FirstRand Bank

’18 annual report
for the year ended 30 June

about this report

The annual report covers the following:

- overview of strategy, simplified group structure and corporate governance;
- a detailed analysis of the bank's normalised financial results, as the bank believes this most accurately reflects its economic performance (normalised results have been derived from the audited financial results);
- a summary risk and capital management report;
- the audited annual financial statements; and
- supplementary information.

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

FirstRand Bank

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

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

contents

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

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A overview of firstrand bank and analysis of financial results

overview of firstrand bank

Introduction

FirstRand Limited is a portfolio of integrated financial services businesses operating in South Africa, certain markets in sub-Saharan Africa and the UK. Many of these businesses are leaders in their respective segments and markets, and offer a universal set of transactional, lending, investment and insurance products and services.

FirstRand can provide its customers with differentiated and competitive value propositions due to its unique and highly flexible model of leveraging the most appropriate brand, distribution channel, licence and operating platform available within the portfolio. FirstRand Bank represents the majority of these resources. This approach, which is underpinned by the disciplined allocation of financial resources and enabled by disruptive digital and data platforms, allows the group to fully optimise the franchise value of its portfolio. This has resulted in a long track record of consistent growth in high quality earnings, and superior and sustainable returns for shareholders.

The simplified group structure on page A08 outlines the group's various legal entities, including FRB.

Group strategy

FirstRand's strategy accommodates a broad set of growth opportunities across the entire financial services universe from a product, market, segment and geographic perspective.

SOUTH AFRICA

Currently group earnings are tilted towards South Africa and are generated by FirstRand's large lending and transactional franchises, which have resulted in deep and loyal customer and client bases, and the group remains focused on protecting and growing these valuable banking businesses. FirstRand also believes that through the utilisation of the origination capabilities, operating platforms and distribution networks of these businesses, it can diversify through capturing a larger share of profits from providing savings, insurance and investment products.

The growth opportunity is significant given the annual flows to other providers from FNB's customer base alone. Through the manufacture and sale of its own insurance, savings and investment products, the group will, over time, offer differentiated value propositions for customers and generate new and potentially meaningful revenue streams.

The group's strategy to broaden its financial services offering also benefits the bank, as it enables a comprehensive customer offering (which may include products and services offered off the group's insurance or asset management licences/platforms). This further entrenches the bank's relationship with its core transactional customers.

In South Africa, the bank continues to focus on protecting and growing its lending and transactional franchises:

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

REST OF AFRICA

The group's strategy outside of its domestic market includes growing its presence and offerings in nine markets in the rest of Africa, where it believes it can organically build competitive advantage and scale over time.

In the rest of Africa, the bank's balance sheet is utilised in RMB's cross-border lending and trade finance activities. The group's subsidiaries in the rest of Africa form part of FirstRand EMA (Pty) Ltd (refer to the simplified group structure on page A08) and thus fall outside the bank.

UK

In the UK, the group has, over the past eight years, focused on organically transforming its existing business, MotoNovo, into the UK's third-largest independent used vehicle financier. In the year under review, the group took the decision to acquire Aldermore Group plc (Aldermore), a UK specialist lender, and is in the process of integrating the two businesses. FirstRand believes this will result in an appropriately diversified UK business, with an established and scalable local funding platform, that represents a more sustainable and less volatile business model. The group can also extract additional value for shareholders over the medium to longer term through introducing its successful financial resource management methodology, unlocking synergies between MotoNovo and Aldermore, and over the longer term, potentially building a transactional offering.

MotoNovo is currently a part of the bank's London branch and contributed R357 million (<2%) of the bank's total normalised earnings of R20 170 million for the year ended 30 June 2018.

Once MotoNovo has been fully integrated into Aldermore, which is not part of the bank, all new business written by MotoNovo will be funded through further scaling Aldermore's deposit and funding platform. MotoNovo's current loans will continue to be funded through existing funding mechanisms, but will be run down over time. As a result, MotoNovo will ultimately cease to form part of the bank.

Group vs bank

The graphic below illustrates the differences between the group and the bank from a geographical and activity perspective.

THE DIFFERENCE BETWEEN BANK AND GROUP

FIRSTRAND GROUP

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

Foreign branches and representative offices

The activities of the bank's representative offices and branches are summarised below.

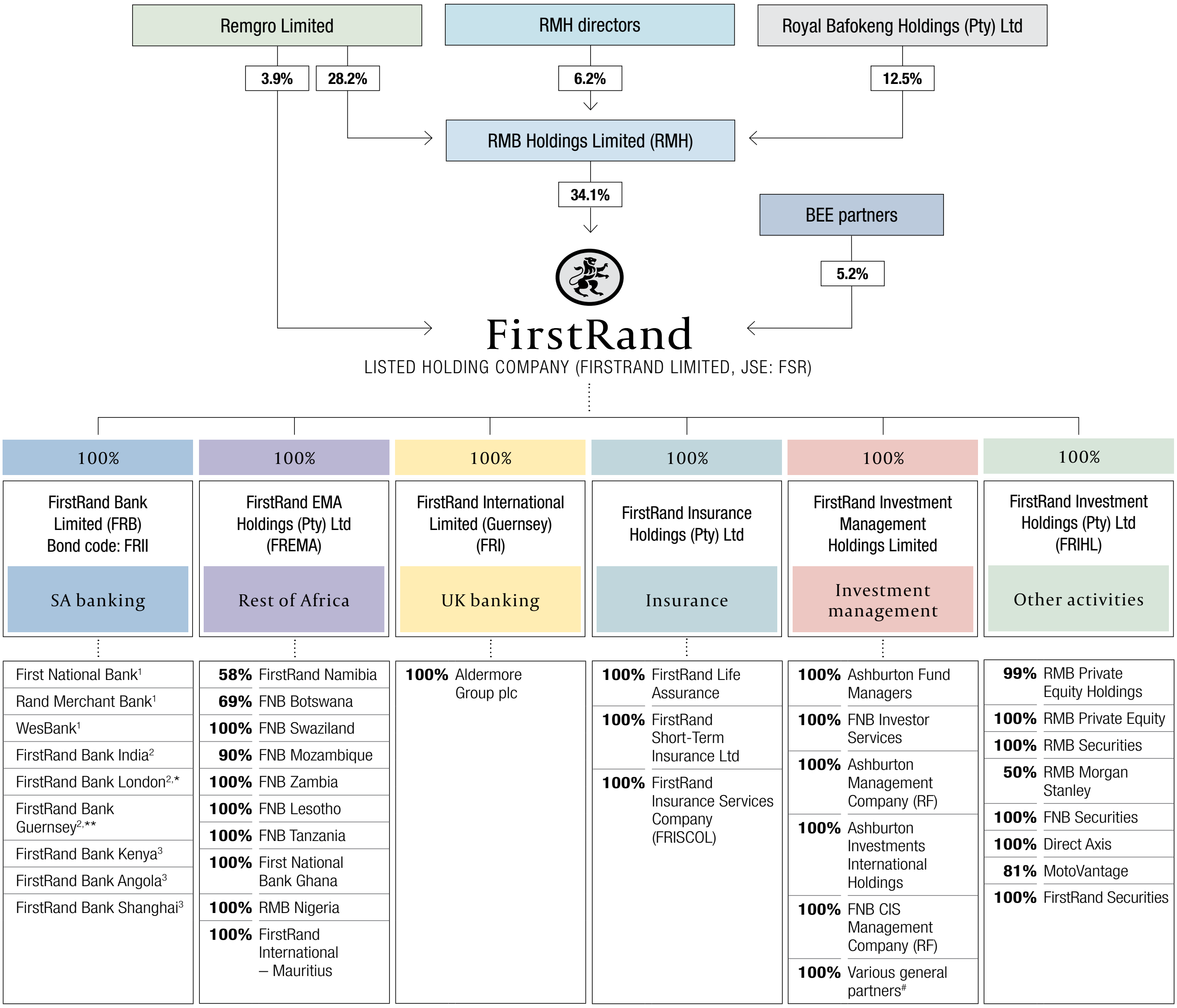
Representative offices (managed by RMB):

- Kenya: Focuses on the trade and investment hub of east Africa, with increasing flows from China and India.
- Angola: Provides a platform in western Africa to identify investment banking opportunities across this region.
- Shanghai: Facilitates trade flows between China and the African continent, and supports ongoing investment and infrastructural development that China is able to provide.

Branches:

- London: Focuses on funding through capital and banking markets, with strong track record in arranging and distributing African-based debt instruments.
- Guernsey: Primarily services high income and high net worth customers, providing the bank with hard-currency deposits, further enabling funding diversification to support hard-currency lending activities.
- India: Focuses on corporate and investment banking (CIB) business, which services Indian clients active in the Indo-Africa corridor. The services offered range from advisory, financing, trade, debt capital markets and a global markets offering with a strong focus on commodities.

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.

Corporate governance

COMPLIANCE STATEMENT

FirstRand Limited is the bank controlling company of FirstRand Bank Limited. The governance structures for FirstRand Bank Limited were constituted at a FirstRand Limited level in terms of authority received from the Prudential Authority. The directors of FirstRand ensure compliance with all relevant regulations including the SA Banks Act, SA Companies Act, and Financial Stability Board requirements and other best practice regulations flowing from both local and international authorities.

FirstRand Bank endorses and endeavours to adhere to the guidelines and principles of King IV. FirstRand Bank has applied the King IV principles as disclosed in the FirstRand annual integrated report. In accordance with section 94(2)(b) of the Companies Act, the audit committee of FirstRand Limited performs the functions under the section on behalf of FirstRand Bank Limited.

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

RESPONSIBILITIES OF DIRECTORS

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

COMPOSITION AND FREQUENCY OF MEETINGS

A unitary common board serves FirstRand Limited and FirstRand Bank Limited. William Rodger (Roger) Jardine was appointed as the independent non-executive chairman of the board with effect from 1 April 2018, following the retirement of Lauritz Lanser (Laurie) Dippenaar. Roger has extensive experience and has served as an independent non-executive director on the FirstRand Bank and FirstRand Limited boards. His experience and knowledge of the FirstRand group enable him to fulfil the role of chairman efficiently and effectively. The chairman's duties and responsibilities are clearly defined in the board charter and are in accordance with the provisions of King IV, JSE Listings Requirements and the Banks Act 94 of 1990 (the Banks Act).

It is also the view of the directors that a strong independent complement of non-executive directors exists on the board and that this provides the necessary objectivity essential for its effective functioning. The roles of chairman and CEO are separate, with segregated duties. FirstRand's audit committee is constituted in respect of its duties in terms of section 94(7) of the Companies Act, 71 of 2008, and section 64 of the Banks Act.

The board comprises 16 directors, of whom three serve in an executive capacity. Thirteen of the directors are non-executive, and seven of them are independent. The directors of the bank are listed on page A10. Non-executive directors comprise individuals of high calibre with diverse backgrounds and expertise. This ensures that their views carry significant weight in the board's deliberations and decisions.

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

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

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

LIMITATION TO APPOINTMENT PERIOD

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

COMPANY SECRETARY

The company secretary is suitably qualified and experienced. She is, *inter alia*, responsible for the duties stipulated in section 88 of the Companies Act 71 of 2008, as amended. The certificate required to be signed in terms of subsection (2)(e) thereof appears on page C06.

Board of directors

William Rodger (Roger) **Jardine** (52)

Independent non-executive chairman
(with effect from 1 April 2018)
BSc, MSc
Appointed January 2004

Alan Patrick **Pullinger** (52)

Chief executive officer (with effect from 1 April 2018)
MCom, CA(SA), CFA
Appointed October 2015

Hetash Surendrakumar (Harry) **Kellan** (46)

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

Johan Petrus **Burger** (59)

Executive director (until 31 August 2018)
BCom (Hons), CA(SA)
Appointed May 1998

Mary Sina **Bomela** (45)

Non-executive director
BCom (Hons), CA(SA), MBA
Appointed September 2011

Hermanus Lambertus (Herman) **Bosman** (49)

Non-executive director
BCom, LLB, LLM, CFA
Appointed April 2017

Jan Jonathan (Jannie) **Durand** (51)

Non-executive director
BAccSc (Hons), MPhil, CA(SA)
Appointed October 2012

Grant Glenn **Gelink** (68)

Independent non-executive director
BCom (Hons), BCompt (Hons), CA(SA)
Appointed January 2013

Nolulamo Nobambiswano (Lulu) **Gwagwa** (59)

Independent non-executive director
BA, MTRP, MSc, PhD
Appointed July 2010

Francois (Faffa) **Knoetze** (55)

Non-executive director
BCom (Hons), FASSA, FIA
Appointed April 2016

Russell Mark **Loubser** (68)

Independent non-executive director
BCom (Hons), MCom, CA(SA)
Appointed September 2014

Paballo Joel **Makosholo** (39)

Non-executive director
MCom, IEDP, CA(SA)
Appointed October 2015

Thandie Sylvia **Mashego** (40)

Non-executive director
BCom (Hons), CA(SA), MBL
Appointed January 2017

Ethel Gothatamodimo **Matenge-Sebesho** (63)

Independent non-executive director
MBA, CAIB
Appointed June 2006

Amanda Tandiwe (Tandi) **Nzimande** (48)

Independent non-executive director
CTA, CA(SA), HDip Co Law
Appointed July 2010

Thomas **Winterboer** (62)

Independent non-executive director
BCom (Hons), CA(SA)
Appointed April 2018

BOARD CHANGES

Changes to the directorate are outlined below.

		Effective date
Appointments		
T Winterboer	Independent non-executive director	20 April 2018
M Vilakazi	COO	1 July 2018
Retirements		
BJ van der Ross	Independent non-executive director	30 November 2017
JH van Greuning	Independent non-executive director	30 November 2017
LL Dippenaar	Chairman and non-executive director	31 March 2018
JP Burger	CEO*	31 March 2018
PM Goss	Independent non-executive director	30 April 2018
PK Harris	Non-executive director	30 April 2018
Change in designation		
WR Jardine	Chairman	1 April 2018
JP Burger	Executive director	1 April 2018
AP Pullinger	CEO	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.*

Changes to the board and subcommittees subsequent to 30 June 2018

Mary **Vilakazi**

Chief operating officer and executive director

Appointed 1 July 2018

FirstRand – committee memberships

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

* *Divisional board.*

Jan Jonathan (Jannie) **Durand**

Alternative non-executive director

With effect from 3 September 2018

Johan Petrus **Burger**

Non-executive director

With effect from 1 September 2018

FirstRand – committee memberships

- Audit
- Risk, capital management and compliance
- Remuneration
- Large exposures
- First National Bank*
- Rand Merchant Bank*
- WesBank*

* *Divisional board.*

analysis of financial results – normalised

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Highlights

FirstRand Bank

NORMALISED EARNINGS	NORMALISED RETURN ON EQUITY	NORMALISED RETURN ON ASSETS
↑ 12%	23.4%	1.76%
2017: 4%	2017: 22.2%	2017: 1.71%

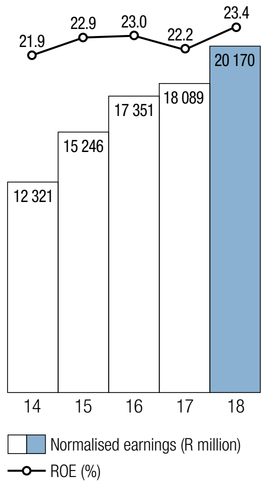
CET1 RATIO	LCR RATIO	NSFR RATIO
12.7%	118%	111%
2017: 14.1%	2017: 105%	2017: N/A

ADVANCES (net of impairments)	NPLS AS % OF ADVANCES	CREDIT LOSS RATIO
↑ 6%	2.47%	0.80%
2017: 5%	2017: 2.27%	2017: 0.88%

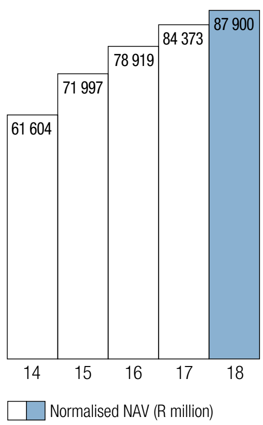
FNB RMB WesBank

Track record

NORMALISED EARNINGS *(R million)*
AND ROE *(%)*
CAGR 13%



NORMALISED
NET ASSET VALUE *(R million)*
CAGR 9%



Key financial results, ratios and statistics – normalised

R million	2018	2017	% change
Earnings performance			
Attributable earnings – IFRS (refer page A92)	**20 283**	18 300	11
Headline earnings	**20 076**	18 269	10
Normalised earnings	**20 170**	18 089	12
Normalised net asset value	**87 900**	84 373	4
Tangible normalised net asset value	**87 517**	84 140	4
Average normalised net asset value	**86 137**	81 646	5
Capital adequacy* – IFRS			
Capital adequacy ratio (%)	**16.8**	17.3	
Tier 1 ratio (%)	**12.8**	14.3	
Common Equity Tier 1 ratio (%)	**12.7**	14.1	
Balance sheet			
Normalised total assets	**1 203 877**	1 082 151	11
Advances (net of credit impairments)	**843 806**	799 419	6
Ratios and key statistics			
ROE (%)	**23.4**	22.2	
ROA (%)	**1.76**	1.71	
Average loan-to-deposit ratio (%)	**90.3**	93.5	
Diversity ratio (%)	**42.5**	42.5	
Credit impairment charge	**6 659**	6 984	(5)
NPLs as % of advances	**2.47**	2.27	
Credit loss ratio (%)	**0.80**	0.88	
Specific coverage ratio (%)	**36.2**	38.6	
Total impairment coverage ratio (%)	**72.8**	80.3	
Performing book coverage ratio (%)	**0.93**	0.97	
Cost-to-income ratio (%)	**54.3**	54.4	
Effective tax rate (%)	**23.0**	22.9	
Number of employees	**36 449**	35 979	1

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

Summary income statement – normalised

for the year ended 30 June

R million	2018	2017	% change
Net interest income before impairment of advances	**42 746**	39 849	7
Impairment charge	**(6 659)**	(6 984)	(5)
Net interest income after impairment of advances	**36 087**	32 865	10
Non-interest revenue	**31 602**	29 506	7
– Fee and commission income	**23 275**	21 203	10
– Insurance commission income	**988**	996	(1)
– Markets, client and other fair value income	**3 210**	3 692	(13)
– Investment income	**485**	137	>100
– Other non-interest revenue	**3 644**	3 478	5
Income from operations	**67 689**	62 371	9
Operating expenses	**(40 378)**	(37 721)	7
Income before tax	**27 311**	24 650	11
Indirect tax	**(805)**	(876)	(8)
Profit before tax	**26 506**	23 774	11
Income tax expense	**(6 102)**	(5 448)	12
Profit for the year	**20 404**	18 326	11
NCNR preference shareholders	**(234)**	(237)	(1)
Normalised earnings attributable to ordinary equityholders of the bank	**20 170**	18 089	12

Summary statement of other comprehensive income – normalised

for the year ended 30 June

R million	2018	2017	% change
Profit for the year	**20 404**	18 326	11
Items that may subsequently be reclassified to profit or loss			
Cash flow hedges	**185**	(150)	(>100)
Fair value gains/(losses) arising during the year	**325**	(141)	(>100)
Reclassification adjustments for amounts included in profit or loss	**(68)**	(67)	1
Deferred income tax	**(72)**	58	(>100)
Available-for-sale financial assets	**(731)**	(393)	86
Losses arising during the year	**(848)**	(483)	76
Reclassification adjustments for amounts included in profit or loss	**(144)**	(67)	>100
Deferred income tax	**261**	157	66
Exchange differences on translating foreign operations	**285**	(512)	(>100)
Gains/(losses) arising during the year	**285**	(512)	(>100)
Items that may not subsequently be reclassified to profit or loss			
Remeasurements on defined benefit post-employment plans	**122**	288	(58)
Gains arising during the year	**169**	400	(58)
Deferred income tax	**(47)**	(112)	(58)
Other comprehensive loss for the year	**(139)**	(767)	(82)
Total comprehensive income for the year	**20 265**	17 559	15
Attributable to			
Ordinary equityholders	**20 031**	17 322	16
NCNR preference shareholders	**234**	237	(1)
Total comprehensive income for the year	**20 265**	17 559	15

Summary statement of financial position – normalised

as at 30 June

R million	**2018**	2017
ASSETS		
Cash and cash equivalents	**71 511**	53 924
Derivative financial instruments	**41 386**	35 098
Commodities	**13 424**	14 380
Investment securities	**157 238**	127 972
Advances	**843 806**	799 419
– Advances to customers	**787 441**	752 479
– Marketable advances	**56 365**	46 940
Accounts receivable	**6 075**	5 651
Current tax asset	**94**	1
Amounts due by holding company and fellow subsidiaries	**52 419**	28 869
Property and equipment	**15 379**	14 928
Intangible assets	**383**	233
Deferred income tax asset	**2 162**	1 676
Total assets	**1 203 877**	1 082 151
EQUITY AND LIABILITIES		
Liabilities		
Short trading positions	**9 981**	15 211
Derivative financial instruments	**50 238**	43 660
Creditors, accruals and provisions	**14 194**	13 079
Current tax liability	**86**	123
Deposits	**977 258**	876 690
Employee liabilities	**10 178**	8 840
Other liabilities	**4 381**	4 225
Amounts due to holding company and fellow subsidiaries	**19 993**	14 580
Tier 2 liabilities	**26 668**	18 370
Total liabilities	**1 112 977**	994 778
Equity		
Ordinary shares	**4**	4
Share premium	**16 804**	16 804
Reserves	**71 092**	67 565
Capital and reserves attributable to ordinary equityholders	**87 900**	84 373
NCNR preference shares	**3 000**	3 000
Total equity	**90 900**	87 373
Total equity and liabilities	**1 203 877**	1 082 151

Flow of funds analysis – normalised

R million	June 2018 vs June 2017 12-month movement	June 2017 vs June 2016 12-month movement
Sources of funds		
Capital account movement (including profit and reserves)	**3 527**	5 454
Working capital movement	**(16 568)**	2 809
Short trading positions and derivative financial instruments	**(4 940)**	(1 149)
Deposits and long-term liabilities	**108 866**	50 975
Total	**90 885**	58 089
Application of funds		
Advances	**(44 387)**	(35 331)
Investments	**355**	(3 289)
Cash and cash equivalents	**(17 587)**	(2 927)
Investment securities (e.g. liquid asset portfolio)	**(29 266)**	(16 542)
Total	**(90 885)**	(58 089)

Overview of results

THE MACROECONOMIC ENVIRONMENT

South Africa's macroeconomic operating environment for the year to June 2018 was characterised by two distinctly different six-month periods.

In the first half of the group's financial year, policy ambiguity and political uncertainty weighed on domestic risk appetite, economic activity, and investor and consumer sentiment. This was particularly acute following the medium-term budget policy statement in October 2017, and the resultant S&P downgrade of South Africa's local currency sovereign rating to below investment grade.

The macroeconomic environment in the second half of the group's financial year started more positively following the change in leadership of the ruling party, the appointment of President Ramaphosa as head of the government and a relatively investor-friendly cabinet reshuffle in February 2018. These changes allowed the country to avoid further downgrades and were followed by new board and management appointments at key state-owned enterprises (SOEs) and other government agencies. This resulted in improved foreign and domestic confidence.

It is clear, however, that progress on meaningful structural reform will be difficult and slow. GDP expanded only 1% over the first three quarters of the group's financial year, credit growth remained in the mid-single digits and the unemployment rate remained static. Relatively muted inflation did provide some support to household finances and this allowed the South African Reserve Bank (SARB) to cut interest rates 50 bps over the course of the year.

In the UK, macroeconomic uncertainty continued to be driven by Brexit (which will formally take effect at the end of March 2019). This has weighed somewhat on UK economic activity, although unemployment continued to drift lower and wages trended upwards, resulting in consumer demand and house prices holding up reasonably well.

OVERVIEW OF RESULTS

Against this mixed economic backdrop, FRB's portfolio of businesses produced a strong performance underpinned by quality topline growth, an improved credit performance and effective cost management. The bank continued to strengthen its balance sheet and protect its return profile. Normalised earnings for the year to 30 June 2018 increased 12% with a normalised ROE of 23.4%.

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

SOURCES OF NORMALISED EARNINGS

	Year ended 30 June				
R million	**2018**	**% composition**	2017	% composition	% change
FNB	**13 177**	**65**	11 415	63	15
RMB	**4 719**	**23**	4 105	23	15
WesBank	**1 751**	**9**	2 313	13	(24)
FCC (including Group Treasury) and other*	**757**	**4**	493	2	54
NCNR preference dividend	**(234)**	**(1)**	(237)	(1)	(1)
Normalised earnings	**20 170**	**100**	18 089	100	12

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

FNB's results reflect another strong operating performance driven by strong non-interest revenue (NIR) growth on the back of ongoing customer gains and increased transactional volumes, and high quality net interest income (NII) growth, particularly from deposit generation.

RMB's portfolio also delivered a strong performance driven by good growth in high quality earnings, solid operational leverage and lower impairments.

WesBank's performance remained mixed with both the South African retail and UK VAF businesses posting declines in profits, whilst the personal loans business performed strongly and corporate delivered a solid performance.

FCC's performance benefited from an improved performance by Ashburton and lower operating costs.

NII increased 7% underpinned by good growth in deposits (+11%) and solid advances growth (+6%), offset by negative capital and deposit rate endowment following the 25 bps cuts in the repo rate in July 2017 and March 2018. Lending margins at FNB benefited from repricing new residential mortgage business and lower funding costs. Lending margins at RMB, however, remained under pressure from competition, particularly in investment-grade lending, and ongoing term funding pressures and liquidity costs. Both RMB and WesBank's corporate business continued to exercise discipline in origination to preserve returns.

NIR increased 7% and reflects good fee and commission income growth of 10%, supported by higher volumes across FNB's digital and electronic channels and increased customer numbers. The bank sold a minority shareholding in a private equity-related investment to a fellow subsidiary, which also supported NIR. This profit eliminates upon consolidation at a group level. Fee and commission income represents 74% of NIR.

Total cost growth of 7% was lower than the first half of the year, but continues to trend above inflation due to ongoing investment. Despite these cost pressures, the bank's cost-to-income ratio decreased marginally from 54.4% to 54.3% due to the resilient topline growth.

The bank's credit loss ratio of 80 bps was down year-on-year and remains well below the bank's through-the-cycle threshold, reflecting the positive impact of the bank's origination strategies and provisioning policies over the past two financial years. Many of the bank's lending books are trending in line with or better than expectations, particularly unsecured and corporate credit. The credit impairment charge decreased 5% and was impacted by the following factors:

- a decrease in corporate NPLs and credit impairments due to the work-out and write-off of certain NPL counters and proactive provisioning in prior years;
- a lower charge in residential mortgages, due to loss given default credit model recalibrations, despite higher NPL formation given cycle-driven normalisation;
- a continued deterioration in WesBank's SA VAF charge, mainly due to ongoing elevated arrears and NPLs and an increase in the emergence period;
- the MotoNovo credit loss ratio was impacted by significant securitisations during the year;
- an increase in FNB's commercial segment, reflecting new business strain which was expected given the continued growth in new customers, cross-sell and up-sell strategies and the impact of the ongoing drought in certain areas of South Africa; and
- higher NPLs in FNB card and personal loans, but in line with expectations given the strong book growth in the prior year, however, the charge benefited from active collection strategies.

Overall portfolio provisions remain in place and reflect continued conservative provisioning on the back of book growth and the still constrained macroeconomic operating environment in South Africa.

OPERATING REVIEWS

FNB

FNB represents the bank's activities in the retail and commercial segments in South Africa. It is growing its franchise on the back of a compelling customer offering that provides a broad range of innovative financial services products. FNB grew its pre-tax profits 16% to R18.3 billion.

FNB FINANCIAL HIGHLIGHTS

R million	2018	2017	% change
Normalised earnings	**13 177**	11 415	15
Normalised profit before tax*	**18 313**	15 855	16
Total assets	**374 290**	347 611	8
Total liabilities	**356 011**	331 885	7
NPLs (%)	**3.12**	2.97	
Credit loss ratio (%)	**1.00**	1.12	
Cost-to-income ratio (%)	**53.8**	54.5	

* *Includes FNB's activities in India, which were discontinued in 2017. 2018 includes a once-off profit in FNB India.*

SEGMENT RESULTS

R million	2018	2017	% change
Normalised profit before tax			
Retail	**10 816**	9 174	18
Commercial	**7 998**	7 122	12
FNB Africa*	**(501)**	(441)	14
Total FNB	**18 313**	15 855	16

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

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

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

Despite the negative endowment impact of the 25 bps cuts in the repo rate in July 2017 and March 2018, FNB's NII increased 9%, driven by good growth in both advances (+8%) and deposits (+11%).

FNB's focus on customer acquisition and cross-selling into its core transactional retail and commercial customer bases continues to be the main driver of both advances and deposit growth in the premium and commercial segments.

The table below unpacks the growth in advances and deposits on a segment basis. FNB's success in growing its deposit franchise, particularly in retail, continues to be driven by cross-sell and product innovation.

SEGMENT ANALYSIS OF ADVANCES AND DEPOSIT GROWTH

	Deposit growth		Advances growth	
Segments	**%**	**R billion**	**%**	**R billion**
Retail	**14**	**27.1**	**7**	**16.6**
– Consumer	**5**	**4.1**	**3**	**1.1**
– Premium	**19**	**23.0**	**7**	**15.5**
Commercial	**7**	**14.4**	**12**	**9.8**
Total FNB*	**11**	**41.5**	**8**	**26.4**

* *The discontinued activities of FNB India are excluded above.*

The mix of FNB's advances growth reflects its targeted, segment-specific origination strategies. Growth in the premium segment was driven by unsecured lending origination, whilst the consumer segment experienced ongoing strong demand in affordable housing. Commercial continued to benefit from strong cross-sell momentum and focused asset growth.

The tables below unpack advances at a product level per segment.

	Consumer		
	Advances		
R million	**2018**	2017	% change
Residential mortgages	**24 583**	22 480	9
Card	**9 056**	9 211	(2)
Personal loans	**7 024**	7 419	(5)
Retail other	**2 788**	3 199	(13)

	Premium		
	Advances		
R million	**2018**	2017	% change
Residential mortgages	**180 386**	173 018	4
Card	**18 084**	14 589	24
Personal loans	**10 137**	6 953	46
Retail other	**13 064**	11 664	12

	Commercial		
R million	**2018**	2017	% change
Advances	**93 962**	84 132	12

The strength and quality of FNB's transactional franchise is clearly demonstrated in the strong NIR growth of 10% resulting from good growth in customers (total up 4% to 8.15 million) and transaction volumes. Customer growth per segment is shown in the table below.

CUSTOMERS

	Year-on-year growth
Customer segment	**Customer numbers %**
Consumer	**3**
Premium	**17**
Commercial	**2**

Retail NIR growth of 11% reflects customer acquisition, transactional volumes and the first-time inclusion of wealth and investment management (WIM) activities in Premium, whilst the product rationalisation and pricing actions taken last year benefited consumer NIR growth. Overall fee and commission income benefited from transactional volume growth of 10% driven by FNB's digital and electronic channels, as can be seen from the table below.

CHANNEL VOLUMES

Thousands of transactions	**2018**	2017	% change
ATM/ADT	**243 023**	232 310	5
Internet banking	**205 200**	214 701	(4)
Banking app	**164 018**	99 410	65
Mobile (excluding prepaid)	**43 716**	43 818	–
Point of sale merchants	**496 673**	429 715	16
Card swipes	**785 405**	698 698	12

Cost growth is well controlled but continues to trend above inflation at 8%, mainly due to continued investment in diversification strategies. The cost-to-income ratio improved to 53.8% (2017: 54.5%).

Whilst FNB's overall bad debt charge was lower (R212 million), NPLs increased year-on-year (+13%), with the retail books tracking well within expectations at this point in the cycle. This reflects the quality of new business written, appropriate pricing strategies, the positive effect of cutbacks in higher risk origination buckets in prior periods and active collection strategies. NPL formation in the commercial book and FNB card are ticking up, as expected, given previous book growth and some residual pressure in the agricultural sector due to the drought. There was some cyclical normalisation in residential mortgage NPLs, which increased 11%, but this was expected given the low levels in previous years. Overall provisioning levels and overlays have increased.

RMB

RMB represents the bank's activities in the CIB segments in South Africa, the broader African continent and India. The strategy leverages an entrenched origination franchise and a growing market-making and distribution product offering to ensure delivery of an integrated CIB value proposition to corporate and institutional clients. This diversified business portfolio, coupled with a disciplined approach to balancing risk, return and growth, is designed to deliver sustainable earnings, balance sheet resilience and market-leading returns.

RMB FINANCIAL HIGHLIGHTS

R million	2018	2017	% change
Normalised earnings	**4 719**	4 105	15
Normalised profit before tax	**6 555**	5 708	15
Total assets	**406 976**	379 903	7
Total liabilities	**402 194**	374 323	7
Credit loss ratio (%)	**(0.04)**	0.24	
Cost-to-income ratio (%)	**52.4**	51.9	

RMB's diversified portfolio delivered a strong performance, with pre-tax profits increasing 15% to R6.6 billion, which was underpinned by high quality earnings and solid operational leverage. The business remains disciplined in its financial resource allocation to ensure preservation of returns and has maintained strong credit provisioning levels. The credit performance from RMB benefited from proactive provisioning in prior financial years and the write-off and work-out of certain NPL counters. The improvement in commodity prices and utilisation of existing provisions for the sovereign downgrade resulted in a release of impairments.

Notwithstanding the difficult operating environment, which included sovereign rating downgrades, RMB's continued focus on growing the bank's corporate and institutional client base and revenue pools underpinned the performance, with a strong contribution from investment banking and advisory activities. In addition, excellent cost discipline enabled continued investment in the enhancement of core platforms.

BREAKDOWN OF PROFIT CONTRIBUTION BY ACTIVITY*

	2018	2017	% change
Investment banking and advisory	**3 852**	3 285	17
Corporate and transaction banking	**1 253**	1 215	3
Markets and structuring	**1 087**	1 255	(13)
Investing**	**283**	37	>100
Investment management	**(88)**	(34)	>100
Other	**168**	(50)	(>100)
Total RMB	**6 555**	5 708	15

* *Refer to additional activity and business unit disclosure on page A38.*

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

The investment banking and advisory activities delivered strong growth in an environment characterised by tough credit markets and low economic growth. This performance was underpinned by strong new deal origination, solid lending income and resilient fee income due to client mandates requiring advisory, capital markets and structuring activities, and lower credit impairments.

RMB's corporate and transactional franchise continued to focus on leveraging its platforms to grow product offerings locally, resulting in higher transactional volumes and average deposit balances. In addition, increased demand for working capital solutions supported the performance.

Markets and structuring activities faced a difficult local operating environment, which resulted in reduced appetite from large clients. The performance was further impacted by a weaker performance in the credit trading portfolio and an isolated operational event in the hard commodities portfolio. These results were partially offset by a robust fixed income performance.

Investing activities benefited from the sale of a minority private-equity related investment to a fellow subsidiary during the year. This profit eliminates at a group level on consolidation.

Other activities benefited from the reduction in losses in the legacy portfolios and higher endowment earned on capital invested, together with continued investment into the group's markets infrastructure platform.

WESBANK

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

WESBANK FINANCIAL HIGHLIGHTS

R million	2018	2017	% change
Normalised earnings	**1 751**	2 313	(24)
Normalised profit before tax	**2 432**	3 214	(24)
Total assets	**168 240**	170 523	(1)
Total liabilities	**165 781**	167 327	(1)
NPLs (%)	**5.37**	4.37	
Credit loss ratio (%)	**2.10**	1.80	
Cost-to-income ratio (%)	**50.2**	45.8	
Net interest margin (%)	**4.87**	4.99	

WesBank's pre-tax profits declined 24% year-on-year, primarily driven by the level of securitisations in the current year, resulting in less day-one future margin recognition in the current year. These amounts eliminate at a group level when the securitisation schemes are consolidated. Excluding this impact, pre-tax profits declined 21% year-on-year.

The local VAF business had a challenging year and, in the face of increasing competition, has focused on protecting its origination franchise and return profile through disciplined pricing. Its operating model and relationships strengthened with new partnerships secured with Isuzu, Mahindra, Haval and Opel.

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

BREAKDOWN OF PROFIT CONTRIBUTION BY ACTIVITY*

	2018	2017	% change
Normalised PBT			
VAF	**1 952**	2 758	(29)
– Retail SA	**1 036**	1 414	(27)
– MotoNovo**	**496**	1 010	(51)
– Corporate and commercial	**420**	334	26
Personal loans	**480**	456	5
Total WesBank	**2 432**	3 214	(24)

* *Refer to additional segmental disclosure on page A39.*

** *MotoNovo's profits decreased 51% in pound terms to £29 million.*

The performance of the SA VAF business was impacted by increased impairment levels, up from 1.55% in the prior year to 1.96%. The credit performance reflects some specific issues in the vehicle finance sector, such as increasing later stage arrears and NPL levels and increased securitisation transactions and top-ups. Overall NPLs continued to be impacted by lengthening recovery timelines and more customers opting for court orders for repossessions.

As explained at the half year, higher than expected NPLs in the self-employed and small business segments resulted from operational issues with some scorecards, including third-party data quality, and this issue continued to play out in the second half.

SA VAF was further impacted by margin pressure, partly due to increased competitive activity and WesBank's current focus on originating lower risk business, which is generally written at lower margins.

WesBank's personal loans business performed well on the back of strong advances growth of 10% year-on-year. Growth was achieved through optimisation of direct marketing channels and streamlining approval processes. Margins have stabilised post the NCAA rate caps and targeted risk cuts, and the impairment ratio has remained at 7.93%, in line with expectations. NPLs in the personal loans portfolio have increased due to a lengthening in write-off period in anticipation of the adoption of IFRS 9.

The local corporate business posted a strong operational performance, albeit off a low base and despite a general slowdown in the sectors served. Volumes have grown strongly in the SME and business segment due to greater collaboration with FNB commercial. Impairments reduced 27% year-on-year on the back of a 5% improvement in NPLs.

NIR growth largely tracked new business book growth.

MotoNovo's performance was impacted primarily by increased investment spend, margin pressure, rising credit impairments and the impact of securitisations, which eliminate on consolidation at a group level.

The lending margin pressure resulted from competitors benefiting from lower cost of funding. In addition, MotoNovo incurred costs related to building the online platform (findandfundmycar.com) and experienced some strain in the personal loans book due to its previous strategy of diversification.

FirstRand believes that some of these pressures will be alleviated when MotoNovo is integrated into Aldermore as it will no longer be disadvantaged from a cost of funds perspective and will not require further investment in diversification strategies given the mix of the Aldermore portfolio.

The MotoNovo credit performance is in line with expectations, particularly following a number of years of strong book growth. The business has taken specific actions regarding origination; these actions included targeted risk cuts and termination of certain origination relationships, which were resulting in higher risk new business. These actions also resulted in MotoNovo's new business production contracting 4% in pound terms (7% in rand terms). Increased NPLs and ongoing prudent provisioning resulted in an increase in the pound impairment ratio of 1.84% for the year under review (2017: 1.62%).

WesBank continues to control operational expenditure and improve efficiencies. Its cost-to-income ratio has, however, increased mainly due to increased investment.

