**	(2)
Income from operations		**23 879**	14 154
Operating expenses	4	**(221)**	(182)
Income before indirect tax		**23 658**	13 972
Indirect tax	5.1	**(5)**	(2)
Profit before income tax		**23 653**	13 970
Income tax expense	5.2	**(14)**	(7)
Profit for the year		**23 639**	13 963
Other comprehensive income		**-**	-
Total comprehensive income for the year		**23 639**	13 963
Attributable to			
Ordinary equityholders		**23 288**	13 607
NCNR preference shareholders		**351**	356
Total comprehensive income for the year		**23 639**	13 963

STATEMENT OF FINANCIAL POSITION

as at 30 June

R million	Notes	2018	2017
ASSETS			
Cash and cash equivalents	7	**541**	78
Accounts receivable	8	**-**	1
Current tax asset		**-**	2
Investments in subsidiaries	9	**70 134**	59 236
Total assets		**70 675**	59 317
EQUITY AND LIABILITIES			
Liabilities			
Creditors and accruals	10	**106**	87
Employee liabilities	11	**199**	168
Amounts owing to subsidiaries	9	**2 941**	-
Total liabilities		**3 246**	255
Equity			
Ordinary shares	12	**56**	56
Share premium	12	**8 056**	8 056
Reserves		**54 798**	46 431
Capital and reserves attributable to ordinary equityholders		**62 910**	54 543
NCNR preference shares	12	**4 519**	4 519
Total equity		**67 429**	59 062
Total equity and liabilities		**70 675**	59 317

STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June

R million	Notes	Ordinary share capital and ordinary equityholders' funds		
		Share capital	Share premium	**Share capital and share premium**
Balance as at 1 July 2016		56	8 056	**8 112**
Ordinary dividends		-	-	**-**
Preference dividends		-	-	**-**
Total comprehensive income for the year		-	-	**-**
Balance as at 30 June 2017		56	8 056	**8 112**
Ordinary dividends		-	-	**-**
Preference dividends		-	-	**-**
Total comprehensive income for the year		-	-	**-**
Balance as at 30 June 2018		56	8 056	**8 112**

	Ordinary share capital and ordinary equityholders' funds				
	Capital redemption reserve	Retained earnings	**Reserves attributable to ordinary equityholders**	**NCNR preference shares**	**Total equity**
	1	46 117	**46 118**	**4 519**	**58 749**
	-	(13 294)	**(13 294)**	**-**	**(13 294)**
	-	-	**-**	**(356)**	**(356)**
	-	13 607	**13 607**	**356**	**13 963**
	1	46 430	**46 431**	**4 519**	**59 062**
	-	(14 921)	**(14 921)**	**-**	**(14 921)**
	-	-	**-**	**(351)**	**(351)**
	-	23 288	**23 288**	**351**	**23 639**
	1	54 797	**54 798**	**4 519**	**67 429**

STATEMENT OF CASH FLOWS

for the year ended 30 June

R million	Notes	2018	2017
Cash flows from operating activities			
Interest received		**50**	22
Trading and other income		**42**	34
Interest payments		**(85)**	(2)
Other operating expenses		**(67)**	(84)
Dividends received		**23 872**	14 100
Dividends paid		**(15 272)**	(13 650)
Taxation paid		**(17)**	4
Cash generated from operating activities		**8 523**	424
Movement in operating assets and liabilities			
Accounts receivable		**1**	2
Employee liabilities		**(123)**	(107)
Creditors and accruals		**19**	9
Net cash generated from operating activities		**8 420**	328
Cash flows from investing activities			
Increase in investments in subsidiaries		**(11 066)**	(350)
Decrease in amounts owing by subsidiary companies		**168**	31
Net cash outflow from investing activities		**(10 898)**	(319)
Cash flows from financing activities			
Increase in amounts due to subsidiary companies		**2 941**	-
- Increase in amounts due to subsidiary companies		**10 941**	-
- (Repayment) of amounts due to subsidiary companies		**(8 000)**	-
Net cash inflow from financing activities		**2 941**	-
Net increase in cash and cash equivalents		**463**	9
Cash and cash equivalents at the beginning of the year	7	**78**	69
Cash and cash equivalents at the end of the year	7	**541**	78

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 30 June

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.1 Revenue

Revenue is measured at the fair value of the consideration received or receivable. Revenue within the company comprises fees from subsidiaries and dividend income from investment in subsidiaries.

The company recognises revenue when the amount can be reliably measured and it is probable that future economic benefits will flow to the company.

1.2 Other accounting policies

The financial statements of FirstRand Limited are prepared according to the same accounting policies used in preparing the consolidated financial statements of the group other than the accounting policies on consolidation, equity accounting and translation of foreign operations that are specific to group financial statements. For detailed accounting policies refer from page C26 of the 2018 annual financial statements. The financial statements are prepared on the going concern basis in accordance with IFRS.

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the functional currency).

Functional and presentation currency of the company	South African rand (R)
Level of rounding	All amounts presented in millions of rands. The company has a policy of rounding up in increments of R500 000. Therefore, amounts less than R500 000 will round down to Rnil and are presented as a dash.

2 REVENUE

R million	2018	2017
Recoveries from holding company and fellow subsidiaries	**41**	32
Other fees on non-financial instruments	**1**	2
Total fee and commission income	**42**	34
Gains less losses from investing activities		
Dividends received from subsidiaries - unlisted shares		
Ordinary dividends	**23 638**	13 863
Preference dividends	**234**	237
Total gains less losses from investing activities	**23 872**	14 100
Total revenue	**23 914**	14 134

3 INTEREST INCOME AND EXPENSE

R million	2018	2017
Interest and similar income		
Cash and cash equivalents	**50**	22
Interest on accounts receivable	**-**	-
Interest and similar income	**50**	22
Interest expense and similar charges		
Borrowed funds	**(85)**	(2)
Interest expense and similar charges	**(85)**	(2)
Total net interest (expense)/ income	**(35)**	20

4 OPERATING EXPENSES

R million	Notes	2018	2017
Advertising and marketing		**(3)**	-
Directors fees		**(34)**	(36)
Direct staff costs		**(165)**	(123)
- Salaries, wages and allowances		**(57)**	(65)
- Contributions to employee benefit funds		**(1)**	(1)
- Share-based payment expense	11	**(106)**	(56)
- Social security levies		**(1)**	(1)
Travel		**(2)**	(2)
Operating lease charges		**-**	(2)
Professional fees		**(5)**	(6)
Registrar fees		**(1)**	(2)
Stock exchange fees		**(1)**	(1)
Corporate memberships		**(1)**	(2)
Other operating expenditure		**(9)**	(8)
Total operating expenses		**(221)**	(182)

5 INDIRECT AND INCOME TAX EXPENSE

	R million	2018	2017
5.1	**Indirect tax**		
	Value added tax (net)*	**(5)**	(2)
	Total indirect tax	**(5)**	(2)
5.2	**Income tax expense**		
	South African income tax		
	Normal tax - current year	**(14)**	(7)
	Total income tax expense	**(14)**	(7)

* The value added tax rate has increased to 15% effective 1 April 2018 in accordance with legislation.

Tax rate reconciliation - South African normal tax

%	2018	2017
Standard rate of income tax	**28**	28
Total tax has been affected by:		
Dividends received	**(28)**	(28)
Effective rate of tax	**-**	-

6 ANALYSIS OF ASSETS AND LIABILITIES BY CATEGORY

The principal accounting policies from page C26 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 financial assets and liabilities in the statement of financial position per category of financial instrument to which they are assigned and therefore by measurement basis and according to when the assets are expected to be realised and liabilities settled.

		2018		
R million	Notes	**Loans and receivables**	**Financial liabilities at amortised cost**	**Non-financial instruments**
ASSETS				
Cash and cash equivalents	7	**541**	**-**	**-**
Accounts receivable	8	**-**	**-**	**-**
Current tax asset		**-**	**-**	**-**
Investment in subsidiaries	9	**-**	**-**	**70 134**
Total assets		**541**	**-**	**70 134**
LIABILITIES				
Creditors and accruals	10	**-**	**99**	**7**
Employee liabilities	11	**-**	**-**	**199**
Amounts owing to subsidiaries	9	**-**	**-**	**2 941**
Total liabilities		**-**	**99**	**3 147**

		2017		
R million	Notes	Loans and receivables	Financial liabilities at amortised cost	Non-financial instruments
ASSETS				
Cash and cash equivalents	7	78	-	-
Accounts receivable	8	1	-	-
Current tax asset		-	-	2
Investment in subsidiaries	9	-	-	59 236
Total assets		79	-	59 238
LIABILITIES				
Creditors and accruals	10	-	82	5
Employee liabilities	11	-	-	168
Amounts owing to subsidiaries	9	-	-	-
Total liabilities		-	82	173

At the reporting date all accounts receivables are considered to be neither past due nor impaired.

The carrying value of cash and cash equivalents, and accounts receivable and creditors and accruals approximates the fair value.

	2018		
	Total carrying value	**Current**	**Non-current**
	541	**541**	**-**
	-	**-**	**-**
	-	**-**	**-**
	70 134	**-**	**70 134**
	70 675	**541**	**70 134**
	106	**106**	**-**
	199	**135**	**64**
	2 941	**2 941**	**-**
	3 246	**3 182**	**64**

	2017		
	Total carrying value	Current	Non-current
	78	78	-
	1	1	-
	2	2	-
	59 236	168	59 068
	59 317	249	59 068
	87	87	-
	168	137	31
	-	-	-
	255	224	31

7 CASH AND CASH EQUIVALENTS

R million	**2018**	2017
Money at call and short notice	**541**	78
Cash and cash equivalents	**541**	78

8 ACCOUNTS RECEIVABLE

R million	**2018**	2017
Other accounts receivable	**-**	1
Total accounts receivable	**-**	1

9 INVESTMENT IN SUBSIDIARIES

	% owner-ship	% voting rights	Nature of business	Shares at cost 2018 R million	Shares at cost 2017 R million
FirstRand EMA Holdings Limited (FREMA)			Financial services		
Ordinary shares	**100**	100		**7 215**	7 207
Non-redeemable preference shares	**100**	100		**3 000**	3 000
FirstRand Bank Limited			Banking		
Ordinary shares	**100**	100		**40 194**	40 194
FirstRand Investment Holdings Proprietary Limited			Other activities		
Ordinary shares	**100**	100		**7 338**	7 338
FirstRand Investment Management Holdings Limited (previously Ashburton Investment Holdings Limited)			Investment management		
Ordinary shares	**100**	100		**459**	259
FirstRand Insurance Holdings Proprietary Limited			Insurance services		
Ordinary shares	**100**	100		**653**	653
FirstRand International Limited (FRI)			Banking		
Ordinary shares	**100**	100		**10 858**	-
Total				**69 717**	58 651
Investment through equity settled share incentive scheme			Equity settled share scheme	**417**	417
Amounts owing by subsidiaries				**-**	168
Total investments in subsidiaries				**70 134**	59 236
Amounts owing to subsidiaries				**2 941**	-

With the exception of FREMA and FRI, that offers financial services across Africa and the UK, the principal place of business for all of the company's subsidiaries is South Africa.