SEGMENT ANALYSIS OF NORMALISED EARNINGS

R million	Year ended 30 June				
	2018	**% composition**	2017	% composition	% change
Retail	**8 867**	**44**	8 360	46	6
– FNB*	**7 418**		6 287		
– WesBank	**1 449**		2 073		
Commercial	**6 061**	**30**	5 368	30	13
– FNB	**5 759**		5 128		
– WesBank	**302**		240		
Corporate and investment banking	**4 719**	**23**	4 105	23	15
– RMB	**4 719**		4 105		
Other**	**523**	**3**	256	1	>100
– FCC (including Group Treasury) and elimination adjustments	**757**		493		
– NCNR preference dividend	**(234)**		(237)		
Normalised earnings	**20 170**	**100**	18 089	100	12

* *Includes FNB Africa, which relates to head office costs.*

** *Includes the central credit overlay.*

MANAGEMENT OF FINANCIAL RESOURCES

The management of the group's financial resources, which it defines as capital, funding and liquidity, and risk capacity, is a critical enabler of the achievement of FirstRand's stated growth and return targets, and is driven by the group's overall risk appetite. Forecast growth in earnings and balance sheet risk weighted assets (RWA) 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 the group sets financial and prudential targets through different business cycles and scenarios to enable FirstRand to deliver on its commitments to stakeholders at a defined confidence level.

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 and proactively manage a fast-changing 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.

BALANCE SHEET STRENGTH

Capital and leverage position

Current targeted ranges and actual ratios are summarised below.

%	Capital			Leverage
	CET1	**Tier 1**	**Total**	**Total**
Regulatory minimum*	**7.4**	**8.9**	**11.1**	**4.0**
Targets	**10.0 – 11.0**	**>12.0**	**>14.0**	**>5.0**
Actual**	**12.7**	**12.8**	**16.8**	**6.8**

* *Excluding the bank-specific capital requirements, but including the countercyclical buffer requirement.*

** *Includes unappropriated profits.*

The year-on-year reduction in the bank's CET1 ratio of 140 bps resulted from:

- The acquisition of Aldermore by the group, which reduced the bank's CET1 ratio by 110 bps. This reduction relates to the payment of a dividend to the legal entity which acquired Aldermore to fund the goodwill and intangibles, as well as providing funding for the net asset value acquired.
- The local currency sovereign downgrade, which contributed 3% to RWA growth.
- Higher than expected RWA growth of 10% driven by the following:
  - significant advances growth late in the financial year on the back of certain RMB transactions;
  - increased high quality liquid assets (HQLA) in Group Treasury; and
  - strong growth in unsecured lending in FNB's premium segment.

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

The bank continues to actively manage its capital composition and, to this end, issued R2.75 billion Basel III-compliant Tier 2 instruments in the domestic market, as well as $500 million in international markets during the year. This resulted in a more efficient capital structure, which is closely aligned with the bank's internal targets. It remains the group's intention to continue optimising its capital stack by issuing Additional Tier 1 and Tier 2 capital instruments in the domestic and/or international markets. This will ensure sustainable support for ongoing growth initiatives and compensates for the haircut applied to capital instruments that are not compliant with Basel III, as well as the maturity of existing Tier 2 instruments.

Liquidity position

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

The bank exceeds the 90% (2017: 80%) minimum liquidity coverage ratio (LCR) requirement set out by the SARB with the bank's average LCR at 118% (2017: 105%). At 30 June 2018, the bank's average available HQLA sources of liquidity per the LCR amounted to R182 billion, up from R150 billion in the prior year.

The net stable funding ratio (NSFR) came into effect on 1 January 2018 with a regulatory requirement of 100%. At 30 June 2018, the bank's NSFR was 111%.

Regulatory update

The South African regulatory architecture has been transformed to create a regulatory framework that will support an effective resolution regime. The Financial Sector Regulation Act was signed into law during August 2017 and underpins the twin peaks regulatory system.

The twin peaks supervisory framework model reduces the number of agencies involved in supervision, with the establishment of two new regulatory agencies on 1 April 2018: the Prudential Authority (PA) in the SARB and a Financial Sector Conduct Authority (FSCA). Whilst the PA/SARB is responsible for monitoring and enhancing financial stability as part of its explicit financial stability mandate, the SARB will also be responsible for assisting with the prevention of systemic events by means of its designation as the Resolution Authority (RA).

In January 2018, a draft resolution framework was released to the banking industry for initial review following which it will be released to the public for general comment. This draft framework sets out the broad principles for the resolution of banks, systemically important non-bank financial institutions and holding companies of banks, and highlights the various legislative amendments required to ensure the framework is enforceable. Detailed definitions of key elements of the resolution framework are subject to finalisation, and directives or addendums to this framework will be published once finalised. The resolution plans will allow the PA to prepare for an event from which the group's recovery actions have failed or are deemed likely to fail. Bank resolution plans will be owned and maintained by the RA, but will require a significant amount of bilateral engagement and input from the individual banks to enable the RA to develop a customised plan that is most appropriate to each bank.

The Financial Sector Regulation Act further empowers the PA to designate a group of companies as a financial conglomerate as well as to regulate and supervise such designated financial conglomerates. The PA has released the following:

- draft set of financial conglomerate supervision prudential standards;
- draft criteria for the designation of financial conglomerates; and
- draft reporting template for an informal consultation process with the industry.

The draft standards provide an early signal to the industry and affected stakeholders on the approach to the regulation and supervision of designated financial conglomerates. Comments were due by the end of August 2018 and standards are expected to be implemented during the first half of 2019.

In addition, the Basel Committee on Banking Supervision (BCBS) finalised the Basel III reforms in December 2017, with specific focus on reducing the variability of RWA. The BCBS has agreed on a lengthy five-year transitional period, starting 1 January 2022. The PA has confirmed a similar transitional period for banks in South Africa. The 2017 reforms aim to address weaknesses identified during the global financial crisis, such as the credibility of the risk-based capital framework and to introduce constraints on the estimates banks use in the internal models for regulatory capital purposes. The impact on the bank capital position depends on the final implementation by the SARB given a level of national discretion, however, the group continues to participate in the BCBS quantitative impact studies to assess and understand the impact of such reforms. Based on the Basel guidelines, the group is expected to comfortably meet these requirements over the transitional period.

IFRS 9 AND IFRS 15

The bank adopted IFRS 9 and IFRS 15, retrospectively, with effect from 1 July 2018. The IFRS 9 programme is at present in the process of final internal approval and external audit validation.

The bank will provide detailed audited transitional disclosure regarding the impact of the adoption of IFRS 9 and IFRS 15 during November 2018.

At present, the bank believes the impact of adopting IFRS 9 and IFRS 15 will reduce the bank's CET1 ratio at 30 June 2018 by between 35 and 45 bps, on a fully loaded basis.

PROSPECTS

Following the outcome of the ANC elective conference in December 2017 sentiment and markets staged a recovery and the outlook for South Africa remains more positive than it has been for some time. Given, however, the structural nature of many of South Africa's challenges the group believes that domestic fundamentals will not change quickly.

Global financial conditions will prevent the SARB from easing monetary policy despite the low growth outlook. This, combined with lower commodity prices and prospects of a slowdown in global growth next year, means that domestic economic activity will remain subdued in 2019. Against this backdrop, private sector activities such as corporate investment and household consumption will most likely remain under pressure.

In the medium to longer term, given the market leading positions of its businesses in South Africa and the growth strategies it is executing on, FirstRand considers itself strategically well positioned to benefit from renewed system growth. FNB's momentum is expected to continue on the back of customer and volume growth, and cross-sell and up-sell strategies will deliver.

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, together with the wind-down of the in-force book after the integration of MotoNovo with Aldermore, will impact MotoNovo's growth trajectory.

The group expects to continue to deliver real growth in earnings and superior returns to shareholders.

Segment report
for the year ended 30 June 2018

	FNB							
	Retail							
R million	Residential mortgages	Card	Personal loans	Retail other	**Retail**	Commercial	FNB Africa*	**Total FNB**
Net interest income before impairment of advances	4 516	2 644	2 693	6 790	**16 643**	9 602	(33)	**26 212**
Impairment charge	(149)	(670)	(793)	(1 171)	**(2 783)**	(670)	2	**(3 451)**
Net interest income after impairment of advances	4 367	1 974	1 900	5 619	**13 860**	8 932	(31)	**22 761**
Non-interest revenue	390	2 059	814	10 203	**13 466**	7 646	813	**21 925**
Income from operations	4 757	4 033	2 714	15 822	**27 326**	16 578	782	**44 686**
Operating expenses	(1 804)	(2 142)	(938)	(11 204)	**(16 088)**	(8 537)	(1 281)	**(25 906)**
Income before tax	2 953	1 891	1 776	4 618	**11 238**	8 041	(499)	**18 780**
Indirect tax	(11)	(66)	(17)	(328)	**(422)**	(43)	(2)	**(467)**
Profit before tax	2 942	1 825	1 759	4 290	**10 816**	7 998	(501)	**18 313**
Income tax expense	(824)	(511)	(492)	(1 202)	**(3 029)**	(2 239)	132	**(5 136)**
Profit for the year	2 118	1 314	1 267	3 088	**7 787**	5 759	(369)	**13 177**
Attributable to								
Ordinary equityholders	2 118	1 314	1 267	3 088	**7 787**	5 759	(369)	**13 177**
NCNR preference shareholders	–	–	–	–	**–**	–	–	**–**
Profit for the year	2 118	1 314	1 267	3 088	**7 787**	5 759	(369)	**13 177**
Attributable earnings to ordinary shareholders	2 118	1 314	1 267	3 088	**7 787**	5 759	(369)	**13 177**
Headline earnings adjustments	–	–	–	–	**–**	–	–	**–**
Headline earnings	2 118	1 314	1 267	3 088	**7 787**	5 759	(369)	**13 177**
TRS and IFRS 2 liability remeasurement	–	–	–	–	**–**	–	–	**–**
Private equity realisations	–	–	–	–	**–**	–	–	**–**
IAS 19 adjustment	–	–	–	–	**–**	–	–	**–**
Normalised earnings	2 118	1 314	1 267	3 088	**7 787**	5 759	(369)	**13 177**

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

* *FNB Africa results reported above relate to head office costs. Earnings of the African subsidiaries form part of FREMA (see simplified group structure on page A08) and are not reported in bank.*

** *Refer to additional activity and business unit disclosure on page A38.*

Refer to additional segment information on page A39.

RMB							
Investment banking	Corporate banking	**Total RMB****	**WesBank#**	FCC (including Group Treasury) and other	**FRB – normalised**	Normalised adjustments	**FRB – IFRS**
4 338	1 585	**5 923**	**9 443**	**1 168**	**42 746**	(1 583)	**41 163**
105	(3)	**102**	**(3 540)**	**230**	**(6 659)**	–	**(6 659)**
4 443	1 582	**6 025**	**5 903**	**1 398**	**36 087**	(1 583)	**34 504**
6 205	1 667	**7 872**	**2 877**	**(1 072)**	**31 602**	2 085	**33 687**
10 648	3 249	**13 897**	**8 780**	**326**	**67 689**	502	**68 191**
(5 233)	(1 989)	**(7 222)**	**(6 186)**	**(1 064)**	**(40 378)**	(319)	**(40 697)**
5 415	1 260	**6 675**	**2 594**	**(738)**	**27 311**	183	**27 494**
(113)	(7)	**(120)**	**(162)**	**(56)**	**(805)**	–	**(805)**
5 302	1 253	**6 555**	**2 432**	**(794)**	**26 506**	183	**26 689**
(1 485)	(351)	**(1 836)**	**(681)**	**1 551**	**(6 102)**	(70)	**(6 172)**
3 817	902	**4 719**	**1 751**	**757**	**20 404**	113	**20 517**
3 817	902	**4 719**	**1 751**	**523**	**20 170**	113	**20 283**
–	–	**–**	**–**	**234**	**234**	–	**234**
3 817	902	**4 719**	**1 751**	**757**	**20 404**	113	**20 517**
3 817	902	**4 719**	**1 751**	**523**	**20 170**	113	**20 283**
–	–	**–**	**–**	**–**	**–**	(207)	**(207)**
3 817	902	**4 719**	**1 751**	**523**	**20 170**	(94)	**20 076**
–	–	**–**	**–**	**–**	**–**	(56)	**(56)**
–	–	**–**	**–**	**–**	**–**	259	**259**
–	–	**–**	**–**	**–**	**–**	(109)	**(109)**
3 817	902	**4 719**	**1 751**	**523**	**20 170**	–	**20 170**

R million	FNB							
	Retail							
	Residential mortgages	Card	Personal loans	Retail other	**Retail**	Commercial	FNB Africa**	**Total FNB**
Cost-to-income ratio (%)	36.8	45.5	26.7	65.9	**53.4**	49.5	>100	**53.8**
Diversity ratio (%)	7.9	43.8	23.2	60.0	**44.7**	44.3	>100	**45.5**
Credit loss ratio (%)	0.07	2.63	5.03	7.62	**1.08**	0.75	(1.47)	**1.00**
NPLs as a percentage of advances (%)	2.48	3.99	7.79	6.26	**3.20**	2.89	–	**3.12**
Income statement includes								
Depreciation	(3)	(4)	(1)	(1 510)	**(1 518)**	(47)	(2)	**(1 567)**
Amortisation	–	(9)	–	(40)	**(49)**	–	–	**(49)**
Impairment charges	–	–	–	(10)	**(10)**	(3)	(161)	**(174)**
Statement of financial position includes								
Advances (after ISP – before impairments)	204 969	27 140	17 161	15 852	**265 122**	93 962	–	**359 084**
NPLs net of ISP	5 075	1 082	1 337	992	**8 486**	2 714	–	**11 200**
Total deposits	543	1 632	8	224 942	**227 125**	207 388	–	**434 513**
Total assets	203 532	26 080	15 623	32 578	**277 813**	95 887	590	**374 290**
Total liabilities*	202 587	25 198	14 689	21 239	**263 713**	91 238	1 060	**356 011**
Capital expenditure	8	17	2	1 744	**1 771**	56	2	**1 829**

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

* *Total liabilities are net of interdivisional balances.*

** *FNB Africa results reported above relate to head office costs. Earnings of the African subsidiaries form part of FREMA (see simplified group structure on page A08) and are not reported in bank.*

Refer to additional activity and business unit disclosure on page A38.

† *Refer to additional segment information on page A39.*

RMB							
Investment banking	Corporate banking	**Total RMB#**	**WesBank†**	FCC (including Group Treasury) and other	**FRB – normalised**	Normalised adjustments	**FRB – IFRS**
49.6	61.2	**52.4**	**50.2**	>100	**54.3**	–	**54.4**
58.9	51.3	**57.1**	**23.4**	(>100)	**42.5**	–	**45.0**
(0.05)	0.01	**(0.04)**	**2.10**	(0.03)	**0.80**	–	**0.80**
0.39	0.28	**0.37**	**5.37**	–	**2.47**	–	**2.47**
(133)	(7)	**(140)**	**(646)**	(13)	**(2 366)**	–	**(2 366)**
(35)	–	**(35)**	**(9)**	(1)	**(94)**	–	**(94)**
–	–	**–**	**(1)**	–	**(175)**	–	**(175)**
230 481	46 592	**277 073**	**166 693**	56 385	**859 235**	(281)	**858 954**
898	129	**1 027**	**8 956**	–	**21 183**	–	**21 183**
68 867	110 826	**179 693**	**50**	363 002	**977 258**	–	**977 258**
357 509	49 467	**406 976**	**168 240**	254 371	**1 203 877**	–	**1 203 877**
353 190	49 004	**402 194**	**165 781**	188 991	**1 112 977**	–	**1 112 977**
130	30	**160**	**1 442**	4	**3 449**	–	**3 449**

Segment report

for the year ended 30 June 2017

	FNB							
	Retail							
R million	Residential mortgages	Card	Personal loans	Retail other	**Retail**	Commercial	FNB Africa*	**Total FNB**
Net interest income before impairment of advances	3 829	2 486	2 700	6 317	**15 332**	8 704	3	**24 039**
Impairment charge	(285)	(699)	(1 071)	(1 062)	**(3 117)**	(531)	(15)	**(3 663)**
Net interest income after impairment of advances	3 544	1 787	1 629	5 255	**12 215**	8 173	(12)	**20 376**
Non-interest revenue	413	1 803	825	9 036	**12 077**	7 012	816	**19 905**
Income from operations	3 957	3 590	2 454	14 291	**24 292**	15 185	804	**40 281**
Operating expenses	(1 732)	(2 020)	(919)	(9 995)	**(14 666)**	(8 024)	(1 242)	**(23 932)**
Income before tax	2 225	1 570	1 535	4 296	**9 626**	7 161	(438)	**16 349**
Indirect tax	(10)	(62)	(15)	(365)	**(452)**	(39)	(3)	**(494)**
Profit before tax	2 215	1 508	1 520	3 931	**9 174**	7 122	(441)	**15 855**
Income tax expense	(619)	(422)	(426)	(1 102)	**(2 569)**	(1 994)	123	**(4 440)**
Profit for the year	1 596	1 086	1 094	2 829	**6 605**	5 128	(318)	**11 415**
Attributable to								
Ordinary equityholders	1 596	1 086	1 094	2 829	**6 605**	5 128	(318)	**11 415**
NCNR preference shareholders	–	–	–	–	**–**	–	–	**–**
Profit for the year	1 596	1 086	1 094	2 829	**6 605**	5 128	(318)	**11 415**
Attributable earnings to ordinary shareholders	1 596	1 086	1 094	2 829	**6 605**	5 128	(318)	**11 415**
Headline earnings adjustments	–	–	–	–	**–**	–	–	**–**
Headline earnings	1 596	1 086	1 094	2 829	**6 605**	5 128	(318)	**11 415**
TRS and IFRS 2 liability remeasurement	–	–	–	–	**–**	–	–	**–**
IAS 19 adjustment	–	–	–	–	**–**	–	–	**–**
Normalised earnings	1 596	1 086	1 094	2 829	**6 605**	5 128	(318)	**11 415**

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

* *FNB Africa results reported above relate to head office costs and FNB's activities in India. Earnings of the African subsidiaries form part of FREMA (see simplified group structure on page A08) and are not reported in bank.*

** *Refer to additional activity and business unit disclosure on page A38.*

Refer to additional segment information on page A39.

	RMB							
	Investment banking	Corporate banking	Total RMB**	WesBank#	FCC (including Group Treasury) and other	FRB – normalised	Normalised adjustments	FRB – IFRS
	4 022	1 484	5 506	9 205	1 099	39 849	(1 200)	38 649
	(544)	(75)	(619)	(3 052)	350	(6 984)	–	(6 984)
	3 478	1 409	4 887	6 153	1 449	32 865	(1 200)	31 665
	6 211	1 671	7 882	2 781	(1 062)	29 506	1 443	30 949
	9 689	3 080	12 769	8 934	387	62 371	243	62 614
	(5 087)	(1 860)	(6 947)	(5 488)	(1 354)	(37 721)	52	(37 669)
	4 602	1 220	5 822	3 446	(967)	24 650	295	24 945
	(109)	(5)	(114)	(232)	(36)	(876)	–	(876)
	4 493	1 215	5 708	3 214	(1 003)	23 774	295	24 069
	(1 263)	(340)	(1 603)	(901)	1 496	(5 448)	(84)	(5 532)
	3 230	875	4 105	2 313	493	18 326	211	18 537
	3 230	875	4 105	2 313	256	18 089	211	18 300
	–	–	–	–	237	237	–	237
	3 230	875	4 105	2 313	493	18 326	211	18 537
	3 230	875	4 105	2 313	256	18 089	211	18 300
	–	–	–	–	–	–	(31)	(31)
	3 230	875	4 105	2 313	256	18 089	180	18 269
	–	–	–	–	–	–	(63)	(63)
	–	–	–	–	–	–	(117)	(117)
	3 230	875	4 105	2 313	256	18 089	–	18 089

	FNB							
	Retail							
R million	Residential mortgages	Card	Personal loans	Retail other	**Retail**	Commercial	FNB Africa**	**Total FNB**
Cost-to-income ratio (%)	40.8	47.1	26.1	65.1	**53.5**	51.1	>100	**54.5**
Diversity ratio (%)	9.7	42.0	23.4	58.9	**44.1**	44.6	99.6	**45.3**
Credit loss ratio (%)	0.15	3.05	7.43	7.27	**1.28**	0.66	2.90	**1.12**
NPLs as a percentage of advances (%)	2.33	3.89	8.54	5.77	**3.05**	2.71	17.95	**2.97**
Income statement includes								
Depreciation	(4)	(3)	(2)	(1 548)	**(1 557)**	(44)	(11)	**(1 612)**
Amortisation	–	(5)	–	(32)	**(37)**	–	(7)	**(44)**
Impairment charges	–	–	–	(9)	**(9)**	2	–	**(7)**
Statement of financial position includes								
Advances (after ISP – before impairments)	195 498	23 800	14 372	14 863	**248 533**	84 132	273	**332 938**
NPLs net of ISP	4 560	926	1 227	858	**7 571**	2 280	49	**9 900**
Total deposits	665	1 554	1	197 743	**199 963**	193 031	27	**393 021**
Total assets	194 044	22 877	12 997	32 428	**262 346**	84 546	719	**347 611**
Total liabilities*	193 562	22 143	12 273	21 717	**249 695**	81 032	1 158	**331 885**
Capital expenditure	4	19	1	2 076	**2 100**	189	–	**2 289**

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

* *Total liabilities are net of interdivisional balances.*

** *FNB Africa results reported above relate to head office costs and FNB's activities in India. Earnings of the African subsidiaries form part of FREMA (see simplified group structure on page A08) and are not reported in bank.*

Refer to additional activity and business unit disclosure on page A38.

† *Refer to additional segment information on page A39.*

RMB							
Investment banking	Corporate banking	**Total RMB#**	**WesBank†**	FCC (including Group Treasury) and other	**FRB – normalised**	Normalised adjustments	**FRB – IFRS**
49.7	59.0	**51.9**	**45.8**	>100	54.4	–	54.1
60.7	53.0	**58.9**	**23.2**	(>100)	42.5	–	44.5
0.25	0.20	**0.24**	**1.80**	(0.04)	0.88	–	0.88
0.50	0.09	**0.44**	**4.37**	–	2.27	–	2.27
(129)	(3)	**(132)**	**(552)**	(15)	(2 311)	–	(2 311)
(42)	–	**(42)**	**(5)**	(3)	(94)	–	(94)
–	(1)	**(1)**	**3**	–	(5)	4	(1)
227 642	39 545	**267 187**	**170 195**	43 958	814 278	(281)	813 997
1 137	35	**1 172**	**7 437**	–	18 509	–	18 509
74 577	102 444	**177 021**	**41**	306 607	876 690	–	876 690
337 744	42 159	**379 903**	**170 523**	184 114	1 082 151	–	1 082 151
333 737	40 586	**374 323**	**167 327**	121 243	994 778	–	994 778
839	9	**848**	**1 361**	3	4 501	–	4 501

Additional activity and business unit disclosure – RMB

	Year ended 30 June 2018						
R million	IB&A	C&TB	M&S	INV	IM	Other	Total
Normalised PBT							
Global Markets	–	–	1 133	12	(88)	(186)	871
Investment Banking Division	3 627	–	–	18	–	–	3 645
Private Equity	–	–	–	253	–	–	253
Other RMB	225	–	(46)	–	–	354	533
Investment banking	3 852	–	1 087	283	(88)	168	5 302
Corporate banking	–	1 253	–	–	–	–	1 253
Total RMB – 2018	3 852	1 253	1 087	283	(88)	168	6 555

	Year ended 30 June 2017						
R million	IB&A	C&TB	M&S	INV	IM	Other	Total
Normalised PBT							
Global Markets	–	–	1 280	–	(34)	(197)	1 049
Investment Banking Division	3 335	–	17	16	–	–	3 368
Private Equity	–	–	–	21	–	–	21
Other RMB	(50)	–	(42)	–	–	147	55
Investment banking	3 285	–	1 255	37	(34)	(50)	4 493
Corporate banking	–	1 215	–	–	–	–	1 215
Total RMB – 2017	3 285	1 215	1 255	37	(34)	(50)	5 708

Note:
IB&A – investment banking and advisory
C&TB – corporate and transactional banking
M&S – markets and structuring
INV – investing
IM – investment management

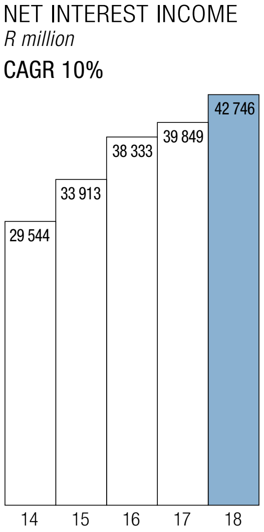
Additional segmental disclosure – WesBank

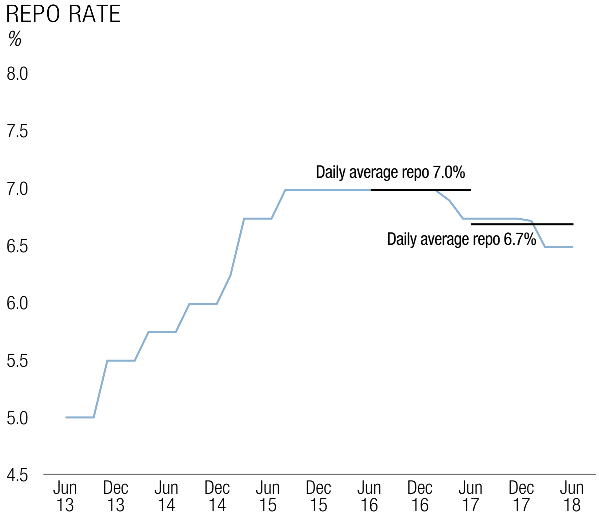
	Year ended 30 June 2018				
	VAF				
	Retail		Corporate and commercial	Personal loans	Total WesBank
R million	South Africa	MotoNovo (UK)			
NII before impairment of advances	**4 183**	**1 938**	**610**	**2 712**	**9 443**
Impairment of advances	**(1 856)**	**(511)**	**(48)**	**(1 125)**	**(3 540)**
Normalised profit before tax	**1 036**	**496**	**420**	**480**	**2 432**
Normalised earnings	**746**	**357**	**302**	**346**	**1 751**
Advances	**94 171**	**25 514**	**32 149**	**14 859**	**166 693**
NPLs (net of ISP)	**6 572**	**340**	**244**	**1 800**	**8 956**
Advances margin (%)	**3.50**	**5.37**	**2.18**	**18.62**	**4.87**
NPLs (%)	**6.98**	**1.33**	**0.76**	**12.11**	**5.37**
Credit loss ratio (%)	**1.96**	**1.84**	**0.15**	**7.93**	**2.10**

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

02 income statement analysis

Net interest income (before impairment of advances)





Note: R211 billion = average endowment book for the year. Rates were lower by 30 bps on average in the current year, which translates into a negative endowment impact of approximately R633 million for the year.

MARGIN CASCADE TABLE

Percentage of average interest-earning banking assets	%
2017 normalised margin	**5.11**
Capital and deposit endowment	(0.02)
– Volume	0.05
– Average rate	(0.07)
Interest earning assets	0.04
– Change in balance sheet mix	–
– Asset pricing	0.04
Liabilities	(0.03)
– Change in funding mix	0.08
– Deposit pricing	(0.11)
Group Treasury and other movements	0.07
– Accounting mismatches (MTM vs accrual on term issuance)	0.06
– Liquidity management	(0.01)
– Increase in HQLA and liquidity mismatches	(0.05)
– Term funding costs	0.04
– Interest rate management	0.02
– FX management	(0.04)
– Other NII in operating franchises	0.04
2018 normalised margin	**5.17**

ACTIVITY ANALYSIS OF NET INTEREST INCOME BEFORE IMPAIRMENT OF ADVANCES

	Year ended 30 June		
R million	2018	2017**	% change
Net interest income			
Lending	**19 967**	18 712	7
Transactional*	**15 205**	13 944	9
Deposits	**2 928**	2 866	2
Capital endowment	**5 187**	4 963	5
Group Treasury	**112**	30	>100
Other (negative endowment, e.g. fixed assets)	**(653)**	(666)	(2)
Total net interest income	**42 746**	39 849	7

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

** *Numbers restated to reflect refined allocation methodology for lending. For transactional and deposit NII there has been a reallocation between segments to better reflect the nature of the transactions.*

KEY DRIVERS

- NII growth was supported by:
  - higher capital levels; and
  - advances and deposits growth of 6% and 11% respectively.
- The 25 bps cuts in the repo rate in July 2017 and March 2018, resulted in an average decrease of 30 bps in the repo rate year-on-year, negatively impacting capital and deposit endowment. This was partially offset by higher capital and deposit volumes.
- FNB's deposit margins decreased 25 bps, impacted by negative endowment and a change in mix, with strong growth in lower margin deposit products as well as increased competitive pressures.
- FNB's advances margin increased 16 bps, impacted by:
  - a recalibration of residential mortgage LGD models, resulting in a reduction in interest in suspense (ISP) in the current year;
  - a marginal reduction in funding cost; and
  - certain repricing initiatives.
- Unsecured lending margins were negatively impacted by NCAA rate caps and higher ISP on NPLs.
- WesBank's VAF margins decreased 38 bps, impacted by the mix change in new business in the retail SA VAF book, a decrease in MotoNovo margins due to a change in mix, elevated funding costs due to an uptick in UK base rates, as well as increased competitive pricing. The decrease in WesBank personal loans margins is due to the NCAA rate caps and continued high growth in restructured debt-review accounts.
- The investment bank's reported margins benefited from a change in transfer pricing during the year – operational margins remained under pressure, impacted by elevated funding and liquidity costs as well as competitive pricing pressures, especially in the investment grade space.
- Group Treasury NII was impacted by:
  - an improvement in income from interest rate risk management activities of >R100 million;
  - the continued build up of HQLA, with a resultant negative impact of >R270 million;
  - a decrease of R149 million in dollar funding carry costs relating to pre-funding dollar liquidity in previous financial years, due to the partial deployment of a portion of the funding into higher yielding asset classes and a reduction in the level of surplus funding year-on-year; and
  - positive mark-to-market movements of c.R100 million (2017: c.R300 million negative movement) on fair value term and structured funding instruments due to movements in the domestic yield curve. This will reverse over the duration of the underlying instruments, which are long dated.

AVERAGE BALANCE SHEET

		June 2018			June 2017		
R million	Notes	**Average balance#**	**Interest income/ (expense)**	**Average rate %**	Average balance#	Interest income/ (expense)	Average rate %
INTEREST-EARNING ASSETS							
Average prime rate (RSA)				**10.20**			10.50
Balances with central banks		**22 142**	**–**	**–**	20 274	–	
Cash and cash equivalents		**17 699**	**789**	**4.46**	15 109	570	3.77
Liquid asset portfolio		**100 276**	**7 832**	**7.81**	87 030	6 841	7.86
Loans and advances to customers	1	**687 120**	**75 515**	**10.99**	657 577	72 878	11.08
Interest-earning assets		**827 237**	**84 136**	**10.17**	779 990	80 289	10.29
INTEREST-BEARING LIABILITIES							
Average JIBAR				**7.11**			7.34
Deposits due to customers	2	**(525 109)**	**(25 920)**	**4.94**	(483 037)	(24 343)	5.04
Group Treasury funding		**(322 536)**	**(21 803)**	**6.76**	(282 948)	(19 156)	6.77
Interest-bearing liabilities		**(847 645)**	**(47 723)**	**5.63**	(765 985)	(43 499)	5.68
ENDOWMENT AND TRADING BOOK							
Other assets*		**247 838**	**–**	**–**	190 945	–	–
Other liabilities**		**(134 829)**	**–**	**–**	(118 059)	–	–
NCNR preference shareholders		**(3 000)**	**–**	**–**	(3 000)	–	–
Equity		**(89 601)**	**–**	**–**	(83 891)	–	–
Endowment and trading book		**20 408**	**6 333**	**31.03**	(14 005)	3 059	(21.85)
Total interest-bearing liabilities, endowment and trading book		**(827 237)**	**(41 390)**	**5.00**	(779 990)	(40 440)	5.18
Net interest margin on average interest-earning assets		**827 237**	**42 746**	**5.17**	779 990	39 849	5.11

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

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

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

** *Includes trading liabilities.*

Includes level 1 HQLA and level 2 HQLA, and corporate bonds not qualifying as HQLA.

NOTE 1 – MARGIN ANALYSIS ON LOANS AND ADVANCES TO CUSTOMERS

	June 2018		June 2017	
R million	**Average balance**	**Average margin %**	Average balance	Average margin %
Average prime rate (RSA)		**10.20**		10.50
Advances				
Retail – secured	**317 829**	**2.67**	311 248	2.65
Residential mortgages	**198 238**	**1.95**	190 849	1.65
VAF	**119 591**	**3.86**	120 399	4.24
Retail – unsecured	**73 146**	**12.17**	67 424	12.32
Card	**25 705**	**8.83**	23 088	9.35
Personal loans	**31 677**	**16.31**	29 342	16.31
– FNB	**17 024**	**14.32**	16 534	14.49
– WesBank	**14 653**	**18.62**	12 808	18.65
Retail other	**15 764**	**9.29**	14 994	9.10
Corporate and commercial	**296 145**	**2.32**	278 905	2.24
FNB commercial	**86 465**	**3.52**	80 179	3.45
– Mortgages	**20 998**	**2.39**	18 963	2.36
– Overdrafts	**32 604**	**4.59**	30 051	4.37
– Term loans	**32 863**	**3.17**	31 165	3.22
WesBank corporate	**30 379**	**2.18**	29 044	2.10
RMB investment banking*	**139 103**	**1.82**	137 477	1.70
RMB corporate banking	**40 198**	**1.57**	32 205	1.71
Total advances	**687 120**	**3.53**	657 577	3.47

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

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

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

The funds transfer pricing framework is further explained on page A79.

NOTE 2 – MARGIN ANALYSIS ON DEPOSITS DUE TO CUSTOMERS

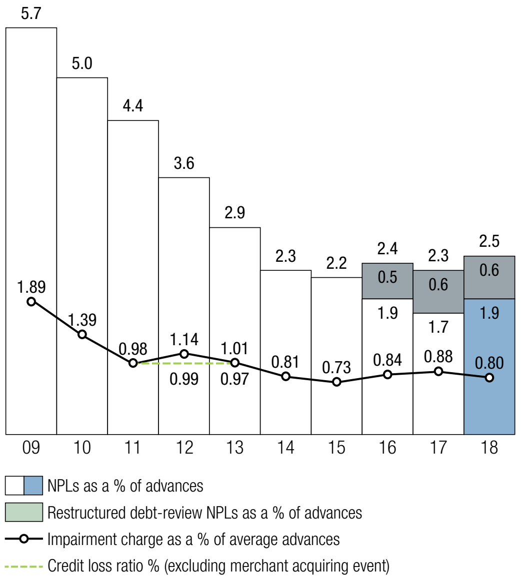
	June 2018		June 2017*	
R million	**Average balance**	**Average margin %**	Average balance	Average margin %
Average JIBAR rate (RSA)		**7.11**		7.34
Deposits				
Retail	**193 599**	**2.52**	170 547	2.86
Current and savings	**55 988**	**6.40**	52 591	6.78
Call	**62 695**	**1.06**	47 426	1.31
Term	**74 916**	**0.85**	70 530	0.98
Commercial	**201 176**	**2.76**	178 149	2.91
Current and savings	**75 295**	**5.71**	66 000	6.06
Call	**67 869**	**1.46**	66 495	1.47
Term	**58 012**	**0.44**	45 654	0.46
Corporate and investment banking	**130 334**	**0.93**	134 341	0.84
Current and savings	**59 651**	**1.40**	58 613	1.38
Call	**50 438**	**0.55**	53 014	0.46
Term	**20 245**	**0.50**	22 714	0.37
Total deposits	**525 109**	**2.21**	483 037	2.32

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

* *Comparatives have been restated due to refinements in the calculations and reallocations between segments.*

Credit highlights

NPL AND IMPAIRMENT HISTORY
%

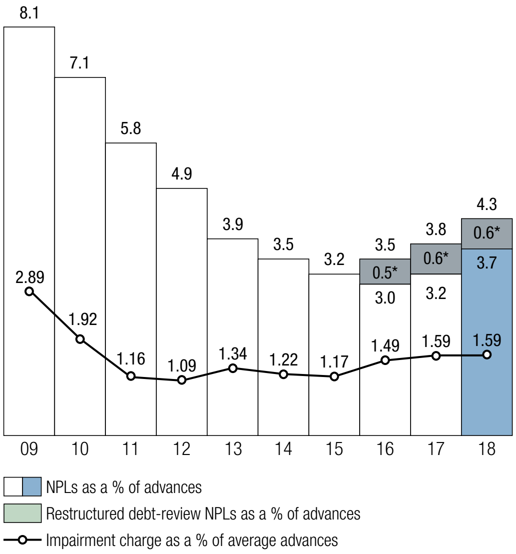


CREDIT HIGHLIGHTS AT A GLANCE

	Year ended 30 June		
R million	**2018**	2017	% change
Total gross advances	**859 235**	814 278	6
NPLs	**21 183**	18 509	14
NPLs as a % of advances	**2.47**	2.27	
Impairment charge	**6 659**	6 984	(5)
Credit loss ratio (%)	**0.80**	0.88	
Total impairments	**15 429**	14 859	4
– Portfolio impairments	**7 761**	7 711	1
– Specific impairments	**7 668**	7 148	7
Specific coverage ratio (%)*	**36.2**	38.6	
Total impairment coverage ratio (%)**	**72.8**	80.3	
Performing book coverage ratio (%)#	**0.93**	0.97	

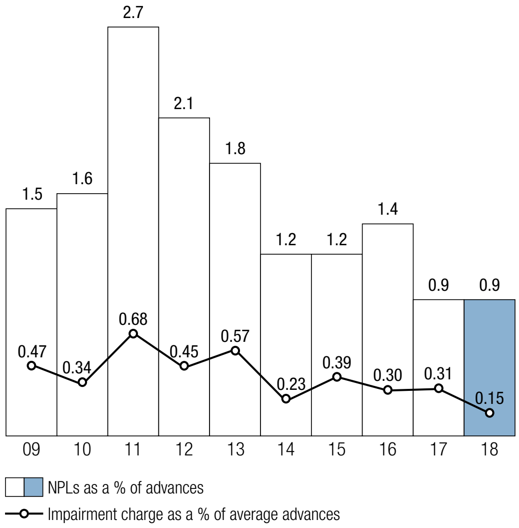
* *Specific impairments as a % of NPLs.*
** *Total impairments as a % of NPLs.*
# *Portfolio impairments as a % of the performing book.*

RETAIL NPLs AND IMPAIRMENTS
%



* *Restructured debt review.*

CORPORATE AND COMMERCIAL NPLs AND IMPAIRMENTS
%



Bank NPLs increased 14%. More than 60% of the increase in NPLs emanated from secured portfolios such as residential mortgages, VAF and FNB commercial agricultural, which have higher collateral levels, resulting in lower coverage.

Bank credit impairments decreased 5% from 88 bps at 30 June 2017 to 80 bps, reflecting the mix change in NPLs, the benefit of the measured origination and conservative provisioning policies adopted over the last two financial years, and strong collections.

Retail impairments reflected a modest deterioration of 3% year-on-year.

Commercial impairments deteriorated marginally to 75 bps, in line with through-the-cycle expectations and strong book growth.

The RMB investment banking portfolio released impairments reflecting the benefit of proactive provisioning in prior periods as well as the work-out and write-off of certain counters during the year. Proactive provisioning by RMB in previous years was driven primarily in response to the deteriorating macros and anticipated sovereign downgrade, as well as pressure on commodity prices. The subsequent improvement in commodity prices over the last 24 months and the utilisation of existing provisions for the sovereign downgrade resulted in a release of impairments in the current year.

Bank portfolio impairments increased 1%, reflecting ongoing book growth and the constrained macroeconomic environment in South Africa, as well as an increase in emergence periods in certain retail portfolios offset by the release in the corporate portfolio.

The total impairment coverage ratio reduced from 80.3% to 72.8%, reflecting the impact of paying debt-review customers, a mix change in NPLs, the impact of a release of impairments in the RMB investment banking portfolio, the impact of the LGD recalibration in the residential mortgage portfolio and the remaining central overlay release of R280 million.

KEY DRIVERS

- Retail NPLs as a percentage of advances increased to 4.30% (2017: 3.81%), driven by an increase in cycle-driven operational NPL balances in certain portfolios, as well as the increase in restructured debt-review accounts, which the bank reflects in NPLs and which are not re-aged:
  - Residential mortgage NPLs increased 11%, driven by an expected normalisation given the cycle, especially in affordable housing. This resulted in lower cure rates and an increase in new NPL formation. The increase was further impacted by growth in debt-review NPLs and the LGD model recalibration.
  - NPLs increased 9% in FNB loans and 17% in card. The lower growth in FNB loans reflects the benefit of the bank's conservative credit appetite, especially in the consumer segment, over the 18 months up to December 2017. It also reflects strong collections across the portfolio. The increase in card NPLs reflects expected new business strain given the seasoning of the book following strong advances growth over previous periods and the increasing number of debt-review NPLs. Debt-review NPLs comprise 45% and 29% of the FNB loans and card NPL portfolios, respectively.
  - Retail SA VAF NPLs increased 16%. The increase reflects:
    - an ongoing increase in and persistently high levels of restructured debt-review NPLs;
    - higher than expected NPLs in the self-employed and small business segments; and
    - lengthening recovery timelines and more customers opting for court orders for repossessions.
  - WesBank personal loans NPLs increased 34%. The increase was due to:
    - a change in write-off policy resulting in an increase in operational NPLs due to a longer collection period prior to write-off;
    - a further increase in the value of restructured debt-review NPLs; and
    - the WesBank loans impairment ratio of 7.93% (2017: 7.93%) is below the through-the-cycle expectations and consistent with the prior year.
  - The total retail SA VAF charge of 1.96% (2017: 1.55%) was impacted by the growth in NPLs and increased conservatism in portfolio provisions (lengthening of emergence period) and the impact of the securitisations.
  - NPLs in MotoNovo VAF increased 87% (+74% in pound terms). The increase was largely expected, given the historic book growth and the negative impact of a specific tranche of business originated between late 2015 and late 2016, before risk cuts were implemented in the 2017 financial year and further increased by securitisations.
  - MotoNovo personal loan NPLs increased >100% year-on-year, off a low base, resulting in a credit loss ratio of 6.41% (2017: 4.85%). A decision has been taken to wind down the book.
- RMB CIB NPLs decreased 12% due to the work-out and write-off of certain counters.
- FNB commercial NPLs increased 19%, primarily due to increases in higher collateralised agric NPLs and increases in commercial property finance, offset by decreases in other portfolios.
- Post write-off recoveries remained robust at R2 289 million (2017: R2 093 million) driven by the unsecured retail lending portfolios and retail SA VAF.

The table below provides an overview of the restructured debt-review and non-debt review NPLs.

R million	Operational NPLs*	Restructured debt-review NPLs	Total NPLs	Total NPLs % increase	Operational NPLs % change	Restructured debt-review NPLs as a % of total NPLs
June 2018						
Residential mortgages	**4 560**	**515**	**5 075**	**11**	**11**	**10**
Card	**770**	**312**	**1 082**	**17**	**12**	**29**
Personal loans	**739**	**598**	**1 337**	**9**	**(7)**	**45**
Retail other	**778**	**214**	**992**	**16**	**15**	**22**
FNB retail NPLs	**6 847**	**1 639**	**8 486**	**12**	**9**	**19**
WesBank personal loans	**706**	**1 094**	**1 800**	**34**	**>100**	**61**
SA VAF	**4 097**	**2 475**	**6 572**	**16**	**22**	**38**
WesBank retail NPLs	**4 803**	**3 569**	**8 372**	**19**	**30**	**43**
Total NPLs	**15 975**	**5 208**	**21 183**	**14**	**15**	**25**
June 2017						
Residential mortgages	4 090	470	4 560	(2)	(5)	10
Card	689	237	926	22	23	26
Personal loans	798	429	1 227	16	(1)	35
Retail other	677	181	858	9	2	21
FNB retail NPLs	6 254	1 317	7 571	4	(1)	17
WesBank personal loans	347	998	1 345	19	(6)	74
SA VAF	3 351	2 311	5 662	17	9	41
WesBank retail NPLs	3 698	3 309	7 007	17	7	47
Total NPLs	13 883	4 626	18 509	(2)	(10)	25

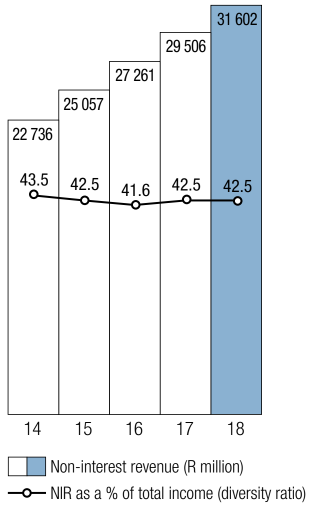
* *Operational NPLs include older debt-review accounts that migrated into NPLs prior to May 2016, as well as other types of restructured exposures and special arrangements undertaken by the group that are non-performing.*

	Restructured deb-review coverage		Operational NPLs*		Total NPL coverage		
Coverage ratio (%)	**June 2018**	June 2017	**June 2018**	June 2017	**June 2018**	June 2017	Change
FNB credit card	**50.5**	45.1	**73.3**	74.2	**66.9**	67.0	(0.1)
FNB retail other	**35.2**	37.9	**82.5**	75.5	**72.4**	67.0	5.4
FNB loans	**48.7**	48.2	**68.8**	69.2	**59.8**	61.9	(2.1)
WesBank loans	**14.4**	26.3	**71.8**	71.9	**36.9**	38.1	(1.2)
SA VAF	**9.5**	9.4	**41.9**	43.1	**29.8**	29.4	0.4

* *Operational NPLs include restructured debt in arrears for 90 days or more in terms of restructured agreements.*

Non-interest revenue – up 7%

NON-INTEREST REVENUE AND DIVERSITY RATIO
NIR CAGR 9%



ANALYSIS OF NON-INTEREST REVENUE

R million	Notes	2018	2017	% change
Fee, commission and insurance income		**24 263**	22 199	9
– Fee and commission income	1	**23 275**	21 203	10
– Insurance commission income	2	**988**	996	(1)
Markets, client and other fair value income	3	**3 210**	3 692	(13)
Investment income		**485**	137	>100
Other non-interest revenue		**3 644**	3 478	5
Non-interest revenue		**31 602**	29 506	7

The NIR performance was underpinned by robust fee and commission income growth, benefiting from strong electronic transaction volumes and ongoing customer acquisition. Fee, commission and insurance income represents 77% (2017: 75%) of NIR.

The downward trend in the bank's diversity ratio, despite ongoing good growth in NIR, results from the positive cumulative endowment impact and a number of specific strategic actions:

NII
- focus on growing retail and commercial deposit businesses;
- targeted origination strategies to own customer base resulted in good advances growth and mix change; and
- repricing strategies.

NIR
- success of e-migration resulted in lower fees, however this has been offset by customer and volume growth; and
- regulatory interventions have curtailed fee and commission growth.

NOTE 1 – FEE AND COMMISSION INCOME – UP 10%

R million	2018	2017	% change
Bank commissions and fee income	**25 023**	22 546	11
– Card commissions	**3 960**	3 437	15
– Cash deposit fees	**1 649**	1 623	2
– Commission on bills, drafts and cheques	**2 369**	2 206	7
– Bank charges	**17 045**	15 280	12
– Commitment fees	**1 397**	1 305	7
– Other bank charges*	**15 648**	13 975	12
Knowledge-based fees	**1 384**	1 448	(4)
Management fees	**791**	765	3
Other non-bank commissions	**745**	710	5
Gross fee and commission income	**27 943**	25 469	10
Fee and commission expenditure	**(4 668)**	(4 266)	9
Total fee and commission income	**23 275**	21 203	10

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

KEY DRIVERS

- FNB delivered strong NIR growth of 10%, which was driven by a continued increase in the main-banked active client base and increased cross-sell and up-sell.
- Transaction volume growth was also strong at 10%. Electronic volumes increased 11%, whilst manual volumes only grew 4%, with branch and cash centre transaction volumes decreasing 14% and 7%, respectively.

%	Change in transaction volumes
ATM/ADT	**5**
Internet banking	**(4)**
Banking app	**65**
Mobile (excluding prepaid)	**–**
Point of sale – merchants	**16**
Card swipes	**12**

- Knowledge-based fees decreased 4%, reflecting the impact of muted deal volumes driven by lower corporate activity during the financial year. Despite this, RMB benefited from key client mandates requiring advisory, capital markets and structuring activities.
- The bank's management and fiduciary fee income growth of 3% reflects increased management fees from the group's associates and joint ventures.

NOTE 2 – INSURANCE COMMISSION INCOME – DOWN 1%

R million	**2018**	2017	% change
Insurance commission	**694**	702	(1)
Insurance brokerage	**294**	294	–
Total insurance commission income	**988**	996	(1)

KEY DRIVERS

- Insurance commission was marginally down due to a change in the mix of products sold with lower commission structures and the flow on impact of rate cuts.

NOTE 3 – MARKETS, CLIENT AND OTHER FAIR VALUE INCOME – DOWN 13%

R million	**2018**	2017	% change
Client	**1 835**	1 832	–
Markets	**982**	1 185	(17)
Other	**393**	675	(42)
Total markets, client and other fair value income	**3 210**	3 692	(13)

KEY DRIVERS

- The overall markets and client businesses' performance reflected an ongoing constrained and uncertain SA macro environment.
- Underlying client revenues came under pressure during the year, as the challenging macro environment led to lower activity from large clients in the domestic economy, thus negatively impacting income from structuring activities.
- Flow trading and residual risk activities were adversely impacted by a softer performance in the local foreign exchange, hard commodities and credit trading portfolios. This was particularly offset by a robust fixed income performance.
- The decrease in other fair value income was due to negative mark-to-market movements on economic foreign exchange hedges, which will pull to par over the duration of the instrument. In addition, the net TRS fair value income was lower than the prior year due the grant date values and vesting of the various schemes.

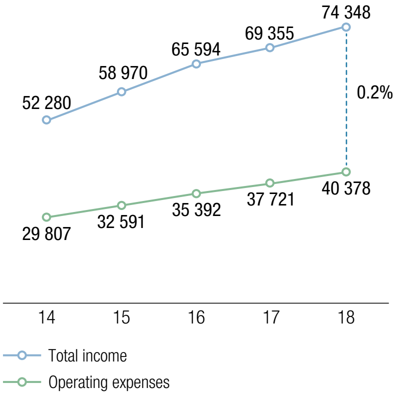
NOTE 4 – OTHER NON-INTEREST REVENUE – UP 10%

KEY DRIVERS

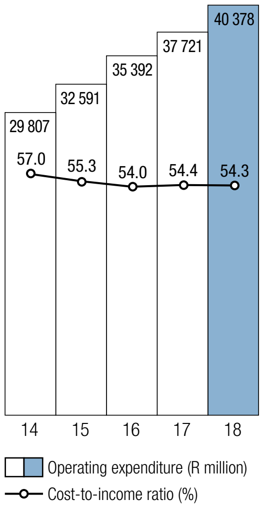
- The most significant other non-interest revenue item relates to various intercompany charges to other FirstRand group companies for the provision of services. These eliminate at a group level.
- The remaining significant other non-interest revenue items relate to various rental income streams. Rental income in WesBank and FNB showed strong growth, with WesBank in particular showing strong growth in the full maintenance leasing (FML) book.

Operating expenses – up 7%

OPERATING JAWS
R million



OPERATING EFFICIENCY



OPERATING EXPENSES

R million	**2018**	2017	% change
Staff expenditure	**23 400**	21 847	7
– Direct staff expenditure	**15 397**	14 508	6
– Other staff-related expenditure	**8 003**	7 339	9
Depreciation of property and equipment	**2 366**	2 311	2
Amortisation of intangible assets	**94**	94	–
Advertising and marketing	**1 364**	1 114	22
Insurance	**235**	231	2
Lease charges	**1 260**	1 267	(1)
Professional fees	**1 601**	1 636	(2)
Audit fees	**284**	246	15
Computer expenses	**2 029**	1 912	6
Repairs and maintenance	**1 076**	1 145	(6)
Telecommunications	**355**	275	29
Cooperation agreements and joint ventures	**694**	646	7
Property	**823**	834	(1)
Business travel	**355**	313	13
Assets costing less than R7 000	**278**	245	13
Stationery and printing	**175**	173	1
Donations	**243**	218	11
Other expenditure	**3 746**	3 214	17
Total operating expenses	**40 378**	37 721	7

KEY DRIVERS

- Cost growth of 7% is above nominal inflation and reflects the impact of continuing investment spend on new initiatives and platforms.
- Staff costs, which comprise 58% of the bank's total operating expenses, increased 7%.

	% CHANGE	REASONS
Direct staff costs	6	Impacted by above inflation unionised increases in 2017 and was further impacted by internal transfers.
Other staff-related expenditure	9	The increase in variable costs reflects the strong growth in earnings and NIACC (in particular from FNB and RMB) in the current year. Normalised share-based payment expenses increased, given the higher increase in the group's share price, relative to the prior year's share price growth, resulting in higher grant values.

- Advertising and marketing cost growth of 22% reflect market segment-focused advertising, specifically focusing on new products.
- Lease charges decreased 1% year-on-year, down from the 7% growth in 2017. This reflects the acquisition of office buildings previously leased.
- Computer expenses growth slowed to 6% from 21% in the prior year, despite continued spend on projects related to various electronic platforms and infrastructure upgrades. The slowdown in cost growth reflects the maturing of certain projects resulting in an increase in the component of costs being capitalised as these projects enter the implementation and go-live phase.
- Repairs and maintenance decreased 6% due to base adjustments in the FML book in the prior year, which have now stabilised.
- The 29% increase in telecommunications was driven by increased bandwidth and related costs emanating from the use of different channels for advertising, marketing and communications.
- Cooperation agreements and joint venture costs increased 7%, driven by a strong performance in the Discovery card book and improved performance in the underlying alliances within the WesBank portfolio.
- Other expenses include various items, such as entertainment, bank charges, movements in provisions, subscriptions and memberships and intercompany charges.

03 balance sheet analysis and financial resource management

Economic view of the balance sheet

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

When assessing the underlying risk in the balance sheet, the bank's asset profile is dominated by a balanced advances portfolio, which constitutes 73% of total assets. The composition of the net advances portfolio consists mostly of retail secured (38%), retail unsecured (9%) and corporate and commercial (49%). Total NPLs were R21.2 billion (2.47% as a percentage of advances) with a credit loss ratio of 0.80%.

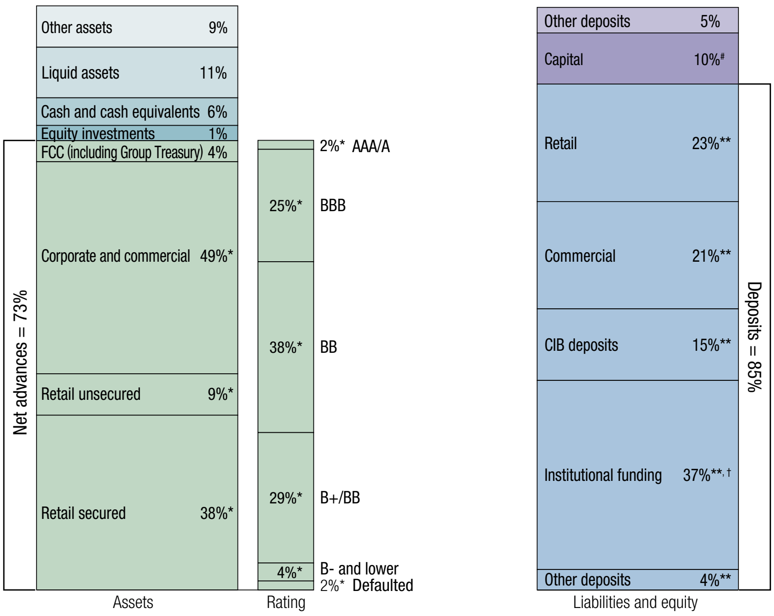
Cash and cash equivalents, and liquid assets represent 6% and 11%, respectively, of total assets. Only a small portion of assets relate to the markets businesses. Market risk arising from trading activities has remained low.

FRB's funding profile continues to reflect the structural funding constraints associated with the South African financial sector, however, the bank continued to enhance its risk-adjusted funding profile whilst targeting a lower proportion of institutional funding relative to peers. The weighted average remaining term of the bank's institutional funding was 34 months at 30 June 2018 (2017: 33 months).

The bank's capital ratios remained strong with a CET1 ratio of 12.7%, Tier 1 ratio of 12.8% and total capital adequacy ratio of 16.8%, well in excess of its stated targets. Gearing increased to 13.3 times (2017: 12.9 times).

ECONOMIC VIEW OF THE BALANCE SHEET

%



* *As a proportion of loans and advances.*

** *As a proportion of deposit franchise.*

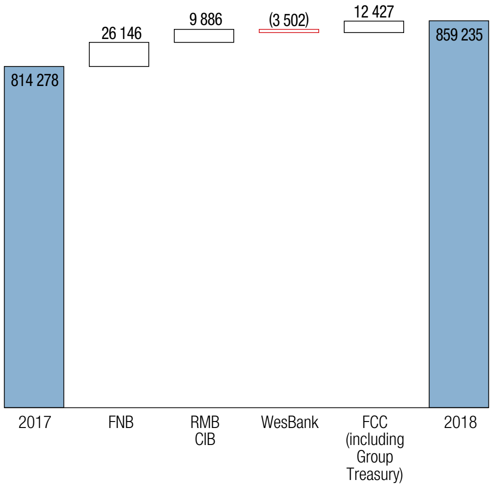
\# *Ordinary equity (8%) and NCNR preference shares and Tier 2 liabilities (2%).*

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

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

Gross advances – up 6%

GROSS ADVANCES GROWTH BY BUSINESS
R million



ADVANCES

R million	As at 30 June 2018	As at 30 June 2017	% change
Gross advances	**859 235**	814 278	6
Impairment of advances	**(15 429)**	(14 859)	4
Net advances	**843 806**	799 419	6

Gross advances increased 6%, marginally above nominal inflation, and a modest increase on the 5% growth recorded for the financial year ended 30 June 2017.

Growth rates in the consumer segment were more constrained than in the other portfolios due to tightening in credit appetite, especially in higher risk origination buckets. Advances in retail SA VAF and MotoNovo reduced following significant securitisations during the year.

In the corporate lending environment, low corporate activity and competitive pressures, especially in the investment-grade segment, resulted in disciplined resource allocation.

Advances

PORTFOLIO/PRODUCT	% CHANGE	
FNB retail	**7**	
Residential mortgages	**5**	> FNB HomeLoans were flat year-on-year, reflecting a slowdown in nominal house price inflation and lower demand. > Satisfactory growth of 9% in secured affordable housing on the back of client demand. > Strong growth of 15% in private bank lending, reflecting growth in the active client base as well as client migration.
Card	**14**	> Underpinned by targeted client acquisition, increased client migration as well as increased limits and utilisation in the premium segment. Growth in card in the consumer segment has been marginally negative given reduced risk appetite.
Personal loans	**19**	> Robust growth in the premium segment, off a low base, driven by client scoring process enhancements and the activation of new digital channels to existing customers. Advances in the consumer segment contracted marginally year-on-year, reflecting an ongoing conservative origination appetite.
Retail other	**7**	> Growth was driven by increases in transactional banking accounts (primarily overdrafts).
FNB commercial	**12**	> Reflects targeted new client acquisition in the small business segment and expanded lending product offering to existing base, resulting in growth of 14% in agric and 15% in commercial property finance.
RMB CIB*	**6**	> Growth from the SA core advances book was satisfactory despite competitive pressures and was underpinned by >15% growth in the SA corporate bank advances, benefiting from increased working capital utilisation by clients. Cross-border advances grew 12% in dollar terms, reflecting drawdowns of pre-existing facilities and targeted new credit extension. In rand terms, the cross-border book increased 18%.
WesBank	**(2)**	> Retail SA VAF advances declined 1%, impacted by the run-off of business now written on the group's associates' balance sheets as well as an increase of 52% in securitised advances year-on-year. > New business volumes in MotoNovo contracted 4% in pound terms (7% in rand), reflecting the impact of ongoing credit origination conservatism and constrained appetite for higher risk origination, and a slower roll-out of new initiatives. > Personal loans reflected good growth of 10%, benefiting from increased growth in lower risk segments of the market and repeat business, offset by cuts in higher risk buckets and impacted by the introduction of NCAA rate caps.

* *Core advances.*

Credit

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

CREDIT HIGHLIGHTS AT A GLANCE

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

		Year ended 30 June		
R million	Notes	**2018**	2017	% change
Total gross advances	1	**859 235**	814 278	6
NPLs	2	**21 183**	18 509	14
NPLs as a % of advances	2	**2.47**	2.27	
Impairment charge	3	**6 659**	6 984	(5)
Credit loss ratio (%)	3	**0.80**	0.88	
Total impairments	4	**15 429**	14 859	4
– Portfolio impairments		**7 761**	7 711	1
– Specific impairments		**7 668**	7 148	7
Specific coverage ratio (%)*	4	**36.2**	38.6	
Total impairment coverage ratio (%)**	4	**72.8**	80.3	
Performing book coverage ratio (%)[#]		**0.93**	0.97	

* *Specific impairments as a percentage of NPLs.*

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

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

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

NOTE 1: ANALYSIS OF ADVANCES

SEGMENTAL ANALYSIS OF ADVANCES

	Advances			
	As at 30 June			% composition
R million	2018	2017	% change	2018
Retail	**399 666**	387 364	3	**47**
Retail – secured	**323 619**	320 317	1	**38**
Residential mortgages	**204 969**	195 498	5	**24**
VAF	**118 650**	124 819	(5)	**14**
– SA	**94 171**	95 285	(1)	**11**
– MotoNovo*	**24 479**	29 534	(17)	**3**
Retail – unsecured	**76 047**	67 047	13	**9**
Card	**27 140**	23 800	14	**3**
Personal loans	**33 055**	28 384	16	**4**
– FNB	**17 161**	14 372	19	**2**
– WesBank	**14 859**	13 517	10	**2**
– MotoNovo	**1 035**	495	>100	**–**
Retail other	**15 852**	14 863	7	**2**
Corporate and commercial	**421 813**	401 227	5	**49**
FNB commercial	**93 962**	84 132	12	**11**
WesBank corporate	**32 149**	31 364	3	**4**
RMB investment banking**	**230 481**	227 642	1	**27**
RMB corporate banking**	**46 592**	39 545	18	**5**
HQLA corporate advances#	**18 629**	18 544	–	**2**
FNB Africa	**–**	273	(100)	**–**
FCC (including Group Treasury)	**37 756**	25 414	49	**4**
Securitisation notes	**23 674**	19 223	23	**3**
Other	**14 082**	6 191	>100	**1**
Total advances	**859 235**	814 278	6	**100**
Of which				
Accrual book	**663 725**	583 234	14	**77**
Fair value book†	**195 510**	231 044	(15)	**23**

* *MotoNovo VAF book £1.35 billion (-22%) (2017: £1.74 billion).*

** *Includes activities in India.*

Managed by the Group Treasurer.

† *Includes advances classified as available-for-sale.*

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

	Advances			
	As at 30 June			% composition
R million	2018	2017	% change	2018
Corporate and investment banking advances	**277 073**	267 187	4	**100**
Less: assets under agreements to resell	**(23 233)**	(29 047)	(20)	**(8)**
RMB advances net of assets under agreements to resell	**253 840**	238 140	7	**92**

STRATEGY VIEW OF CIB ADVANCES

	Advances			
	As at 30 June			% composition
R million	2018	2017	% change	2018
RMB investment banking	**230 481**	227 642	1	**84**
Less: assets under agreements to resell	**(22 778)**	(28 448)	(20)	**(8)**
RMB investment banking core advances	**207 703**	199 194	4	**76**
– South Africa	**179 852**	175 900	2	**66**
– Cross-border (rest of Africa)	**27 851**	23 294	20	**10**
RMB corporate banking	**46 592**	39 545	18	**17**
Less: assets under agreements to resell	**(455)**	(599)	(24)	**–**
RMB corporate banking core advances	**46 137**	38 946	18	**17**
– South Africa	**38 131**	31 830	20	**14**
– Cross-border (rest of Africa)	**8 006**	7 116	13	**3**
HQLA corporate advances	**18 629**	18 544	–	**7**
CIB total core advances	**272 469**	256 684	6	**100**
CIB core advances – South Africa*	**236 612**	226 274	5	**87**
CIB core advances – rest of Africa**	**35 857**	30 410	18	**13**
CIB total core advances	**272 469**	256 684	6	**100**

* *CIB core advances – South Africa is the sum of RMB IB SA core advances, RMB CB SA advances and HQLA corporate advances.*

** *CIB core advances – rest of Africa is the sum of RMB IB cross-border core advances and RMB CB cross-border core advances.*

SECTOR AND GEOGRAPHICAL ANALYSIS OF ADVANCES

	Advances			
	As at 30 June			% composition
R million	**2018**	2017	% change	**2018**
Gross advances	**860 734**	815 960	5	**100**
Less: interest in suspense	**(1 499)**	(1 682)	(11)	**–**
Advances net of interest in suspense	**859 235**	814 278	6	**100**
Sector analysis				
Agriculture	**32 859**	30 220	9	**4**
Banks	**20 867**	4 951	>100	**2**
Financial institutions	**137 937**	132 200	4	**16**
Building and property development	**48 961**	42 637	15	**6**
Government, Land Bank and public authorities	**22 471**	22 740	(1)	**3**
Individuals	**384 235**	372 740	3	**45**
Manufacturing and commerce	**100 870**	92 148	9	**12**
Mining	**11 297**	16 461	(31)	**1**
Transport and communication	**18 737**	18 635	1	**2**
Other services	**81 001**	81 546	(1)	**9**
Total advances	**859 235**	814 278	6	**100**
Geographic analysis				
South Africa	**770 540**	739 728	4	**90**
Other Africa	**33 611**	26 982	25	**4**
UK	**35 973**	35 810	–	**4**
Other Europe	**12 129**	5 475	>100	**1**
North America	**2 021**	1 727	17	**–**
South America	**260**	434	(40)	**–**
Australasia	**2**	1	100	**–**
Asia	**4 699**	4 121	14	**1**
Total advances	**859 235**	814 278	6	**100**

NOTE 2: ANALYSIS OF NPLs

The table below provides an analysis of NPLs.

	NPLs				NPLs as a % of advances	
	As at 30 June			% composition	As at 30 June	
R million	**2018**	2017	% change	**2018**	**2018**	2017
Retail	**17 198**	14 750	17	**81**	**4.30**	3.81
Retail – secured	**11 966**	10 393	15	**57**	**3.70**	3.24
Residential mortgages	**5 075**	4 560	11	**24**	**2.48**	2.33
VAF	**6 891**	5 833	18	**33**	**5.81**	4.67
– SA	**6 572**	5 662	16	**31**	**6.98**	5.94
– MotoNovo*	**319**	171	87	**2**	**1.30**	0.58
Retail – unsecured	**5 232**	4 357	20	**24**	**6.88**	6.50
Card	**1 082**	926	17	**5**	**3.99**	3.89
Personal loans	**3 158**	2 573	23	**14**	**9.55**	9.06
– FNB	**1 337**	1 227	9	**6**	**7.79**	8.54
– WesBank	**1 800**	1 345	34	**8**	**12.11**	9.95
– MotoNovo	**21**	1	>100	**–**	**2.03**	0.20
Retail other	**992**	858	16	**5**	**6.26**	5.77
Corporate and commercial	**3 985**	3 710	7	**19**	**0.94**	0.92
FNB commercial	**2 714**	2 280	19	**13**	**2.89**	2.71
WesBank corporate	**244**	258	(5)	**1**	**0.76**	0.82
RMB investment banking**	**898**	1 137	(21)	**4**	**0.39**	0.50
RMB corporate banking**	**129**	35	>100	**1**	**0.28**	0.09
HQLA corporate advances#	**–**	–	–	**–**	**–**	–
FNB Africa	**–**	49	(100)	**–**	**–**	17.95
FCC (including Group Treasury)	**–**	–	–	**–**	**–**	–
Securitisation notes	**–**	–	–	**–**	**–**	–
Other	**–**	–	–	**–**	**–**	–
Total NPLs	**21 183**	18 509	14	**100**	**2.47**	2.27
Of which:						
Accrual book	**20 566**	17 706	16	**97**	**3.10**	3.04
Fair value book	**617**	803	(23)	**3**	**0.32**	0.35

* *MotoNovo VAF NPLs of £18 million (+74%) (2017: £10 million).*

** *Includes activities in India.*

Managed by the Group Treasurer.

SECTOR AND GEOGRAPHIC ANALYSIS OF NPLs

	NPLs				NPLs as a % of advances	
	As at 30 June			% composition	As at 30 June	
R million	**2018**	2017	% change	**2018**	**2018**	2017
Sector analysis						
Agriculture	**908**	620	46	**4**	**2.76**	2.05
Banks	**–**	–	–	**–**	**–**	–
Financial institutions	**79**	94	(16)	**1**	**0.06**	0.07
Building and property development	**672**	1 060	(37)	**3**	**1.37**	2.49
Government, Land Bank and public authorities	**313**	27	>100	**1**	**1.39**	0.12
Individuals	**16 307**	14 084	16	**77**	**4.24**	3.78
Manufacturing and commerce	**1 134**	950	19	**5**	**1.12**	1.03
Mining	**521**	485	7	**3**	**4.61**	2.95
Transport and communication	**191**	152	26	**1**	**1.02**	0.82
Other services	**1 058**	1 037	2	**5**	**1.31**	1.27
Total NPLs	**21 183**	18 509	14	**100**	**2.47**	2.27
Geographic analysis						
South Africa	**20 246**	17 761	14	**95**	**2.63**	2.40
Other Africa	**166**	111	50	**1**	**0.49**	0.41
UK	**340**	172	98	**2**	**0.95**	0.48
Other Europe	**27**	58	(53)	**–**	**0.22**	1.06
North America	**404**	358	13	**2**	**19.99**	20.73
South America	**–**	–	–	**–**	**–**	–
Australasia	**–**	–	–	**–**	**–**	–
Asia	**–**	49	(100)	**–**	**–**	1.19
Total NPLs	**21 183**	18 509	14	**100**	**2.47**	2.27

SECURITY AND RECOVERABLE AMOUNTS BY PORTFOLIO

	As at 30 June 2018			As at 30 June 2017		
R million	**NPLs**	**Security held and expected recoveries**	**Specific impairment**	NPLs	Security held and expected recoveries	Specific impairment
Retail	**17 198**	**11 221**	**5 977**	14 750	9 523	5 227
Retail – secured	**11 966**	**8 916**	**3 050**	10 393	7 633	2 760
Residential mortgages	**5 075**	**4 170**	**905**	4 560	3 567	993
VAF	**6 891**	**4 746**	**2 145**	5 833	4 066	1 767
– SA	**6 572**	**4 611**	**1 961**	5 662	3 995	1 667
– MotoNovo	**319**	**135**	**184**	171	71	100
Retail – unsecured	**5 232**	**2 305**	**2 927**	4 357	1 890	2 467
Card	**1 082**	**358**	**724**	926	306	620
Personal loans	**3 158**	**1 673**	**1 485**	2 573	1 301	1 272
– FNB	**1 337**	**537**	**800**	1 227	468	759
– WesBank	**1 800**	**1 135**	**665**	1 345	833	512
– MotoNovo	**21**	**1**	**20**	1	–	1
Retail other	**992**	**274**	**718**	858	283	575
Corporate and commercial	**3 985**	**2 294**	**1 691**	3 710	1 809	1 901
FNB commercial	**2 714**	**1 699**	**1 015**	2 280	1 224	1 056
WesBank corporate	**244**	**128**	**116**	258	111	147
RMB investment banking*	**898**	**352**	**546**	1 137	453	684
RMB corporate banking*	**129**	**115**	**14**	35	21	14
HQLA corporate advances**	**–**	**–**	**–**	–	–	–
FNB Africa	**–**	**–**	**–**	49	29	20
FCC (including Group Treasury)	**–**	**–**	**–**	–	–	–
Securitisation notes	**–**	**–**	**–**	–	–	–
Other	**–**	**–**	**–**	–	–	–
Total	**21 183**	**13 515**	**7 668**	18 509	11 361	7 148

* *Includes activities in India.*

** *Managed by the Group Treasurer.*

NOTE 3: ANALYSIS OF INCOME STATEMENT CREDIT IMPAIRMENTS

INCOME STATEMENT IMPAIRMENTS

	Total impairment charge			As a % of average advances	
	Year ended 30 June			Year ended 30 June	
R million	**2018**	2017	% change	**2018**	2017
Retail	**6 275**	6 103	3	**1.59**	1.59
Retail – secured	**2 467**	2 252	10	**0.77**	0.71
Residential mortgages	**149**	285	(48)	**0.07**	0.15
VAF	**2 318**	1 967	18	**1.90**	1.56
– SA	**1 856**	1 503	23	**1.96**	1.55
– MotoNovo*	**462**	464	–	**1.71**	1.59
Retail – unsecured	**3 808**	3 851	(1)	**5.32**	5.94
Card	**670**	699	(4)	**2.63**	3.05
Personal loans	**1 967**	2 090	(6)	**6.40**	7.64
– FNB	**793**	1 071	(26)	**5.03**	7.43
– WesBank	**1 125**	1 007	12	**7.93**	7.93
– MotoNovo	**49**	12	>100	**6.41**	4.85
Retail other	**1 171**	1 062	10	**7.62**	7.27
Corporate and commercial	**616**	1 216	(49)	**0.15**	0.31
FNB commercial	**670**	531	26	**0.75**	0.66
WesBank corporate	**48**	66	(27)	**0.15**	0.22
RMB investment banking**	**(105)**	544	(>100)	**(0.05)**	0.25
RMB corporate banking**	**3**	75	(96)	**0.01**	0.20
HQLA corporate advances#	**–**	–	–	**–**	–
FNB Africa	**(2)**	15	(>100)	**(1.47)**	2.90
FCC (including Group Treasury)	**(230)**	(350)	(34)	**(0.03)**	(0.04)
Securitisation notes	**–**	–	–	**–**	–
Other	**(230)**	(350)	(34)	**(0.03)**	(0.04)
Total impairment charge	**6 659**	6 984	(5)	**0.80**	0.88
Of which					
Portfolio impairments charge	**96**	454	(79)	**0.01**	0.06
Specific impairments charge	**6 563**	6 530	1	**0.79**	0.82

* *MotoNovo VAF impairment charge of £27 million (-1%) (2017: £27 million). (Impairment charge as a percentage of average advances in £ terms – 2018: 1.73%; 2017: 1.68%).*

** *Includes activities in India.*

\# *Managed by the Group Treasurer.*

NOTE 4: ANALYSIS OF BALANCE SHEET IMPAIRMENTS AND COVERAGE RATIOS

IMPLIED LOSS GIVEN DEFAULT AND TOTAL IMPAIRMENT COVERAGE RATIOS

	Balance sheet impairments			Coverage ratios (% of NPLs)	
	As at 30 June			As at 30 June	
R million	2018	2017	% change	2018	2017
Retail	**5 977**	5 227	14	**34.8**	35.4
Retail – secured	**3 050**	2 760	11	**25.5**	26.6
Residential mortgages	**905**	993	(9)	**17.8**	21.8
VAF	**2 145**	1 767	21	**31.1**	30.3
– SA*	**1 961**	1 667	18	**29.8**	29.4
– MotoNovo	**184**	100	84	**57.7**	58.5
Retail – unsecured	**2 927**	2 467	19	**55.9**	56.6
Card	**724**	620	17	**66.9**	67.0
Personal loans	**1 485**	1 272	17	**47.0**	49.4
– FNB*	**800**	759	5	**59.8**	61.9
– WesBank*	**665**	512	30	**36.9**	38.1
– MotoNovo	**20**	1	>100	**95.2**	100.0
Retail other*	**718**	575	25	**72.4**	67.0
Corporate and commercial	**1 691**	1 901	(11)	**42.4**	51.2
FNB commercial	**1 015**	1 056	(4)	**37.4**	46.3
WesBank corporate	**116**	147	(21)	**47.5**	57.0
RMB investment banking**	**546**	684	(20)	**60.8**	60.2
RMB corporate banking**	**14**	14	–	**10.9**	40.0
HQLA corporate advances#	**–**	–	–	**–**	–
FNB Africa	**–**	20	(100)	**–**	40.8
FCC (including Group Treasury)	**–**	–	–	**–**	–
Securitisation notes	**–**	–	–	**–**	–
Other	**–**	–	–	**–**	–
Total specific impairments/implied loss given default†	**7 668**	7 148	7	**36.2**	38.6
Portfolio impairments‡	**7 761**	7 711	1	**36.6**	41.7
Total impairments/total impairment coverage ratio^	**15 429**	14 859	4	**72.8**	80.3

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

** *Includes activities in India.*

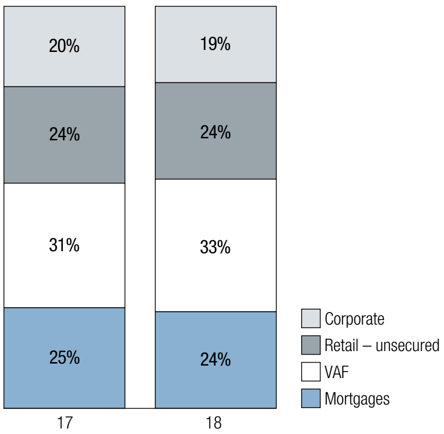
Managed by the Group Treasurer.