10 CREDITORS AND ACCRUALS

R million	**2018**	2017
Unclaimed dividends	**76**	66
Accounts payable and accrued liabilities	**23**	14
Audit fee accrual	**7**	7
Total creditors and accruals	**106**	87

11 EMPLOYEE LIABILITIES

R million	**2018**	2017
Liability for short-term employee benefits		
Opening balance	**66**	38
Additional provisions created	**33**	42
Utilised during the year	**(31)**	(14)
Total liability for short-term employee benefits	**68**	66
Share-based payment liability		
Opening balance	**102**	139
Transfer between legal entities within the group	**15**	-
Share-based payment settlement (cash)	**(92)**	(93)
Charge to profit or loss	**106**	56
Total share-based payment liability	**131**	102
Total employee liabilities	**199**	168
The charge to profit or loss for share-based payments is as follows:		
FirstRand share appreciation rights scheme	**106**	56
Amount included in profit or loss	**106**	56

For a detailed description of share option schemes and trusts in which FirstRand Limited participates refer to note 32 of the consolidated annual financial statements.

12 SHARE CAPITAL AND SHARE PREMIUM

12.1 Share capital and share premium classified as equity

Authorised shares

	2018	2017
Ordinary shares	**6 001 688 450**	6 001 688 450
A preference shares - unlisted variable rate cumulative convertible redeemable	**198 311 550**	198 311 550
B preference shares - listed variable rate non-cumulative non-redeemable	**100 000 000**	100 000 000
C preference shares - unlisted variable rate convertible non-cumulative redeemable	**100 000 000**	100 000 000
D preference shares - unlisted variable rate cumulative redeemable	**100 000 000**	100 000 000

Issued shares

	2018			2017		
	Number of shares	**Ordinary Share capital R million**	**Share premium R million**	Number of shares	Ordinary Share capital R million	Share premium R million
Opening balance	**5 609 488 001**	**56**	**8 056**	5 609 488 001	56	8 056
Total issued ordinary share capital and share premium	**5 609 488 001**	**56**	**8 056**	5 609 488 001	56	8 056
B preference shares	**45 000 000**	**-**	**4 519**	45 000 000	-	4 519
Total issued share capital attributable to ordinary equityholders		**56**	**12 575**		56	12 575

The unissued ordinary shares are under the control of the directors until the next annual general meeting.

Dividends on the B preference shares are calculated at a rate of 75.56% of the prime lending rate of FNB, a division of FirstRand Bank Limited.

13 DIVIDENDS

R million	2018	2017
Ordinary dividends		
A final dividend of 136.00 cents (7 September 2016: 118.00 cents) per share was declared on 6 September 2017 in respect of the six months ended 30 June 2017	**7 629**	6 619
An interim dividend of 130.00 cents (8 March 2017: 119.00 cents) per share was declared on 5 March 2018 in respect of the six months ended 31 December 2017	**7 292**	6 675
Total ordinary dividends paid for the year	**14 921**	13 294
B preference shares		
A final dividend of 393.60 cents (29 August 2016: 394.70 cents) per share was declared on 28 August 2017 in respect of the six months ended 30 June 2017	**177**	178
An interim dividend of 382.20 cents (27 February 2017: 395.60 cents) per share was declared on 26 February 2018 in respect of the six months ended 31 December 2017	**174**	178
Total preference dividends paid for the year	**351**	356
A final ordinary dividend per share was declared on 5 September 2018 (6 September 2017)	**145.0**	136.0

14 RELATED PARTIES

14.1 Balances and transactions with related parties

	2018	
R million	**Entities that have significant influence over FirstRand Limited and their subsidiaries**	**Subsidiaries**
Net interest paid	**-**	**35**
Non-interest revenue	**-**	**41**
Dividends received	**-**	**23 872**
Dividends paid	**5 082**	**-**
Amounts due from	**-**	**-**
Amounts due to		**2 941**
Cash and cash equivalents	**-**	**541**

	2017	
R million	Entities that have significant influence over FirstRand Limited and their subsidiaries	Subsidiaries
Net interest received	-	19
Non-interest revenue	-	32
Dividends received	-	14 100
Dividends paid	4 528	-
Amounts due from	-	168
Amounts due to	-	-
Cash and cash equivalents	-	78

Refer to the remuneration disclosures on page C207 for details of the compensation paid to key management personnel.

15 EVENTS AFTER REPORTING PERIOD

Refer to note 40 of the consolidated annual financial statements of the group for further details.

16 RISK MANAGEMENT

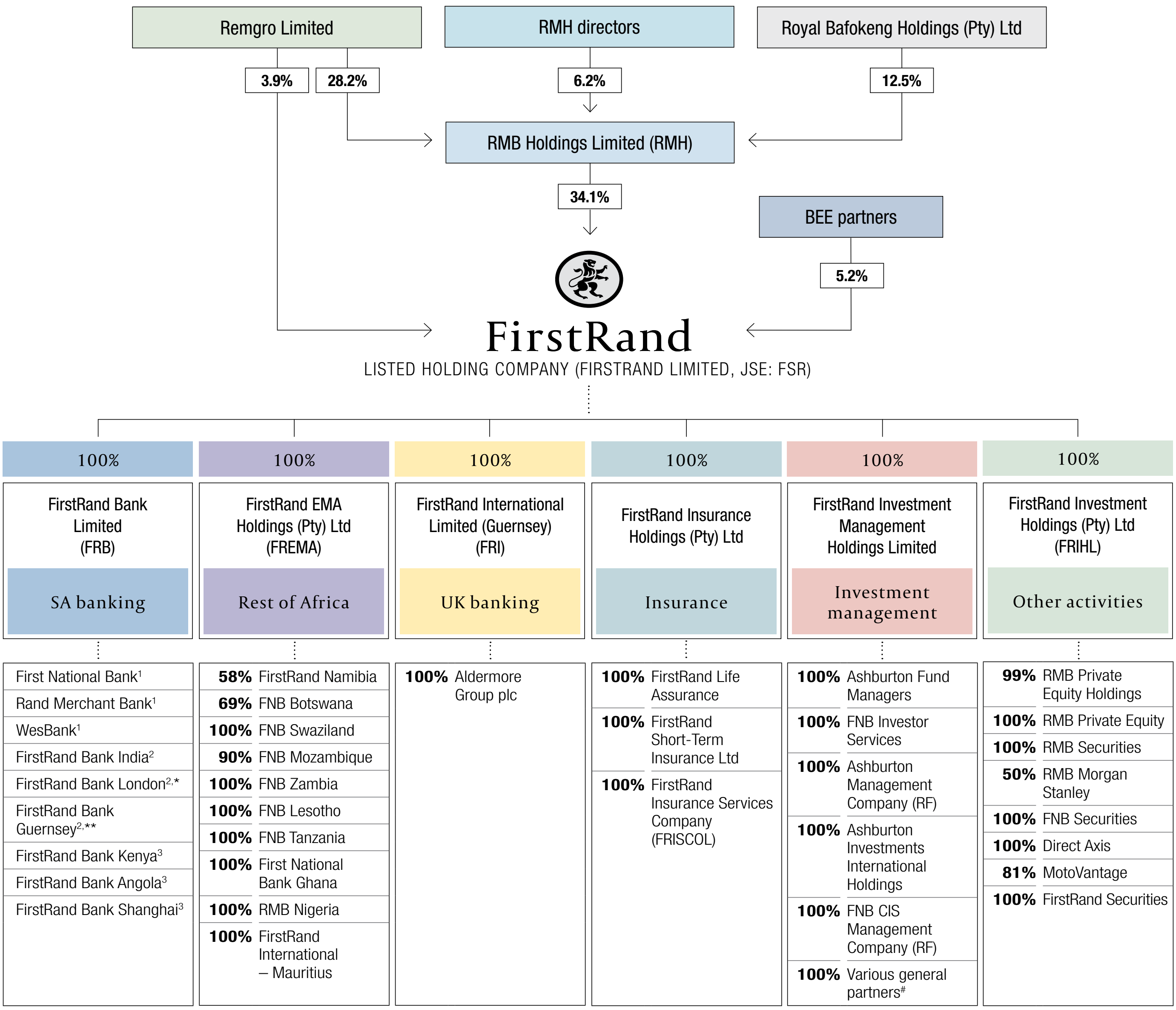
FirstRand Limited is not exposed to significant risks. For details on how financial risk is managed in the group refer to the summary risk and capital management report. For quantitative information about financial risk refer to note 38 of the consolidated financial statements of the group.

D shareholders' and supplementary information

01 – 30

D shareholders' and supplementary information

Simplified group and shareholding structure



1. Division
2. Branch
3. Representative office

* *MotoNovo Finance is a business segment of FirstRand Bank Limited (London Branch).*
** *Trading as FNB Channel Islands.*
\# *Ashburton Investments has a number of general partners for fund seeding purposes – all of these entities fall under FirstRand Investment Management Holdings Limited.*

Structure shows effective consolidated shareholding

For segmental analysis purposes, entities included in FRIHL, FREMA, FirstRand Investment Management Holdings Limited and FirstRand Insurance Holdings (Pty) Ltd are reported as part of the results of the managing business (i.e. FNB, RMB, WesBank or FCC). The group's securitisations and conduits are in FRIHL, FRI and FirstRand Bank Ltd.