† *Specific impairments as a percentage of NPLs.*

‡ *Portfolio impairments as a percentage of NPLs.*

^ *Total impairments as a percentage of NPLs.*

NPL DISTRIBUTION



RECONCILIATION OF IMPAIRMENTS

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

BALANCE SHEET IMPAIRMENTS AND CREDIT FAIR VALUE ADJUSTMENTS

	Amortised cost book		Fair value book		Total book	
	As at 30 June		As at 30 June		As at 30 June	
R million	**2018**	2017	**2018**	2017	**2018**	2017
Non-performing book	**7 469**	6 734	**199**	414	**7 668**	7 148
Performing book	**6 459**	5 589*	**1 302**	2 122	**7 761**	7 711
Total impairments	**13 928**	12 323	**1 501**	2 536	**15 429**	14 859

* *In anticipation of the adoption of IFRS 9, a significant portion of new originated investment banking advances in RMB, which would previously have been recognised at fair value, is now recognised as amortised cost advances. This has resulted in a shift between fair value and amortised cost performing book portfolio impairments.*

TOTAL BALANCE SHEET IMPAIRMENTS

	As at 30 June		
R million	**2018**	2017	% change
Opening balance	**14 859**	14 818	–
Acquisitions	**16**	26	(38)
Exchange rate difference	**61**	(111)	(>100)
Unwinding and discounted present value on NPLs	**(105)**	(79)	33
Bad debts written off	**(8 350)**	(8 872)	(6)
Net new impairments created	**8 948**	9 077	(1)
Closing balance	**15 429**	14 859	4

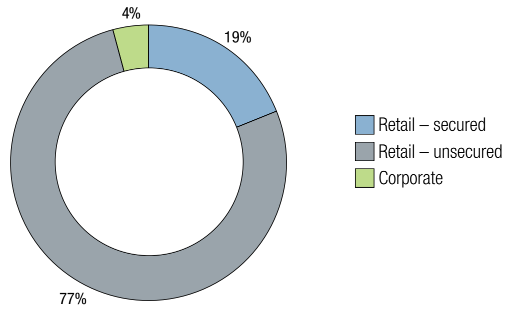
INCOME STATEMENT IMPAIRMENTS

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

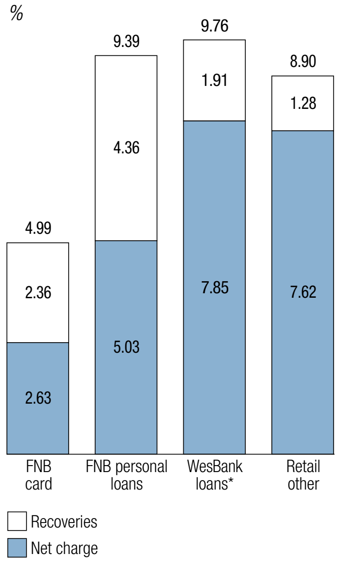
	As at 30 June		
R million	**2018**	2017	% change
Specific impairment charge	**8 852**	8 623	3
Specific impairment charge – amortised cost	**8 840**	8 493	4
Credit fair value adjustments – non-performing book	**12**	130	(91)
Portfolio impairment charge	**96**	454	(79)
Portfolio impairment charge – amortised cost	**893**	440*	>100
Credit fair value adjustments – performing book	**(797)**	14*	(>100)
Total impairments before recoveries	**8 948**	9 077	(1)
Recoveries of bad debts written off	**(2 289)**	(2 093)	9
Total impairments	**6 659**	6 984	(5)

* *In anticipation of the adoption of IFRS 9, a significant portion of new originated investment banking advances in RMB, which would previously have been recognised at fair value, is now recognised as amortised cost advances. This has resulted in a shift between fair value and amortised cost performing book portfolio impairments.*

POST WRITE-OFF RECOVERIES



RETAIL CREDIT LOSS RATIOS AND RECOVERIES



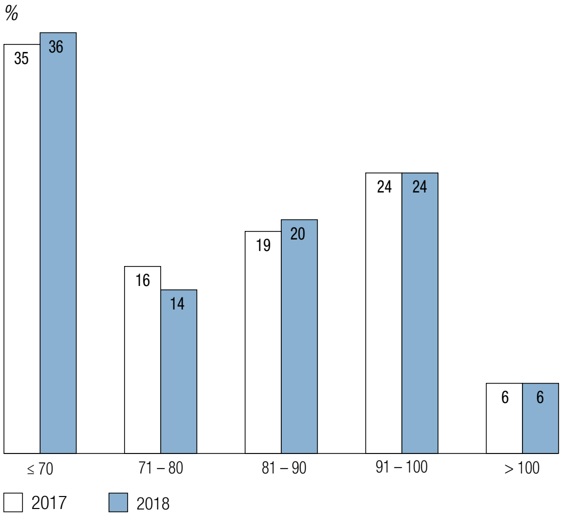
* *WesBank loans include WesBank and MotoNovo personal loans.*

RISK ANALYSIS

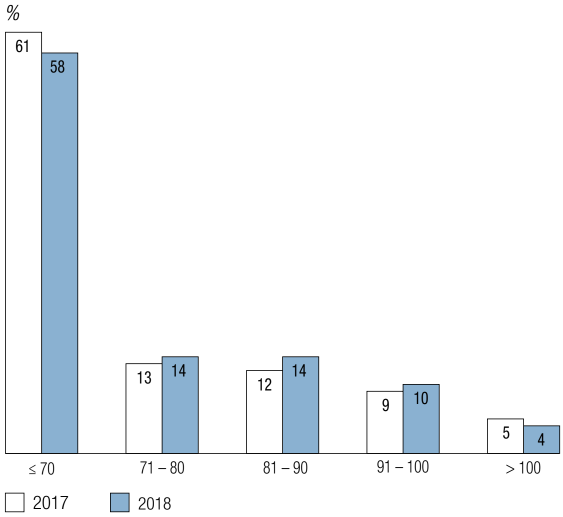
The graphs below provide loan balance-to-value ratios and age distributions of residential mortgages.

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

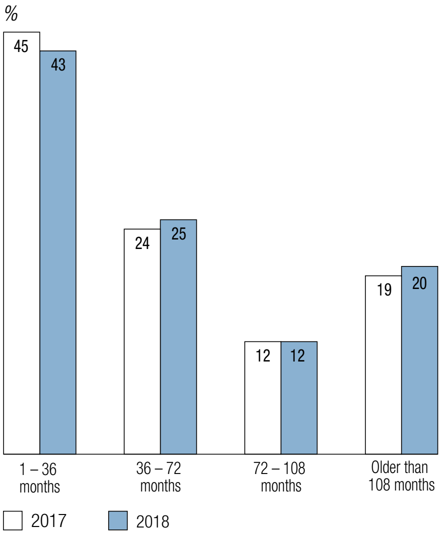
FNB RESIDENTIAL MORTGAGES
BALANCE-TO-ORIGINAL VALUE



FNB RESIDENTIAL MORTGAGES
BALANCE-TO-MARKET VALUE

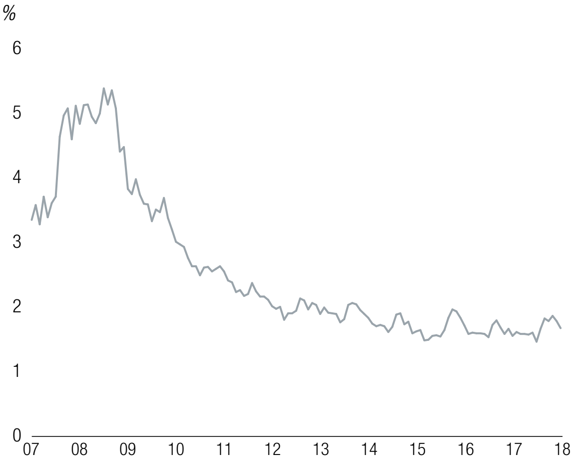


FNB RESIDENTIAL MORTGAGES
AGE DISTRIBUTION



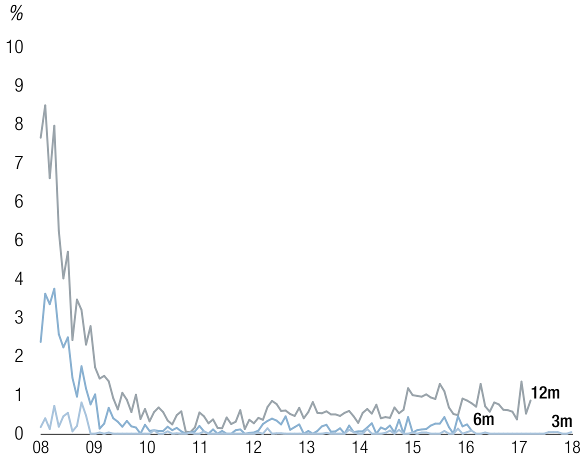
The following graph shows arrears in the FNB HomeLoans portfolio. It includes accounts where more than one full payment is in arrears, expressed as a percentage of total advances. The increase in arrears in the year under review reflects the reclassification of restructured debt-review accounts to arrear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

FNB HOMELOANS ARREARS



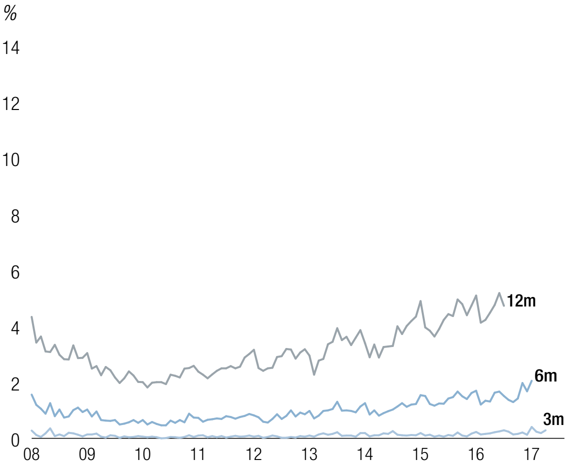
Vintages in FNB HomeLoans remained stable as collections were strong. Lower new business volumes limited book growth for most of the year.

FNB HOMELOANS VINTAGE ANALYSIS



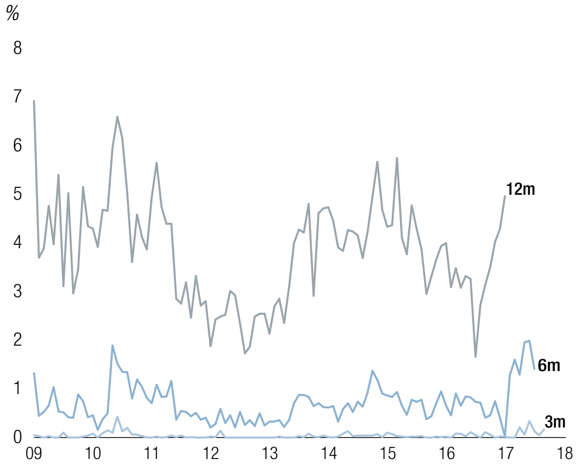
The retail SA VAF vintages experienced strain in the latter part of the 2018 financial year due to the continued increase in customers opting for court orders for repossession and the ongoing impact of third-party data, which resulted in the underprediction of certain risk factors. Further risk appetite adjustments have been implemented.

WESBANK RETAIL VAF VINTAGE ANALYSIS



FNB card growth differed across segments over the year. Card growth in premium benefited from customer growth, while the book contracted in the consumer segment as appetite remained conservative. Vintages have trended higher, especially in consumer. Default rates are still within expectation.

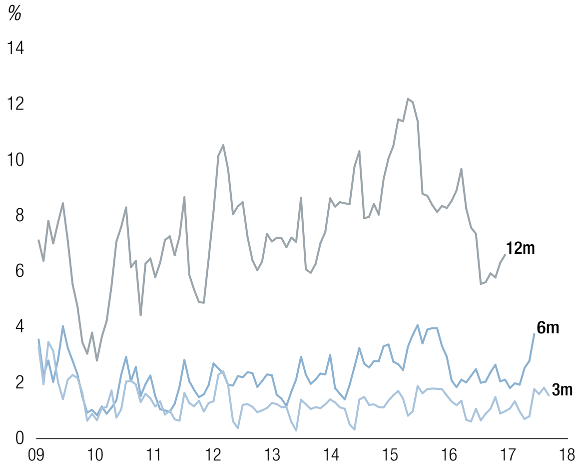
FNB CARD VINTAGE ANALYSIS



FNB personal loans growth was concentrated in the premium segment driven by increased penetration into the existing base. The change in risk mix and effective collections resulted in vintages remaining within risk appetite. The uptick in vintage trend is expected given the growth in shorter term (up to 6 months) loans.

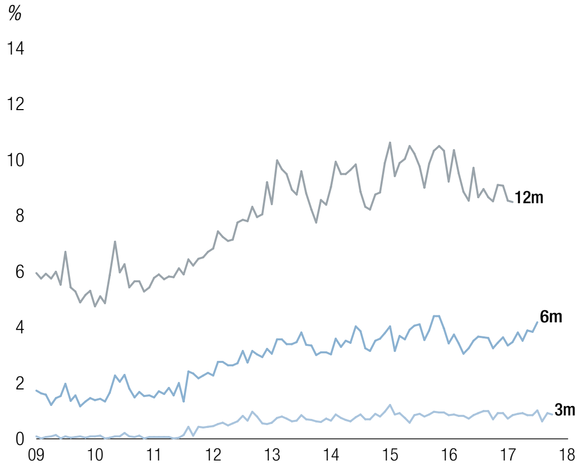
Although the debt-review NPL portfolio grew more relative to the performing book, it still remains a relatively small proportion of the total book. Collections in the debt-review book are, however, better than non-debt review NPLs, further improving the 12-month vintage over the past two-year period.

FNB PERSONAL LOANS VINTAGE ANALYSIS



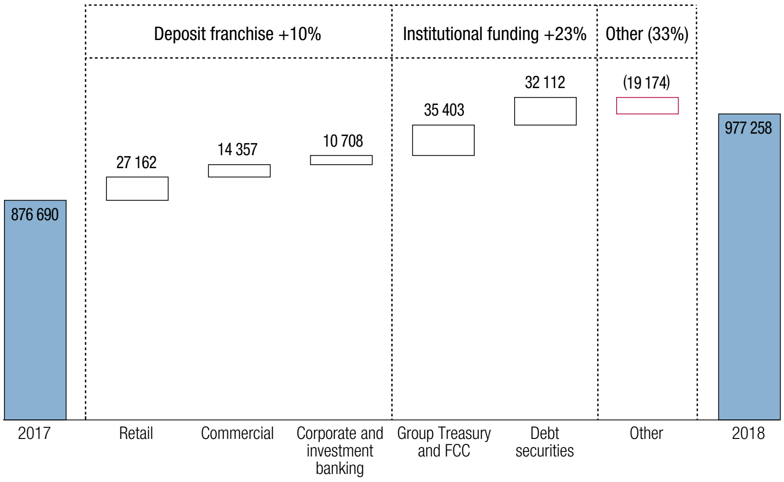
WesBank personal loans vintages have been stable since December 2013 due to active credit origination management within the portfolio, including a number of risk cuts, where appropriate.

WESBANK PERSONAL LOANS VINTAGE ANALYSIS



Deposits – up 11%

FUNDING PORTFOLIO YEAR-ON-YEAR GROWTH
R million



KEY DRIVERS

- FNB's deposits increased 11%:
  - Retail deposit growth of 14% was supported by ongoing product innovation, digitisation and continued growth in flagship deposit products. Particularly strong growth of 19% was recorded by the premium segment.
  - Commercial deposit growth of 7% was driven by new client acquisition and cross-sell strategies.
  - In April 2018, FNB became the number one household deposit franchise in terms of market share in South Africa.
- RMB CIB deposits grew 8%. This was achieved through growth in currency term deposits, operational demand deposits and call and notice deposits which were driven by targeted campaigns to grow the deposit book, as well as the development of new product offerings.
- FRB, like the rest of the SA banking sector, utilises institutional funding in the form of Group Treasury deposits, which grew 31%, and debt securities, which reflected robust growth of 17%. This was a result of:
  - an increase in debt securities, attributable to taps on existing bonds and issuance of new bonds, additional NCD and floating rate note (FRN) issues, an uptick in the demand for fixed deposits from institutional investors and an increase in the interbank position;
  - growth in foreign currency funding and structured issuances in the domestic market – absolute growth was affected by rand depreciation during the year; and
  - given favourable liquidity conditions in the last quarter of 2017, the bank decided to pre-fund liquidity requirements ahead of potential rating downgrades due to the prevailing political uncertainty.
- Other deposits include repurchase agreements and cash collateral, both of which decreased during the year.

Funding and liquidity risk

INTRODUCTION AND OBJECTIVES

The group strives to fund its activities in a diversified, efficient, flexible and sustainable manner, underpinned by strong counterparty relationships within prudential limits and requirements. The objective is to maintain natural market share and to outperform at the margin, thereby providing the bank with a natural liquidity buffer.

As a consequence of the liquidity risk introduced by its business activities across various currencies and geographies, the group's objective is to optimise its funding profile within structural and regulatory constraints to enable its franchises to operate in an efficient and sustainable manner.

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

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

FUNDING MANAGEMENT

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

Structural features

- Low discretionary savings.
- Higher degree of contractual savings:
  - pension funds;
  - provident funds; and
  - asset managers.
- Corporates and public sector make use of financial intermediaries for bulking and maturity transformation services.

a portion of these funds translate into

Liquidity needs of banks

Deposit franchise

+

Institutional funding

Higher structural liquidity risk in SA banks than in most other financial markets

Risk mitigated to some extent by:

- closed rand system – rand transactions are cleared and settled through registered banks and clearing institutions domiciled in SA;
- concentration of customer current accounts with the four largest banks;
- prudential exchange control framework; and
- low dependency of SA banks on foreign currency funding.

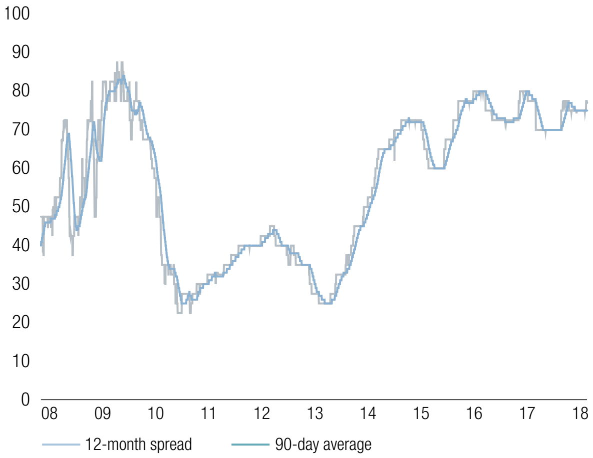
Liquidity demanded by banks as a consequence of money supply constraints introduced by the LCR and the central bank's open market operations without a commensurate increase in savings flows, resulted in higher liquidity costs. Considering the structural features discussed above, the bank's focus remains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

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

To ensure maximum efficiency and flexibility in accessing funding opportunities, a range of debt programmes have been established. The bank's strategy for domestic vanilla public issuances is to create actively-traded benchmark issuances, which facilitate secondary market liquidity in both domestic and offshore markets. The inherent value of this strategy is the ability to identify cost-effective funding opportunities whilst maintaining an understanding of available market liquidity.

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

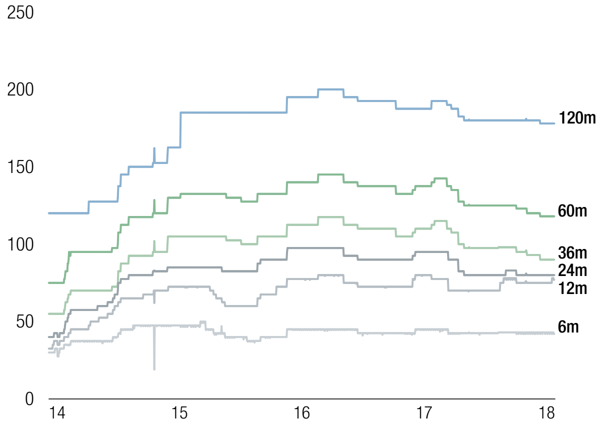
12-MONTH FLOATING RATE NOTE MID-MARKET SPREAD
bps



Source: Bloomberg (RMBP screen) and Reuters.

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

LONG-TERM FUNDING SPREADS
bps



Source: Bloomberg (RMBP screen) and Reuters.

FUNDING MEASUREMENT AND ACTIVITY

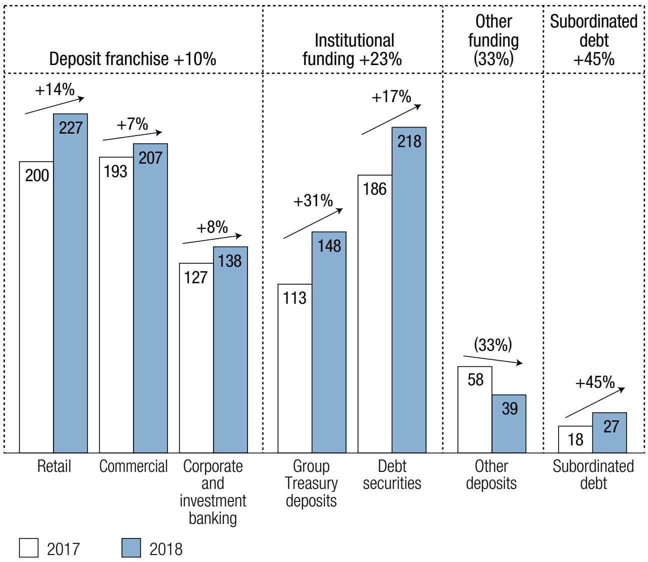
The bank generates a larger proportion of its funding from deposits compared to the South African aggregate, however, its funding profile also reflects the structural features described previously.

The bank manages its funding structure by source, counterparty type, product, currency and market. The deposit franchise is the most efficient source of funding and represented 57% of total bank funding liabilities as at 30 June 2018 (2017: 60%).

The bank continued to focus on growing its deposit franchise across all segments, with increased emphasis on savings and investment products. Progress continues to be made in developing suitable products to attract a greater proportion of clients' available liquidity with improved risk-adjusted pricing for source and behaviour. To fund operations, the bank accesses the domestic money markets daily and, from time to time, capital markets. The bank issues various capital and funding instruments in the capital markets on an auction and reverse-enquiry basis with strong support from investors, both domestically and internationally.

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

FUNDING PORTFOLIO GROWTH
R billion



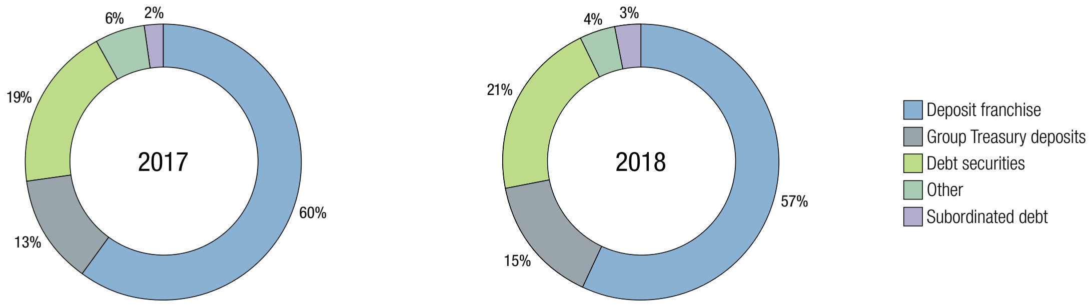
Note 1: Percentage growth is based on actual, rather than rounded numbers shown in the bar graphs.

Note 2: The graph above is completed using the bank segmental reporting split based on funding product type. The deposit franchise as reported in the above finance segment and product view differs from the risk counterparty view on page A77, which is segment and product agnostic. These views primarily highlight the bank's strength in raising deposits across segments, as well as the diversification of funding from a counterparty perspective.

Note 3: The June 2017 numbers have been restated due to a resubmission of the BA900 returns following a reclassification of credit-linked notes and inflation-linked notes previously disclosed as CIB deposits.

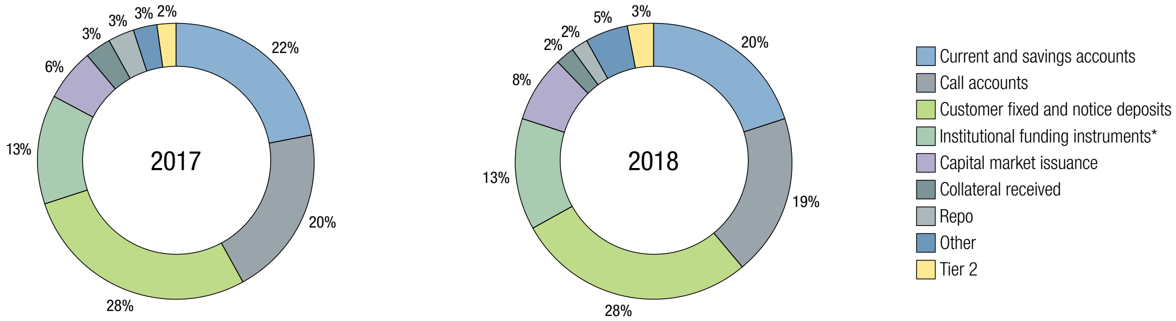
The graphs below show that the bank's funding mix has remained stable over the last 12 months.

BANK'S FUNDING MIX



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

BANK'S FUNDING ANALYSIS BY INSTRUMENT TYPE



* *Includes NCD and equivalent fixed rate notes held by institutional clients, which were previously disclosed as NCD and fixed notice deposits.*

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

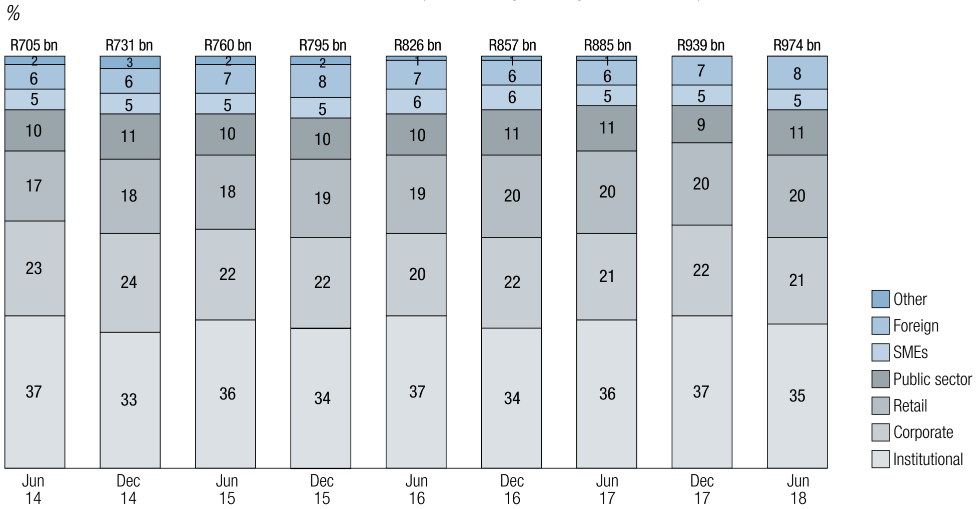
The table below provides an analysis of FRB (excluding foreign branches) funding sources per counterparty type as opposed to the segment view.

	June 2018				June 2017*
% of funding liabilities	**Total**	**Short term**	**Medium term**	**Long term**	Total
Institutional funding	**35.0**	**9.0**	**4.1**	**21.9**	35.9
Deposit franchise	**65.0**	**50.4**	**8.1**	**6.5**	64.1
Corporate	**20.6**	**17.4**	**2.3**	**0.9**	20.5
Retail	**20.3**	**15.7**	**3.2**	**1.4**	20.0
SMEs	**5.3**	**4.4**	**0.6**	**0.3**	5.4
Governments and parastatals	**11.0**	**8.8**	**1.5**	**0.7**	10.7
Foreign	**7.8**	**4.1**	**0.5**	**3.2**	6.2
Other	**–**	**–**	**–**	**–**	1.3
Total	**100.0**	**59.4**	**12.2**	**28.4**	100.0

* *2017 figures above differ from those previously disclosed due to the restatement of BA900 return.*

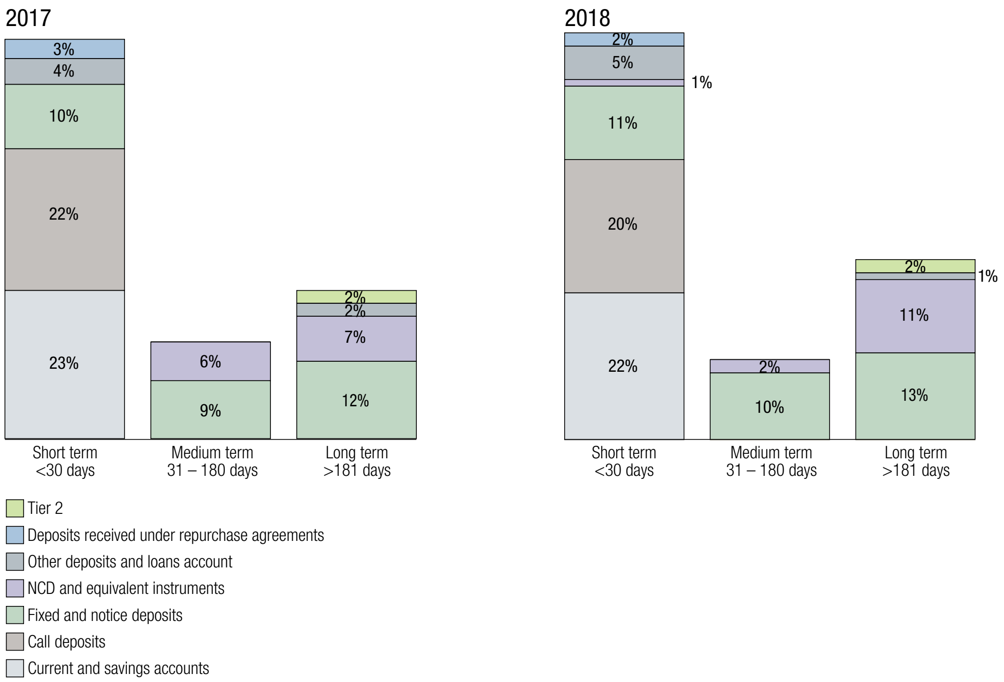
The following graph provides an analysis of the bank's funding composition by source.

BANK'S FUNDING ANALYSIS BY SOURCE (excluding foreign branches)



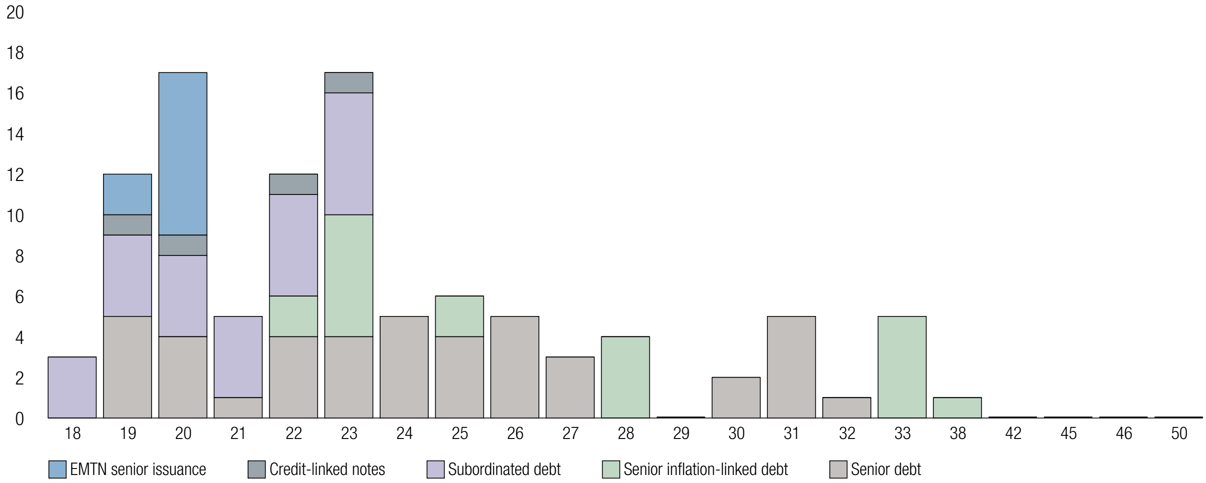
The following chart illustrates a breakdown of the bank's funding liabilities by instrument and tenor.

BANK'S FUNDING LIABILITIES BY INSTRUMENT TYPE AND TENOR



The maturity profile of all issued capital market instruments is shown in the following chart. The bank does not have significant concentration risk in any one year and seeks to efficiently issue across the maturity spectrum, taking into consideration investor demand.

MATURITY PROFILE OF CAPITAL MARKET INSTRUMENTS OF THE BANK (excluding foreign branches)
R billion



FUNDS TRANSFER PRICING

The group operates a funds transfer pricing framework which incorporates liquidity costs and benefits as well as regulatory friction costs into product pricing and performance measurement for all on- and off-balance sheet activities. The active management of foreign currency liquidity risk remains a strategic focus as the group maintains its rest of Africa growth strategy. Where fixed-rate commitments are undertaken (fixed-rate loans or fixed deposits), transfer pricing will also include the interest rate transfer price. Business is incentivised to:

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

FOREIGN CURRENCY BALANCE SHEET

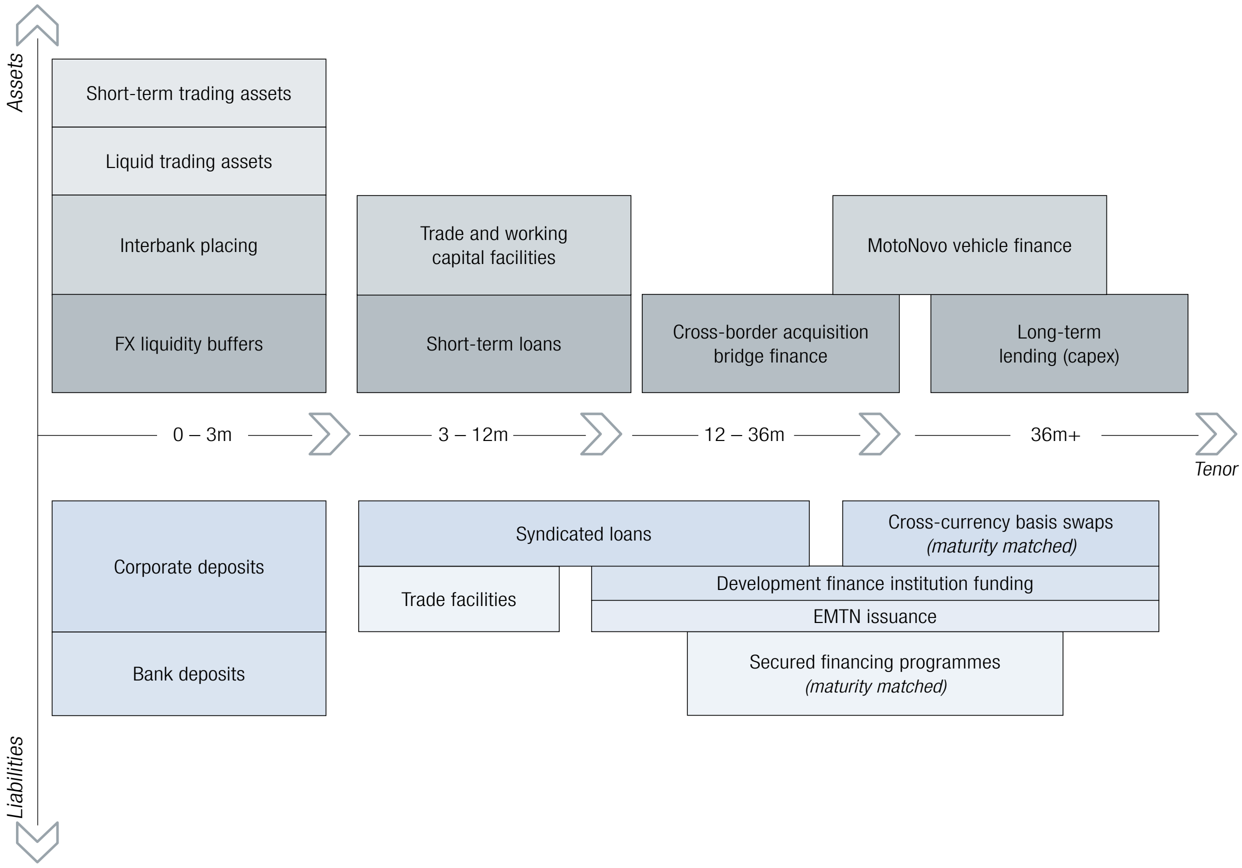
The acquisition of Aldermore alleviates some pressure on the group's foreign currency funding capacity. Once integrated, MotoNovo will be supported by Aldermore's funding platform through which all new business will be funded through a combination of on-balance sheet deposits, wholesale and structured funding. MotoNovo's back book, which currently forms part of the bank's London branch and which continues to be funded through existing funding mechanisms will, over time, be run down. Consequently, the funding capacity currently allocated to MotoNovo from the bank's domestic balance sheet can be redeployed into the group's rest of Africa growth strategies. The bank seeks to avoid undue liquidity risk exposure and thus maintains liquidity risk within the risk appetite approved by the board and risk committee. The SARB via *Exchange Control Circular 6/2010* introduced macro-prudential limits applicable to authorised dealers. The group utilises its own foreign currency balance sheet measures based on economic risk and has set internal limits below those allowed by the macro-prudential limits framework.

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

PHILOSOPHY ON FOREIGN CURRENCY EXTERNAL DEBT

The key determinant in an institution's ability to fund and refinance foreign currency exposures is the sovereign risk and the associated external financing requirement. The group's framework for the management of external debt considers sources of sovereign risk and foreign currency funding capacity, and the macroeconomic vulnerabilities of South Africa. To determine South Africa's foreign currency funding capacity, the bank takes into account external debt of all South African entities (private and public sector, financial institutions) as all these entities utilise the South African system's capacity, namely, confidence and export receipts. The bank thus employs a self-imposed structural borrowing limit and a liquidity risk limit more onerous than that required by regulations.

GRAPHICAL REPRESENTATION OF THE BANK'S FOREIGN CURRENCY BALANCE SHEET



LIQUIDITY RISK POSITION

The following table provides details on the composition of liquid assets.

THE BANK'S COMPOSITION OF LIQUID ASSETS

	As at 30 June	
	2018	2017
Cash and deposits with central banks	**30**	29
Government bonds and bills	**109**	89
Other liquid assets	**43**	43
Total bank liquid assets	**182**	150

Liquidity buffers are actively managed via the bank's pool of high quality, highly liquid assets that are available as protection against unexpected stress events or market disruptions as well as to facilitate the variable liquidity needs of the operating businesses. The composition and quantum of the available liquid resources are defined behaviourally considering both the funding liquidity-at-risk and the market liquidity depth of these resources. In addition, adaptive overlays to liquidity requirements are derived from stress testing and scenario analysis of the cash inflows and outflows related to business activity.

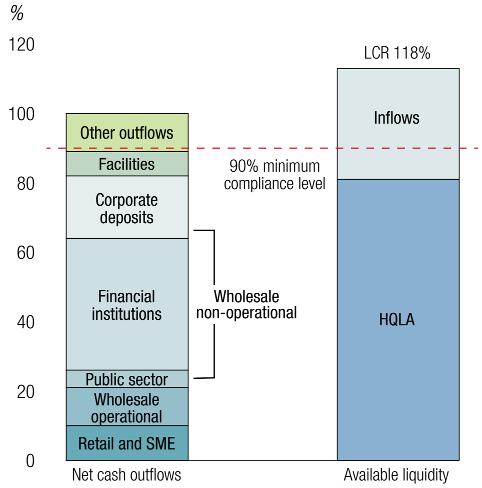
The bank's liquidity ratios at 30 June 2018 are summarised below.

	LCR*	**NSFR**
Regulatory minimum	90%	100%
Actual	118%	111%

* *LCR is calculated as a simple average of 90 calendar days LCR observations over the preceding quarter.*

The following graph illustrates the bank's LCR position and demonstrates compliance with the 90% (2017: 80%) minimum requirement.

FRB LCR



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

The NSFR became effective on 1 January 2018 with a minimum regulatory requirement of 100%. At 30 June 2018, the bank's NSFR was 111%.

Capital

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

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

The capital planning process ensures that the total capital adequacy and CET1 ratios remain within or above targets across economic and business cycles. Capital is managed on a forward-looking basis and the bank remains appropriately capitalised under a range of normal and severe stress scenarios, which include expansion initiatives, corporate transactions, as well as ongoing regulatory, accounting and tax developments. The bank aims to back all economic risk with loss-absorbing capital and remains well capitalised in the current environment. FRB's internal targets have been aligned to the PA end-state minimum capital requirements and are subject to ongoing review and consideration of various stakeholder expectations. No changes were made to the internal targets during the year.

The bank is currently subject to the PA transitional minimum capital requirements, which include a 75% phased-in requirement for the capital conservation, countercyclical (CCyB) and domestic systemically-important banks (D-SIB) buffer add-ons. The PA has not implemented any CCyB requirement for South African exposures, however, the bank is required to calculate the CCyB requirement on private sector exposures in foreign jurisdictions where these buffers are applicable. Effective 27 June 2018, the Prudential Regulatory Authority implemented a 0.5% countercyclical buffer requirement for UK exposures. The CCyB requirement for the bank as at 30 June 2018 was 2 bps and is included in the disclosed minimum requirement.

The PA issued Directive 5/2017, *Regulatory treatment of accounting provisions – interim approach and transitional arrangements including disclosure and auditing aspects*, which allows banks to apply a transitional phase-in of the IFRS 9 impact for regulatory capital purposes. The transitional arrangements will only apply to incremental provisions that arise upon the adoption of IFRS 9 on 1 July 2018. The bank has adopted the transitional phase-in. Once implemented, both the phased-in and fully-loaded impact on capital will be disclosed on a quarterly basis.

The PA further issued Guidance Note 3 of 2018, *Proposed implementation dates in respect of the specified regulatory reforms*, which includes the Basel reforms finalised by the BCBS in December 2017. The impact on the bank's capital position depends on the final implementation by the PA given the level of national discretion. The bank continues to participate in the BCBS quantitative impact studies to assess and understand the impact of such reforms.

The Basel III leverage ratio is a supplementary measure to the risk-based capital ratios, and a function of the Tier 1 capital measure, and total exposures (on- and off-balance sheet exposures). Greater emphasis has been placed on monitoring the interplay between capital and leverage.

YEAR UNDER REVIEW

FirstRand acquired Aldermore in April 2018. FRB's capital position was impacted by the acquisition, reducing its CET1 ratio by 110 bps. The reduction relates to the payment of a dividend to the legal entity which acquired Aldermore to fund the goodwill and intangibles, as well as providing funding for the net asset value acquired.

FRB's CET1 ratio was 12.7% as at 30 June 2018, well in excess of the bank's stated targets. The decrease in the bank's leverage ratio at 30 June 2018 is primarily due to the decrease in the Tier 1 capital measure, which also decreased due to the impact of the Aldermore acquisition on CET1 capital. The capital and leverage positions as at 30 June 2018 are summarised in the following table.

CAPITAL ADEQUACY AND LEVERAGE POSITIONS

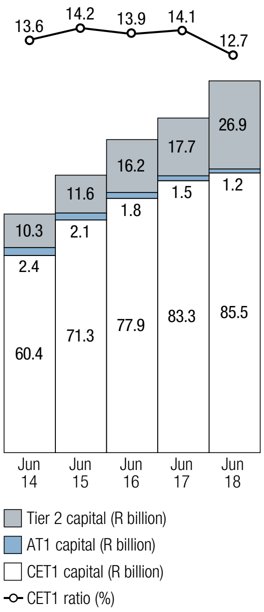
	Capital			Leverage
%	CET1	Tier 1	Total	Total
Regulatory minimum*	7.4	8.9	11.1	4.0
Internal target	10.0 – 11.0	>12.0	>14.0	>5.0
Actual				
FRB including foreign branches				
– Including unappropriated profits	**12.7**	**12.8**	**16.8**	**6.8**
– Excluding unappropriated profits	**12.3**	**12.5**	**16.5**	**6.6**
FRB excluding foreign branches				
– Including unappropriated profits	**12.6**	**12.8**	**16.7**	**6.5**
– Excluding unappropriated profits	**12.3**	**12.5**	**16.4**	**6.4**

** Excluding the bank-specific capital requirements, however, includes the countercyclical buffer requirement.*

The capital and leverage information included in the following sections relate to FRB including foreign branches.

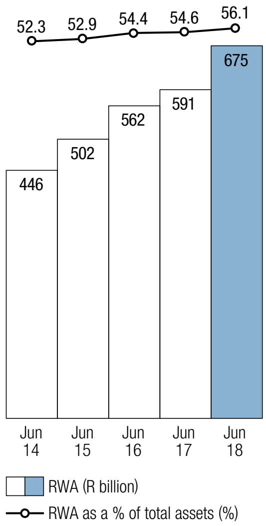
The graphs below show the historical overview of capital adequacy, RWA and leverage.

CAPITAL ADEQUACY*

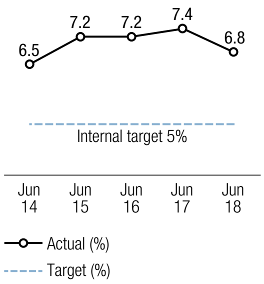


** Includes unappropriated profits.*

RWA HISTORY



LEVERAGE HISTORY*



** Includes unappropriated profits.*

SUPPLY OF CAPITAL

The tables below summarise the bank's qualifying capital components and related movements.

COMPOSITION OF CAPITAL ANALYSIS

	As at 30 June	
R million	**2018**	2017
Including unappropriated profits		
CET1	**85 474**	83 274
Tier 1	**86 674**	84 774
Total qualifying capital	**113 637**	102 527
Excluding unappropriated profits		
CET1	**82 990**	72 565
Tier 1	**84 190**	74 065
Total qualifying capital	**111 153**	91 818

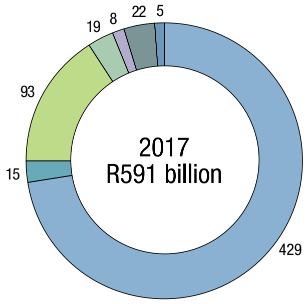
KEY DRIVERS: 2018 vs 2017

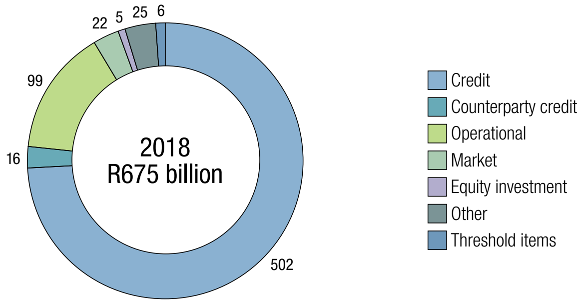
CET1 capital	▲	> Ongoing internal capital generation through earnings, offset by the payment of a dividend related to the Aldermore acquisition.
AT1 capital	▼	> Additional 10% haircut on NCNR preference shares not compliant with Basel III.
Tier 2 capital	▲	> Issuance of Basel III-compliant instruments in September 2017 (R2.75 billion) and April 2018 ($500 million), partly offset by additional 10% haircut on Tier 2 instruments not compliant with Basel III, as well as redemption of FRB11 (R1.5 billion) in December 2017. > Tier 2 mix comprises R23.3 billion Basel III-compliant instruments and R3.0 billion old-style instruments.

DEMAND FOR CAPITAL

The graphs unpack the RWA movement year-on-year.

RWA ANALYSIS





KEY DRIVERS: 2018 vs 2017

Credit	▲	> Organic growth, model recalibrations and exchange rate movements. > Incorporates the impact of the downgrade of the South African sovereign, state-owned entities and large corporates. > Includes the impact of the funding of the Aldermore acquisition.
Counterparty credit	▲	> Volumes and mark-to-market movements. > Incorporates the impact of the downgrade of the South African sovereign, state-owned entities and large corporates.
Operational	▲	> Recalibration of risk scenarios subject to the advanced measurement approach. > Increase in gross income for entities on the standardised approach.
Market	▲	> Volume and mark-to-market movements.
Equity investment	▼	> Disposal of investments.
Threshold items	▲	> Movement in deferred tax assets and investments in financial, banking and insurance entities (subject to 250% risk weighting).

CAPITAL ADEQUACY POSITION FOR THE BANK AND ITS FOREIGN BRANCHES

The bank's registered foreign branches must comply with SARB regulations and those of the respective in-country regulators, with primary focus placed on Tier 1 capital and total capital adequacy ratios. It remains the group's principle that entities are adequately capitalised on a standalone basis. Based on the outcome of detailed stress testing, each entity targets a capital level in excess of the in-country regulatory minimum.

Adequate controls and processes are in place to ensure that each entity is adequately capitalised to meet local and SARB regulatory requirements. Capital generated by branches in excess of targeted levels is returned to FRB, usually in the form of a return of profits. During the year, no restrictions were experienced on the repayment of such profits to the bank.

The RWA and capital adequacy positions of FRB and its foreign branches are summarised in the table below.

RWA AND CAPITAL ADEQUACY POSITIONS OF FRB AND ITS FOREIGN BRANCHES

	As at 30 June			
	2018			2017
	RWA R million	**Tier 1 %**	**Total capital adequacy %**	Total capital adequacy %
Basel III (SARB regulations)				
FirstRand Bank*,**	**675 384**	**12.8**	**16.8**	17.3
FirstRand Bank South Africa*	**621 428**	**12.8**	**16.7**	17.2
FirstRand Bank London	**52 499**	**9.4**	**14.8**	17.8
FirstRand Bank India	**1 613**	**39.4**	**39.9**	31.7
FirstRand Bank Guernsey#	**192**	**15.3**	**15.3**	37.9

* *Includes unappropriated profits.*

** *Includes foreign branches.*

Trading as FNB Channel Islands.

Regulatory update

BASEL III REFORMS	The BCBS finalised the Basel III reforms in December 2017, with a specific focus on reducing the variability of RWA. The BCBS has agreed a five-year transitional period, beginning 1 January 2022. The 2017 reforms aim to address weaknesses identified during the global financial crisis, i.e. credibility of the risk-based capital framework and to introduce constraints on the estimates banks use within internal models for regulatory capital purposes. The impact on the group capital position depends on the final implementation by the PA given a level of national discretion, however, the group continues to participate in the BCBS quantitative impact studies to assess and understand the impact of such reforms. Based on the Basel guidelines, the group is expected to comfortably meet these requirements over the transitional period.
LIQUIDITY COVERAGE RATIO	The LCR has been fully adopted by the SARB with the inclusion of a committed liquidity facility (CLF). Phasing in of the LCR commenced in 2015 and banks are required to be fully compliant by 2019. The minimum LCR requirement is currently 90%, with a final 10% incremental step-up to 100% due on 1 January 2019. The group remains focused on building a diversified pool of HQLA, which is somewhat constrained by the limited availability of these assets in the South African market. The BCBS published the LCR disclosure standards in March 2014 with the objective to reduce market uncertainty around liquidity positions. The standardised templates are completed semi-annually and the group publishes the quarterly disclosure templates on its website.
NET STABLE FUNDING RATIO	The NSFR is a structural balance sheet funding ratio focusing on promoting a more resilient banking sector. The ratio calculates the amount of available stable funding (ASF) relative to the amount of required stable funding (RSF). The ratio came into full effect as of 1 January 2018. Replacing *Directive 4 of 2016, Directive 8 of 2017* sets out the elements of national discretion exercised by the SARB in relation to the calibration of the NSFR framework for South Africa. The SARB, after due consideration and noting that rand funding is contained in the financial system, concluded it to be appropriate to apply a 35% ASF factor to deposits from financial institutions with a residual maturity of less than six months, as opposed to 0% originally proposed by BCBS. In line with several other international regulators, the SARB has also provided clarity on the alignment of the CLF and NSFR, applying a 5% RSF factor to the assets (post haircut) eligible for CLF purposes. These changes are anchored in the assessment of the true liquidity risk and assist the South African banking sector in meeting the NSFR requirements.
RESOLUTION FRAMEWORK	The South African regulatory architecture has undergone significant transformation to create a regulatory framework that will support an effective resolution regime. The country has adopted a twin peaks supervisory framework model that reduces the number of agencies involved in supervision. The PA, established within the SARB, and the Financial Sector Conduct Authority (FSCA), which replaces the Financial Services Board, were established on 1 April 2018. Whilst the PA/SARB is responsible for monitoring and enhancing financial stability as part of its explicit financial stability mandate, the SARB will also be responsible for assisting with the prevention of systemic events by means of its designation as the RA. The FSCA will supervise how financial institutions conduct their business and treat customers. It is also responsible for the efficiency and integrity of financial markets. In January 2018, a draft resolution framework was released to the banking industry for initial review, following which it will be released to the public for general comment. This draft framework sets out the broad principles for the resolution of banks, systemically-important non-bank financial institutions and holding companies of banks, and highlights the various legislative amendments required to ensure the framework is enforceable. Detailed definitions of key elements of the resolution framework are subject to finalisation, and directives or addendums to this framework will be published once finalised. The resolution plans will allow the PA to prepare for an event from which the group's recovery actions have failed or are deemed likely to fail. Bank resolution plans will be owned and maintained by the RA, but will require a significant amount of bilateral engagement and input from the individual banks to enable the RA to develop a customised plan that is most appropriate to each bank. As part of the Resolution Framework and powers of the RA, a deposit insurance scheme (DIS) has been proposed to protect depositors and enhance financial stability. A discussion paper on designing a DIS was issued in May 2017. Given the significant impact on the banks of funding the DIS, banks continue to actively engage with the SARB and National Treasury on the size of the fund and the funding mechanisms.
FINANCIAL CONGLOMERATES	The Financial Sector Regulation Act further empowers the PA to designate a group of companies as a financial conglomerate as well as to regulate and supervise such designated financial conglomerates. The PA has released the following: > draft set of financial conglomerate supervision prudential standards; > draft criteria for the designation of financial conglomerates; and > draft reporting template for an informal consultation process with the industry. The draft standards provide an early signal to the industry and affected stakeholders on the approach to the regulation and supervision of designated financial conglomerates. Comments were due by the end of August 2018 and standards are expected to be implemented during the first half of 2019.

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 and FirstRand Bank 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, as well as its focused strategy, good core profitability, financial flexibility, robust risk management and sound capitalisation.

04 presentation and reconciliations

Presentation

NORMALISED RESULTS

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

This *pro forma* financial information, which is the responsibility of the bank's directors, has been prepared for illustrative purposes to more accurately reflect operational performance and because of its nature may not fairly present in terms of IFRS, the bank's financial position, changes in equity, and results of operations or cash flows. Details of the nature of these adjustments and reasons thereof can be found below and on page A91 of this *Analysis of financial results* booklet. The *pro forma* financial information should be read in conjunction with the unmodified Deloitte & Touche and PricewaterhouseCoopers Inc. independent reporting accountants' report, which is available for inspection at the registered office.

DESCRIPTION OF DIFFERENCE BETWEEN NORMALISED AND IFRS RESULTS

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

MARGIN-RELATED ITEMS INCLUDED IN FAIR VALUE INCOME

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

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

- the margin 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 dollar 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 at a group level. The restructure resulted in the group, through its subsidiary FRIHL, having significant influence over the counterparty and an investment in an associate was recognised at a group level. The group believes that the circumstances that led to the impairment in the bank arose prior to the restructure. For normalised reporting, the bank retained the gross advance and impairments as it more accurately reflects the economic nature of the transaction.

IAS 19 REMEASUREMENT OF PLAN ASSETS

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

CASH-SETTLED SHARE-BASED PAYMENTS AND THE ECONOMIC HEDGE

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

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

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

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

In addition, the portion of the share-based payment expense which relates to the remeasurement of the liability arising from changes in the share price 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 required by *Circular 4/2018 Headline Earning*s in calculating headline earnings are included in normalised earnings on a line-by-line basis based on the nature of the adjustment.

The description and the amount of these adjustments are provided in the reconciliation between headline earnings and IFRS profit on page A92.

Statement of headline earnings – IFRS

for the year ended 30 June

R million	2018	2017	% change
Profit for the year (refer page C54)	**20 517**	18 537	11
NCNR preference shareholders	**(234)**	(237)	(1)
Earnings attributable to ordinary equityholders	**20 283**	18 300	11
Adjusted for	**(207)**	(31)	>100
Gain on disposal of investment securities and other investments of a capital nature	**(29)**	–	
Gain on disposal of available-for-sale assets	**(144)**	(66)	
(Gain)/loss on the disposal of property and equipment	**(9)**	26	
Reversal of impairment of assets in terms of IAS 36	**–**	(4)	
Other	**(31)**	–	
Tax effects of adjustments	**6**	13	
Headline earnings	**20 076**	18 269	10

Reconciliation from headline to normalised earnings

for the year ended 30 June

R million	2018	2017	% change
Headline earnings	**20 076**	18 269	10
Adjusted for:	**94**	(180)	(>100)
TRS and IFRS 2 liability remeasurement*	**(56)**	(63)	(11)
Private equity-related realisation	**259**	–	100
IAS 19 adjustment	**(109)**	(117)	(7)
Normalised earnings	**20 170**	18 089	12

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

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

In the current year, FirstRand's share price increased R16.74 during the year and during the prior year increased R2.31.

This resulted in a significant mark-to-market fair value profit in the current period (compared to a loss in the prior period) being included in the bank's IFRS attributable earnings. The normalised results reflect the adjustment to normalise this period-on-period IFRS fair value volatility from the TRS, as described in more detail on page A91.

Reconciliation of normalised to IFRS summary income statement

for the year ended 30 June 2018

R million	**Normalised**	IAS 19 adjustment	Margin-related items included in fair value income	TRS adjustment	Private equity realisations	Headline earnings	**IFRS**
Net interest income before impairment of advances	**42 746**	–	(1 679)	96	–	–	**41 163**
Impairment charge	**(6 659)**	–	–	–	–	–	**(6 659)**
Net interest income after impairment of advances	**36 087**	–	(1 679)	96	–	–	**34 504**
Non-interest revenue	**31 602**	–	1 679	452	(259)	213	**33 687**
Income from operations	**67 689**	–	–	548	(259)	213	**68 191**
Operating expenses	**(40 378)**	151	–	(470)	–	–	**(40 697)**
Income before tax	**27 311**	151	–	78	(259)	213	**27 494**
Indirect tax	**(805)**	–	–	–	–	–	**(805)**
Profit before tax	**26 506**	151	–	78	(259)	213	**26 689**
Income tax expense	**(6 102)**	(42)	–	(22)	–	(6)	**(6 172)**
Profit for the year	**20 404**	109	–	56	(259)	207	**20 517**
Attributable to							
NCNR preference shareholders	**(234)**	–	–	–	–	–	**(234)**
Ordinary equityholders	**20 170**	109	–	56	(259)	207	**20 283**
Headline and normalised earnings adjustments	**–**	(109)	–	(56)	259	(207)	**(113)**
Normalised earnings attributable to ordinary equityholders of the bank	**20 170**	–	–	–	–	–	**20 170**

Reconciliation of normalised to IFRS summary income statement

for the year ended 30 June 2017

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

B summary risk and capital management report

03 – 16

B summary risk and capital management report

INTRODUCTION

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

FirstRand believes that effective risk, performance and financial resource management are key to its success and underpin the delivery of sustainable returns to 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.

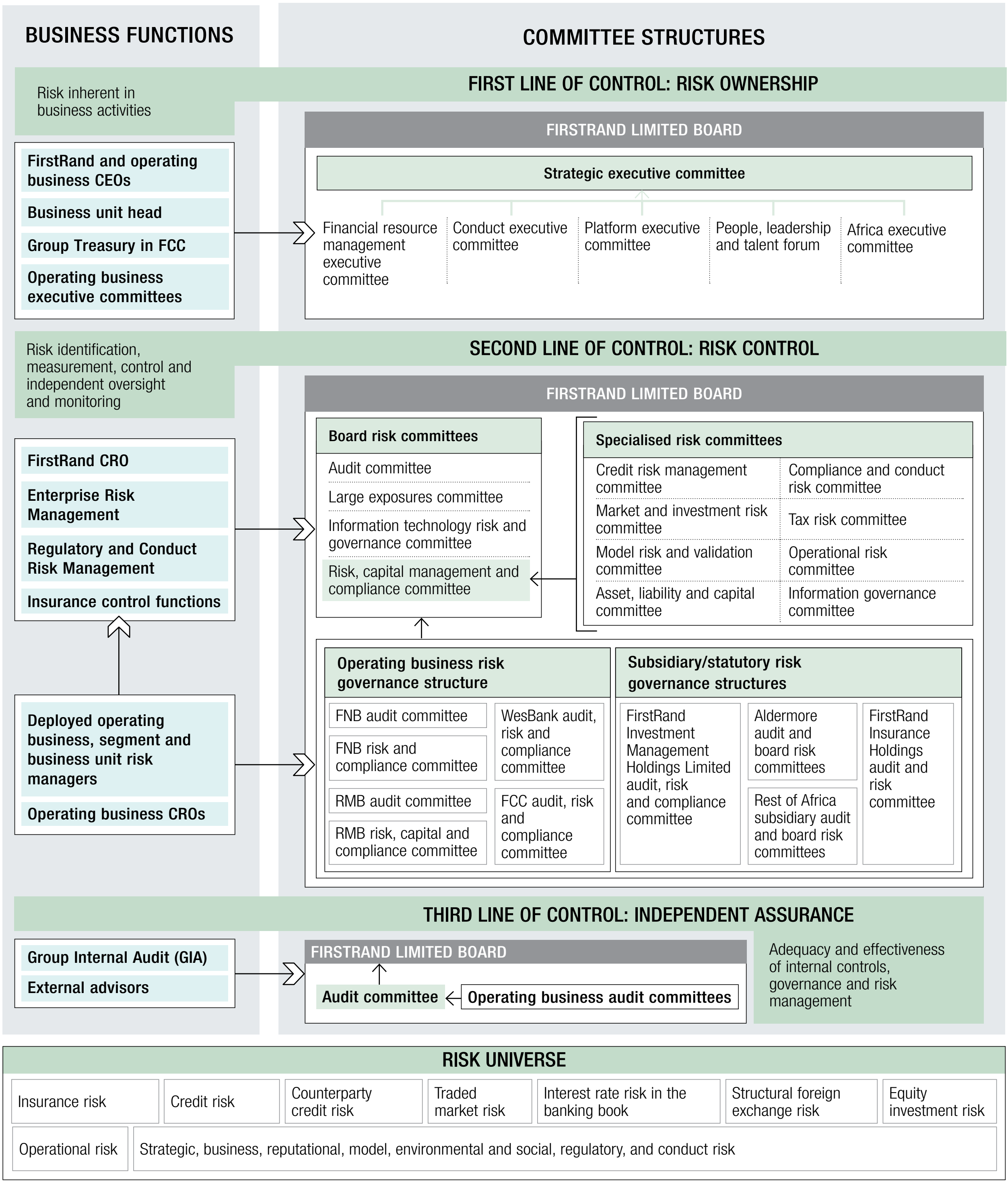
The group's business performance and risk management framework (BPRMF) describes the group's risk management structure and approach to risk management. Effective risk management requires multiple points of control or safeguards that should consistently be applied at various levels throughout the organisation. 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 operating 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 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 franchise 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 targets and 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 refinements of its 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 and risk performance and position. The macroeconomic outlook for South Africa and a number of other jurisdictions where the group operates, is reviewed on a monthly basis and spans a three-year forecast horizon. 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 value drivers, markets and macroeconomic environment also inform portfolio optimisation decisions and the price as well as allocation of financial resources.

BUSINESS ACTIVITIES AND RESULTANT RISKS

The group's strategy is executed through its portfolio of 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 Insurance risk	Corporate and counterparty credit risk Traded market risk	Retail, commercial and corporate credit risk	Retail and commercial credit risk Interest rate risk in the banking book Funding and liquidity risk		Interest rate risk in the banking book 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 pages B14 – 16.

RISK PROFILE

GROWTH AND RETURNS

At 30 June 2018, the bank increased normalised earnings 12% to R20 170 million (2017: R18 089 million) and achieved an ROE of 23.4% (2017: 22.2%). Refer to pages A13 to A93 of section A for a detailed overview of the bank's financial performance.

The following table provides a high-level overview of the bank'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
SOLVENCY	**Capital adequacy** **16.8%** 2017: 17.3%	**Capital adequacy** Target **>14%**	FirstRand acquired Aldermore in April 2018. FRB's capital position was impacted by the acquisition, reducing the CET1 ratio by 110 bps. The reduction relates to a payment of a dividend to the legal entity which acquired Aldermore to fund the goodwill and intangibles, as well as providing funding for the net asset value acquired. The CET1 ratio of 12.7% as at 30 June 2018 exceeded the bank's stated targets. The bank continues to actively manage its capital composition given the grandfathering and redemption of old-style Tier 2 instruments. This resulted in a more efficient composition which is closely aligned with the bank's internal targets. The Basel III leverage ratio is a supplementary measure to the risk-based capital ratio and greater emphasis has been placed on monitoring the interplay between capital and leverage. The bank has maintained a leverage ratio above its internal targets.
	Tier 1 **12.8%** 2017: 14.3%	**Tier 1** Target **>12%**	
	CET1 **12.7%** 2017: 14.1%	**CET1** Target **10% – 11%**	
	Leverage **6.8%** 2017: 7.4%	**Leverage** Target **>5%**	

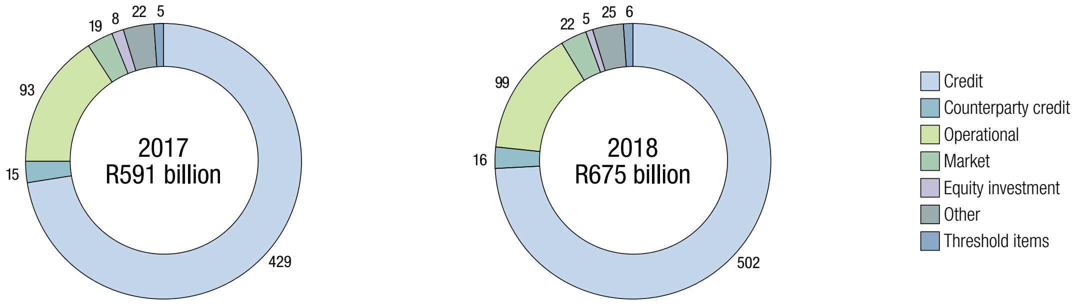
Note: Capital and leverage ratios include unappropriated profits.

LIQUIDITY	**LCR** **118%** 2017: 105%	**LCR** Minimum regulatory requirement: **90%** (2017: 80%)	The bank continued to actively manage liquidity buffers through high quality, highly liquid assets that are available as protection against unexpected events or market disruptions. The bank exceeded the 90% minimum LCR with an average LCR of 118% over the quarter ended 30 June 2018, and the bank's average available HQLA holdings amounted to R182 billion.
	NSFR **111%** 2017: n/a	**NSFR** Minimum regulatory requirement: **100%**	The NSFR became effective on 1 January 2018 with a minimum regulatory requirement of 100%. The bank exceeded the 100% minimum requirement with an NSFR of 111% at 30 June 2018.

	RISK TYPE	YEAR ENDED 30 JUNE 2018	2018 IN REVIEW
EXPOSURES PER RISK TYPE	**Credit risk**	**Normalised NPLs** **2.47%** 2017: 2.27% **Normalised credit loss ratio** **80bps** 2017: 88bps Long-run average **100 – 110 bps**	The bank's credit loss ratio of 80 bps was down year-on-year and remains well below the bank's through-the-cycle threshold, reflecting the positive impact of the bank's origination strategies and provisioning polices over the past two financial years.
	Market risk	**10-day expected tail loss** **R338 million** 2017: R299 million	The foreign exchange asset class represents the most significant traded market risk exposure as at 30 June 2018. The bank's market risk profile remained within risk appetite.
	Interest rate risk in the banking book	**Net interest income sensitivity** **Down 200 bps** **(R3.0 billion)** 2017: -R1.5 billion **Up 200 bps** **R2.6 billion** 2017: R1.0 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 R3.0 billion. A similar increase in interest rates would result in an increase in projected 12-month NII of R2.6 billion. The bank's average endowment book was R211 billion for the year. The year-on-year increase in NII was largely driven by the transitioning of RMB's investment banking advances from fair value to amortised cost in preparation for IFRS 9.

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

RWA ANALYSIS



CURRENT AND EMERGING CHALLENGES AND OPPORTUNITIES

Identifying and monitoring challenges emerging in the wider operating environment and risk landscape both 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. > 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. > Policy uncertainty with challenges remaining around the mining charter, SOEs' financial stability and labour markets.	> 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* in the group's annual integrated 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.
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 the PA transitional regulatory requirements, which include buffer add-ons for the D-SIB, the CCyB, 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 bank continues to focus on growing its deposit franchise through innovative products and improving the risk profile of institutional funding. > FirstRand Bank 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 bank 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 risk	
> 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 interest rate risk in the banking book. > 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 FSCA 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	DISLOSURE 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	Group Pillar 3 disclosure
Credit risk	The risk of loss due to the non-performance of a counterparty in respect of any financial or other obligation. For fair value portfolios, the definition of credit risk is expanded to include the risk of losses through fair value changes arising from changes in credit spreads. Credit risk also includes credit default, pre-settlement, country, concentration and securitisation risk.	> IFRS 7 quantitative information	FRB annual financial statements
		> Pillar 3 disclosure requirements	Group Pillar 3 disclosure
Counterparty credit risk	The risk of a counterparty to a contract, transaction or agreement defaulting prior to the final settlement of the transaction's cash flows.	> Pillar 3 disclosure requirements	Group Pillar 3 disclosure
Funding and liquidity risk		> IFRS 7 quantitative information	FRB annual financial statements
> Funding liquidity risk > Market 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. The risk that market disruptions or lack of market liquidity will cause a bank to be unable (or able, but with difficulty) to trade in specific markets without affecting market prices significantly.	> Funding and liquidity risk governance, assessment and management > Liquidity risk profile > Common disclosure templates in line with the Regulations	Group Pillar 3 disclosure
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	FRB annual financial statements
		> Pillar 3 disclosure requirements	Group Pillar 3 disclosure

RISK TYPE	RISK DEFINITION	DISLOSURE REQUIREMENT	REPORT REFERENCES
Non-traded market risk		> IFRS 7 quantitative information > Projected NII sensitivity > Net structural foreign exposures	FRB 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	Group 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	FRB annual financial statements
		> Governance, assessment and management > Investment risk exposure, sensitivity and capital	Group 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/common disclosures.aspx

NON-FINANCIAL RISKS

RISK TYPE	RISK DEFINITION	DISLOSURE 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	Group Pillar 3 disclosure
Regulatory risk	The risk of statutory or regulatory sanction and material financial loss or reputational damage as a result of failure to comply with any applicable laws, regulations or supervisory requirements.	> Assessment and management > Pillar 3 disclosure requirements	Group Pillar 3 disclosure
Strategic risk	The risk to current or prospective earnings arising from inappropriate business decisions or the improper implementation of such decisions.	> Assessment and management > Pillar 3 disclosure requirements	Group Pillar 3 disclosure
Business risk	The risk to earnings and capital from potential changes in the business environment, client behaviour and technological progress. Business risk is often associated with volume and margin risk, and relates to the group's ability to generate sufficient levels of revenue to offset its costs.	> Assessment and management > Pillar 3 disclosure requirements	Group 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	Group 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	Group 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	The environmental and social risk report on www.firstrand.co.za

C annual financial statements

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C annual financial statements

DIRECTORS' RESPONSIBILITY STATEMENT AND APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

TO THE SHAREHOLDER OF FIRSTRAND BANK LIMITED

The directors of FirstRand Bank Limited (the bank) are responsible for the preparation and fair presentation of the annual financial statements comprising the statement of financial position, income statement, and statements of comprehensive income, changes in equity and cash flows, and the notes to the annual financial statements. These annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), including interpretations issued by the IFRS Interpretations Committee, the Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, the JSE Listings Requirements, the LSE 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 annual financial statements and for keeping adequate accounting records in accordance with the bank's system of internal control. Jaco van Wyk, CA (SA), supervised the preparation of the annual financial statements for the year.

In preparing the annual financial statements, suitable accounting policies in accordance with IFRS have been applied and reasonable judgements and estimates have been made by management. The 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 annual financial statements incorporate full and responsible disclosure in line with the bank's philosophy on corporate governance.

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

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

Based on the information and explanations given by management and internal audit, nothing has come to the attention of the directors to indicate that the internal controls are inadequate and that the financial records may not be relied on in preparing the annual financial statements and maintaining accountability for the bank's assets and liabilities. Nothing has come to the attention of the directors to indicate any breakdown in the functioning of internal controls, resulting in a material loss to the bank, during the year and up to the date of this report. Based on the effective internal controls implemented by management, the directors are satisfied that the annual financial statements fairly present the state of affairs of the bank at the end of the financial year and the net income and cash flows for the year.

The directors have reviewed the bank's budgets and flow of funds forecasts and considered the bank's ability to continue as a going concern in light of current and anticipated economic conditions. On the basis of this review, and in light of the current financial position and profitable trading history, the directors are satisfied that the bank has adequate resources to continue in business for the foreseeable future. The going concern basis, therefore, continues to apply and has been adopted in the preparation of the annual financial statements. It is the responsibility of the bank's independent external auditors, Deloitte & Touche and PricewaterhouseCoopers Inc, to report on the fair presentation of the financial statements. These financial statements have been audited in terms of section 29(1) of the Companies Act 71 of 2008. Their unmodified report appears on page C8.

The annual financial statements of the bank, which appear on pages C6 to C202, and the summary risk and capital management report, which appear on section B, were approved by the board of directors on 5 September 2018.

WR Jardine	**AP Pullinger**
Chairman	Chief executive officer

Sandton

5 September 2018

AUDIT COMMITTEE REPORT

The audit committee has satisfied itself that Deloitte & Touche and PricewaterhouseCoopers Inc. (the auditors) are independent and were able to conduct their audit functions without any influence from FirstRand Bank Limited. This conclusion was arrived at after taking into account the following:

- the representations made by the auditors to the audit committee;
- the auditors do not, except as external auditors or in rendering permitted non-audit services, receive any remuneration or other benefits from the company;
- the auditors' independence was not impaired by any consultancy, advisory or other work undertaken by them;
- the auditors' independence was not prejudiced as a result of any previous appointment as auditor; and
- the criteria specified for independence were met.

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

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

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

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

Signed on behalf of the group audit committee:

GG Gelink
Chairman, audit committee

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 are required of a public company in terms of the Companies Act and that all such returns and notices are true, correct and up to date.

C Low
Company Secretary

Sandton

5 September 2018

DIRECTORS' REPORT

NATURE OF BUSINESS

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

SHARE CAPITAL

Ordinary share capital

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

DIVIDENDS

Ordinary cash dividends of R16 508 million were paid during the 2018 financial year (2017: R11 963 million).

Dividends of R234 million were paid on non-cumulative non-redeemable preference shares (2017: R237 million).

PROFIT AFTER TAX

Profit after tax amounted to R20 517 million (2017: R18 537 million).

FINANCIAL REPORTS

The company financial statements have been prepared in line with the documented accounting policies.

LONG-TERM INCENTIVE SCHEMES

Details of the long-term incentive schemes established for the benefit of employees of FirstRand Bank Limited can be found in note 24 of the annual financial statements.

INDEPENDENT AUDITORS' REPORT

To the shareholders of FirstRand Bank Limited

Report on the audit of the financial statements

Our opinion

We have audited the financial statements of FirstRand Bank Limited set out on pages C17 to C202, which comprise the statement of financial position as at 30 June 2018, and the income statement and statement of other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for opinion

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

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

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

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

Key audit matters

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

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 Company 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 financial statements, the valuation of the complex financial instruments was considered a matter of most significance in our audit. The related disclosures in the financial statements are included in note 26 – 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.

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 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. <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.	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 Company had responded to these by making further adjustments where appropriate (in the form of overlays). <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. ● 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

Retail advances 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. Overlays 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 financial statements: ● Accounting policies, note 8.4 - Critical accounting estimates, assumptions and judgements; and ● Note 31.1 – Financial and Insurance risk - Credit risk.	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: o Comparing those assumptions which could have a material impact with actual experience and industry practice, including the determination of probabilities of default, expected loss in the event of default, the emergence periods, the curing of defaulted or renegotiated loans as well as the potential divergence of these assumptions for specific advance categories such as advances subject to debt counselling; and o 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.
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 Company for the annual period beginning on 1 July 2018. In periods prior to	To obtain sufficient appropriate audit evidence on the disclosures presented in note 29 with regards to the expected impact of the adoption of IFRS 9 on the Company's 2019 financial statements, we have performed the following procedures: ● We obtained an understanding of the governance processes over the implementation project through

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 Company's 2019 financial statements.

The Company's estimate of the adoption impact of IFRS 9 and the resulting disclosures required by IAS 8 are presented in note 29. This note includes the Company'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 Company, the most significant impact on the Company 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 Company 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 Company's portfolio of assets at any given point in time.

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 Company's IFRS 9 implementation project and existing governance structures. This included determining the classification of instruments under IFRS 9,

discussion with management and attendance of the FirstRand 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.
- 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 29, are reasonable.

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 Company's financial position and therefore this has been identified as a matter of most significance in our audit. Related disclosures in the financial statements are included in note 29 - Standards and interpretations issued but not yet effective.	

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 financial statements and our auditors' report thereon.

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

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

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

Responsibilities of the Directors for the Financial Statements

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

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

Auditors’ Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

Report on other legal and regulatory requirements

In terms of the Independent Regulatory Board for Auditors (IRBA) Rule, published in Government Gazette Number 39475 dated 4 December 2015, we report that Deloitte & Touche and PricewaterhouseCoopers Inc. have been the joint auditors of FirstRand Bank Limited in its current form for 20 years. In addition, prior to the formation of FirstRand Bank Limited, Deloitte & Touche were one of the joint auditors of First National Bank of Southern Africa Limited for 10 years.

Deloitte & Touche

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

Johannesburg

5 September 2018

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Registered auditor
Director: Francois Prinsloo CA (SA)

ACCOUNTING POLICIES

1 INTRODUCTION AND BASIS OF PREPARATION

1.1 Introduction

The bank's financial statements have been prepared in accordance with IFRS, including interpretations issued by the IFRS Interpretations Committee, the Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, the JSE Listing Requirements, the LSE Listing Requirements and the requirements of the Companies Act no 71 of 2008 (Companies Act).These financial statements comprise the statement of financial position (also referred to as the balance sheet) as at 30 June 2018, and the statement of other comprehensive income, income statement, statement of changes in equity and statement of cash flows for the year ended, and the notes, comprising a summary of significant accounting policies and other explanatory notes.