Analysis of ordinary shareholders

	Number of shareholders	Shares held (thousands)	%
Major shareholders			
RMH Asset Holding Company (Pty) Ltd (RMB Holdings)		1 910 433	34.1
Public Investment Corporation		516 674	9.2
BEE partners*		290 317	5.2
Financial Securities Ltd (Remgro)		219 828	3.9
Subtotal		2 937 252	52.4
Other		2 672 236	47.6
Total		5 609 488	100.0
Shareholder type			
Corporates (RMB Holdings and Remgro)		2 130 261	38.0
Pension funds		855 770	15.2
Insurance companies and banks		261 319	4.6
Unit trusts		1 244 508	22.2
Individuals		32 261	0.6
BEE partners*		290 317	5.2
Other		795 052	14.2
Total		5 609 488	100.0
Public and non-public shareholders			
Public	55 142	3 179 964	56.6
Non-public			
– Corporates (RMB Holdings and Remgro)	2	2 130 261	38.0
– Directors and prescribed officers**	11	8 946	0.2
– BEE partners*	6	290 317	5.2
Total	55 161	5 609 488	100.0
Geographic ownership			
South Africa		3 776 585	67.3
International		1 442 655	25.7
Unknown/unanalysed		390 248	7.0
Total		5 609 488	100.0

* *Includes staff assistance trust.*

** *Reflects direct beneficial ownership.*

Analysis of B preference shareholders

	Number of shareholders	Shares held (thousands)	%
Public and non-public shareholders			
Public	**6 003**	**44 750**	**99.4**
Non-public			
– directors	**1**	**250**	**0.6**
Total	**6 004**	**45 000**	**100.0**

Performance on the JSE

	2018	2017
Number of shares in issue (thousands)	**5 609 488**	5 609 488
Market price (cents per share)		
Closing	**6 389**	4 715
High	**7 725**	5 446
Low	**4 669**	4 198
Weighted average	**5 999**	4 914
Closing price/net asset value per share	**2.98**	2.43
Closing price/earnings (headline)	**13.34**	11.13
Volume of shares traded (millions)	**3 239**	3 537
Value of shares traded (millions)	**196 560**	171 871
Market capitalisation (R billion)	**358.39**	264.49

Notice of annual general meeting

FIRSTRAND LIMITED

(Incorporated in the Republic of South Africa)
(Registration number: 1966/010753/06)
JSE ordinary share code: FSR ISIN: ZAE000066304
NSX ordinary share code: FST
(FirstRand or the company)

Notice is hereby given to all holders of ordinary shares in the company (shareholders) that the twenty second annual general meeting of FirstRand will be held in the Auditorium, FNB Conference and Learning Centre, 114 Grayston Drive, Sandton, on Thursday, 29 November 2018, at 09:00, to deal with such business as may lawfully be dealt with at the meeting and to consider and, if deemed fit, pass, with or without modification, the ordinary, endorsements and special resolutions set out hereunder in the manner required by the Companies Act, 71 of 2008, as amended (the Act), as read with the JSE Limited Listings Requirements (Listings Requirements) and the Banks Act 94 of 1990 (the Banks Act).

SALIENT DATES	
Record date to be eligible to receive the notice of AGM	Friday, 19 October 2018
Posting date	Tuesday, 23 October 2018
Last day to trade to be eligible to attend and vote at the AGM	Tuesday, 20 November 2018
Record date to be eligible to attend and vote at the AGM	Friday, 23 November 2018
Proxies due (for administrative purposes) by 09:00*	Tuesday, 27 November 2018
AGM at 09:00**	Thursday, 29 November 2018

Notes:

The above dates and times are subject to amendment, provided, that in the event of an amendment, an announcement will be released on SENS.

All dates and times indicated above are references to South African dates and times.

* *Alternatively, to be handed to the chairman of the AGM prior to its commencement.*

** *Results of AGM to be released on SENS on Friday, 30 November 2018.*

Agenda

1. ANNUAL FINANCIAL STATEMENTS

Presentation of the consolidated audited annual financial statements of the company as approved by the board of directors of the company (“directors” or “board”), including the reports of the external auditors, audit committee and directors for the year ended 30 June 2018 (available on the company’s website, www.firstrand.co.za), and the summary financial statements, which are included in the 2018 annual integrated report, of which this notice forms part, distributed as required by the Act to shareholders.

2. SOCIAL, ETHICS AND TRANSFORMATION COMMITTEE

The social, ethics and transformation committee report is set out on pages 123 to 130 in the annual integrated report, as required in terms of regulation 43 (5) (c) of the Act’s Regulations, 2011.

3. ORDINARY RESOLUTIONS NUMBER 1.1 TO 1.4

Re-election of directors by way of separate resolutions

To re-elect the following directors by way of separate resolutions in accordance with the provisions of the company's memorandum of incorporation (MOI). The directors, being eligible, offer themselves for re-election. Details of the directors offering themselves for re-election are as follows.

	DIRECTOR	QUALIFICATIONS	DATE OF APPOINTMENT	DESIGNATION
1.1	**Nolulamo Nobambiswano (Lulu) Gwagwa***	BA, MTRP, MSc, PhD	25 February 2004	Independent non-executive director
1.2	**Amanda Tandiwe (Tandi) Nzimande***	CTA, CA(SA), HDip Co Law	28 February 2008	Independent non-executive director
1.3	**Ethel Gothatamodimo Matenge-Sebesho**	MBA, CAIB	1 July 2010	Independent non-executive director
1.4	**Paballo Joel Makosholo**	MCom (IEDP), CA(SA)	1 October 2015	Non-executive director

* *During the year, a King IV independence assessment was performed on directors with a tenure of more than nine years. The board is satisfied that the independent non-executive directors who have served continuously for nine years or more are able to act independently in decision making in the best interests of the group.*

Additional information in respect of ordinary resolutions number 1.1 to 1.4

Skills and experience of these directors are set out on pages D17 to D20 in Annexure 2 of this notice of annual general meeting.

The percentage of voting rights required for each ordinary resolution numbered 1.1 to 1.4 to be adopted is more than 50% (fifty percent) of the voting rights exercised on each resolution.

4. ORDINARY RESOLUTIONS NUMBER 1.5 TO 1.7

Vacancies filled by the directors during the year

Upon the recommendation of the nomination committee and the board, the following directors who were appointed by the board to fill a vacancy in accordance with the Act and the company's MOI, and are now recommended by the board for election by shareholders by way of separate resolutions.

	DIRECTOR	QUALIFICATIONS	DATE OF APPOINTMENT	DESIGNATION
1.5	**Thomas (Tom) Winterboer**	BCom (Hons), CA(SA)	20 April 2018	Independent non-executive director
1.6	**Mary Vilakazi**	BCom (Hons), CA(SA)	1 July 2018	Executive director – COO

Change in designation

	DIRECTOR	QUALIFICATIONS	DATE OF APPOINTMENT	DESIGNATION
1.7	**Jan Jonathan (Jannie) Durand**	BAccSc (Hons), MPhil, CA(SA)	3 September 2018	Change in designation from non-executive director to alternate non-executive director

Additional Information in respect of ordinary resolutions number 1.5 to 1.7

Skills and experience of these directors are set out on pages D17 to D20 in Annexure 2 of this notice of annual general meeting.

The percentage of voting rights required for ordinary resolutions number 1.5 to1.7 to be adopted is more than 50% (fifty percent) of the voting rights exercised on the resolutions.

5. RETIRING DIRECTORS

Pursuant to the retirement of three independent non-executive directors, namely Messrs PM Goss, JH van Greuning and BJ van der Ross during the 2018 financial year, the board temporarily comprised of a majority of the non-executive directors who were not considered to be independent during the period 1 December 2017 to 30 April 2018. The board, however, subscribes to the governance recommendations of King IV and filled the vacancy for an independent non-executive director which resulted in the appointment of Mr T Winterboer effective 20 April 2018. At the financial year-end and aligned to the governance recommendations of King IV, the majority of the board consisted of non-executive directors, the majority of whom are considered to be independent.

It was noted that the following directors retired during the financial year.

DIRECTOR	DATE OF RETIREMENT	DESIGNATION
Benedict James van der Ross	30 November 2017	Independent non-executive director
Jan Hendrik van Greuning	30 November 2017	Independent non-executive director
Lauritz Lanser (Laurie) Dippenaar	31 March 2018	Chairman and non-executive director
Johan Petrus Burger	31 March 2018	CEO*
Patrick Maguire (Pat) Goss	30 April 2018	Independent non-executive director
Paul Kenneth Harris	30 April 2018	Non-executive director

* *JP Burger retired as CEO but remained as an executive director until 31 August 2018 and became a non-executive director on 1 September 2018.*

6. ORDINARY RESOLUTIONS NUMBER 2.1 TO 2.2

Reappointment of auditors

The audit committee has evaluated the independence, performance and skills of Deloitte & Touche and PricewaterhouseCoopers Inc. and recommend their reappointment as joint auditors of the company.

2.1 Resolved that, as recommended by the audit committee of the company, Deloitte & Touche be appointed auditors of the company until the next annual general meeting.

2.2 Resolved that, as recommended by the audit committee of the company, PricewaterhouseCoopers Inc. be appointed auditors of the company until the next annual general meeting.

Additional Information in respect of ordinary resolutions number 2.1 to 2.2

The company's audit committee has recommended and the directors have endorsed the proposed appointments. It is proposed that the aforementioned appointments be made on a joint basis. If either resolution 2.1 or resolution 2.2 is not passed, the resolution passed shall be effective.

The remuneration of the company's auditors and the auditors' terms of engagement are determined by the audit committee pursuant to the Act.

The percentage of voting rights required for ordinary resolutions number 2.1 to 2.2 to be adopted is more than 50% (fifty percent) of the voting rights exercised on the resolution.

7. ORDINARY RESOLUTION NUMBER 3

General authority to issue authorised but unissued ordinary shares for regulatory capital reasons

Resolved that the directors be and are hereby authorised by way of a renewable general authority, to issue all or any of the authorised but unissued ordinary shares in the capital of the company to support the conversion and/or exchange (as the case may be) of Basel III compliant additional Tier 1 and Tier 2 instruments issued by either FirstRand or FirstRand Bank Limited (FirstRand Bank) as contemplated in the Regulations promulgated pursuant to the Banks Act (the Regulations) into FirstRand ordinary shares upon the occurrence of a trigger event as specified in writing by the CEO of the Prudential Authority or such other regulatory body in South Africa that has the authority to make such decisions, subject to:

> the aggregate number of shares to be allotted and issued in terms of this resolution shall be limited to 5% (five percent) representing 280 422 124 (excluding treasury shares) of the number of the company's shares in issue as at the date of this notice; and

> the Act, the Banks Act, the MOI and the Listings Requirements of the JSE and NSX, when applicable, on the basis that:

- this authority shall be valid until the company's next annual general meeting or for 15 months from the date that this resolution is passed, whichever period is shorter;
- the ordinary shares which are the subject of conversion for regulatory capital reasons (i.e. being the extinction of a liability) under this authority must be of a class already in issue or, where this is not the case, must be limited to such shares or rights that are convertible into a class already in issue;
- in respect of shares which are the subject of the conversion and/or exchange (as the case may be):
  - any ordinary shares issued under this authority during the period contemplated must be deducted from the aggregate numbers of shares to be allotted and issued in terms of this resolution;
  - the calculation of the listed ordinary shares is a factual assessment of the listed ordinary shares as at the date of the notice of the annual general meeting, excluding treasury shares;
  - an announcement giving full details will be published at the time of any issue representing, on a cumulative basis within the period of this authority, 5% (five per cent) of the number of shares in issue prior to the issue, in accordance with Section 11.22 of the JSE Listings Requirements;
  - the ordinary shares which are the subject of the conversion and/or exchange under this authority must be issued to public shareholders and not to related parties;
  - any such issue under this authority are subject to exchange control regulations and approval at that point in time, if applicable;
  - in determining the price at which an issue of shares may be made in terms of this authority, the maximum discount permitted will be 10% (ten per cent) of the weighted average traded price on the JSE of those shares over the 30 (thirty) business days prior to the date that the price of the issue is agreed between the issuer and the party subscribing for the shares; and
  - in the event of a subdivision or consolidation of issued ordinary shares during the period contemplated above, the existing authority in terms of this resolution must be adjusted accordingly to represent the same allocation ratio.