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

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

7	**Transactions with employees**	Employee benefits (section 7.1)	Share-based payment transactions (section 7.2)

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 bank’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 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 deferred tax assets for unrealised losses on debt instruments that are measured at fair value for accounting purposes but considered at cost for tax purposes. The bank is accounting for deferred tax of these assets in line with the amendments and adoption of these amendments had no impact on the bank.

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

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 bank’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are outlined in policy 8.

Presentation of financial statements, functional and foreign currency

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

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

2 INVESTMENTS IN OTHER ENTITIES

2.1 Subsidiaries, structured entities and associates

<table>
<tr><th></th><th>Subsidiaries and other structured entities</th><th>Associates</th></tr>
<tr><td>Typical shareholding in the assessment of entities that are not structured entities</td><td>Greater than 50%</td><td>Between 20% and 50%</td></tr>
<tr><td colspan="3">When an entity is a structured entity and control of an entity is not evidenced through shareholding, the bank considers the substance of the arrangement and the bank's involvement with the entity to determine whether the bank has control or significant influence over the significant decisions that impact the relevant activities of the entity.</td></tr>
<tr><td>Nature of the relationship between the bank and the investee</td><td>Entities over which the bank has control as defined in IFRS 10.

From time to time, the bank also sponsors the formation of structured entities primarily for the purpose of allowing clients to hold investments, for asset securitisation transactions and for buying and selling credit protection. Where the sponsorship does not result in control, the sponsorship is disclosed in terms of IFRS 12.</td><td>Entities over which the bank has significant influence as defined in IAS 28.</td></tr>
<tr><th colspan="3">Investments in subsidiaries, other structured entities and associates</th></tr>
<tr><td colspan="3">The bank measures investments in these entities at cost less impairment (in terms of IAS 36), with the exception of investments acquired and held exclusively with the view to dispose of in the near future (within 12 months) that are measured at fair value less cost to sell in terms of IFRS 5.</td></tr>
<tr><th colspan="3">Interests in unconsolidated structured entities</th></tr>
<tr><td colspan="3">Interests in unconsolidated structured entities may expose the bank to variability in returns from the structured entity. However, because of a lack of power over the structured entity, it is not consolidated. Normal customer/supplier relationships where the bank transacts with the structured entity on the same terms as other third parties are not considered to be interests in the entity.

From time to time the bank also sponsors the formation of structured entities primarily for asset securitisation transactions and for buying and selling credit protection.

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

2.2 Related party transactions

Related parties of the bank, as defined, include:

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

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

3 INCOME, EXPENSES AND TAXATION

3.1 Income and expenses

Net interest revenue recognised in profit or loss
Net interest includes: ➢ interest on financial instruments measured at amortised cost and available-for-sale debt instruments determined using the effective interest method. ➢ interest on compound instruments. Where instruments with characteristics of debt, such as redeemable preference shares, are included in loans and advances or long-term liabilities and are measured at amortised cost, dividends received or paid on these instruments are included in the cash flows used to determine the effective interest rate of the instrument. ➢ interest on debt instruments designated at fair value through profit or loss that are held by and managed as part of the bank's funding operations and intercompany balances. ➢ 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. ➢ the difference between the purchase and resale price in repurchase and reverse repurchase agreements where the related advance or deposit is measured at amortised cost, because the amount is in substance

interest.

- the net gains or losses arising on the sale of amortised cost advances to securitisation vehicles in the bank. The net gain or losses on the sale of a book of advances at fair value is in substance the present value of future margin and therefore the amount is included in net interest income (NII) on the date of sale.

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

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

Fair value gains or losses

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

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

Gains less losses from investing activities

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

- any gains or losses on disposals of investments in subsidiaries and associates;
- any amounts recycled from other comprehensive income in respect of available-for-sale financial assets; and
- dividend income on any equity instruments that are considered long term investments of the bank, including dividends from subsidiaries, associates and joint ventures.

Dividend income

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

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

Expenses

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

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

3.2 Income tax expenses

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

Current income tax	
The current income tax expense is calculated by adjusting the net profit for the year for items that are non-taxable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted at the reporting date, in each particular jurisdiction within which the bank operates.	
Deferred income tax	
Recognition	On temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the financial statements.
Typical temporary differences in the bank that deferred tax is provided for	➢ Depreciation of property and equipment; ➢ revaluation of certain financial assets and liabilities, including derivative contracts; ➢ provisions; ➢ impairment losses; and ➢ tax losses carried forward.
Measurement	Using the liability method under IAS 12 and applying tax rates and laws that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.
Presentation	In profit or loss unless it relates to items recognised directly in equity or other comprehensive income. Items directly recognised in equity or other comprehensive income relate to: ➢ the issue or buy back of share capital; ➢ fair value re-measurement of available-for-sale investments; and ➢ derivatives designated as hedging instruments in effective cash flow hedges. Tax in respect of these transactions is recognised directly in other comprehensive income and subsequently reclassified to profit or loss (where applicable) at the same time as the related gain or loss.
Deferred tax assets	The bank recognises deferred income tax assets only if it is probable that future taxable income will be available against which the unused tax losses can be utilised, based on management's review of the bank's budget and forecast information. The bank reviews the carrying amount of deferred income tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

4 FINANCIAL INSTRUMENTS

4.1 Classification

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

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

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

4.2 Measurement

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

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

4.3 Impairment of financial assets

General

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

Scope	This policy applies to: ➢ advances measured at amortised cost; ➢ investment securities measured at amortised cost; ➢ advances and debt instruments classified as available-for-sale; and

	➢ accounts receivable.
Objective evidence of impairment	The bank assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. The following factors are considered when determining whether there is objective evidence that the asset has been impaired: ➢ breaches of loan covenants and conditions; ➢ time period of overdue contractual payments; ➢ actuarial credit models; ➢ loss of employment or death of the borrower; and ➢ probability of liquidation of the customer. Where objective evidence of impairment exists, impairment testing is performed based on the following: ➢ the loss given default (LGD) which is the expected loss that will be realised at default after taking into account recoveries through collateral and guarantees; ➢ the probability of default (PD) which is a measure of the expectation of how likely the customer is to default; and ➢ the exposure at default (EAD) which is the expected amount outstanding at the point of default. For available-for-sale equity instruments objective evidence of impairment includes information about significant changes with an adverse effect on the environment in which the issuer operates and indicates that the cost of the investment in the equity instrument may not be recovered and a significant or prolonged decline in the fair value of the security below its cost.
Assessment of objective evidence of impairment	An assessment of impairment is first performed individually for financial assets that are individually significant (typically corporate) and then individually or collectively for financial assets that are not individually significant (typically retail). If the bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and performs a collective assessment for impairment. Financial assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.
Collective assessment	For the purposes of a collective assessment of impairment, financial assets are grouped on the basis of similar credit risk characteristics; i.e. on the basis of the bank's grading process that considers asset type, industry, geographical location, collateral type, past due status and other relevant factors. Those characteristics are relevant to the estimation of future cash flows for groups of such financial assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the financial assets being evaluated.

Recognition of impairment loss	If there is objective evidence of impairment, an impairment loss is recognised in a separate line in profit or loss. The amount of the loss is measured as the difference between the financial assets' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. For available-for-sale financial assets which are impaired the cumulative loss is reclassified from other comprehensive income to profit or loss.
Reversal of impairment loss	If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating): ➢ the previously recognised impairment loss is reversed by adjusting the allowance account (where applicable) and the amount of the reversal is recognised in profit or loss; and ➢ impairment losses recognised on available-for-sale equity instruments are not subsequently reversed through profit or loss, but are recognised directly in other comprehensive income.

Impairment of advances

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

<table>
<tr><th colspan="3"></th></tr>
<tr><td>Past due advances</td><td colspan="2">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.</td></tr>
<tr><th></th><th>Type of advance</th><th>Bank policy on past due/impaired</th></tr>
<tr><td rowspan="3">Past due advances</td><td>Loans with a specific expiry date (e.g. term loans etc.) and loans repayable by regular instalments (e.g. mortgage loans and personal loans).</td><td>Treated as overdue where one full instalment is in arrears for one day or more and remains unpaid as at the reporting date. Advances on which partial payments have been made are included in neither past due nor impaired until such time as the sum of the unpaid amounts equals a full instalment, at which point it is reflected as past due.</td></tr>
<tr><td>Loans payable on demand (e.g. overdrafts).</td><td>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.</td></tr>
<tr><td colspan="2">The full outstanding amount is reported as past due even if part of the balance in not yet due.</td></tr>
<tr><td rowspan="2">Non-performing loans</td><td>Retail loans.</td><td>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 remains in non-performing loans until fully cured.</td></tr>
<tr><td>Commercial and wholesale loans.</td><td>Analysed on a case-by-case basis taking into account breaches of key loan conditions, excesses and similar risk indicators.</td></tr>
<tr><th colspan="3">Impairments</th></tr>
<tr><td>Specific</td><td colspan="2">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.</td></tr>
<tr><td>Portfolio</td><td colspan="2">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</td></tr>
</table>

	portfolio where an incurred impairment event is inherent in a portfolio of performing advances but has not specifically been identified; and ➢ the portfolio specific impairment (PSI) which reflects the decrease in estimated future cash flows for the sub segment of the performing portfolio where there is objective evidence of impairment.

Write-offs

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

4.4 Transfers and derecognition

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

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

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

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

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

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

4.5 Offsetting of financial instruments and collateral arrangements

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

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

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

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

4.6 Derivative financial instruments and hedge accounting

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

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

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

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

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

5 OTHER ASSETS AND LIABILITIES

5.1 Classification and measurement

<table>
<tr><th>Classification</th><th>Measurement</th></tr>
<tr><th colspan="2">Property and equipment</th></tr>
<tr><td colspan="2">Information regarding land and buildings is kept at the bank’s registered office and is open for inspection in terms of Section 26 of the Companies Act.</td></tr>
<tr><td>Property and equipment of the bank includes:
➢ assets utilised by the bank in the normal course of operations to provide services including freehold property and leasehold premises and leasehold improvements (owner occupied properties);
➢ assets which are owned by the bank and leased to third parties under operating leases as part of the bank's revenue generating operations;
➢ capitalised leased assets; and
➢ other assets utilised in the normal course of operations including computer and office equipment, motor vehicles and furniture and fittings.</td><td>Historical cost less accumulated depreciation and impairment losses, except for land which is not depreciated.

Depreciation is on a straight line basis over the useful life of the asset, except for assets capitalised under finance leases where the bank is the lessee; in which case it is depreciated over the life of the lease.

The useful life of each asset is assessed individually. The benchmarks used when assessing the useful life of the individual assets are set out below.

<table>
<tr><td>Leasehold premises</td><td>Shorter of estimated life or period of lease</td></tr>
<tr><td>Freehold property and property held under finance lease:</td><td></td></tr>
<tr><td>➢ Buildings and structures</td><td>50 years</td></tr>
<tr><td>➢ Mechanical and electrical</td><td>20 years</td></tr>
<tr><td>➢ Components</td><td>20 years</td></tr>
<tr><td>➢ Sundries</td><td>3 -5 years</td></tr>
<tr><td>Computer equipment</td><td>3 - 5 years</td></tr>
<tr><td>Other equipment</td><td>Various between 3 – 10 years</td></tr>
</table></td></tr>
</table>

<table>
<tr><th>Classification</th><th>Measurement</th></tr>
<tr><th colspan="2">Intangible assets</th></tr>
<tr><td>Intangible assets of the bank includes:
➢ internally generated intangible assets (including computer software and other assets such as trademarks or patents) are capitalised when the requirements of IAS 38 relating to the recognition of internally generated assets have been met;
➢ external computer software development costs are capitalised when they can be clearly associated with a strategic and unique system which will result in a benefit for the bank exceeding the costs incurred for more than one financial period; and
➢ material acquired trademarks, patents and similar rights are capitalised where the bank will receive a benefit from these intangible assets for more than one financial period.

All other costs related to intangible assets are expensed in the financial period incurred.</td><td>Cost less accumulated amortisation and any impairment losses.

Amortisation is on a straight line basis over the useful life of the asset.

The useful life of each asset is assessed individually. The benchmarks used when assessing the useful life of the individual assets are:

Software development costs — 3 years
Trademarks — 10 – 20 years
Other — 3 - 10 years</td></tr>
<tr><th colspan="2">Commodities</th></tr>
<tr><td>Commodities acquired for short term trading purposes include the following:
➢ commodities acquired for the intention of resale in the short term or if they form part of the trading operations of the bank; and
➢ certain commodities subject to option agreements whereby the counterparty may acquire the commodity at a future date.</td><td>Fair value less costs to sell with changes in fair value being recognised in non-interest revenue as fair value gains or losses within non-interest revenue.

The price risk in commodities subject to option agreements is fully hedged through a short position and if the party exercises the option the net profit earned on the transaction will be an interest margin recognised as interest revenue.</td></tr>
<tr><td>Forward contracts to purchase or sell commodities where net settlement occurs, or where physical delivery occurs and the commodities are held to settle a further derivative contract, are recognised as derivative instruments.</td><td>Fair value through profit or loss.</td></tr>
<tr><th colspan="2">Provisions</th></tr>
<tr><td colspan="2">The bank will only recognise a provision measured in terms of IAS 37 when there is uncertainty around the amount or timing of payment. Where there is no uncertainty the bank will recognise the amount as a creditor or accrual. The bank usually recognises provisions related to litigation and claims. The bank recognises a provision when a reliable estimate of the outflow required can be made and the outflow is more probable than not.</td></tr>
</table>

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

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

5.2 Non-current assets and disposal groups held for sale

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

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

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

5.3 Leases

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

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

	Bank is the lessee	Bank is the lessor
Operating leases	Recognised as an operating expense in profit or loss on a straight line basis over the period of the lease. Any difference between the actual lease amount payable and the straight-lined amount calculated is recognised as a liability of the bank in creditors and accruals.	Assets held under operating leases are recognised as a separate category of property and equipment (assets held under leasing arrangements) and depreciated - refer to policy 5.1. Rental income is recognised as other non-interest revenue on a straight line basis over the lease term.
Instalment credit sale agreements where the bank is the lessor	The bank regards instalment credit sale agreements as financing transactions and includes the total rentals and instalments receivable, less unearned finance charges, in advances. The bank calculates finance charges using the effective interest rates as detailed in the contracts and credits finance charges to interest revenue in proportion to capital balances outstanding.	

6 CAPITAL AND RESERVES

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

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

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

7 TRANSACTIONS WITH EMPLOYEES

7.1 Employee benefits

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

Defined contribution plans	
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 On retirement of current defined contribution active members, the fund provides a pension that can be purchased with the member's share. The pension so purchased is determined based on the purchasing member's demographic details (age, gender, age of spouse), the pension structure (guarantee period, spouse's reversion and pension increase target) and the economic assumptions at time of purchase (inflation linked bond yields available). A benefit on withdrawal and retrenchment are determined in terms of the prevailing legislation and is equivalent to the value of the actuarial reserve held in the fund.

<table>
<tr><th colspan="2">Defined benefit plans</th></tr>
<tr><td>Defined benefit obligation liability</td><td>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.</td></tr>
<tr><td></td><td>Measurement
The present value of the defined benefit obligation is calculated annually by independent actuaries using the projected credit unit method. The discount rate used is the rate of high quality 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.</td></tr>
<tr><td>Plan assets</td><td>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.</td></tr>
<tr><th colspan="2">Post-employment benefits</th></tr>
<tr><td>Profit or loss</td><td>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.</td></tr>
<tr><td>Other comprehensive income</td><td>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.</td></tr>
<tr><th colspan="2">Termination benefits</th></tr>
<tr><td colspan="2">The bank recognises termination benefits as a liability in the statement of financial position and as an expense, included in staff costs, in profit or loss when it has a present obligation relating to termination. The bank has a present obligation at the earlier of when the bank can no longer withdraw the offer of the termination benefit or when the bank recognises any related restructuring costs.</td></tr>
<tr><th colspan="2">Liability for short term employee benefits</th></tr>
<tr><td>Leave pay</td><td>The bank recognises a liability for the employees' rights to annual leave in respect of past service. The amount recognised by the bank is based on the current salary of employees and the contractual terms between the employee and the bank. The expense is included in staff costs.</td></tr>
</table>

Bonuses	The bank recognises a liability and an expense for management and staff bonuses when it is probable that the economic benefits will be paid and the amount can be reliably measured. The expense is included in staff costs.

7.2 Share-based payment transactions

The bank operates cash settled share-based 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 CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

8.1 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 bank, except those related to fair value measurement which are included in note 26.

8.2 Subsidiaries, structured entities and associates

Consolidated financial statements	The bank does not prepare consolidated financial statements as there are no material differences between the amounts reported in the separate and consolidated financial statements. This has been agreed by the various stakeholders. The bank is a wholly owned subsidiary of FirstRand Limited, who prepares consolidated financial statements as set out in section 2 basis of preparation.
Subsidiaries	Only one party can have control over a subsidiary. In determining whether the bank has control over an entity, consideration is given to any rights the bank has that result in the ability to direct the relevant activities of the investee, and the bank's exposure to variable returns. In operating entities shareholding is most often the clearest indication of control. Generally where the bank's shareholding is greater than 50%, the investment is accounted for as a subsidiary.
Associates	Determining whether the bank has significant influence over an entity: ➢ significant influence may arise from rights other than voting rights for example management agreements; and ➢ the bank considers both the rights that it has as well as currently exercisable rights that other investors have when assessing whether it has the practical ability to significantly influence the relevant activities of the investee. The bank does not have any associates that are material to its financial position, results of operations or cashflows.
Structured entities	Structured entities are those where voting rights generally relate to administrative tasks only and the relevant activities are determined only by means of a contractual arrangement. When assessing whether the bank has control over a structured entity specific consideration is given to the purpose and design of the structured entity and whether the bank has power over decisions that relate to activities that the entity was designed to conduct. The bank currently controls a structured entity that has been established for the purpose of creating high quality liquid assets that can be pledged as collateral under the SARB's committed liquidity facility if required. The bank does not consolidate the

	entity. The structured entity is merely a mechanism to facilitate the transaction and as there was no drawdown on the facility in the current year, the structured entity has no economic substance. The bank has not provided any additional financial or other support to this entity in the current year. The bank does not have the intention to provide additional support in the foreseeable future and, as such, is not exposed to any additional risks from the relationship with this entity.
Foreign operations	Management have reviewed the economies where the bank's foreign operations are actively conducted and have not identified any hyperinflationary economies in terms of the requirements of IFRS. The bank 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.

8.3 Taxation

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

8.4 Impairment of financial assets

Impairment of financial assets	
In determining whether an impairment loss should be recognised, the bank makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans.	
General	
Collective impairment assessments of groups of financial assets	Future cash flows in a group of financial assets are estimated on the basis of the contractual cash flows of the assets in the bank and historical loss experience for assets with similar credit risk characteristics. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows for groups of financial assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are regularly reviewed by the bank to reduce any differences between loss estimates and actual loss experience.

Impairment of financial assets	
Impairment assessment of collateralised financial assets	The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether the bank elects to foreclose or not.

Advances

The bank continuously assesses its credit portfolios for impairment. Significant advances are monitored by the credit risk management committee and impaired in accordance with the bank's impairment policy when an indication of impairment is observed.

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

In determining the amount of the impairment, the bank considers the PD, EAD and LGD.

Performing loans
The assessment of whether objective evidence of impairment exists requires judgement and depends on the class of the financial asset. In the retail portfolios the account status, namely arrears versus non-arrears status, is taken as a primary indicator of an impairment event. In the commercial portfolios, other indicators such as the existence of high-risk accounts, based on internally assigned risk ratings and management judgements are used, while the wholesale portfolio assessment (which includes RMB investment banking and RMB corporate banking) includes a judgemental review of individual industries for objective signs of distress. Where impairment is required to be determined for the performing book, the following estimates are required: ➢ the IBNR provision is calculated on this sub segment of the portfolio, based on historical analysis of loss ratios, roll rates from performing status into non-performing status and similar risk indicators over an estimated loss emergence period. Estimates of roll rates, loss ratios and similar risk indicators are based on analysis of internal and, where appropriate, external data. Estimates of the loss emergence period are made in the context of the nature and frequency of credit assessments performed, availability and frequency of updated data regarding customer creditworthiness and similar factors. Loss emergence periods differ from portfolio to portfolio, but typically range from 1 to 12 months; and ➢ the PSI is the decrease in future cash flows primarily estimated based on analysis of historical loss and recovery rates for comparable sub segments of the portfolio. The sensitivity of modelled provisions to key assumptions has been assessed for each portfolio. This assessment was performed by calculating the impact on modelled provisions of adjusting model inputs to reflect conservative assumptions. The impact of increasing conservatism was tested by varying assumptions individually and simultaneously. The sensitivity of modelled provisions for performing loans was assessed by adjusting loss emergence period assumptions and arrears definitions. The arrears definition was adjusted so that early and/or partial arrears are considered to be objective evidence of impairment and the loss emergence period was increased by one month. Based on the results of the sensitivity analysis performed, management is satisfied that the current total provisions held for performing accounts is appropriate. The table below provides a breakdown of the range of loss emergence periods for the main classes of advances.

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

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

	2018		
R million	**Total portfolio provisions**	**Sensitivity- arrears definition**	**Sensitivity - loss emergence period**
Retail secured	1 617	597	138
Residential mortgages	566	78	36
VAF	1 051	519	102
Retail unsecured	2 143	541	305
Card	407	44	91
Personal loans	1 243	345	173
- FNB	751	88	111
- WesBank	492	257	62
Retail other	493	152	41
Corporate and commercial	3 546	51	57
FNB commercial	537	31	51
WesBank corporate	197	20	6
RMB investment banking*	1 930	- **	- **
RMB corporate banking**	882	- **	- **
Rest of Africa	-	-	-
FNB Africa	-	-	-
FCC and other* **	174	-	-
Total portfolio provisions	7 480	1 189	500

* *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 26 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.*

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

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

** *The increase in the portfolio impairment of the RMB amortised cost advances, was R35 million for RMB investment banking and R 109 million for RMB corporate banking. The sensitivity was calculated as follows:*

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

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

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

Non-performing loans

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

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

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

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

R million	2018		
	Average NPL LGD (%)	Total specific provisions	Provisions sensitivity*
Retail secured		3 070	294
Residential mortgages	22	905	91
VAF	30	2 165	203
Retail unsecured		2 907	286
Card	67	724	72
Personal loans		1 465	153
- FNB	60	800	80
- WesBank	40	665	73
Retail other	72	718	61
Corporate and commercial		1 691	83
FNB commercial	37	1 015	81
WesBank corporate	48	116	1
RMB investment banking**	100	546	-
RMB corporate banking**	11	14	1
Rest of Africa		-	
FNB Africa***	-	-	-
Total specific provisions		7 668	663

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

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

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

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

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

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

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

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

8.5 Provisions

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

8.6 Transactions with employees

Employee benefits - defined benefit plans	
Determination of required funding levels	Funding levels are monitored on an annual basis and the current agreed contribution rate in respect of the defined benefit pension fund is 21% of pensionable salaries (in excess of the minimum recommended contribution rate set by the fund actuary). The bank considers the recommended contribution rate as advised by the fund actuary with each actuarial valuation. In addition, the trustees of the fund target a funding position on the pensioner liabilities that exceeds the value of the best estimate actuarial liability. The funding position is also considered in relation to a solvency reserve basis, which makes allowance for the discontinuance cost of outsourcing the pensions. As at the last statutory actuarial valuation of the pension fund (during June 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.
Determination of present value of defined benefit plan obligations	The cost of the benefits and the present value of the defined benefit pension funds and post-employment medical obligations depend on a number of factors that are determined annually on an actuarial basis, by independent actuaries, using the projected unit credit method which incorporates a number of assumptions. The key assumptions used in determining the charge to profit or loss arising from these obligations include the expected long-term rate of return on the relevant plan assets, discount rate and expected salary and pension increase rates. Any changes in these assumptions will impact the charge to profit or loss and may affect planned

	funding of the pension plans.
Cash settled share-based payment plans	
Determination of fair value	The liability is determined using a Black-Scholes option pricing model with a zero strike price. The following estimates are included in the model to determine the value: ➢ management's estimate of future dividends; ➢ the risk-free interest rate is used; and ➢ staff turnover and historical forfeiture rates are used as indicators of future conditions.

INCOME STATEMENT

for the year ended 30 June

R million	Notes	2018	2017
Interest and similar income	1.1	**79 442**	71 547
Interest expense and similar charges	1.2	**(38 279)**	(32 898)
Net interest income before impairment of advances		**41 163**	38 649
Impairment and fair value of credit of advances	11	**(6 659)**	(6 984)
Net interest income after impairment of advances		**34 504**	31 665
Non-interest revenue	2	**33 687**	30 949
Income from operations		**68 191**	62 614
Operating expenses	3	**(40 697)**	(37 669)
Income before indirect tax		**27 494**	24 945
Indirect tax	4.1	**(805)**	(876)
Profit before income tax		**26 689**	24 069
Income tax expense	4.2	**(6 172)**	(5 532)
Profit for the year		**20 517**	18 537
Attributable to			
Ordinary equityholders		**20 283**	18 300
NCNR preference shareholders		**234**	237
Profit for the year		**20 517**	18 537

STATEMENT OF OTHER COMPREHENSIVE INCOME

for the year ended 30 June

R million	2018	2017
Profit for the year	**20 517**	18 537
Items that may subsequently be reclassified to profit or loss		
Cash flow hedges	**185**	(150)
- Gains arising during the year	**325**	72
- Reclassification adjustments for amounts included in profit or loss	**(68)**	(280)
- Deferred income tax	**(72)**	58
Available-for-sale financial assets	**(731)**	(393)
- Losses arising during the year	**(848)**	(483)
- Reclassification adjustments for amounts included in profit or loss	**(144)**	(67)
- Deferred income tax	**261**	157
Exchange differences on translating foreign operations	**285**	(512)
- Gains/(losses) arising during the year	**285**	(512)
Items that may not subsequently be reclassified to profit or loss		
Remeasurements on defined benefit post-employment plans	**13**	171
- Gains arising during the year	**18**	237
- Deferred income tax	**(5)**	(66)
Other comprehensive loss for the year	**(248)**	(884)
Total comprehensive income for the year	**20 269**	17 653
Attributable to		
Ordinary equityholders	**20 035**	17 416
NCNR preference shareholders	**234**	237
Total comprehensive income for the year	**20 269**	17 653

STATEMENT OF FINANCIAL POSITION

as at 30 June

R million	Notes	2018	2017
ASSETS			
Cash and cash equivalents	6	**71 511**	53 924
Derivative financial instruments	7	**41 386**	35 098
Commodities	8	**13 424**	14 380
Investment securities	9	**157 238**	127 972
Advances	10	**843 806**	799 419
- Advances to customers		**787 441**	752 479
- Marketable advances		**56 365**	46 940
Accounts receivable	12	**6 075**	5 651
Current tax asset		**94**	1
Amounts due by holding company and fellow subsidiaries	13	**52 419**	28 869
Property and equipment	14	**15 379**	14 928
Intangible assets	15	**383**	233
Deferred income tax asset	16	**2 162**	1 676
Total assets		**1 203 877**	1 082 151
EQUITY AND LIABILITIES			
Liabilities			
Short trading positions	17	**9 981**	15 211
Derivative financial instruments	7	**50 238**	43 660
Creditors, accruals and provisions	18	**14 194**	13 079
Current tax liability		**86**	123
Deposits	19	**977 258**	876 690
Employee liabilities	20	**10 178**	8 840
Other liabilities	21	**4 381**	4 225
Amounts due to holding company and fellow subsidiaries	13	**19 993**	14 580
Tier 2 liabilities	22	**26 668**	18 370
Total liabilities		**1 112 977**	994 778
Equity			
Ordinary shares	23	**4**	4
Share premium	23	**16 804**	16 804
Reserves		**71 092**	67 565
Capital and reserves attributable to ordinary equityholders		**87 900**	84 373
NCNR preference shares	23	**3 000**	3 000
Total equity		**90 900**	87 373
Total equity and liabilities		**1 203 877**	1 082 151

STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June

	Ordinary share capital and ordinary equityholders' funds				
R million	Share capital	Share premium	**Share capital and share premium**	Defined benefit post-employment reserve	Cash flow hedge reserve
Balance as at 1 July 2016	4	16 804	**16 808**	(898)	308
Ordinary dividends	-	-	**-**	-	-
Preference dividends	-	-	**-**	-	-
Movement in other reserves	-	-	**-**	-	-
Total comprehensive income for the year	-	-	**-**	171	(150)
Balance as at 30 June 2017	4	16 804	**16 808**	(727)	158
Ordinary dividends	-	-	**-**	-	-
Preference dividends	-	-	**-**	-	-
Movement in other reserves	-	-	**-**	-	-
Total comprehensive income for the year	-	-	**-**	13	185
Balance as at 30 June 2018	4	16 804	**16 808**	(714)	343

	Ordinary share capital and ordinary equityholders' funds						
	Available-for-sale reserve	Foreign currency translation reserve	Other reserves	Retained earnings	**Reserves attributable to ordinary equity-holders**	**NCNR preference shares**	**Total equity**
	(100)	958	1 345	60 498	**62 111**	**3 000**	**81 919**
	-	-	-	(11 963)	**(11 963)**	**-**	**(11 963)**
	-	-	-	-	**-**	**(237)**	**(237)**
	-	-	-	1	**1**	**-**	**1**
	(393)	(512)	-	18 300	**17 416**	**237**	**17 653**
	(493)	446	1 345	66 836	**67 565**	**3 000**	**87 373**
	-	-	-	(16 508)	**(16 508)**	**-**	**(16 508)**
	-	-	-	-	**-**	**(234)**	**(234)**
	-	-	-	-	**-**	**-**	**-**
	(731)	285	-	20 283	**20 035**	**234**	**20 269**
	(1 224)	731	1 345	70 611	**71 092**	**3 000**	**90 900**

STATEMENT OF CASH FLOWS

for the year ended 30 June

R million	Note	2018	2017
Cash flows from operating activities			
Interest, fee and commission receipts		**102 413**	93 130
Trading and other income		**3 681**	3 028
Interest payments		**(37 662)**	(32 659)
Other operating expenses		**(31 571)**	(29 945)
Dividends received		**3 368**	3 366
Dividends paid		**(16 742)**	(12 200)
Taxation paid*		**(7 244)**	(6 360)
Cash generated from operating activities		**16 243**	18 360
Movements in operating assets and liabilities		**(3 201)**	(11 241)
- Liquid assets and trading securities*		**(28 339)**	(15 324)
- Advances*		**(47 181)**	(45 182)
- Deposits		**98 888**	53 432
- Movement in accounts receivable and creditors		**(153)**	(634)
- Employee liabilities		**(4 595)**	(4 746)
- Other operating liabilities		**(21 821)**	1 213
Net cash generated from operating activities		**13 042**	7 119
Cash flows from investing activities			
Acquisition of property and equipment		**(3 208)**	(4 094)
Proceeds on disposal of property and equipment		**416**	448
Acquisition of intangible assets		**(241)**	(221)
Net cash outflow from investing activities		**(3 033)**	(3 867)
Cash flows from financing activities			
Proceeds on the issue of other liabilities		**889**	446
Redemption of other liabilities		**(790)**	(1 594)
Proceeds from issue of Tier 2 liabilities		**8 815**	2 250
Repayment of Tier 2 liabilities		**(1 372)**	(1 348)
Net cash inflow/(outflow) from financing activities		**7 542**	(246)
Net increase in cash and cash equivalents		**17 551**	3 006
Cash and cash equivalents at the beginning of the year		**53 924**	50 997
Effect of exchange rate changes on cash and cash equivalents		**36**	(79)
Cash and cash equivalents at the end of the year	6	**71 511**	53 924

* *Certain prior year numbers have been restated due to reclassifications. The reclassification was between liquid assets and trading securities and advances amounting to R44 395 million. The net impact on the prior year net cash generated from operating activities was R nil. In addition, in the current year taxation paid was reclassified from movement in operating assets and liabilities to cash generated from operations. The reclassification amounted to R6 360 million. The net impact on the prior year cash generated from operating activities was R6 360 million with a R nil impact on net cash generated from operating activities.*

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

1 ANALYSIS OF INTEREST INCOME AND INTEREST EXPENSE

1.1 Interest and similar income

R million	**2018**	2017
Instruments at fair value	**6 319**	4 744
Instruments at amortised cost	**72 363**	66 509
Hedging instruments	**760**	280
Non-financial instruments	**-**	14
Interest and similar income	**79 442**	71 547
Advances	**68 641**	61 689
- Overdrafts and cash management accounts	**7 713**	6 838
- Term loans	**3 174**	2 899
- Card loans	**4 398**	4 117
- Instalment sales and hire purchase agreements	**15 203**	14 233
- Lease payments receivable	**364**	436
- Property finance	**21 206**	20 386
- Personal loans	**8 745**	8 077
- Preference share agreements	**30**	39
- Assets held under resale	**271**	-
- Investment bank term loans	**3 209**	700
- Long-term loans to group associates	**-**	15
- Other advances	**2 447**	2 522
- Marketable advances	**1 881**	1 427
Cash and cash equivalents	**896**	1 980
Investment securities	**6 364**	4 739
Unwinding of discounted present value on NPLs	**105**	79
Amounts due by holding company and fellow subsidiaries	**1 555**	1 357
Other	**1 881**	1 703
Interest and similar income	**79 442**	71 547

1 ANALYSIS OF INTEREST INCOME AND INTEREST EXPENSE continued

1.2 Interest expense and similar charges

R million	2018	2017
Instruments at fair value	**(221)**	(499)
Instruments at amortised cost	**(37 366)**	(32 183)
Hedging instruments	**(692)**	(213)
Non-financial instruments	**-**	(3)
Interest expense and similar charges	**(38 279)**	(32 898)
Deposits from customers	**(30 544)**	(28 430)
- Current accounts	**(4 806)**	(4 851)
- Savings deposits	**(377)**	(258)
- Call deposits	**(10 633)**	(9 505)
- Fixed and notice deposits	**(14 728)**	(13 816)
Debt securities	**(15 167)**	(12 555)
- Negotiable certificates of deposit	**(4 428)**	(4 614)
- Fixed and floating rate notes	**(10 739)**	(7 941)
Other	**(1 786)**	(3 411)
- Repurchase agreements	**(1 010)**	(1 296)
- Securities lending	**(276)**	(391)
- Cash collateral and credit linked notes	**(500)**	(1 724)
Tier 2 liabilities	**(2 013)**	(1 776)
Amounts due to holding company and fellow subsidiaries	**(797)**	(628)
Other	**(1 243)**	(775)
Gross interest expense and similar charges	**(51 550)**	(47 575)
Less: interest expense relating to fair value activities reallocated to fair value income	**13 271**	14 677
Interest expense and similar charges	**(38 279)**	(32 898)

2 NON-INTEREST REVENUE

R million	Notes	2018	2017
Fee and commission income		**27 942**	25 469
- Instruments at amortised cost		**23 440**	20 840
- Instruments at fair value		**156**	191
- Non-financial instruments		**4 346**	4 438
Fee and commission expenses		**(4 667)**	(4 266)
Net fee and commission income	2.1	**23 275**	21 203
Non-financial instruments		988	996
Insurance commission income*	2.2	**988**	996
Held for trading		**991**	3 707
Designated at fair value through profit or loss		**4 695**	1 616
Other		**(322)**	(21)
Fair value gains or losses	2.3	**5 364**	5 302
Available-for-sale		**369**	203
Other		**30**	-
Gains less losses from investing activities	2.4	**399**	203
Other non-interest revenue	2.5	**3 661**	3 245
Total non-interest revenue		**33 687**	30 949

** Insurance commission income has been reclassified from fee and commission income for presentation purposes. The prior year disclosure has also been updated.*

2 NON-INTEREST REVENUE continued

2.1 Net fee and commission income

R million	2018	2017
Banking fee and commission income	**25 023**	22 546
- Card commissions	**3 960**	3 437
- Cash deposit fees	**1 649**	1 623
- Commitment fees	**1 397**	1 305
- Commissions: bills, drafts and cheques	**676**	651
- Exchange commissions	**1 693**	1 555
- Brokerage income	**140**	163
- Bank charges	**15 508**	13 812
- Transaction and service fees	**5 126**	4 259
- Documentation and administration fees	**7 484**	6 476
- Cash handling fees	**2 244**	2 406
- Other	**654**	671
Knowledge-based fee and commission income	**1 384**	1 448
Management, trust and fiduciary fees	**791**	765
Fee and commission from service providers	**518**	488
Other non-banking fee and commission income	**227**	222
Fee and commission income	**27 943**	25 469
Transaction processing fees	**(1 142)**	(1 036)
Commission paid	**(236)**	(240)
Customer loyalty programmes	**(1 586)**	(1 447)
Cash sorting, handling and transportation charges	**(745)**	(739)
Card and cheque book related	**(410)**	(348)
ATM commissions paid	**(51)**	(40)
Other	**(498)**	(416)
Fee and commission expenses	**(4 668)**	(4 266)
Net fee and commission income	**23 275**	21 203

2.2 Insurance commission income

R million	2018	2017*
Commissions, brokerage and profit share from 3rd party cells		
- Insurance commissions	**694**	702
- Insurance brokerage	**294**	294
Total insurance commission income	**988**	996

** Insurance commission income has been reclassified from fee and commission income for presentation purposes. The prior disclosure has also been updated.*

2.3 Fair value gains or losses

R million	2018	2017
Dividend income on preference shares held	**3 143**	3 259
Other fair value gains or losses	**2 221**	2 043
Total fair value gains or losses	**5 364**	5 302

2 NON-INTEREST REVENUE continued

2.4 Gains less losses from investing activities

R million	**2018**	2017
Gain on investment securities	**29**	-
Reclassification from other comprehensive income on the of available-for-sale-assets	**144**	66
Preference share dividends	**21**	19
Other dividends received	**203**	87
Preference dividends from insurance profit share arrangements	**2**	31
Total gains less losses from investing activities	**399**	203

2.5 Other non-interest revenue

R million	**2018**	2017
Gain/(loss) on disposal of property and equipment	**9**	(26)
Recoveries from holding company and fellow subsidiaries	**1 532**	1 111
Rental income	**1 399**	1 225
Income related to direct sale and other operating lease transactions	**243**	403
- Sales	**1 378**	1 128
- Cost of sales	**(1 262)**	(900)
- Other operating lease transactions	**127**	175
Other income	**478**	532
Total other non-interest revenue	**3 661**	3 245

3 OPERATING EXPENSES

R million	Notes	2018	2017
Auditors' remuneration		**(284)**	(246)
- Audit fees		**(259)**	(204)
- Fees for other services		**(23)**	(37)
- Prior year under accrual		**(2)**	(5)
Operating lease charges		**(1 260)**	(1 267)
Staff costs		**(23 719)**	(21 799)
- Salaries, wages and allowances		**(15 397)**	(14 508)
- Contributions to employee benefit funds		**(1 455)**	(1 281)
- Defined contribution schemes		**(1 334)**	(1 147)
- Defined benefit schemes	20.1	**(121)**	(134)
- Social security levies		**(334)**	(301)
- Share-based payments	24	**(1 902)**	(1 455)
- Movement in short-term employee benefits liability		**(4 038)**	(3 630)
- Other staff costs		**(593)**	(624)
Other operating costs		**(15 434)**	(14 357)
- Amortisation of intangible assets	15	**(94)**	(94)
- Depreciation of property and equipment	14	**(2 366)**	(2 311)
- Impairments incurred*		**(175)**	(5)
- Impairment loss reversed		**-**	4
- Insurance		**(235)**	(231)
- Advertising and marketing		**(1 364)**	(1 114)
- Maintenance		**(1 076)**	(1 145)
- Property		**(823)**	(834)
- Computer		**(2 029)**	(1 912)
- Stationery		**(175)**	(173)
- Telecommunications		**(355)**	(275)
- Professional fees		**(1 601)**	(1 636)
- Expenses paid to holding company and fellow subsidiaries	28	**(1 206)**	(986)
- Donations		**(243)**	(218)
- Assets costing less than R7,000		**(278)**	(245)
- Business travel		**(355)**	(313)
- Other operating expenditure		**(3 059)**	(2 869)
Total operating expenses		**(40 697)**	(37 669)

* *The impairments recognised in the current and the prior year relate to various individually insignificant amounts.*

3 OPERATING EXPENSES continued

DIRECTORS' AND PRESCRIBED OFFICERS' EMOLUMENTS

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

Directors' and prescribed officers' emoluments

	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 Mantenge-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
Mr 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 24.*

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 24.