Reasons and effects of ordinary resolution number 3

> Basel III requires that the terms and conditions of additional Tier 1 and Tier 2 capital instruments contain a provision that such instruments, at the option of the Prudential Authority, either be written-off or converted into ordinary shares upon the occurrence of a trigger event as specified in writing by the CEO of the Prudential Authority (i.e. the CEO of the Prudential Authority determines that FirstRand Bank has reached the "point of non-viability", as such term is contemplated in the Regulations).

> This means that if a trigger event were to occur, additional Tier 1 and Tier 2 capital instruments issued by either FirstRand or FirstRand Bank would, at the option of the CEO of the Prudential Authority, either be written-off or converted into ordinary shares in the issued share capital of the company.

> The Regulations further require that FirstRand Limited must at all times maintain all prior authorisations necessary to immediately issue the relevant number of ordinary shares specified in the terms and conditions of

the additional Tier 1 and/or Tier 2 capital instruments and/or in terms of the provisions of the Banks Act and the Regulations dealing with additional Tier 1 and/or Tier 2 capital should the relevant trigger event occur.

- The effect of such a conversion of the additional Tier 1 and/or Tier 2 capital instruments issued by either FirstRand or FirstRand Bank into ordinary shares in FirstRand Limited would be to subordinate the claims of the holders of such instruments, such that those claims would in effect rank *pari passu* with the claims of the ordinary shareholders of the company.
- FirstRand Bank has and/or intends to issue additional Tier 1 and/or Tier 2 capital instruments and the purpose of the above resolution is to give effect to the requirements of the Regulations in relation to the possible conversion of additional Tier 1 and/or Tier 2 instruments issued by FirstRand Bank for ordinary shares in FirstRand.

Additional Information in respect of ordinary resolution number 3

The percentage of voting rights required for ordinary resolution number 3 to be adopted is at least 75% (seventy five percent) of the voting rights exercised on the resolution.

8. ORDINARY RESOLUTION NUMBER 4

General authority to issue authorised but unissued ordinary shares for cash

Resolved that the directors be and are hereby authorised by way of a renewable general authority, to issue all or any of the authorised but unissued ordinary shares in the capital of the company for cash (including the issue of any options/convertible shares that are convertible into an existing class of ordinary shares) as and when they in their discretion deem fit, subject to:

- the aggregate number of shares to be allotted and issued in terms of this resolution shall be limited to 1.5% (one and a half percent) representing 84 126 637 (excluding treasury shares) of the number of the company's shares in issue as at the date of this notice; and
- the Act, the Banks Act, the MOI and the Listings Requirements of the JSE and NSX, when applicable, on the basis that:
  - this authority shall be valid until the company's next annual general meeting or for 15 months from the date that this resolution is passed, whichever period is shorter;
  - the ordinary shares which are the subject of the issue for cash under this authority must be of a class already in issue;
  - the ordinary shares which are the subject of the issue for cash under this authority must be issued to public shareholders and not to related parties;
  - any such general issues are subject to exchange control regulations and approval at that point in time;
  - in determining the price at which an issue of shares may be made in terms of this authority, the maximum discount permitted will be 10% (ten per cent) of the weighted average traded price on the JSE of those shares over the 30 (thirty) business days prior to the date that the price of the issue is agreed between the issuer and the party subscribing for the shares;
  - in respect of shares which are the subject of the general issue of shares for cash:
    - any ordinary shares issued under this authority during the period contemplated must be deducted from the aggregate number of shares to be allotted and issued in terms of this resolution;
    - in the event of a subdivision or consolidation of issued ordinary shares during the period contemplated above, the existing authority in terms of this resolution must be adjusted accordingly to represent the same allocation ratio; and
    - the calculation of the listed ordinary shares is a factual assessment of the listed ordinary shares as at the date of the notice of the annual general meeting, excluding treasury shares.

Reason and effect of ordinary resolution number 4

This general authority, once granted, allows the board from time to time, when it is appropriate to do so, to issue ordinary shares as may be required.

Additional Information in respect of ordinary resolution number 4

The percentage of voting rights required for ordinary resolution number 4 to be adopted is at least 75% (seventy five percent) of the voting rights exercised on the resolution.

9. ORDINARY RESOLUTION NUMBER 5

Signing authority

Resolved that each director and/or the company secretary of the company, be and is hereby authorised to do all such things and sign all such documents as may be necessary for, or incidental to the implementation of the resolutions passed at the annual general meeting of the company and set out in this notice.

Additional information in respect of ordinary resolution number 5

For the sake of practicality, the directors and/or the company secretary of the company must be empowered to enforce the resolutions so passed by the shareholders at this annual general meeting, if any.

The percentage of voting rights required for ordinary resolution number 5 to be adopted is more than 50% (fifty percent) of the voting rights exercised on the resolution.

10. ADVISORY ENDORSEMENT OF THE REMUNERATION POLICY AND IMPLEMENTATION REPORT

10.1 ENDORSEMENT OF REMUNERATION POLICY

To endorse, through a non-binding advisory vote, the company's remuneration policy (excluding the remuneration of the non-executive directors and the members of board committees for their services as directors and members of committees), as set out on pages 93 to 102 in the remuneration report of the annual integrated report.

10.2 ENDORSEMENT OF REMUNERATION IMPLEMENTATION REPORT

To endorse, through a non-binding advisory vote, the company's remuneration implementation report, as set out on pages 103 to 117 in the remuneration report of the annual integrated report.

Additional information in respect of advisory endorsement of remuneration policy and implementation report

The endorsement of the remuneration policy and implementation report is tabled as a non-binding advisory vote, however, the outcome of each vote will be acknowledged when considering the remuneration policy and the implementation thereof. In the event that, either the remuneration policy or the implementation report, or both, are voted against by 25% or more of the voting rights exercised, the board will initiate engagement with the relevant shareholders and the outcome thereof will be disclosed in the 2019 annual integrated report.

11. SPECIAL RESOLUTION NUMBER 1

General authority to repurchase ordinary shares

Resolved that the company and/or its subsidiary/ies (the group) be and are hereby authorised, in terms of a general authority, to acquire, as contemplated in section 48 of the Act, read with section 46, as amended, the company's issued shares from time to time on such terms and conditions and in such amounts as the directors may from time to time decide, but always subject to the approval, to the extent required, of the CEO of the Prudential Authority, the provisions of the Act, the Banks Act, the MOI and the Listings Requirements of the JSE and NSX, and subject to the following conditions:

- this general authority will be valid only until the company's next annual general meeting, provided that it will not extend beyond 15 months from the date of the passing of this special resolution, whichever is shorter;
- the repurchase of securities will be effected through the main order book operated by the JSE trading system and done without any prior understanding or arrangement between the company and the counterparty;
- repurchases may not be made at a price greater than 10% above the weighted average of the market value for the securities for the five business days immediately preceding the date on which the repurchase of such securities by the company is effected;
- the acquisitions of ordinary shares shall in the aggregate in any one financial year, not exceed 10% of the company's issued ordinary share capital as at the beginning of the financial year, provided that the

number of shares purchased and held by a subsidiary/ies of the company shall not exceed 10% in aggregate of the number of issued shares in the company at any time;

- any such general repurchase will be subject to the applicable provisions of the Act, including sections 114 and 115 to the extent that section 48(8) is applicable in relation to that particular repurchase;
- neither the company nor its subsidiary/ies will repurchase securities during a prohibited period, as defined in paragraph 3.67 of the JSE Listings Requirements, unless they have in place a repurchase programme where the dates and quantities of securities to be traded during the relevant period are fixed (not subject to any variation) and full details of the programme have been submitted to the JSE in writing prior to the commencement of the prohibited period, as required;
- a resolution having been passed by the board of directors confirming that the board has authorised the repurchase, that the company and the group passed the solvency and liquidity test and that since the test was performed there have been no material changes to the financial position of the group;
- any such general repurchases are subject to exchange control regulations and approval at that time;
- when the company has cumulatively repurchased 3% of the initial number of the relevant class of securities, and for each 3% in aggregate of the initial number of that class acquired thereafter, an announcement shall be published on SENS in accordance with the JSE Listings Requirements; and
- at any time the company shall appoint only one agent to effect any repurchase(s) on its behalf.

Reason and effects of special resolution number 1

The reason for special resolution number 1 is to grant the company's directors a general authority, up to and including the date of the following annual general meeting of the company, to approve the company's purchase of shares in itself, or to permit a subsidiary of the company to purchase shares in the company.

The directors have no immediate intention to use this authority to repurchase company shares. The directors are, however, of the opinion that this authority should be in place should it become appropriate to undertake a share repurchase in the future.

The directors undertake that the company will not commence a general repurchase of shares as contemplated above unless:

- the company and the group will be in a position to repay its debts in the ordinary course of business for a period of 12 months after the date of the general repurchase of shares in the open market;
- the assets of the company and the group will be in excess of the liabilities of the company and the group for a period of 12 months after the date of the general repurchase of shares in the open market, for which purpose the assets and liabilities will be recognised and measured in accordance with the accounting policies used in the latest audited consolidated annual financial statements which comply with the Act;
- the ordinary share capital and reserves of the company and the group will be adequate for ordinary business purposes for the 12 months after the general repurchase of shares in the open market;
- the available working capital will be adequate to continue the operations of the company and the group for a period of 12 months after the repurchase of shares in the open market; and
- a resolution has been passed by the board of directors authorising the repurchase and confirming that the company and its subsidiary/ies have passed the solvency and liquidity test and that, since the test was performed, there have been no material changes to the financial position of the company and the group.

Additional information in respect of special resolution number 1

Further information regarding special resolution number 1, as required by the JSE Listings Requirements is set out in Annexure 1.

The percentage of voting rights required for this special resolution number 1 to be adopted is at least 75% (seventy five percent) of the voting rights exercised on the resolution.

12. SPECIAL RESOLUTION NUMBER 2.1

Financial assistance to directors and prescribed officers as employee share scheme beneficiaries

Resolved that the directors may, subject to compliance with the requirements of the MOI, the Act and any other relevant legislation, the JSE and NSX, when applicable, each as presently constituted and as amended from time to time, authorise the company to provide direct or indirect financial assistance (as contemplated in sections 44 and/or 45 of the Act) to, *inter alia*, any director or prescribed officer of the company or of a related or interrelated company on such terms and conditions as the directors may determine from time to time in order to facilitate the participation by such director or prescribed officer in any employee share incentive scheme, provided that nothing in this approval will limit the provision by the company of financial assistance that does not require approval by way of a special resolution of the shareholders in terms of sections 44 and/or 45 of the Act or falls within the exemptions contained in those sections.

Additional information in respect of special resolution 2.1

The company may elect to fund the long-term incentive schemes in which executive directors, prescribed officers and identified staff of the company, and related and interrelated companies participate.

The percentage of voting rights required for this special resolution number 2.1 to be adopted is at least 75% (seventy five percent) of the voting rights exercised on the resolution.

13. SPECIAL RESOLUTION NUMBER 2.2

Financial assistance to related and inter-related entities

Resolved that the directors may, subject to compliance with the requirements of the MOI, the Act and any other relevant legislation, the JSE and NSX, when applicable, each as presently constituted and as amended from time to time, authorise the company to provide direct or indirect financial assistance (as contemplated in sections 44 and/or 45 of the Act) to, *inter alia*, any related or interrelated company, trust or other entity on such terms and conditions as the directors may determine from time to time, provided that nothing in this approval will limit the provision by the company of financial assistance that does not require approval by way of a special resolution of the shareholders in terms of sections 44 and/or 45 of the Act or falls within the exemptions contained in those sections.

Additional information in respect of special resolution number 2.2

Companies within the group receive and provide loan financing and other support to one another in the normal and ordinary course of business from time to time.

The percentage of voting rights required for this special resolution number 2.2 to be adopted is at least 75% (seventy five percent) of the voting rights exercised on the resolution.

14. SPECIAL RESOLUTION NUMBER 3

Remuneration of non-executive directors

Resolved to approve as a special resolution as recommended by the remuneration committee and the board, set out in the table below, in respect of remuneration of non-executive directors, in their capacity as non-executive directors, as contemplated in Section 66(9) of the Act, with effect from 1 December 2018:

	Note	**Proposed remuneration for the 12-month period from 1 December 2018 to 30 November 2019 (excl. VAT)**	Remuneration for the 12-month period from 1 December 2017 to 30 November 2018 (excl. VAT)
Board			
Chairman	1	**6 496 954**	5 649 525
Director	2	**554 817**	523 412
Audit committee			
Chairman	3	**792 595**	747 731
Member		**396 298**	373 866
Risk, capital management and compliance committee			
Chairman	3	**792 595**	747 731
Member		**396 298**	373 866
Remuneration committee			
Chairman	3	**475 557**	448 639
Member		**237 778**	224 319
Directors' affairs and governance committee			
Chairman	3	**152 178**	143 564
Member		**76 089**	71 782
Large exposures committee			
Chairman	3	**559 150**	527 500
Member		**279 575**	263 750
Social, ethics and transformation committee			
Chairman	3/4	**438 008**	425 250
Member	4	**219 004**	212 625
Information, technology and risk governance committee			
Chairman	3	**318 000**	300 000
Member		**159 000**	150 000
Ad hoc work			
Special technical	5	**4 856**	4 581
Standard	6	**3 170**	2 991

1. *The group chairman's fees cover chairmanship and membership of all board committees and subcommittees. This has been adjusted in line with industry benchmarks.*
2. *Executive directors of the company do not receive fees as members of the board.*
3. *Fees for board committee chairpersons are twice that of committee members fees.*
4. *A 3% increase applied to the social, ethics and transformation committee for the period, to align with industry benchmarks.*
5. *Special technical rate for highly specialised ad hoc work on an hourly basis at the request of the board.*
6. *Standard ad hoc rate for additional work on an hourly basis at the request of the responsible executive.*

Additional information in respect of special resolution number 3

The percentage of voting rights required for special resolution number 3 to be adopted is at least than 75% (seventy five percent) of the voting rights exercised on the resolution.

IMPORTANT NOTES REGARDING ATTENDANCE AT THE ANNUAL GENERAL MEETING

General

Shareholders wishing to attend the meeting should ensure beforehand with the transfer secretaries of the company that their shares are in fact registered in their name.

A shareholder entitled to attend and vote at the annual general meeting may appoint one or more persons as his/her proxy to attend, speak and vote in its stead. A proxy need not be a shareholder. Shareholders are referred to the attached proxy form in this regard.

If you are a certificated shareholder or a dematerialised shareholder with own name registration and are unable to attend the annual general meeting and wish to be represented thereat, you must complete and return the attached proxy form in accordance with the instructions contained therein to be received for the orderly arrangement of matters on the day of the annual general meeting by the Transfer Secretaries, 15 Biermann Avenue, Rosebank Towers, Rosebank, 2196 (PO Box 61051, Marshalltown, 2107), by no later than 09:00 on Tuesday, 27 November 2018 for administrative purposes (or alternatively to be handed to the chairman of the annual general meeting prior to its commencement).

If you are a dematerialised shareholder, other than with own-name registration, you must arrange with your broker or CSDP to provide you with the necessary letter of representation to attend the annual general meeting or you must instruct them as to how you wish to vote in this regard. This must be done in terms of the agreement entered into, between you and the broker or CSDP, in the manner and cut-off time stipulated therein.

Dematerialised shareholders without own-name registration

Voting at the annual general meeting

- Your broker or CSDP should contact you to ascertain how you wish to cast your vote at the annual general meeting and thereafter cast your vote in accordance with your instructions.
- If you have not been contacted by your broker or CSDP, it is advisable for you to contact your broker or CSDP and furnish them with your voting instructions.
- If your broker or CSDP does not obtain voting instructions from you, they will be obliged to vote in accordance with the instructions contained in the custody agreement concluded between you and your broker or CSDP.
- You must not complete the attached proxy form.

Attendance and representation at the annual general meeting

- In accordance with the mandate between you and your broker or CSDP, you must advise your broker or CSDP if you wish to attend the annual general meeting and your broker or CSDP will issue the necessary letter of representation to you to attend the annual general meeting.

Dematerialised shareholders with own-name registration

Voting and attendance at the annual general meeting

- You may attend the annual general meeting in person and may vote at the annual general meeting.
- Alternatively, you may appoint a proxy to represent you at the annual general meeting by completing the attached proxy form in relation to the annual general meeting in accordance with the instructions it contains and returning it to the Transfer Secretaries to be received by no later than 09:00 on Tuesday, 27 November 2018 for administrative purposes (or alternatively to be handed to the chairman of the annual general meeting prior to its commencement).

Certificated shareholders

Voting and attendance at the annual general meeting

- You may attend the annual general meeting in person and may vote at the annual general meeting.
- Alternatively, you may appoint a proxy to represent you at the annual general meeting by completing the attached proxy form in relation to the annual general meeting in accordance with the instructions it contains and returning it to the Transfer Secretaries to be received by no later than 09:00 on Tuesday, 27 November 2018 for administrative purposes (or alternatively to be handed to the chairman of the annual general meeting prior to its commencement).

Voting requirements

Voting will be by way of a poll and every shareholder of the company present in person or represented by proxy shall have one vote for every share held in the company by such shareholder.

Shares held by FirstRand employee share trusts and unlisted shares will not have their votes at the meeting taken into account for the purposes of resolutions proposed in terms of the Listings Requirements and the Act.

Proof of identification required

In compliance with section 63 of the Act, note that meeting participants (including proxies) are required to provide reasonably satisfactory identification before being entitled to attend or participate in a shareholders' meeting. Acceptable forms of identification include valid identity documents, drivers' licences and passports.

Summary of shareholder rights

In compliance with the provisions of section 58(8)(b)(i) of the Act, a summary of the rights of a shareholder to be represented by proxy, as set out in section 58 of the Act, is set out immediately below:

- A shareholder entitled to attend and vote at the meeting may appoint any individual (or two or more individuals) as a proxy or as proxies to attend, participate in and vote at the meeting in the place of the shareholder. A proxy need not be a shareholder of the company.
- A proxy appointment must be in writing, dated and signed by the shareholder appointing a proxy, and, subject to the rights of a shareholder to revoke such appointment (as set out below), remains valid only until the end of the meeting.
- A proxy may delegate the proxy's authority to act on behalf of a shareholder to another person, subject to any restrictions set out in the instrument appointing the proxy.
- The appointment of a proxy is suspended at any time and to the extent that the shareholder who appointed such proxy chooses to act directly and in person in the exercise of any rights as a shareholder.

The appointment of a proxy is revocable by the shareholder in question cancelling it in writing, or making a later inconsistent appointment of a proxy, and delivering a copy of the revocation instrument to the proxy and to the company. The revocation of a proxy appointment constitutes a complete and final cancellation of the proxy's authority to act on behalf of the shareholder as of the later of (a) the date stated in the revocation instrument, if any; and (b) the date on which the revocation instrument is delivered to the company as required in the first sentence of this paragraph.

If the instrument appointing the proxy or proxies has been delivered to the company, as long as that appointment remains in effect, any notice that is required by the Act or the company's MOI to be delivered by the company to the shareholder, must be delivered by the company to (a) the shareholder, or (b) the proxy or proxies, if the shareholder has (i) directed the company to do so in writing; and (ii) paid any reasonable fee charged by the company for doing so.

Attention is also drawn to the notes to the proxy form.

Directions for obtaining a copy of financial statements

The complete financial statements are available for inspection at the registered office and downloading on the company's website www.firstrand.co.za or a copy thereof can be requested in writing from the company secretary, 4 Merchant Place, corner Fredman Drive and Rivonia Road, Sandton, 2196.

By order of the board

C LOW
Company secretary

5 September 2018

Transfer secretaries
Computershare Investor Services (Pty) Ltd
1st Floor, Rosebank Towers
15 Biermann Avenue
Rosebank
2196

Registered office address
4 Merchant Place
Corner Fredman Drive and Rivonia Road
Sandton
2196

Annexure 1 – Additional information regarding special resolution number 1

For the purposes of considering special resolution number 1 and in compliance with the Listings Requirements, the information listed below has been included.

1. DIRECTORS' RESPONSIBILITY STATEMENT

The directors, whose names are given on pages 76 to 78 of the annual integrated report, collectively and individually accept full responsibility for the accuracy of the information contained in special resolution number 1, as well as the explanatory notes, and certify that, to the best of their knowledge and belief, there are no other facts, the omission of which would make any statement false or misleading and that they have made all reasonable enquiries in this regard, and that this resolution contains all information required by law and the Listings Requirements.

2. MAJOR SHAREHOLDERS

Details of major shareholders of the company are set out on page 221 of the annual integrated report.

3. SHARE CAPITAL OF THE COMPANY

Details of the share capital of the company are set out on page 172 of the annual integrated report.

4. MATERIAL CHANGES

There have been no material changes in the financial or trading position of the company and its subsidiaries that have occurred since the end of the last financial period, as detailed in the annual integrated report to which this Annexure 1 forms part.

Annexure 2 – Skills and experience of the directors to be re-elected and vacancies filled by the directors during the year in ordinary resolution number 1.4 to 1.7

For the purposes of considering ordinary resolutions number 1.4 to 1.7 and in compliance with the JSE Listings Requirements, the information listed below has been included.