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 24.

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	-	-
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. *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 24.*

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 24.*
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 24.*

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 24.*
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.

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 TAX AND INCOME TAX EXPENSE

	R million	2018	2017
4.1	**Indirect tax**		
	Value added tax (net)*	**(798)**	(874)
	Securities transfer tax	**(5)**	(2)
	Other	**(2)**	-
	Total indirect tax	**(805)**	(876)
4.2	**Income tax expense**		
	South African income tax		
	Current	**(6 455)**	(5 687)
	- Current year	**(6 446)**	(5 713)
	- Prior year adjustment	**(9)**	26
	Deferred income tax	**328**	158
	- Current year	**480**	51
	- Prior year adjustment	**(152)**	107
	Total South African income tax	**(6 127)**	(5 529)
	Foreign company and withholding tax	**(5)**	-
	- Current year	**(5)**	-
	Total foreign company and witholding tax	**(5)**	-
	Capital gains tax	**(26)**	-
	- Deferred capital gains tax	**(26)**	-
	Total capital gains tax	**(26)**	-
	Customer tax adjustment account	**(1)**	(3)
	Withholding tax on dividends	**(13)**	-
	Total income tax expense	**(6 172)**	(5 532)

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

4 INDIRECT TAX 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	**(4.6)**	(4.5)
Prior year adjustments	**0.6**	(0.6)
Disallowed expenditure	**-**	0.1
Other non-deductible items	**(0.9)**	-
Effective rate of tax	**23.1**	23.0

5 ANALYSIS OF ASSETS AND LIABILITIES

5.1 Analysis of assets

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

	2018			
R million	**Held for trading**	**Designated at fair value through profit or loss**	**Held-to-maturity**	
ASSETS				
Cash and cash equivalents	**-**	**-**	**-**	
Derivative financial instruments	**38 800**	**-**	**-**	
Investment securities	**45 241**	**16 942**	**31 226**	
Advances	**-**	**171 556**	**6**	
Accounts receivable	**-**	**-**	**-**	
Amounts due by holding company and fellow subsidiaries	**603**	**-**	**-**	
Non-financial assets	**-**	**-**	**-**	
Total assets	**84 644**	**188 498**	**31 232**	

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

2018							
	Loans and receivables	Available-for-sale financial assets	Derivatives designated as hedging instruments	Non-financial instruments	Total carrying value	Current	Non-current
	71 511	**-**	**-**	**-**	**71 511**	**71 511**	**-**
	-	**-**	**2 586**	**-**	**41 386**	**39 052**	**2 334**
	-	**63 829**	**-**	**-**	**157 238**	**72 180**	**85 058**
	649 790	**22 454**	**-**	**-**	**843 806**	**291 069**	**552 737**
	4 242	**-**	**-**	**1 833**	**6 075**	**3 846**	**2 229**
	51 816	**-**	**-**	**-**	**52 419**	**22 036**	**30 383**
	-	**-**	**-**	**31 442**	**31 442**	**13 531**	**17 911**
	777 359	**86 283**	**2 586**	**33 275**	**1 203 877**	**513 225**	**690 652**

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

5 ANALYSIS OF ASSETS AND LIABILITIES CONTINUED

5.2 Analysis of liabilities

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

	2018			
R million	**Held for trading**	**Designated at fair value through profit or loss**	**Financial liabilities at amortised cost**	
LIABILITIES				
Short trading positions	**9 981**	**-**	**-**	
Derivative financial instruments	**48 832**	**-**	**-**	
Creditors, accruals and provisions	**-**	**-**	**7 729**	
Deposits	**-**	**94 704**	**882 554**	
Other liabilities	**-**	**3 608**	**773**	
Amounts due to holding company and fellow subsidiaries	**336**	**-**	**19 657**	
Tier 2 liabilities	**-**	**-**	**26 668**	
Non-financial liabilities	**-**	**-**	**-**	
Total liabilities	**59 149**	**98 312**	**937 381**	

	2017			
R million	Held for trading	Designated at fair value through profit or loss	Financial liabilities at amortised cost	
Short trading positions	15 211	-	-	
Derivative financial instruments	42 400	-	-	
Creditors, accruals and provisions	-	-	6 983	
Deposits	-	77 185	799 505	
Other liabilities	-	3 745	467	
Amounts due to holding company and fellow subsidiaries	330	-	14 250	
Tier 2 liabilities	-	-	18 370	
Non-financial liabilities	-	-	-	
Total liabilities	57 941	80 930	839 575	

2018					
	Derivatives designated as hedging instruments	**Non-financial instruments**	**Total carrying value**	**Current**	**Non-current**
	-	**-**	**9 981**	**9 981**	**-**
	1 406	**-**	**50 238**	**49 052**	**1 186**
	-	**6 465**	**14 194**	**9 912**	**4 282**
	-	**-**	**977 258**	**793 740**	**183 518**
	-	**-**	**4 381**	**2 439**	**1 942**
	-	**-**	**19 993**	**19 913**	**80**
	-	**-**	**26 668**	**7 331**	**19 337**
	-	**10 264**	**10 264**	**6 340**	**3 924**
	1 406	**16 729**	**1 112 977**	**898 708**	**214 269**

2017					
	Derivatives designated as hedging instruments	Non-financial instruments	Total carrying value	Current	Non-current
	-	-	15 211	15 211	-
	1 260	-	43 660	41 463	2 197
	-	6 096	13 079	9 803	3 276
	-	-	876 690	755 771	120 919
	-	13	4 225	1 037	3 188
	-	-	14 580	14 415	165
	-	-	18 370	1 508	16 862
	-	8 963	8 963	5 705	3 258
	1 260	15 072	994 778	844 913	149 865

6 CASH AND CASH EQUIVALENTS

R million	2018	2017
Coins and bank notes	**6 711**	6 788
Money at call and short notice	**41 322**	25 684
Balances with central banks	**23 478**	21 452
Total cash and cash equivalents	**71 511**	53 924
Mandatory reserve balances included above	**23 478**	21 403

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

7 DERIVATIVE FINANCIAL INSTRUMENTS

Use of derivatives

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

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

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

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

Held for trading derivatives

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

Hedging instruments

Fair value hedges

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

R million	2018	2017
Gains/(losses) for the year arising from the change in fair value of fair value hedges		
On hedging instruments	**60**	111
On hedged items attributable to the hedged risk	**(72)**	(139)
Total	**(12)**	(28)

7 DERIVATIVE FINANCIAL INSTRUMENTS continued

Cash flow hedges

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

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

The bank uses the following derivatives as hedging instruments:

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

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

R million	**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	**697**	**(660)**	597	(1 029)
Over 5 years	**116**	**(151)**	(18)	(89)
Total	**996**	**(1 472)**	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)**	**40**	(52)	35
4 - 12 months	**(531)**	**212**	(323)	297
1 - 5 years	**(705)**	**696**	(746)	564
Over 5 years	**(157)**	**105**	(80)	(17)
Total	**(1 528)**	**1 053**	(1 201)	879

7 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	**32 442**	**406**	35 404	441
- Interest rate derivatives	**32 442**	**406**	35 404	441
Held for trading	**7 250 726**	**38 800**	8 547 102	33 523
- Currency derivatives	**332 441**	**15 962**	309 787	8 919
- Interest rate derivatives	**6 842 941**	**19 993**	8 086 229	22 390
- Equity derivatives	**41 086**	**1 782**	96 308	1 371
- 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	**7 391 430**	**41 386**	8 681 660	35 098
Exchange traded	**19 593**	**250**	57 808	240
Over the counter	**7 371 837**	**41 136**	8 623 852	34 858
Total derivative assets	**7 391 430**	**41 386**	8 681 660	35 098

7 DERIVATIVE FINANCIAL INSTRUMENTS continued

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	**32 018**	**322**	38 149	247
- Interest rate derivatives	**32 018**	**322**	38 149	247
Held for trading	**7 436 925**	**48 832**	8 606 686	42 400
- Currency derivatives	**294 755**	**23 830**	319 424	15 606
- Interest rate derivatives	**6 939 720**	**21 730**	8 213 325	22 886
- Equity derivatives	**176 495**	**2 741**	42 954	3 206
- Commodity derivatives	**21 578**	**235**	21 852	478
- Energy derivatives	**1 322**	**288**	6 267	203
- Credit derivatives	**3 055**	**8**	2 864	21
Total derivative liabilities	**7 624 714**	**50 238**	8 751 395	43 660
Exchange traded	**43 144**	**36**	42 104	281
Over the counter	**7 581 570**	**50 202**	8 709 291	43 379
Total derivative liabilities	**7 624 714**	**50 238**	8 751 395	43 660

Refer to note 28 for information on related party derivatives.

8 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

9 INVESTMENT SECURITIES

R million	2018	2017
Negotiable certificates of deposit	**3 047**	3 684
Treasury bills	**19 390**	8 952
Other government and government guaranteed stock	**108 638**	94 440
Other dated securities	**18 377**	10 016
Other undated securities	**108**	469
Equities	**7 615**	10 306
Other	**63**	105
Total investment securities	**157 238**	127 972
Analysis of investment securities		
- Equities	**7 615**	10 306
- Debt	**149 623**	117 666
Total investment securities	**157 238**	127 972

R50 525 million (2017: R47 654 million) of the financial instruments form part of the bank's liquid asset portfolio in terms of the South African Reserve Bank (SARB) and other foreign banking regulators' requirements. Information regarding other investments is kept at the bank's registered offices.

Repurchase agreements

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

	Investment securities and other investments		Associated liabilities recognised in deposits	
R million	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).

10 ADVANCES

R million	Notes	**2018**	2017
Notional value of advances		**860 453**	815 679
Contractual interest suspended		**(1 499)**	(1 682)
Gross value of advances		**858 954**	813 997
Category analysis			
Overdrafts and cash management accounts		**66 226**	70 652
Term loans		**43 407**	39 958
Card loans		**29 154**	25 361
Instalment sales and hire purchase agreements		**141 499**	145 222
Lease payments receivable		**3 019**	3 341
Property finance		**224 057**	210 832
Personal loans		**41 273**	36 630
Preference share agreements		**42 587**	39 747
Assets under agreement to resell		**32 203**	30 885
Investment bank term loans		**147 388**	136 270
Long-term loans to group associates		**515**	302
Other		**31 261**	27 857
Total customer advances		**802 589**	767 057
Marketable advances		**56 365**	46 940
Gross value of advances		**858 954**	813 997
Impairment of advances	11	**(15 148)**	(14 578)
Net advances		**843 806**	799 419

10 ADVANCES continued

Analysis of instalment sale, hire purchase and lease payments receivable

	2018			2017		
	Instalment sale, hire purchase and lease payments receivable	**Less: unearned finance charges**	**Net**	Instalment sale, hire purchase and lease payments receivable	Less: unearned finance charges	Net
Within 1 year	**45 873**	**(8 521)**	**37 352**	45 178	(8 343)	36 835
Between 1 and 5 years	**122 295**	**(23 891)**	**98 404**	127 650	(23 950)	103 700
More than 5 years	**11 469**	**(2 667)**	**8 802**	10 520	(2 443)	8 077
Sub-total	**179 637**	**(35 079)**	**144 558**	183 348	(34 736)	148 612
Less: interest in suspense			**(40)**			(49)
Total net instalment sales, hire purchase and lease payments receivable			**144 518**			148 563

Under the terms of the lease agreements, no contingent rentals are payable. The agreements relate to motor vehicles and equipment. The accumulated allowance for uncollectable minimum lease payments receivable included in the allowance for impairments at the reporting date is R44 million (2017: R73 million).

Transfers and derecognition of advances in structured transactions

Transfers without derecognition 2018

Advances with the carrying amount of R8 billion have been transferred in terms of a structured transaction. The associated liability is an intercompany liability between the bank and a subsidiary of FirstRand Investment Holdings Limited.

Transfers without derecognition 2017

Structured transactions

Advances with the carrying amount of R5 136 million have been transferred in terms of structured transactions. Associated liabilities of Rnil have been recognised for cash received and included in deposits.

Other transfers

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

10 ADVANCES continued

Transfers with derecognition 2018

Securitisation transactions

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

Transfers with derecognition 2017

Securitisation transactions

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

Name of securitisation	Established	Initial transaction value	Carrying value of assets		Carrying value of liabilities	
			2018	2017	**2018**	2017
Nitro 5	June 2015	R2.4 billion	**311**	749	**311**	749
Turbo Finance 4	November 2013	GBP374 million	**-**	692	**-**	680
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	August 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	GBP 400 million	**12 512**	-	**12 574**	-
MotoPark	January 2018	GBP 540 million	**11 072**	-	**10 939**	-
Nitro 6	April 2018	R2 billion	**1 954**	-	**1 945**	-

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

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

The bank manages these risks as follows:

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

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

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

10 ADVANCES continued

Other structured transactions

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

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

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

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

Where the bank does have a contractual obligation to provide financial support or to repurchase the transferred financial asset in terms of these transactions, the triggers associated with this obligation are specific to the terms of the relevant transaction and can include contractual breach or a decline in the value of the transferred financial asset.

10 ADVANCES continued

The table below sets out the financial information of the continuing involvement in transferred financial assets which have been derecognised in their entirety.

	2018				
Type of continuing involvement	**Carrying amount of continuing involvement recognised in the statement of financial position**		**Fair value of continuing involvement**		**Maximum exposure to loss**
R million	**Assets**	**Liabilities**	**Assets**	**Liabilities**	
Traditional securitisation transactions					
Derivative financial instruments	**216**	**97**	**216**	**97**	**5 237**
Investment securities and other investments	**11 873**	**-**	**11 873**	**-**	**11 873**
Other structured transactions					
Marketable advances	**572**	**-**	**572**	**-**	**113**
Total	**12 661**	**97**	**12 661**	**97**	**17 223**

	2017				
Type of continuing involvement	Carrying amount of continuing involvement recognised in the statement of financial position		Fair value of continuing involvement		Maximum exposure to loss
R million	Assets	Liabilities	Assets	Liabilities	
Traditional securitisation transactions					
Derivative financial instruments	717	95	717	95	5 020
Investment securities and other investments	2 885	-	2 885	-	2 885
Other structured transactions					
Marketable advances	1 108	-	1 108	-	1 108
Total	4 710	95	4 710	95	9 013

The maximum exposure to loss from continuing involvement in derecognised financial assets is the total loss that the bank would suffer in a worst case scenario such as if the underlying derecognised financial asset were to lose all of its value. This includes any off-balance sheet commitments or contingencies related to the derecognised financial asset.

The maximum exposure to loss from continuing involvement through clean up calls, included in derivatives, is determined as the agreed upon amount the bank may need to pay to repurchase a financial asset that has no value. Although the bank is not obliged to, it may decide to exercise the clean-up options even if the remaining assets are worth less than the exercise price of the options. The maximum exposure to loss from continuing involvement through derivatives is determined as any payments the bank is obligated to make in terms of the derivative contract (such as interest payments) that is based on the value of the underlying transferred financial assets. In the case of clean up calls, maximum exposure to loss would be 10% of the value at issue.

The maximum exposure to loss from continuing involvement through notes issued by the structured entity and held by the bank is determined as the value of the notes recognised as marketable advances by the bank.

10 ADVANCES continued

The table below sets out the profit or loss impact of transfers of financial assets which are derecognised in their entirety.

R million	2018 Type of continuing involvement: Traditional securitisation transactions	2018: Other structured transactions	2018: Total	2017 Type of continuing involvement: Traditional securitisation transactions	2017: Other structured transactions	2017: Total
Gain at date of transfer	**2 267**	**-**	**2 267**	2 063	-	2 063
Income recognised from continuing involvement	**1 221**	**105**	**1 326**	2 335	93	2 428
- for the current period	**(92)**	**21**	**(71)**	930	30	960
- cumulative	**1 313**	**84**	**1 397**	1 405	63	1 468

The table below sets out the undiscounted cash flows that would or may be required to repurchase the derecognised financial assets or other amounts payable to the transferee in respect of the transferred financial assets as at 30 June. It also sets out the maturity analysis of these undiscounted cash flows.

R million	2018 Type of continuing involvement: Traditional securitisation transactions	2018: Other structured transactions	2018: Total	2017 Type of continuing involvement: Traditional securitisation transactions	2017: Other structured transactions	2017: Total
Total undiscounted cash outflows	**44 253**	**-**	**44 253**	28 753	-	28 753
- Call	**31**	**-**	**31**	22	-	22
- 1 to 3 months	**65**	**-**	**65**	50	-	50
- 4 to 12 months	**982**	**-**	**982**	822	-	822
- 1 to 5 years	**43 110**	**-**	**43 110**	27 776	-	27 776
- Over 5 years	**65**	**-**	**65**	83	-	83

11 IMPAIRMENT AND FAIR VALUE OF CREDIT OF ADVANCES

R million	FNB		RMB		
	Retail	Commercial	Investment banking	Corporate banking	
Analysis of movement in impairment of advances per class of advance					
Balance as at 1 July 2016	4 680	1 436	3 308	811	
Amounts written off	(4 147)	(460)	(973)	-	
Acquisitions of business	-	-	-	-	
Transfers (to)/from other divisions	-	-	(4)	4	
Reclassifications	-	-	-	-	
Exchange rate difference	(7)	-	(80)	-	
Unwinding of discounted present value on NPLs	(79)	(3)	-	-	
Net new impairments created/(released)	4 564	585	544	76	
Balance as at 30 June 2017	5 011	1 558	2 795	891	
(Increase)/decrease in impairment	(4 564)	(585)	(544)	(76)	
Recoveries of bad debts previously written off	1 431	55	-	1	
Impairment loss recognised in profit or loss	(3 133)	(530)	(544)	(75)	
Opening balance as at 1 July 2017	**5 011**	**1 558**	**2 795**	**891**	
Amounts written off	**(3 904)**	**(750)**	**(251)**	**-**	
Acquisitions of business	**-**	**-**	**-**	**-**	
Transfers from/(to) other divisions	**(2)**	**2**	**-**	**-**	
Reclassifications	**-**	**-**	**-**	**-**	
Exchange rate difference	**(1)**	**1**	**37**	**-**	
Unwinding of discounted present value on NPLs	**(105)**	**-**	**-**	**-**	
Net new impairments created	**4 365**	**741**	**(105)**	**5**	
Balance as at 30 June 2018	**5 364**	**1 552**	**2 476**	**896**	
(Increase)/decrease in impairment	**(4 365)**	**(741)**	**105**	**(5)**	
Recoveries of bad debts previously written off	**1 584**	**71**	**-**	**2**	
Impairment loss recognised in profit or loss	**(2 781)**	**(670)**	**105**	**(3)**	

	WesBank	FCC and other	Total impairment	Specific impairment	Portfolio impairment
	3 548	754	14 537	7 308	7 229
	(3 292)	-	(8 872)	(8 872)	-
	26	-	26	16	10
	-	-	-	-	-
	-	-	-	223	(223)
	(25)	1	(111)	(71)	(40)
	3	-	(79)	(79)	-
	3 658	(350)	9 077	8 623	454
	3 918	405	14 578	7 148	7 430
	(3 658)	350	(9 077)	(8 623)	(454)
	606	-	2 093	2 093	-
	(3 052)	350	(6 984)	(6 530)	(454)
	3 918	**405**	**14 578**	**7 148**	**7 430**
	(3 445)	**-**	**(8 350)**	**(8 350)**	**-**
	16	**-**	**16**	**16**	**-**
	-	**-**	**-**	**-**	**-**
	-	**-**	**-**	**72**	**(72)**
	25	**(1)**	**61**	**35**	**26**
	-	**-**	**(105)**	**(105)**	**-**
	4 172	**(230)**	**8 948**	**8 852**	**96**
	4 686	**174**	**15 148**	**7 668**	**7 480**
	(4 172)	**230**	**(8 948)**	**(8 852)**	**(96)**
	632	**-**	**2 289**	**2 289**	**-**
	(3 540)	**230**	**(6 659)**	**(6 563)**	**(96)**

12 ACCOUNTS RECEIVABLE

R million	**2018**	2017
Items in transit	**2 581**	1 752
Interest and commission accrued	**72**	66
Prepayments	**1 152**	1 259
Sundry debtors	**697**	830
Fair value hedge interest rate component	**147**	56
Other accounts receivable	**1 426**	1 688
Total accounts receivable	**6 075**	5 651

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

R million	**2018**	2017
Amounts due by holding company	**2 941**	-
Amounts due by fellow subsidiaries	**49 478**	28 869
Total amounts due by holding company and fellow subsidiaries	**52 419**	28 869
Amounts due to holding company	**(524)**	(232)
Amounts due to fellow subsidiaries	**(19 469)**	(14 348)
Total amounts due to holding company and fellow subsidiaries	**(19 993)**	(14 580)
Net amounts due by holding company and fellow subsidiaries	**32 426**	14 289

These loans have no fixed terms of repayment and carry varying rates of interest. Loans to fellow subsidiaries amounting to R23 million (2017: R155 million) are subject to subordination agreements until such time that their assets, fairly valued, exceed their liabilities.

Included in the above amounts are the following:

R million	**Amounts due by fellow subsidiaries**		**Amounts due to fellow subsidiaries**	
	Notional	**Fair value**	**Notional**	**Fair value**
2018				
Derivative financial instruments	**201 471**	**603**	**(182 615)**	**(336)**
2017				
Derivative financial instruments*	48 945	302	(58 104)	(330)

* *Notional amounts restated for the prior year for interbranch derivatives.*

14 PROPERTY AND EQUIPMENT

R million	Property				
	Freehold property	**Leasehold premises**	**Computer equipment**	**Other equipment**	**Total**
Net book value as at 1 July 2016	5 668	1 877	2 781	3 306	13 632
- Cost	6 881	3 428	6 706	5 817	22 832
- Accumulated depreciation	(1 213)	(1 551)	(3 925)	(2 511)	(9 200)
Movement for the year	1 224	(31)	(351)	454	1 296
- Acquisitions	1 459	356	663	1 616	4 094
- Disposals	(21)	(91)	(55)	(307)	(474)
- Exchange rate difference	-	(4)	(7)	(2)	(13)
- Depreciation charge for the year	(214)	(292)	(952)	(853)	(2 311)
- Impairments reversed	-	-	-	4	4
- Other	-	-	-	(4)	(4)
Net book value as at 30 June 2017	**6 892**	**1 846**	**2 430**	**3 760**	**14 928**
- Cost	**8 281**	**3 422**	**6 621**	**6 687**	**25 011**
- Accumulated depreciation	**(1 389)**	**(1 576)**	**(4 191)**	**(2 927)**	**(10 083)**
Movement for the year	**146**	**(110)**	**76**	**339**	**451**
- Acquisitions	**411**	**151**	**1 003**	**1 643**	**3 208**
- Disposals	**(19)**	**(15)**	**(7)**	**(366)**	**(407)**
- Exchange rate difference	**-**	**10**	**6**	**-**	**16**
- Depreciation charge for the year	**(246)**	**(256)**	**(926)**	**(938)**	**(2 366)**
- Impairments reversed	**-**	**-**	**-**	**-**	**-**
- Other	**-**	**-**	**-**	**-**	**-**
Net book value as at 30 June 2018	**7 038**	**1 736**	**2 506**	**4 099**	**15 379**
- Cost	**8 631**	**3 470**	**7 365**	**7 299**	**26 765**
- Accumulated depreciation	**(1 593)**	**(1 734)**	**(4 859)**	**(3 200)**	**(11 386)**

15 INTANGIBLE ASSETS

	Goodwill	Software and develop-ment costs	Trade-marks	Other	Total
Net book value as at 1 July 2016	-	106	-	-	106
Cost	104	1 067	76	98	1 345
Accumulated amortisation and impairment	(104)	(961)	(76)	(98)	(1 239)
Movements for the year	-	127	-	-	127
Acquisitions/capitalisations	-	221	-	-	221
Amortisation for the year	-	(94)	-	-	(94)
Net book value as at 30 June 2017	**-**	**233**	**-**	-	**233**
Cost	**104**	**1 018**	**66**	**94**	**1 282**
Accumulated amortisation and impairment	**(104)**	**(785)**	**(66)**	**(94)**	**(1 049)**
Movements for the year	**-**	**148**	**-**	**-**	**148**
Acquisitions/capitalisations	**-**	**241**	**-**	**-**	**241**
Amortisation for the year	**-**	**(94)**	**-**	**-**	**(94)**
Other	**-**	**1**	**-**	**-**	**1**
Net book value as at 30 June 2018	**-**	**383**	**-**	**-**	**383**
Cost	**104**	**1 262**	**70**	**28**	**1 464**
Accumulated amortisation and impairment	**(104)**	**(879)**	**(70)**	**(28)**	**(1 081)**

16 DEFERRED INCOME TAX

Movement on the deferred income tax account is shown below.

R million	2018	2017
Deferred income tax asset		
Opening balance	**1 676**	1 369
Recognised in profit or loss	**302**	158
Deferred income tax on amounts charged directly to other comprehensive income	**184**	149
Total deferred income tax asset	**2 162**	1 676

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

	As at 30 June		Recognised in income statement	
R million	2018	2017	2018	2017
Deferred income tax asset				
Tax losses	**-**	102	**-**	(102)
Provision for loan impairment	**999**	725	**227**	47
Provision for post-employment benefits	**326**	328	**33**	37
Other provisions*	**(295)**	36	**(213)**	(118)
Cash flow hedges	**(133)**	(120)	**-**	-
Instalment credit assets	**(132)**	(138)	**(13)**	19
Accruals**	**-**	-	**-**	-
Available-for-sale securities	**486**	67	**-**	-
Capital gains tax	**258**	70	**134**	54
Share-based payments*	**811**	602	**209**	-
Other**	**(158)**	(306)	**(75)**	221
Total deferred income tax asset	**2 162**	1 366	**302**	158

* *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 amounting to R 47 million (2017: R20 million) amounts recognised in the income statement R67 million (2017: R83 million).*

The bank has not recognised a deferred tax asset amounting to Rnil (2017: R148 million) relating to capital gains tax losses.

17 SHORT TRADING POSITIONS

R million	2018	2017
Government and government guaranteed	**9 860**	15 162
Other dated securities	**121**	49
Total short trading positions	**9 981**	15 211

18 CREDITORS, ACCRUALS AND PROVISIONS

R million	2018	2017
Net unclaimed balances	**247**	170
Fair value hedge interest rate component	**139**	275
Other accounts payable*	**8 760**	8 447
Withholding tax for employees	**489**	448
Deferred income	**1 748**	1 556
Operating lease liability arising from straight lining of lease payments	**103**	98
Payments received in advance	**397**	229
Accrued interest	**-**	16
Accrued expenses	**2 032**	1 620
Audit fees accrued	**136**	89
Provisions (including litigation and claims)	**143**	131
Total creditors, accruals and provisions	**14 194**	13 079

** In the current year certain categories have been aggregated. This did not impact the primary financial statements and increased prior year Other accounts payable by R4 619 million.*

Reconciliation of provisions

R million	2018	2017
Opening balance	**131**	131
Exchange rate differences	**1**	(2)
Charge to profit or loss	**27**	29
- Additional provisions created	**48**	78
- Unused provisions reversed	**(21)**	(49)
Utilised	**(16)**	(27)
Closing balance	**143**	131

19 DEPOSITS

R million	**2018**	2017
Category analysis		
Deposits from customers	**720 331**	637 833
- Current accounts	**199 505**	185 183
- Call deposits	**185 966**	178 902
- Savings accounts	**12 702**	9 214
- Fixed and notice deposits*	**277 211**	239 100
- Other deposits from customers	**44 947**	25 434
Debt securities	**218 133**	186 021
- Negotiable certificates of deposit	**56 990**	54 042
- Fixed and floating rate notes*	**159 789**	130 016
- Exchange traded notes	**1 354**	1 963
Other	**38 794**	52 836
- Repurchase agreement	**19 334**	28 139
- Securities lending	**3 509**	4 098
- Cash collateral and credit linked notes	**15 951**	20 599
Total deposits	**977 258**	876 690

* *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.*

20 EMPLOYEE LIABILITIES AND RELATED ASSETS

R million	Notes	2018	2017
Liability for short-term employee benefits		**6 087**	5 596
Share-based payment liability		**2 897**	2 150
Defined benefit post-employment liability	20.1	**1 165**	1 067
Other long-term employee liabilities		**29**	27
Defined contribution post-employment liability	20.2	**-**	-
Total employee liabilities		**10 178**	8 840

20 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

20.1 Defined benefit post-employment liability

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

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

20 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

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

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

20 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

Asset-liability matching strategies

The bank ensures that the investment positions are managed within an asset-liability matching (ALM) framework that has been developed to achieve long-term investments that are in line with the obligations under the schemes. Within this framework, the bank's ALM objective is to match assets to the pension obligations by investing in long-term fixed interest securities with maturities that match the benefit payments as they fall due. The bank actively monitors how the duration and the expected yield of the investments match the expected cash outflows arising from the pension obligations. Investments are well diversified so that the failure of any single investment would not have a material impact on the overall level of assets.

The trustees of the fund have adopted an investment strategy in respect of the pensioner liabilities that largely follows a 70% exposure in fixed interest instruments to immunise the interest rate and inflation risk, and 30% exposure to local growth assets.

The fixed interest instruments consist mainly of long dated South African government issued inflation linked bonds, while the growth assets are allocated to selected local asset managers. The trustees receive monthly reports on the funding level of the pensioner liabilities and an in-depth attribution analysis in respect of changes in the pensioner funding level.

The trustees of the fund aim to apportion an appropriate level of balanced portfolio, conservative portfolio, inflation linked, and money market assets to match the maturing defined benefit active member liabilities. It should be noted that this is an approximate matching strategy as elements such as salary inflation and decrement rates cannot be matched. This is however an insignificant liability compared to the liability of the pension fund.

Risks associated with the plans

Through its defined benefit pension plans and post-employment medical plans, the bank is exposed to a number of risks, the most significant of which are detailed below:

Asset volatility - Assets are held in order to provide a return to back the plans' obligations, therefore any volatility in the value of these assets would create a deficit.

Inflation risk - The plans' benefit obligations are linked to inflation and higher inflation will lead to higher liabilities. Consumer price inflation and health care cost inflation forms part of the financial assumptions used in the valuation.

Life expectancy - The plans' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plans' liabilities.

Demographic movements - The plans' liabilities are determined based on a number of best estimate assumptions on demographic movements of participants, including withdrawal and early retirement rates. This is especially relevant to the post-employment medical aid subsidy liabilities. Should less eligible employees withdraw and/or should more eligible employees retire earlier than assumed, the liabilities could be understated.

20 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

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

		2018			2017		
R million	Note	Pension	Medical	Total	Pension	Medical	Total
Post-employment benefit fund liability							
Present value of funded obligation		**8 787**	**3 099**	**11 886**	8 959	3 091	12 050
Fair value of plan assets		**(8 947)**	**(1 934)**	**(10 881)**	(9 311)	(2 024)	(11 335)
- Listed equity instruments		**(2 009)**	**-**	**(2 009)**	(2 404)	-	(2 404)
- Cash and cash equivalents		**(311)**	**-**	**(311)**	(398)	-	(398)
- Debt instruments		**(3 088)**	**-**	**(3 088)**	(3 556)	-	(3 556)
- Derivatives		**(22)**	**-**	**(22)**	(42)	-	(42)
- Qualifying Insurance policy		**-**	**(1 934)**	**(1 934)**	-	(2 024)	(2 024)
- Other		**(3 517)**	**-**	**(3 517)**	(2 911)	-	(2 911)
Total employee (asset)/liability		**(160)**	**1 165**	**1 005**	(352)	1 067	715
Limitation imposed by IAS 19 asset ceiling		**160**	**-**	**160**	352	-	352
Total net post-employment liability		**-**	**1 165**	**1 165**	-	1 067	1 067
Total amount recognised in the income statement (included in staff costs)	**3**	**(29)**	**150**	**121**	(11)	145	134
Movement in post-employment benefit fund liability							
Present value opening balance		**-**	**1 067**	**1 067**	-	1 172	1 172
Current service cost		**4**	**41**	**45**	4	49	53
Net interest		**(33)**	**109**	**76**	(15)	96	81
Remeasurements recognised in OCI		**33**	**(51)**	**(18)**	13	(250)	(237)
Benefits paid		**(2)**	**-**	**(2)**	-	-	-
Employer contributions		**(1)**	**-**	**(1)**	(1)	-	(1)
Employee contributions		**(1)**	**-**	**(1)**	(1)	-	(1)
Closing balance		**-**	**1 166**	**1 166**	-	1 067	1 067

20 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

	2018			2017		
R million	**Pension**	**Medical***	**Total**	Pension	Medical*	Total
Movement in the fair value of plan assets:						
Opening balance	**9 311**	**2 024**	**11 335**	9 586	2 191	11 777
Interest income	**843**	**205**	**1 048**	869	228	1 097
Remeasurements recognised in OCI	**(531)**	**(127)**	**(658)**	(480)	(237)	(717)
Employer contributions	**1**	**-**	**1**	1	-	1
Employee contributions	**1**	**-**	**1**	1	-	1
Benefits paid and settlements	**(678)**	**(168)**	**(846)**	(666)	(158)	(824)
Closing balance	**8 947**	**1 934**	**10 881**	9 311	2 024	11 335
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

* *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 bank and is recognised as an account receivable. The FirstRand group's liability is therefore sufficiently funded.*

20 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

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

	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) and the expected rates of salary (pension) were:				
Increase of 1%				
- Effect on the aggregate of the current service cost and interest cost (R million)	**0.7**	**48.8**	0.7	52.4
- Effect on the defined benefit obligation (R million)	**6.0**	**405.3**	6.5	419.5
Decrease of 1%				
- Effect on the aggregate of the current service cost and interest cost (R million)	**(0.7)**	**(40.3)**	(0.8)	(43.1)
- Effect on the defined benefit obligation (R million)	**(5.3)**	**(337.5)**	(5.9)	(347.8)
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

20 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

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

R million	Within 1 year	Between 1-5 years	More than 5 years	Total
Pension benefits	716	2 987	25 276	28 979
Post-employment medical benefits	180	861	18 708	19 749
Total as at 30 June 2018	**896**	**3 848**	**43 984**	**48 728**

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

Mortality rates

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

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

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

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

20 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

	2018	2017
Pension		
The number of employees covered by the scheme:		
Active members	**30**	30
Pensioners	**6 189**	6 048
Deferred plan participants	**261**	261
Total	**6 480**	6 339
Defined benefit obligation amounts due to:		
Benefits vested at the end of the reporting period (R million)	**8 787**	8 959
- Amounts attributable to future salary increases (R million)	**102**	96
- Other benefits (R million)	**8 685**	8 863
Medical		
The number of employees covered by the scheme:		
Active members	**3 649**	4 038
Pensioners	**5 215**	5 247
Total employees	**8 864**	9 285
Benefits vested at the end of the reporting period (R million)	**2 115**	2 062
Benefits accrued but not vested at the end of the reporting period (R million)	**985**	1 029
Conditional benefits (R million)	**985**	1 029
Other benefits (R million)	**2 115**	2 062

20 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

20.2 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 bank becomes exposed to longevity and other actuarial risks. However, because of the way that the purchase is priced the employer is not exposed to any asset return risk prior to the election of this option. On the date of the purchase the defined benefit liability and the plan assets will increase for the purchase amount and thereafter the accounting treatment applicable to defined benefit plans will be applied to the purchased pension.

21 OTHER LIABILITIES

R million	2018	2017
Finance lease liabilities	**-**	13
Funding liabilities	**4 381**	4 212
- Preference shares*	**4 150**	4 183
- Other	**231**	29
Total other liabilities	**4 381**	4 225

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

Net other liabilities reconciliation

R million	2018	2017
Opening balance	**4 225**	5 386
Cash flow movements	**99**	(1 148)
- Proceeds on the issue of other liabilities	**889**	446
- Redemption of other liabilities	**(790)**	(1 594)
Non-cash flow movements	**57**	(13)
- Foreign exchange	**57**	(13)
Total other liabilities	**4 381**	4 225

22 TIER 2 LIABILITIES

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

R million	Maturity dates	Interest rate	2018	2017
Fixed rate bonds			**10 279**	3 353
- ZAR denominated	21 December 2018 to 2 June 2021	8.5%-12.3%	**3 372**	3 353
- USD denominated	23 April 2023	6.25%	**6 907**	-
Floating rate bonds			**16 389**	15 017
- ZAR denominated	21 December 2018 to 8 December 2022	Three month JIBAR 225bps - 400 bps	**13 973**	12 729
- USD denominated	9 April 2019	Six month LIBOR + 415 bps	**2 416**	2 288
Total tier 2 liabilities			**26 668**	18 370

22 TIER 2 LIABILITIES continued

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

R million	2018	2017
With conversion feature	**2 416**	2 288
With write-off feature	**21 076**	11 417
Net tier 2 liabilities reconciliation		
R million	**2018**	**2017**
Opening balance	**18 370**	17 468
Cash flow movements	**7 443**	902
- Proceeds from the issue of Tier 2 liabilities	**8 815**	2 250
- Repayment of Tier 2 liabilities	**(1 372)**	(1 348)
Non-cash flow movements	**855**	-
- Foreign exchange	**855**	-
Total tier 2 liabilities	**26 668**	18 370

23 SHARE CAPITAL AND SHARE PREMIUM

Share capital and share premium classified as equity

R million	2018	2017
Ordinary shares		
Authorised		
2 000 000 shares with a par value of R2 per share	**4**	4
Issued		
1 866 836 (2017: 1 866 836) ordinary shares with a par value of R2 per share. All issued share capital is fully paid up.	**4**	4
Ordinary share premium	**16 804**	16 804
Total issued ordinary share capital and share premium	**16 808**	16 808
NCNR preference shares		
Authorised		
100 000 000 NCNR preference shares with a par value of R0.01 per share	**1**	1
Issued		
3 000 000 (2017: 3 000 000) NCNR preference shares with par value of R0.01 per share to FirstRand Limited.	**-**	-
The NCNR preference shares were issued at varying interest rates which are linked to the prime lending rate as determined by the bank.		
NCNR preference share premium	**3 000**	3 000
Total issued NCNR preference share capital and share premium	**3 000**	3 000
Total issued share capital and share premium	**19 808**	19 808

24 REMUNERATION SCHEMES

R million	Note	2018	2017
The charge to profit or loss for share-based payments is as follows:			
Conditional incentive plan		**1 902**	1 455
Amount included in profit or loss	**3**	**1 902**	1 455

The purpose of this scheme is to appropriately attract, incentivise and retain managers and employees within the bank.