1 Nolulamo Nobambiswano **(Lulu)** Gwagwa (59)

BA, MTRP, MSc, PhD

Appointed February 2004

After studying abroad, Lulu took up a position in 1992 as a senior lecturer at the University of Natal's Department of Town and Regional Planning. From 1995 to 1998 she became the deputy director general in the national Department of Public Works. During this period, she also served as the presidential appointee on the Commission on Provincial Government and as deputy chair of the Ministerial Advisory Committee on Local Government Transformation. From 1998 until 2003 she was the CEO of the Independent Development Trust. She is currently the CEO of Lereko Investments, a black-owned investment company and the chairperson of Aurecon Africa.

FirstRand – committee memberships

- Directors' affairs and governance
- Social, ethics and transformation – chairman

Other listed directorships

Massmart Holdings Limited, Sun International Limited

2 Amanda Tandiwe **(Tandi)** Nzimande (48)

CTA, CA(SA), HDip Co Law

Appointed February 2008

Tandi, a chartered accountant, has had a varied career since qualifying at KPMG in 1996. She worked as a corporate finance advisor at Deutsche Bank for five years, following which she acquired and ran a small business in the postal and courier industry for four years. During that, period she also consulted to WDB Investment Holdings, which she eventually joined as its chief financial officer, a position she vacated in May 2016. Her past board memberships include OUTsurance, Rennies Travel and Masana Fuel Solutions. Tandi has recently launched her own business focused on executive coaching.

Tandi is a fellow of the Africa Leadership Initiative. She is also a member of the South African Institute of Chartered Accountants, African Women Chartered Accountants as well as the Association of Black Securities and Investment Professional.

FirstRand – committee memberships

- Directors' affairs and governance – chairman
- Remuneration
- Social, ethics and transformation

Other listed directorships

Hulamin Limited and Verimark Holdings Limited

3 **Ethel** Gothatamodimo Matenge-Sebesho (63)

MBA, CAIB

Appointed July 2010

Ethel previously worked for Home Finance Guarantors Africa Reinsurance (HFGA Re), whose main objective is to facilitate access to housing finance in the low to medium income market in Africa. Her main role was to drive the establishment of new markets for the company in a number of African countries.

Prior to joining HFGA Re, Ethel was head of Housing Institutions at National Housing Finance Corporation, where she was part of a team that introduced social housing in South Africa. She has previously worked for Standard Chartered Bank in Botswana, at which time she obtained the Institute of Bankers' qualification and MBA from Brunel University of London.

Ethel has served on various bodies, among them, Air Botswana (vice chairman), Oikocredit (an international development financial institution based in the Netherlands), Botswana Investment and Trade Centre (vice chairman) and Momentum Investments.

FirstRand – committee memberships

> Audit
> Directors' affairs and governance
> First National Bank*

** Divisional board*

Other listed directorships

Distell Group Holdings Ltd

4 **Paballo** Joel Makosholo (39)

MCom SA & International Tax, (IEDP), CA(SA)

Appointed October 2015

Paballo qualified as a chartered accountant after serving articles at KPMG and thereafter one year with Rothschild Investment Bank as an executive.

He joined Kagiso Trust in 2006 and was appointed chief financial and investment executive, a position he held for ten years. Paballo was responsible for overseeing all investments of the Trust which included FirstRand and Kagiso Tiso Holdings (KTH). He is currently the Chairman of KTH's Investment Committee and is working as chief operations officer at Kagiso Capital.

FirstRand – committee memberships

> Audit
> Directors' affairs and governance
> Social, ethics and transformation
> First National Bank*
> WesBank*

** Divisional board*

Other listed directorships

None

5 Thomas **(Tom)** Winterboer (62)

BCom (Hons), CA(SA), AEP

Appointed April 2018

Tom joined Price Waterhouse in 1978 and left the firm after completion of his training contract in 1981 to join an investment bank. He rejoined the firm in 1982 and completed a two-year secondment in PwC's London offices from 1986 to 1988 as a senior manager, serving clients in the financial services industry, and a variety of other industries. He was admitted to partnership in 1989. Tom was appointed as the firm's banking leader since 1996 and later became financial services leader for PwC Africa where he was a member of the PwC Global Financial Services Leadership team. Tom developed and launched various banking and other financial services thought leadership material since 1996. He led services in assurance and advisory for the big four South African banks, foreign and smaller SA banks and for clients in many other industries.

In August 2014, Tom was appointed as the curator for African Bank. The new African Bank was successfully launched in April 2016, after which he continued his work as curator for Residual Debt Services Limited (previously African Bank Limited) until March 2018.

FirstRand – committee memberships
- Audit
- Directors' affairs and governance
- Risk, capital management and compliance

Other listed directorships
None

6 **Mary** Vilakazi (41)

BCom (Hons), CA(SA)

Appointed July 2018

Mary graduated from the University of the Witwatersrand in 1999 and qualified as a chartered accountant (2002) after serving articles at PricewaterhouseCoopers Inc. from 2000. Mary was admitted as a partner in 2005 in the Financial Services audit practice, specialising in Insurance and Investment management companies. After leaving the auditing profession in 2008, Mary took up the position of CFO of the MS group. She became a non-executive director of Metropolitan Holdings Board from 2009 before the merger with Momentum and thereafter a non-executive director of MMI Holdings board in 2010. She administered her own accounting, tax and advisory business from 2011 to 2014 and served on the boards of several entities, including MS Group subsidiaries, Kagiso Media Limited, Holdsport Limited and Development Bank of South Africa (DBSA) as well as MMI Holdings Limited.

Mary joined MMI Holdings in May 2014 as CEO of Balance Sheet Management and became the group finance director in July 2015. She was then appointed as the deputy chief executive officer in June 2017 where she was responsible for Metropolitan and Momentum retail businesses. In 2016, Mary was nominated at the World Economic Forum as a "Young Global Leader".

FirstRand – committee memberships
- Audit – *ex officio*
- Large exposures
- Risk, capital management and compliance – *ex officio*
- Social, ethics and transformation – *ex officio*
- First National Bank*
- Rand Merchant Bank*
- WesBank*

** Divisional board*

Other listed directorships
None

7 Jan Jonathan **(Jannie)** Durand (51)

BAccSc (Hons), MPhil, CA(SA)

Appointed September 2018

Jannie studied at the University of Stellenbosch and after obtaining his BAcc degree in 1989 and BAcc (Hons) degree in 1990, he obtained his MPhil (Management Studies) degree from Oxford in 1992. He qualified as a chartered accountant in 1995.

He joined the Rembrandt Group in 1996 and became financial director of VenFin Limited in 2000 and CEO in May 2006. Jannie was appointed as chief investment officer of Remgro Limited in November 2009 and CEO from 7 May 2012.

FirstRand – committee memberships

- Directors' affairs and governance
- Remuneration

Other listed directorships
Distell Group Holdings, Mediclinic International plc, RCL Foods Limited, Rand Merchant Investment Holdings Limited (chairman), RMB Holdings Limited (chairman), and Remgro Limited

FirstRand

Proxy form – ordinary shareholders

FIRSTRAND LIMITED

(Incorporated in the Republic of South Africa) (Registration number: 1966/010753/06)
Share code: (JSE): FSR ISIN: ZAE000066304 NSX ordinary share code: FST (FirstRand or the company)

Only for use by shareholders who have not dematerialised their shares or who have dematerialised their shares with own name registration.

All other dematerialised shareholders must contact their CSDP or broker to make the relevant arrangements concerning voting and/or attendance at the annual general meeting.

For completion by the aforesaid registered shareholders who hold ordinary shares of the company and who are unable to attend the 2018 annual general meeting of the company to be held in the Auditorium, FNB Conference and Learning Centre, 114 Grayston Drive, on Thursday, 29 November 2018 at 09:00 (the annual general meeting).

I/We

Of (address) (contact number)

Being the holder/s of ordinary shares in the company, hereby appoint (see notes overleaf)

1. Or, failing him/her
2. Or, failing him/her
3. The chairman of the annual general meeting, as my/our proxy to attend, speak and vote for me/us and on my/our behalf or to abstain from voting at the annual general meeting of the company and at any adjournment thereof, as follows (see notes overleaf).

	Insert an X or the number of votes exercisable (one vote per ordinary share)		
	In favour of	**Against**	**Abstain**
Ordinary resolutions number 1.1 to 1.4 Re-election of directors by way of separate resolution: 1.1 NN Gwagwa			
1.2 AT Nzimande			
1.3 EG Matenge-Sebesho			
1.4 PJ Makosholo			
Ordinary resolutions number 1.5 to 17 Vacancies filled by the directors during the year 1.5 T Winterboer			
1.6 M Vilakazi			
1.7 JJ Durand			
Ordinary resolutions number 2.1 and 2.2 Reappointment of auditor: 2.1 Deloitte & Touche			
Reappointment of auditor: 2.2 PricewaterhouseCoopers Inc.			
Ordinary resolution number 3 General authority to issue authorised but unissued shares for regulatory capital reasons			
Ordinary resolution number 4 General authority to issue authorised but unissued ordinary shares for cash			
Ordinary resolution number 5 Signing authority			
Advisory endorsement of remuneration policy Endorsement of remuneration policy			
Advisory endorsement of remuneration implementation report Endorsement of remuneration implementation report			
Special resolution number 1 General authority to repurchase ordinary shares			
Special resolution number 2.1 Financial assistance to directors and prescribed officers as employee share scheme beneficiaries			
Special resolution number 2.2 Financial assistance to related and interrelated entities			
Special resolution number 3 Remuneration of non-executive directors with effect from 1 December 2018			

Signed at on 2018

Signature/s

Assisted by

(where applicable)

Proxy forms should (but are not required to) be received by the Transfer Secretaries, Computershare Investor Services (Pty) Ltd, 1st Floor, Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196 (PO Box 61051, Marshalltown, 2107), fax number (011) 688 5238 or in Namibia to Transfer Secretaries (Pty) Ltd, PO Box 2401, Windhoek, Namibia, fax number +264 6124 8531, by no later than 09:00 on Thursday, 29 November 2018 for administrative purposes (or alternatively to be handed to the Chairman of the AGM prior to its commencement). Proxy forms may only be completed by shareholders who have not dematerialised their shares or who have dematerialised their shares with own name registration.

PLEASE SEE NOTES ON REVERSE SIDE OF THE FORM

Notes to proxy form

USE OF PROXIES

A shareholder who holds ordinary shares (shareholder) is entitled to attend and vote at the annual general meeting and to appoint one or more proxies to attend, speak and vote in his/her stead. A proxy need not be a shareholder of the company.

Instructions on signing and lodging the proxy form:

1. A shareholder may insert the name of a proxy or the names of two alternative proxies of the shareholders' choice in the space/s provided overleaf, with or without deleting "the chairman of the annual general meeting", but any such deletion must be initialled by the shareholder. Should this space be left blank, the chairman of the annual general meeting will exercise the proxy. The person whose name appears first on the proxy form and who is present at the annual general meeting will be entitled to act as proxy to the exclusion of those whose names follow.
2. A shareholder's voting instructions to the proxy must be indicated by the insertion of the number of votes exercisable by that shareholder in the appropriate spaces provided overleaf. Failure to do so shall be deemed to authorise the proxy to vote or to abstain from voting at the annual general meeting as he/she thinks fit in respect of all the shareholder's exercisable votes. A shareholder or his/her proxy is not obliged to use all the votes exercisable by his/her proxy, but the total number of votes cast, or those in respect of which abstention is recorded, may not exceed the total number of votes exercisable by the shareholder of his/her proxy.
3. A minor must be assisted by his/her parent or guardian unless the relevant documents establishing his/her legal capacity are produced or have been registered by the transfer secretaries.
4. To be valid the completed proxy forms should (but are not required to) be received by the Transfer Secretaries, Computershare Investor Services (Pty) Ltd, 1st Floor, Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196 (PO Box 61051, Marshalltown, 2107), fax number (011) 688 5238 or in Namibia to Transfer Secretaries (Pty) Ltd, PO Box 2401, Windhoek, Namibia, fax number +264 6124 8531, by no later than 09:00 on Tuesday, 27 November 2018 for administrative purposes (or alternatively to be handed to the Chairman of the AGM prior to its commencement). Proxy forms may only be completed by shareholders who have not dematerialised their shares or who have dematerialised their shares with own name registration.
5. Documentary evidence establishing the authority of a person signing a proxy form in a representative capacity must be attached to the proxy form unless previously recorded by the transfer secretaries or waived by the chairman of the annual general meeting.
6. The completion and lodging of this proxy form shall not preclude the relevant shareholder from attending the annual general meeting, and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof, should such shareholder wish to do so.
7. The completion of any blank spaces overleaf need not be initialled. Any alterations or corrections to this proxy form must be initialled by the signatory/ies.
8. The chairman of the annual general meeting may reject or accept any proxy form which is completed other than in accordance with these instructions, provided that he is satisfied as to the manner in which a shareholder wishes to vote.
9. A proxy may not delegate his/her authority to any other person.

Company information

DIRECTORS

WR Jardine (chairman), AP Pullinger (CEO), HS Kellan (financial director), M Vilakazi (COO with effect from 1 July 2018), JP Burger (non-executive with effect from 1 September 2018), MS Bomela, HL Bosman, JJ Durand (alternate with effect from 3 September 2018), GG Gelink, NN Gwagwa, F Knoetze, RM Loubser, PJ Makosholo, TS Mashego, EG Matenge-Sebesho, AT Nzimande, T Winterboer

COMPANY SECRETARY AND REGISTERED OFFICE

C Low
4 Merchant Place, Corner Fredman Drive and Rivonia Road
Sandton 2196
PO Box 650149, Benmore 2010
Tel: +27 11 282 1808
Fax: +27 11 282 8088
Website: www.firstrand.co.za

JSE SPONSOR

Rand Merchant Bank (a division of FirstRand Bank Limited)
Corporate Finance
1 Merchant Place, Corner Fredman Drive and Rivonia Road
Sandton 2196
Tel: +27 11 282 8000
Fax: +27 11 282 4184

NAMIBIAN SPONSOR

Simonis Storm Securities (Pty) Ltd
4 Koch Street
Klein Windhoek
Namibia

TRANSFER SECRETARIES – SOUTH AFRICA

Computershare Investor Services (Pty) Ltd
1st Floor, Rosebank Towers
15 Biermann Avenue
Rosebank, Johannesburg 2196
PO Box 61051, Marshalltown 2107
Tel: +27 11 370 5000
Fax: +27 11 688 5248

TRANSFER SECRETARIES – NAMIBIA

Transfer Secretaries (Pty) Ltd
4 Robert Mugabe Avenue, Windhoek
PO Box 2401, Windhoek, Namibia
Tel: +264 612 27647
Fax: +264 612 48531

AUDITORS

PricewaterhouseCoopers Inc.
4 Lisbon Lane
Waterfall City
Jukskei View
2090

Deloitte & Touche
Deloitte Place
The Woodlands
20 Woodlands Drive
Woodmead, Sandton
2052

Listed financial instruments of the group and its subsidiaries

LISTED EQUITY INSTRUMENTS

Johannesburg Stock Exchange (JSE)

Ordinary shares

Issuer	Share code	ISIN code
FirstRand Limited	FSR	ZAE000066304

Non-cumulative non-redeemable B preference shares

Issuer	Share code	ISIN code
FirstRand Limited	FSRP	ZAE000060141

Namibian Stock Exchange (NSX)

Ordinary shares

Issuer	Share code	ISIN code
FirstRand Limited	FST	ZAE000066304
FirstRand Namibia Limited	FNB	NA0003475176

Botswana Stock Exchange (BSE)

Ordinary shares

Issuer	Share code	ISIN code
First National Bank of Botswana Limited	FNBB	BW0000000066

LISTED DEBT INSTRUMENTS

Issuer: FirstRand Bank Limited

JSE

Domestic medium term note programme

Bond code	ISIN code	Bond code	ISIN code	Bond code	ISIN code
Subordinated debt					
FRB05	ZAG000031337	FRB16	ZAG000127622	FRB21	ZAG000140856
FRB12	ZAG000116278	FRB17	ZAG000127630	FRB22	ZAG000141219
FRB13	ZAG000116286	FRB18	ZAG000135229	FRB23	ZAG000146754
FRB14	ZAG000116294	FRB19	ZAG000135310	FRBC21	ZAG000052283
FRB15	ZAG000124199	FRB20	ZAG000135385	FRBC22	ZAG000052390
Senior unsecured					
FRBZ01	ZAG000049255	FRJ23	ZAG000149436	FRX26	ZAG000112160
FRBZ02	ZAG000072711	FRJ25	ZAG000124256	FRX27	ZAG000142506
FRBZ03	ZAG000080029	FRJ27	ZAG000141912	FRX30	ZAG000124264
FRJ19	ZAG000104563	FRX19	ZAG000073685	FRX31	ZAG000084195
FRJ20	ZAG000109596	FRX20	ZAG000109604	FRX32	ZAG000142514
FRJ21	ZAG000115858	FRX23	ZAG000104969	FRX45	ZAG000076480
FRJ22	ZAG000142498	FRX24	ZAG000073693		
Inflation-linked bonds					
FRBI22	ZAG000079666	FRBI29	ZAG000145608	FRI33	ZAG000141706
FRBI23	ZAG000076498	FRBI33	ZAG000079245	FRI38	ZAG000141862
FRBI25	ZAG000109588	FRBI46	ZAG000135302		
FRBI28	ZAG000079237	FRBI50	ZAG000141649		
Structured notes					
FRS100	ZAG000111634	FRS109	ZAG000113564	FRS119	ZAG000118951
FRS101	ZAG000111774	FRS110	ZAG000113663	FRS120	ZAG000119298
FRS103	ZAG000111840	FRS112	ZAG000115395	FRS121	ZAG000120643
FRS104	ZAG000111857	FRS113	ZAG000115478	FRS122	ZAG000121062
FRS108	ZAG000113515	FRS114	ZAG000116070	FRS123	ZAG000121328

Bond code	ISIN code	Bond code	ISIN code	Bond code	ISIN code
Structured notes					
FRS124	ZAG000122953	FRS151	ZAG000136987	FRS173	ZAG000148180
FRS126	ZAG000125188	FRS152	ZAG000136995	FRS174	ZAG000148198
FRS127	ZAG000125394	FRS153	ZAG000137670	FRS175	ZAG000149451
FRS129	ZAG000125865	FRS157	ZAG000144197	FRS176	ZAG000149444
FRS131	ZAG000126186	FRS158	ZAG000145012	FRS36	ZAG000077397
FRS132	ZAG000126194	FRS159	ZAG000145020	FRS37	ZAG000077793
FRS133	ZAG000126541	FRS160	ZAG000145038	FRS43	ZAG000078643
FRS134	ZAG000126574	FRS161	ZAG000145046	FRS46	ZAG000079807
FRS135	ZAG000126608	FRS162	ZAG000145111	FRS49	ZAG000081787
FRS136	ZAG000126780	FRS163	ZAG000145129	FRS51	ZAG000086117
FRS137	ZAG000127549	FRS164	ZAG000145160	FRS62	ZAG000090614
FRS138	ZAG000127556	FRS165	ZAG000145178	FRS64	ZAG000092529
FRS142	ZAG000130782	FRS166	ZAG000145756	FRS81	ZAG000100892
FRS143	ZAG000130790	FRS167	ZAG000145764	FRS85	ZAG000104985
FRS145	ZAG000134263	FRS168	ZAG000145772	FRS87	ZAG000105420
FRS146	ZAG000134636	FRS169	ZAG000145780	FRS90	ZAG000106410
FRS147	ZAG000135724	FRS170	ZAG000145954	FRS94	ZAG000107871
FRS149	ZAG000136573	FRS171	ZAG000147448	FRS96	ZAG000108390
FRS150	ZAG000136615	FRS172	ZAG000147455		
Credit-linked notes					
FRC107	ZAG000094574	FRC221	ZAG000121229	FRC256	ZAG000145806
FRC169	ZAG000104852	FRC225	ZAG000121435	FRC257	ZAG000146564
FRC176	ZAG000107178	FRC233	ZAG000128752	FRC258	ZAG000146580
FRC177	ZAG000107632	FRC234	ZAG000130816	FRC259	ZAG000147414
FRC178	ZAG000107897	FRC236	ZAG000135211	FRC260	ZAG000147596
FRC179	ZAG000108168	FRC237	ZAG000135203	FRC261	ZAG000147653
FRC181	ZAG000108549	FRC238	ZAG000135237	FRC262	ZAG000147646
FRC183	ZAG000109356	FRC239	ZAG000135245	FRC263	ZAG000148230
FRC185	ZAG000111451	FRC240	ZAG000135252	FRC264	ZAG000149345
FRC188	ZAG000111873	FRC241	ZAG000135393	FRC265	ZAG000149485
FRC189	ZAG000112145	FRC242	ZAG000135401	FRC266	ZAG000149824
FRC192	ZAG000114521	FRC243	ZAG000135419	FRC267	ZAG000150004
FRC195	ZAG000114745	FRC244	ZAG000135427	FRC268	ZAG000150095
FRC206	ZAG000116088	FRC245	ZAG000135468	FRC269	ZAG000150806
FRC207	ZAG000117649	FRC246	ZAG000135476	FRC270	ZAG000151234
FRC208	ZAG000117656	FRC247	ZAG000135484	FRC271	ZAG000151556
FRC209	ZAG000118613	FRC248	ZAG000135450	FRC272	ZAG000151564
FRC210	ZAG000120296	FRC249	ZAG000135542	FRC273	ZAG000151945
FRC212	ZAG000121054	FRC250	ZAG000135559	FRC274	ZAG000151952
FRC213	ZAG000121047	FRC251	ZAG000141813	FRC66	ZAG000088485
FRC215	ZAG000121021	FRC252	ZAG000142225	FRC69	ZAG000088766
FRC219	ZAG000121138	FRC254	ZAG000144825	FRC71	ZAG000088923

LONDON STOCK EXCHANGE (LSE)

European medium term note programme

ISIN code	
Senior unsecured	**Subordinated debt**
XS1178685084	XS1810806395
XS0610341967	
XS1225512026	

SWISS STOCK EXCHANGE (SIX)

ISIN code
Senior unsecured
CH0238315680

Issuer: First National Bank of Namibia Limited

JSE

ISIN code
ZAG000142803
ZAG000142902

NSX

Domestic medium term note programme

ISIN code
Senior unsecured
NA000A188PX0
NA000A188PW2
NA000A188PV4
NA000A19FKU3
NA000A188PY8
NA000A19FKV1

Issuer: First National Bank of Botswana Limited

BSE

Domestic medium term note programme

Bond code	ISIN code
Subordinated debt	
FNBB007	BW 000 000 1668
FNBB008	BW 000 000 1700
Senior unsecured	
FNBB005	BW 000 000 1510
FNBB006	BW 000 000 1528
FNBB009	BW 000 000 1916

Issuer: Aldermore Group plc

LSE

ISIN code
Tier 2
XS1507529144

IRISH STOCK EXCHANGE

ISIN code
Contingent convertible securities (AT1)
XS1150025549

Credit ratings

The ratings of banks domiciled in South Africa are constrained by the South African sovereign rating. This is due to the direct and indirect impact of sovereign distress on domestic banks' operations. Given the rating actions on the South African sovereign over the past 12 months, similar rating actions followed for South African banks. The following tables summarise the credit ratings of the South African sovereign, FirstRand Bank Limited and FirstRand Limited as at 5 September 2018.

SOUTH AFRICAN SOVEREIGN LONG-TERM RATINGS

	Outlook	Foreign currency	Local currency
S&P	Stable	BB	BB+
Moody's	Stable	Baa3	Baa3

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

FIRSTRAND BANK LIMITED

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

* *Relates to the issuer credit rating for S&P, and long-term bank deposits ratings for Moody's.*

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

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

FirstRand Bank's standalone credit ratings continue to reflect its strong market position in South Africa, focused strategy, good core profitability, financial flexibility, robust risk management and sound capitalisation.

FIRSTRAND LIMITED

		Counterparty*		National scale	
	Outlook	Long term	Short term	Long term	Short term
S&P	Stable	B+	B	zaA	zaA-1

* *Relates to the issuer credit rating for S&P.*

Source: S&P Global Ratings.

FirstRand Limited's ratings reflect its status as the non-operating holding company of the FirstRand group and the entity's consequent structural subordination and reliance on dividends from operating companies to meet its obligations, which exposes it to potential regulatory impositions. It is standard practice for a holding company to be rated below the operating company (in this case, FirstRand Bank Limited). It is important to note that the group issues debt out of the bank, the credit counterparty.

Definitions

Additional Tier 1 (AT1) capital	Non-cumulative non-redeemable (NCNR) preference share capital and contingent convertible securities, as well as qualifying capital instruments issued out of fully consolidated subsidiaries to third parties less specified regulatory deductions.
Capital adequacy ratio (CAR)	Total qualifying capital and reserves divided by RWA.
Common Equity Tier 1 (CET1) capital	Share capital and premium plus accumulated comprehensive income and reserves plus qualifying capital instruments issued out of fully consolidated subsidiaries to third parties less specified regulatory deductions.
Contingent convertible securities (AT1)	Fixed rate additional tier 1 perpetual subordinated contingent convertible securities issued by Aldermore.
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.
Dividend cover	Normalised earnings per share divided by dividend per share.
Effective tax rate	Tax per the income statement divided by the profit before tax per the income statement.
Impairment charge	Amortised cost impairment charge and credit fair value adjustments.
Loan-to-deposit ratio	Average advances expressed as a percentage of average deposits.
Loss given default (LGD)	Economic loss that will be suffered on an exposure following default of the counterparty, expressed as a percentage of the amount outstanding at the time of default.
Net income after capital charge (NIACC)	Normalised earnings less the cost of equity multiplied by the average ordinary shareholders' equity and reserves.
Normalised earnings	The group believes normalised earnings more accurately reflect its economic performance. Headline earnings are adjusted to take into account non-operational and accounting anomalies.
Normalised earnings per share	Normalised earnings attributable to ordinary equityholders divided by the weighted average number of shares including treasury shares.
Normalised net asset value	Normalised equity attributable to ordinary equityholders.
Normalised net asset value per share	Normalised equity attributable to ordinary equityholders divided by the number of issued ordinary shares.
Price earnings ratio (times)	Closing price on 30 June divided by basic normalised earnings per share.
Price-to-book (times)	Closing share price on 30 June divided by normalised net asset value per share.
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.
Shares in issue	Number of ordinary shares listed on the JSE.
Tier 1 ratio	Tier 1 capital divided by RWA.
Tier 1 capital	CET1 capital plus AT1 capital.
Tier 2 capital	Qualifying subordinated debt instruments plus qualifying capital instruments issued out of fully consolidated subsidiaries to third parties plus general provisions for entities on the standardised approach less specified regulatory deductions.
Total qualifying capital and reserves	Tier 1 capital plus Tier 2 capital.
Weighted average number of ordinary shares	Weighted average number of ordinary shares in issue during the year as listed on the JSE.

Abbreviations

ASF	Available stable funding.
AT1	Additional Tier 1 capital.
AUA	Assets under administration.
AUE	Assets under execution.
AUM	Assets under management.
BCBS	Basel Committee for Banking Supervision.
BEE	Black economic empowerment.
BIS	Bank of International Settlements.
BSE	Botswana Stock Exchange.
C&TB	Corporate and transactional banking.
CAGR	Compound annual growth rate.
Capex	Capital expenditure.
CAR	Capital adequacy ratio.
CB	RMB corporate banking.
CCyB	Capital conservative counter cyclical.
CET1	Common Equity Tier 1 capital.
CIB	RMB corporate and investment banking.
CIS	Collective investment scheme.
CLF	Committed liquidity facility.

DIS	Deposit insurance scheme.
D-SIB	Domestic systemically important banks.
DWT	Dividend withholding tax.
EMTN	European medium term note programme.
EPS	Earnings per share.
FML	Full maintenance leasing.
FNB	First National Bank.
FREMA	FirstRand EMA Holdings (Pty) Ltd.
FRIHL	FirstRand Investment Holdings (Pty) Ltd.
FSB	Financial Services Board.
FSR	FirstRand Limited.
GBP	British Pound.
HQLA	High quality liquid assets.
IB	RMB investment banking.
IB&A	Investment banking and advisory.
IM	Investment management.
INV	Investing.
ISP	Interest in suspense.
JSE	Johannesburg Stock Exchange.

HEALTH CHECK DEFINITIONS

- Peer group includes big four South African universal banks. ROE for FirstRand is as disclosed at 23.0% for the year to 30 June 2018. For the remainder of the peer group (big four excluding FirstRand's contribution) it is the weighted average as at 31 December 2017 in line with these banks' financial year ends.
- NIACC % of total is calculated using each bank's own cost of equity as disclosed as well as earnings and NAV for respective year ends. For FirstRand, this includes the five years from 30 June 2014 to 30 June 2018. For the rest of the peer group this includes the five-year weighted average across the peer group (excluding FirstRand) beginning 31 December 2013 and ending 31 December 2017.
- For FirstRand earnings CAGR includes the five years beginning 30 June 2013 and ending 30 June 2018. For the rest of the peer group this includes the five-year weighted average across the peer group (excluding FirstRand) beginning 31 December 2012 and ending 31 December 2017.

ABBREVIATIONS

AIRB	Advanced internal ratings based approach
AMA	Advanced measurement approach
AVC	Asset value correlation
BIA	Basic indicator approach
BPRMF	Business performance and risk management framework
CVA	Credit value adjustment
ICR	Individual capital requirement
LCR	Liquidity coverage ratio
NOFP	Net open forward position in foreign exchange
NSFR	Net stable funding ratio
TSA	The standardised approach
VaR	Value-at-Risk

Abbreviations of financial reporting standards

INTERNATIONAL FINANCIAL REPORTING STANDARDS

IFRS 1	IFRS 1 – First-time Adoption of International Financial Reporting Standards
IFRS 2	IFRS 2 – Share-based Payment
IFRS 3	IFRS 3 – Business Combinations
IFRS 4	IFRS 4 – Insurance Contracts
IFRS 5	IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations
IFRS 7	IFRS 7 – Financial Instruments – Disclosures
IFRS 8	IFRS 8 – Operating Segments
IFRS 9	IFRS 9 – Financial Instruments
IFRS 15	IFRS 15 – Revenue
IFRS 16	IFRS 16 – Leases
IFRS 17	IFRS 17 – Insurance Contracts

INTERNATIONAL ACCOUNTING STANDARDS

IAS 1	IAS 1 – Presentation of Financial Statements
IAS 2	IAS 2 – Inventories
IAS 7	IAS 7 – Statement of Cash Flows
IAS 8	IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10	IAS 10 – Events After the Reporting Period
IAS 12	IAS 12 – Income Taxes
IAS 16	IAS 16 – Property, Plant and Equipment
IAS 17	IAS 17 – Leases
IAS 18	IAS 18 – Revenue
IAS 19	IAS 19 – Employee Benefits
IAS 20	IAS 20 – Accounting for Government Grants and Disclosure of Government Assistance
IAS 21	IAS 21 – The Effects of Changes in Foreign Exchange Rates
IAS 23	IAS 23 – Borrowing Costs
IAS 24	IAS 24 – Related Party Disclosures
IAS 27	IAS 27 – Consolidated and Separate Financial Statements
IAS 28	IAS 28 – Investments in Associates and Joint Ventures
IAS 29	IAS 29 – Financial Reporting in Hyperinflationary Economies
IAS 32	IAS 32 – Financial Instruments – Presentation
IAS 33	IAS 33 – Earnings Per Share
IAS 34	IAS 34 – Interim Financial Reporting
IAS 36	IAS 36 – Impairment of Assets
IAS 37	IAS 37 – Provisions, Contingent Liabilities and Contingent Assets
IAS 38	IAS 38 – Intangible Assets
IAS 39	IAS 39 – Financial Instruments Financial Instruments – Recognition and Measurement
IAS 40	IAS 40 – Investment Property

IFRS INTERPRETATIONS COMMITTEE INTERPRETATIONS

IFRIC 17	IFRIC 17 – Distributions of Non-cash Assets to Owners
IFRIC 22	IFRIC 22 – Foreign currency transactions and advance consideration
IFRIC 23	IFRIC 23 – Uncertainty over income tax treatments

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