24 REMUNERATION SCHEMES continued

Description of the scheme and vesting conditions:

Conditional share scheme	
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 award 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 (CSP) is valued using the Black Scholes option pricing model with a zero strike price. The scheme is cash settled and is therefore repriced at each reporting date.
Valuation assumptions	
Dividend data	Management's estimates of future discrete dividends.
Market related	Interest rate is the risk-free rate of return as recorded on the last day of the financial year, on a swap curve of a term equal to the expected life of the plan.
Employee related	The weighted average forfeiture rate used is based on historical forfeiture data over all schemes and takes cognisance of whether the shares are in or out the money and the vesting date.

Bonusses 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 forecasts 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.

24 REMUNERATION SCHEMES continued

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

Expired schemes

2014 (vested 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 Unit. In 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.

24 REMUNERATION SCHEMES continued

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

	Conditional incentive plan	
	2018	2017
Award life (years)	**2 - 3**	2 - 3
Risk free rate (%)	**6.99 - 7.61**	6.92 - 7.46

	Conditional incentive plan (FSR shares)	
Share awards outstanding	**2018**	2017
Number of awards in force at the beginning of the year (millions)	**80.1**	80.7
Number of awards granted during the year (millions)	**33.9**	35.4
Number of awards transferred (within the group) during the year (millions)	**(0.7)**	(0.7)
Number of awards exercised/released during the year (millions)	**(27.0)**	(31.9)
- Market value range at date of exercise/release (cents)*	**2 968 - 7 541**	2 022 - 5 317
- Weighted average (cents)	**5 451**	4 811
Number of share cancelled/lapsed during the year (millions)	**(4.8)**	(3.4)
Number of awards in force at the end of the year (millions)	**81.5**	80.1

	Conditional share plan (FSR shares)			
	2018		2017	
Share awards outstanding**	**Weighted average remaining life (years)**	**Out-standing awards (millions)**	Weighted average remaining life (years)	Out-standing awards (millions)
Vesting during 2017			0.29	26.4
Vesting during 2018	**0.31**	**24.6**	1.31	26.4
Vesting during 2019	**1.31**	**30.9**	2.32	27.3
Vesting during 2020	**2.30**	**26.0**		
Total conditional awards	**-**	**81.5**	-	80.1
Number of participants		**3 564**		3 135

** 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.*

25 CONTINGENCIES AND COMMITMENTS

R million	2018	2017
Guarantees	**34 711**	31 875
Letters of credit	**9 969**	6 358
Total contingencies	**44 680**	38 233
Irrevocable commitments	**111 642**	112 698
Committed capital expenditure	**2 592**	3 560
Operating lease commitments	**2 504**	2 853
Other	**3**	3
Total contingencies and commitments	**161 421**	157 347
Legal proceedings		
There are a number of legal or potential claims against the bank, the outcome of which cannot at present be foreseen. These claims are not regarded as material either on an individual or a total basis. Provision is made for all liabilities that are expected to materialise.	**125**	108
Commitments		
Commitments in respect of capital expenditure and long-term investments approved by directors	**2 592**	3 560
Guarantees		
Guarantees consist predominantly of endorsements and performance guarantees. Guarantees granted to other FirstRand group companies amount to:	**2 016**	2 069

25.1 Commitments under operating leases where the bank is the lessee

The bank's significant operating leases relate to property rentals of office premises and the various branch network channels represented by full service branches, agencies, mini branches and ATM lobbies. The rentals have fixed monthly payments, often including a contingent rental based on a percentage contribution of the monthly operating costs of the premises. Escalation clauses are based on market related rates and vary between 5% and 12%.

The leases are usually for a period of one to five years. The leases are non-cancellable and certain of the leases have an option to renew for a further leasing period at the end of the original lease term.

Restrictions are more an exception than the norm and usually relate to the restricted use of the asset for the business purposes specified in the lease contract.

25 CONTINGENCIES AND COMMITMENTS continued

	2018			
R million	Within 1 year	Between 1 and 5 years	More than 5 years	Total
Office premises	923	1 176	96	2 195
Equipment and motor vehicles	194	115	-	309
Total operating lease commitments	**1 117**	**1 291**	**96**	**2 504**

	2017			
R million	Within 1 year	Between 1 and 5 years	More than 5 years	Total
Office premises	831	1 673	103	2 607
Equipment and motor vehicles	158	88	-	246
Total operating lease commitments	989	1 761	103	2 853

25.2 Future minimum lease payments receivable under operating leases where the bank is the lessor

The bank owns various assets that are leased to third parties under non-cancellable operating leases as part of the bank's revenue generating operations. The operating leases have various lease terms ranging from two to fifteen years.

The minimum future lease payments under non-cancellable operating leases on assets where the bank is the lessor are detailed below.

	2018			
R million	Within 1 year	Between 1 and 5 years	More than 5 years	Total
Property	32	31	-	63
Motor vehicles	952	1 356	-	2 308
Total receivable under non-cancellable operating leases	**984**	**1 387**	**-**	**2 371**

	2017			
R million	Within 1 year	Between 1 and 5 years	More than 5 years	Total
Property	32	42	-	74
Motor vehicles	875	1 476	-	2 351
Total receivable under non-cancellable operating leases	907	1 518	-	2 425

26 FAIR VALUE MEASUREMENTS

26.1 Valuation methodology

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

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

Non-recurring fair value measurements

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

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

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

Financial instruments

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

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

Financial instruments not measured at fair value

This category includes assets and liabilities not measured at fair value but for which fair value disclosures are required under another IFRS, e.g. financial instruments at amortised cost. Except for the amounts included under section 26.4, for all other financial instruments at amortised cost the carrying value is equal to or a reasonable approximation of the fair value.

26 FAIR VALUE MEASUREMENTS continued

26.2 Fair value hierarchy and measurements

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

Where a valuation model is applied and the bank cannot mark-to-market, it applies a mark-to-model approach, subject to valuation adjustments. Mark-to-model is defined as any valuation which has to be benchmarked, extrapolated or otherwise calculated from a market input. The bank will consider the following in assessing whether a mark-to-model valuation is appropriate:

- as far as possible, market inputs are sourced in line with market prices;
- generally accepted valuation methodologies are consistently used for particular products unless deemed inappropriate by the relevant governance forums;
- where a model has been developed in-house, it is based on appropriate assumptions, which have been assessed and challenged by suitably qualified parties independent of the development process;
- formal change control procedures are in place;
- awareness of the weaknesses of the models used and appropriate reflection in the valuation output;
- the model is subject to periodic review to determine the accuracy of its performance; and
- valuation adjustments are only made when appropriate, for example, to cover the uncertainty of the model valuation. The bank considers factors such as counterparty and own credit risk when making appropriate valuation adjustments.

26 FAIR VALUE MEASUREMENTS continued

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

Instrument	Valuation technique	Description of valuation technique and main assumptions	Observable inputs
Derivative financial instruments			
Forward rate agreements	Discounted cash flows	Future cash flows are projected using a forward curve and then discounted using a market-related discount curve over the contractual period. The reset date is determined in terms of legal documents.	Market interest rates, 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 swaplet 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, interests 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

26 FAIR VALUE MEASUREMENTS continued

Instrument	Valuation technique	Description of valuation technique and main assumptions	Observable inputs
Loans and advances to customers			
Other loans and advances	Discounted cash flows	Future cash flows are discounted using market-related interest rates adjusted for credit inputs over the contractual period. Although the fair value of credit is not significant year-on-year it may become significant in future. In the event that credit spreads are observable for a counterparty, loans and advances to customers are classified as level 2 of the fair value hierarchy.	Market interest rates, 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

26 FAIR VALUE MEASUREMENTS continued

Instrument	Valuation technique	Description of valuation technique and main assumptions	Observable inputs
Investment securities continued			
Unlisted equities	Price earnings (P/E) model and discounted cash flows	For unlisted equities, the earnings included in the model are derived from a combination of historical and budgeted earnings depending on the specific circumstances of the entity whose equity is being valued. The P/E multiple is derived from current market observations taking into account an appropriate discount for unlisted companies. The valuation of these instruments may be corroborated by a discounted cash flow valuation or by the observation of other market transactions that have taken place in which case level 2 classifications are used.	Market transactions
Negotiable certificates of deposit	Discounted cash flows	Future cash flows are discounted using market-related interest rates. Inputs to these models include information that is consistent with similar market quoted instruments, where available.	Market interest rates and 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
Investments in funds and unit trusts	Third party valuations	For certain investments in funds (such as hedge funds) or unit trusts, where an internal valuation technique is not applied, the bank places reliance on valuations from third parties such as broker quotes or valuations from asset managers. Where considered necessary, the bank applies minority and marketability or liquidity discount adjustments to these third-party valuations. Third party valuations are reviewed by the relevant franchise's investment committee on a regular basis. Where these underlying investments are listed, these third-party valuations can be corroborated with reference to listed share prices and other market data and are thus classified in level 2 of the fair value hierarchy.	Market transactions (listed)

26 FAIR VALUE MEASUREMENTS continued

Instrument	Valuation technique	Description of valuation technique and main assumptions	Observable inputs
Deposits			
Call and non-term deposits	None - the undiscounted amount is used	The undiscounted amount of the deposit is the fair value due to the short-term nature of the instruments. These deposits are financial liabilities with a demand feature and the fair value is not less than the amount payable on demand, i.e. the undiscounted amount of the deposit.	None – the undiscounted amount approximates fair value and no valuation is performed
Other deposits	Discounted cash flows	The forward curve adjusted for liquidity premiums and business unit margins. The valuation methodology does not take early withdrawals and other behavioural aspects into account.	Market interest rates and 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 and performance of underlying
Financial assets and liabilities not measured at fair value but for which fair value is disclosed	Discounted cash flows	Future cash flows are discounted using market-related interest rates and curves adjusted for credit inputs.	Market interest rates and curves

26 FAIR VALUE MEASUREMENTS continued

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

Instrument	Valuation technique	Description of valuation technique and main assumptions	Significant unobservable inputs
Derivative financial instruments			
Option	Option pricing model	The Black Scholes model is used.	Volatilities
Equity derivatives	Industry standard models	The models calculate fair value based on input parameters such as share prices, dividends, volatilities, interest rates, equity repo curves and, for multi-asset products, correlations. Unobservable model inputs are determined by reference to liquid market instruments and applying extrapolation techniques to match the appropriate risk profile.	Volatilities and unlisted share prices
Loans and advances to customers			
Investment banking book	Discounted cash flows	The bank has elected to designate the investment banking book advances at fair value through profit or loss. Credit risk is not observable and could have a significant impact on the fair value measurement of these advances and as such, these advances are classified as level 3 on the fair value hierarchy. Future cash flows are discounted using market-related interest rates. To calculate the fair value of credit the bank uses a valuation methodology based on the credit spread matrix, which considers loss given default, tenor and the internal credit committee rating criteria. The fair value measurement includes the original credit spread and is repriced when there is a change in rating of the counterparty. A decline in credit rating would result in an increase in the spread above the base rate for discounting purposes and consequently a reduction of the fair value of the advance. Similarly, an increase in credit rating would result in a decrease in the spread below the base rate and an increase of the fair value of the advance.	Credit inputs

26 FAIR VALUE MEASUREMENTS continued

Instrument	Valuation technique	Description of valuation technique and main assumptions	Significant unobservable inputs
Loans and advances to customers continued			
Other loans and advances	Discounted cash flows	Future cash flows are discounted using market-related interest rates adjusted for credit inputs over the contractual period. Although the fair value of credit is not significant year-on-year it may become significant in future. For this reason, together with the fact that the majority of South African counterparties do not have actively traded or observable credit spreads, the bank has classified other loans and advances to customers at level 3 of the fair value hierarchy.	Credit inputs
Investment securities			
Equities listed in an inactive market	Discounted cash flows	For listed equities, the listed price is used where the market is active (i.e. level 1). However, if the market is not active and the listed price is not representative of fair value, a valuation technique is used to determine the fair value. The valuation technique will be based on risk parameters of comparable securities and the potential pricing difference in spread and/or price terms with the traded comparable is considered. Future cash flows are discounted using market-related interest rates. Where the valuation technique incorporates unobservable inputs for equities e.g. P/E ratios, level 3 of the fair value hierarchy is deemed appropriate.	Unobservable P/E ratios
Unlisted bonds or bonds listed in an inactive market	Discounted cash flows	Unlisted bonds or bonds in an inactive market are valued similarly to advances measured at fair value. The future cash flows are discounted using market-related interest rates adjusted for credit inputs over the contractual period. Where the valuation technique incorporates unobservable inputs for credit risk, level 3 of the fair value hierarchy is deemed appropriate.	Credit inputs

26 FAIR VALUE MEASUREMENTS continued

Instrument	Valuation technique	Description of valuation technique and main assumptions	Significant unobservable inputs
Investment securities continued			
Unlisted equities	P/E model and discounted cash flows	For unlisted equities, the earnings included in the model are derived from a combination of historical and budgeted earnings depending on the specific circumstances of the entity whose equity is being valued. The P/E multiple is derived from current market observations taking into account an appropriate discount rate for unlisted companies. The valuation of these instruments may be corroborated by a discounted cash flow valuation or by the observation of other market transactions that have taken place.	Growth rates and P/E ratios
Investments in funds and unit trusts	Third party valuations	For certain investments in funds (such as hedge funds) or unit trusts, where an internal valuation technique is not applied, the bank places reliance on valuations from third parties such as broker quotes or valuations from asset managers. Where considered necessary, the bank applies minority and marketability or liquidity discount adjustments to these third party valuations. Third party valuations are reviewed by the relevant franchise's investment committee on a regular basis. Where these underlying investments are unlisted, the bank has classified these in level 3 of the fair value hierarchy, as there is no observable market data to which to compare the third party valuations.	None (unlisted) - third party valuations used, minority and marketability adjustments
Deposits			
Deposits that represent collateral on credit-linked notes	Discounted cash flows	These deposits represent the collateral leg of credit-linked notes. The forward curve adjusted for liquidity premiums and business unit margins is used. The valuation methodology does not take early withdrawals and other behavioural aspects into account.	Credit inputs on related advances

26 FAIR VALUE MEASUREMENTS continued

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

26 FAIR VALUE MEASUREMENTS continued

Non-recurring fair value measurements

For non-recurring fair value measurements the fair value hierarchy classification and valuation technique applied in determining fair value will depend on the underlying asset or liability being measured. Where the underlying assets or liabilities are those for which recurring fair value measurements are required as listed in the table above, the technique applied and the inputs into the models would be in line with those as set out in the table. There were no assets or liabilities measured at fair value on a non-recurring basis in the current and prior years.

26.2.1 Fair value hierarchy

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

	2018			
R million	Level 1	Level 2	Level 3	Total fair value
Assets				
Recurring fair value measurements				
Derivative financial instruments	**244**	**40 579**	**563**	**41 386**
Investment securities	**94 672**	**29 872**	**1 468**	**126 012**
Advances	**-**	**26 958**	**167 052**	**194 010**
Commodities	**13 424**	**-**	**-**	**13 424**
Amounts due by holding company and fellow subsidiaries	**-**	**603**	**-**	**603**
Total assets measured at fair value	**108 340**	**98 012**	**169 083**	**375 435**
Liabilities				
Recurring fair value measurements				
Short trading positions	**9 981**	**-**	**-**	**9 981**
Derivative financial instruments	**21**	**49 587**	**630**	**50 238**
Deposits	**1 354**	**93 006**	**344**	**94 704**
Other liabilities	**-**	**2 079**	**1 529**	**3 608**
Amounts due to holding company and fellow subsidiaries	**-**	**336**	**-**	**336**
Total liabilities measured at fair value	**11 356**	**145 008**	**2 503**	**158 867**

26 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	34 822	8	35 098
Investment securities	79 501	18 721	1 989	100 211
Advances	-	33 132	195 376	228 508
Commodities	14 380	-	-	14 380
Amounts due by holding company and fellow subsidiaries	-	302	-	302
Total assets measured at fair value	94 149	86 977	197 373	378 499
Liabilities				
Recurring fair value measurements				
Short trading positions	15 211	-	-	15 211
Derivative financial instruments	307	43 120	233	43 660
Deposits	1 963	74 836	386	77 185
Other liabilities	-	2 226	1 519	3 745
Amounts due to holding company and fellow subsidiaries	-	330	-	330
Total liabilities measured at fair value	17 481	120 512	2 138	140 131

26 FAIR VALUE MEASUREMENTS continued

26.2.2 Transfers between fair value hierarchy levels

The following represents the significant transfers into level 1, 2 and 3 and the reasons for the transfers. Transfers between levels of the fair value hierarchy are deemed to occur at the beginning of the reporting period.

	2018		
R million	**Transfers in**	**Transfers out**	**Reasons for significant transfer in**
Level 1	**-**	**-**	There were no transfers into level 1.
Level 2	**34**	**(1 070)**	Certain over the counter equity options have been transferred into level 2 in the current year as 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	**1 070**	**(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	**1 104**	**(1 104)**	

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

26 FAIR VALUE MEASUREMENTS continued

26.3 Additional disclosures for level 3 financial instruments

26.3.1 Changes in level 3 instruments with recurring fair value measurements

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

R million	Derivative financial assets	Advances	Investment securities	Derivative financial liabilities	Deposits	Other liabilities
Balance as at 30 June 2016	-	199 275	1 846	128	528	1 457
Gains/(losses) recognised in profit or loss	8	14 848	22	71	(39)	174
(Losses)/gains recognised in other comprehensive income	-	(2)	50	-	-	-
Purchases, sales, issues and settlements	-	(17 847)	71	(4)	(103)	(112)
Transfers into level 3	-	-	-	38	-	-
Exchange rate differences	-	(898)	-	-	-	-
Balance as at 30 June 2017	8	195 376	1 989	233	386	1 519
(Losses)/gains recognised in profit or loss	**(17)**	**15 480**	**(66)**	**(109)**	**9**	**159**
(Losses) recognised in other comprehensive income	**-**	**(2)**	**(31)**	**-**	**-**	**-**
Purchases, sales, issues and settlements	**40**	**(44 079)**	**(424)**	**2**	**(51)**	**(149)**
Net transfers into level 3	**532**	**-**	**-**	**504**	**-**	**-**
Exchange rate differences	**-**	**277**	**-**	**-**	**-**	**-**
Balance as at 30 June 2018	**563**	**167 052**	**1 468**	**630**	**344**	**1 529**

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

Gains/losses on advances classified in level 3 of the hierarchy comprise gross interest income on advances, 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.

26 FAIR VALUE MEASUREMENTS continued

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

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

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

	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*	**11 667**	**-**	11 697	-
Investment securities	**(25)**	**11**	23	50
Total	**11 653**	**11**	11 728	50
Liabilities				
Derivative financial instruments	**(299)**	**-**	(72)	-
Deposits	**11**	**-**	(26)	-
Other liabilities	**41**	**-**	97	-
Total	**(247)**	**-**	(1)	-

* *Amount is mainly accrued interest on fair value loans and advances and movements due to changes in interest rates that have been economically hedged. This relates to the portion of RMB's advances that are classified as fair value to effectively manage the interest rate and foreign exchange risks on these portfolios. These are classified as level 3 primarily as credit spreads could be a significant input and are not observable for loans and advances in the most of RMB's key markets. Refer to page C146 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.

26 FAIR VALUE MEASUREMENTS continued

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

The tables below illustrate the sensitivity of the significant inputs when changed to reasonable possible alternative inputs:

Asset/liability	Significant unobservable	Unobservable input to which reasonably possible changes are applied	Reasonably possible changes applied
Derivative financial instruments	Volatilities	Volatilities	Increased and decreased by 10%.
Advances	Credit	Scenario analysis	A range of scenarios are run as part of the group's credit risk management process for advances measured at fair value 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%.

26 FAIR VALUE MEASUREMENTS continued

	2018			2017		
	Reasonably possible alternative fair value			Reasonably possible alternative fair value		
R million	Fair value	Using more positive assumptions	Using more negative assumptions	Fair value	Using more positive assumptions	Using more negative assumptions
Assets						
Derivative financial instruments	**563**	**569**	**556**	8	11	4
Advances	**167 052**	**167 445**	**166 738**	195 376	195 979	195 041
Investment securities	**1 468**	**1 617**	**1 383**	1 989	2 179	1 833
Total financial assets measured at fair value in level 3	**169 083**	**169 631**	**168 677**	197 373	198 169	196 878
Liabilities						
Derivative financial instruments	**630**	**622**	**636**	233	227	246
Deposits	**344**	**310**	**379**	386	386	387
Other liabilities	**1 529**	**1 513**	**1 544**	1 519	1 504	1 534
Total financial liabilities measured at fair value in level 3	**2 503**	**2 445**	**2 559**	2 138	2 117	2 167

26 FAIR VALUE MEASUREMENTS continued

26.4 Financial instruments not measured at fair value

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

	2018				
R million	Carrying value	Total fair value	Level 1	Level 2	Level 3
Assets					
Advances	**649 796**	**656 550**	**-**	**104 283**	**552 267**
Investment securities	**31 226**	**31 166**	**28 370**	**2 796**	**-**
Total assets at amortised cost	**681 022**	**687 716**	**28 370**	**107 079**	**552 267**
Liabilities					
Deposits	**882 554**	**882 480**	**2 534**	**878 571**	**1 375**
Other liabilities	**773**	**773**	**-**	**773**	**-**
Tier 2 liabilities	**26 668**	**27 036**	**-**	**27 036**	**-**
Total liabilities at amortised cost	**909 995**	**910 289**	**2 534**	**906 380**	**1 375**

	2017				
R million	Carrying value	Total fair value	Level 1	Level 2	Level 3
Assets					
Advances	570 911	576 355	-	96 037	480 318
Investment securities	27 761	27 816	20 832	6 984	-
Total assets at amortised cost	598 672	604 171	20 832	103 021	480 318
Liabilities					
Deposits	799 505	801 710	41	800 788	881
Other liabilities	467	467	-	467	-
Tier 2 liabilities	18 370	18 635	-	18 635	-
Total liabilities at amortised cost	818 342	820 812	41	819 890	881

26 FAIR VALUE MEASUREMENTS continued

26.5 Day 1 profit or loss

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

R million	**2018**	2017
Opening balance	**51**	38
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)**	(4)
Closing balance	**54**	51

26.6 Financial instruments designated as at fair value through profit or loss

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

26 FAIR VALUE MEASUREMENTS continued

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

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

	2018			
			Change in fair value	
			Due to credit risk	
R million	Carrying value	Mitigated credit risk	Current period	Cumulative
Advances	**171 556**	**4 325**	**719**	**(1 387)**
Investment securities	**1 452**	**-**	**-**	**-**
Total	**173 008**	**4 325**	**719**	**(1 387)**

	2017			
			Change in fair value	
			Due to credit risk	
R million	Carrying value	Mitigated credit risk	Current period	Cumulative
Advances	211 540	4 460	(63)	(2 137)
Investment securities	-	-	-	-
Total	211 540	4 460	(63)	(2 137)

Losses are indicated with brackets.

26 FAIR VALUE MEASUREMENTS continued

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

R million	**2018**		2017	
	Fair value	**Contractually payable at maturity**	Fair value	Contractually payable at maturity
Deposits	**94 704**	**95 241**	77 185	77 238
Other liabilities	**3 608**	**3 738**	3 745	3 683
Total	**98 312**	**98 979**	80 930	80 921

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

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

R million	**2018**	2017
Total fair value income for the year has been disclosed as:		
Fair value gains and losses included in non-interest revenue	**5 364**	5 302
Fair value of credit of advances included in the impairment of advances	**774**	(274)

27 SEGMENT INFORMATION

27.1 Reportable segments

Segment reporting	
Bank's chief operating decision maker	Chief executive officer (CEO).
Identification and measurement of operating segments	Aligned with internal reporting provided to the CEO and reflects the risks and rewards related to the segments' specific products and services offered in their specific markets. Operating segments whose total revenue, absolute profit or loss for the period or total assets are 10% or more of all the segments' revenue, profit or loss or total assets, are reported separately.
Major customers	FirstRand bank has no major customer as defined (i.e. revenue from the customer exceeds 10% of total revenue) and is, therefore, not reliant on the revenue from one or more major customers.
Reportable segments	
	Products and services
FNB *Retail and commercial*	FNB offers a diverse set of financial products and services to market segments including consumer, small business, agricultural, medium corporate, parastatals and government entities. FNB's products cover the entire spectrum of financial services – transactional, lending, insurance, investment and savings – and include mortgage loans, credit and debit cards, personal loans, funeral and credit life policies, and savings and investment products. Services include transactional and deposit-taking, card acquiring, credit facilities and FNB distribution channels (branch network, ATMs, call centres, cellphone and online).
FNB AFRICA *Support division*	Comprises a support division acting as strategic enabler, facilitator and coordinator for African expansion and FNB's activities in India.
	Products and services
RMB *Corporate and investment banking*	RMB offers advisory, financing, trading, corporate banking and principal investing solutions. RMB's business units include global markets, investment banking, private equity and corporate banking.

27 SEGMENT INFORMATION continued

Reportable segments	
	Products and services
WesBank *Instalment finance*	WesBank offers asset-based finance in the retail, commercial and corporate segments operating primarily through alliances and JVs with leading motor manufacturers, suppliers and dealer groups where it has built up a strong point-of-sale presence. Through MotoNovo Finance, it operates in the asset-based motor finance sector in the UK.
FCC and other	
Key group-wide functions	Group-wide functions include Group Treasury (capital, liquidity and financial resource management), group finance, group tax, enterprise risk management, regulatory risk management and group internal audit. FCC has a custodianship mandate which includes managing relationships on behalf of the group with key external stakeholders (e.g. shareholders, debt holders, regulators) and the ownership of key group strategic frameworks (e.g. performance measurement, risk/reward). Its objective is to ensure the group delivers on its commitments to stakeholders. This reportable segment includes management accounting.

27.2 Description of normalised adjustments

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

27 SEGMENT INFORMATION continued

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

27 SEGMENT INFORMATION continued

Normalised adjustments	
Cash settled share-based payments and the economic hedge	The bank entered into a total return swap (TRS) with external parties in order to economically hedge itself against the exposure to changes in the FirstRand share price associated with the bank's long-term incentive schemes. In terms of IAS 39 the TRS is accounted for as a derivative instrument at fair value with the full fair value change recognised in NIR. In accordance with IFRS 2, the expense resulting from these option schemes is recognised over the vesting period of the schemes. This leads to a mismatch in the recognition of the profit or loss of the hedge and the share-based payment expense. When calculating normalised results, the bank defers the recognition of the fair value gain or loss on the hedging instrument to the specific reporting period in which the IFRS 2 impact will manifest in the bank's results. This reflects the economic substance of the hedge and associated IFRS 2 impact for the bank. In addition, the portion of the share-based payment expense which relates to the remeasurement of the liability arising from changes in the share price is reclassified from operating expenses into NIR in accordance with the economics of the transaction. The share-based payment expense included in operating expenses is equal to the grant date fair value of the awards given.
Headline earnings adjustments	All adjustments that are required by *Circular 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.

27 SEGMENT INFORMATION continued

27.3 Reportable segments

R million	2018 FNB	2018 FNB Africa*	
Net interest income before impairment of advances	**26 245**	**(33)**	
Impairment and fair value of credit of advances	**(3 453)**	**2**	
Net interest income after impairment of advances	**22 792**	**(31)**	
Non-interest revenue	**21 112**	**813**	
Net income from operations	**43 904**	**782**	
Operating expenses	**(24 625)**	**(1 281)**	
Income before indirect tax	**19 279**	**(499)**	
Indirect tax	**(465)**	**(2)**	
Profit before income tax	**18 814**	**(501)**	
Income tax expense	**(5 268)**	**132**	
Profit for the year	**13 546**	**(369)**	
The income statement includes:			
Depreciation	**(1 565)**	**(2)**	
Amortisation	**(49)**	**-**	
Net impairment charge	**(13)**	**(161)**	
The statement of financial position includes:			
Total assets	**373 700**	**590**	
Total liabilities	**354 951**	**1 060**	

* *Relates to head office costs and FNB's activities in India. Earnings from subsidiaries in the rest of Africa form part of FREMA and are not reported in bank (see simplified group structure in section A).*

Geographical segments

R million	2018 South Africa	United Kingdom	Asia	Total
Net interest income after impairment of advances	**32 615**	**1 821**	**68**	**34 504**
Non-interest revenue	**33 130**	**452**	**105**	**33 687**
Non-current assets*	**15 463**	**296**	**3**	**15 762**

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

	2018						
	RMB						
	Investment banking	Corporate banking	WesBank	FCC (including Group Treasury)	FirstRand Bank-normalised	Normalised adjustments	FirstRand Bank-IFRS
	4 338	1 585	9 443	1 168	42 746	(1 583)	41 163
	105	(3)	(3 540)	230	(6 659)	-	(6 659)
	4 443	1 582	5 903	1 398	36 087	(1 583)	34 504
	6 205	1 667	2 877	(1 072)	31 602	2 085	33 687
	10 648	3 249	8 780	326	67 689	502	68 191
	(5 233)	(1 989)	(6 186)	(1 064)	(40 378)	(319)	(40 697)
	5 415	1 260	2 594	(738)	27 311	183	27 494
	(113)	(7)	(162)	(56)	(805)	-	(805)
	5 302	1 253	2 432	(794)	26 506	183	26 689
	(1 485)	(351)	(681)	1 551	(6 102)	(70)	(6 172)
	3 817	902	1 751	757	20 404	113	20 517
	(133)	(7)	(646)	(13)	(2 366)	-	(2 366)
	(35)	-	(9)	(1)	(94)	-	(94)
	-	-	(1)	-	(175)	-	(175)
	357 509	49 467	168 240	254 371	1 203 877	-	1 203 877
	353 190	49 004	165 781	188 991	1 112 977	-	1 112 977

27 SEGMENT INFORMATION continued

R million	2017 FNB	2017 FNB Africa*
Net interest income before impairment of advances	**24 036**	**3**
Impairment and fair value of credit of advances	**(3 648)**	**(15)**
Net interest income after impairment of advances	**20 388**	**(12)**
Non-interest revenue	**19 089**	**816**
Net income from operations	**39 477**	**804**
Operating expenses	**(22 690)**	**(1 242)**
Income before indirect tax	**16 787**	**(438)**
Indirect tax	**(491)**	**(3)**
Profit before income tax	**16 296**	**(441)**
Income tax expense	**(4 563)**	**123**
Profit for the year	**11 733**	**(318)**
The income statement includes:		
Depreciation	**(1 601)**	**(11)**
Amortisation	**(37)**	**(7)**
Net impairment charge	**(7)**	**-**
The statement of financial position includes:		
Total assets	**346 892**	**719**
Total liabilities	**330 727**	**1 158**

* *Relates to head office costs and FNB's activities in India. Earnings from subsidiaries in the rest of Africa form part of FREMA and are not reported in bank (see simplified group structure in section A).*

Geographical segments

R million	2017 South Africa	United Kingdom	Asia	Total
Net interest income after impairment of advances	29 952	1 636	77	31 665
Non-interest revenue	30 251	576	122	30 949
Non-current assets*	14 939	218	4	15 161

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

	2017						
	RMB			FCC (including Group Treasury)	FirstRand Bank-normalised	Normalised adjustments	FirstRand Bank-IFRS
	Investment banking	Corporate banking	WesBank				
	4 022	1 484	9 205	1 099	39 849	(1 200)	38 649
	(544)	(75)	(3 052)	350	(6 984)	-	(6 984)
	3 478	1 409	6 153	1 449	32 865	(1 200)	31 665
	6 211	1 671	2 781	(1 062)	29 506	1 443	30 949
	9 689	3 080	8 934	387	62 371	243	62 614
	(5 087)	(1 860)	(5 488)	(1 354)	(37 721)	52	(37 669)
	4 602	1 220	3 446	(967)	24 650	295	24 945
	(109)	(5)	(232)	(36)	(876)	-	(876)
	4 493	1 215	3 214	(1 003)	23 774	295	24 069
	(1 263)	(340)	(901)	1 496	(5 448)	(84)	(5 532)
	3 230	875	2 313	493	18 326	211	18 537
	(129)	(3)	(552)	(15)	(2 311)	-	(2 311)
	(42)	-	(5)	(3)	(94)	-	(94)
	-	(1)	3	-	(5)	4	(1)
	337 744	42 159	170 523	184 114	1 082 151	-	1 082 151
	333 737	40 586	167 327	121 243	994 778	-	994 778

28 RELATED PARTIES

28.1 Balances with related parties

R million	2018	2017
Advances		
Entities that have significant influence over the parent and its subsidiaries	**6 461**	5 577
Associates	**11 738**	12 430
Joint ventures	**14 710**	11 743
Key management personnel	**16**	29
Accounts receivable		
Associates	**518**	398
Joint ventures	**10**	26
Amounts due by holding company and fellow subsidiaries		
Fellow subsidiaries	**52 419**	28 869
Derivative assets		
Entities that have significant influence over the parent and its subsidiaries		
Associates	**-**	4
Joint ventures	**178**	9
Investments under co-investment scheme		
Key management personnel	**75**	66
Deposits		
Entities that have significant influence over the parent and its subsidiaries	**44**	45
Associates	**2 248**	935
Joint ventures	**2 542**	3 310
Key management personnel	**73**	109
Accounts payable		
Entities that have significant influence over the parent and its subsidiaries	**-**	2
Associates	**5**	48
Joint ventures	**16**	42
Amounts due to holding company and fellow subsidiaries		
Parent	**524**	232
Fellow subsidiaries	**19 469**	14 348
Commitments		
Associates	**1 161**	1 060
Joint ventures	**-**	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, savings accounts and other term accounts and are at market related rates, terms and conditions.

28 RELATED PARTIES continued

28.2 Transactions with related parties

R million	2018	2017
Interest received		
Fellow subsidiaries	**1 555**	1 357
Associates	**696**	557
Joint ventures	**746**	465
Key management personnel	**3**	3
Interest paid		
Fellow subsidiaries	**(797)**	(628)
Associates	**(44)**	(14)
Joint ventures	**(195)**	(220)
Key management personnel	**(10)**	(7)
Non-interest revenue		
Entities that have significant influence over the parent and their subsidiaries	**473**	111
Fellow subsidiaries	**1 532**	1 111
Associates	**645**	697
Joint ventures	**1 156**	495
Operating expenses		
Fellow subsidiaries (note 3)	**(1 206)**	(986)
Associates	**(547)**	(812)
Joint ventures	**(47)**	(118)
Dividends (paid)		
Parent	**(16 508)**	(11 963)
Net interest 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	**132**	144
- Salaries and other short-term benefits	**99**	94
- Share based payments	**33**	50

Deferred compensation of R51 million (2017: R48 million) is due to key management personnel and is payable in FirstRand Limited shares. A list of the board of directors of the bank is in section A of the annual report.

During the financial year, no contracts were entered into in which directors or officers of the company had an interest and which significantly affected the business of the bank. The directors had no interest in any third party or company responsible for managing any of the business activities of the bank except to the extent that they are shareholders in RMB Holdings Limited, which together with Remgro, has significant influence over FirstRand.

28 RELATED PARTIES continued

28.3 Post-retirement benefit fund

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

R million	**2018**	2017
Dividend income	**7**	10
Deposits and current accounts held with the bank	**374**	450
Interest income	**31**	36

29 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The following new and revised standards and interpretations are applicable to the business of the bank. The bank will comply with these from the stated effective date.

Standard	Impact assessment	Effective date
IFRS 2 (amended)	**Classification and Measurement of Share-Based Payment Transactions** As a result of work by the IFRS Interpretations Committee, several amendments have been made to IFRS 2 to clarify how to account for certain share-based payment transactions. The amendments to IFRS 2 are related to the following areas: ➢ Accounting for the effects of vesting and non-vesting conditions on the measurement of the liability of cash-settled share-based payment transactions; ➢ The classification of share-based payment transactions with net settlement features for withholding tax obligations; and ➢ Accounting for a modification to the terms and conditions of a share-based payment that changes the transaction from cash-settled to equity-settled. The bank currently only has cash-settled share-based payment schemes. The bank is currently in line with the first two amendments as the bank is accounting for these items in line with the clarifications. The third amendment will be considered when such transactions take place and will be applied prospectively to any modifications made on or after the adoption date.	Annual periods commencing on or after 1 January 2018
IFRS 4 (amended)	**Applying IFRS 9 with IFRS 4** The amendment addresses concerns around temporary volatility in reported results arising from implementing IFRS 9 before implementing the insurance contracts standard that is being developed and that will replace IFRS 4. The amendment introduces two approaches: ➢ The overlay approach - an option for all issuers of insurance contracts to remove from profit or loss the effects of some mismatches that may occur before adoption of IFRS 4, and recognise those impacts in OCI (OCI) temporarily. The adjustment only applies to financial assets that are designated as relating to contracts in scope of IFRS 4 and measured at FVTPL in accordance with IFRS 9, but would have been measured in their entirety as at FVTPL under IAS 39. ➢ Temporary exemption - reporting entities whose activities are predominantly connected with insurance are temporarily exempt from applying IFRS 9 and will continue to apply IAS 39 until the new insurance contracts standard is issued. The bank 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 bank.	Annual periods commencing on or after 1 January 2018

29 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE continued

Standard	Impact assessment	Effective date
IFRS 9	**Financial instruments** IFRS 9 is effective and has been implemented by the bank 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 bank 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 bank. The bank 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 to date, the main impact of the revised classification and measurement requirements are: • certain portfolio 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 bank'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. • 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. The revised hedge accounting requirements will be applied by the bank 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	Annual periods commencing on or after 1 January 2018

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 bank developed and/or amended the applicable credit and accounting policies to incorporate the new requirements of IFRS 9. The bank 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, bank-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 bank. Refer below for an overview of the governance process around approval of the models, modelling process, and the key terms applied by the bank 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.

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 had an opportunity to price or re-price the advance 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

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 of taxation

The Income Tax Act contains the updated requirements for the deductibility of impairments in accordance with IFRS 9. The bank'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.

Expected impact

Management used assumptions and judgement in applying the bank'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 35 and 45 basis points (on a fully loaded basis) in the CET 1 ratio of the company. The bank 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 bank'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 bank is in the process of determining the impact on the bank, but these amendments are not expected to have a significant impact.

Standard	Impact assessment	Effective date
IFRS 15	**Revenue from Contracts from 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 is effective and has been implemented by the bank on 1 July 2018. The bank's main source of revenue is out of scope of IFRS 15 and as a result, IFRS 15 did not result in an impact for the bank. The bank has identified and reviewed the contracts with customers that are within the scope of this standard. The outcome of the reviews has not 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 Rnil , which resulted in no impact on the bank'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 bank from 1 July 2019. The bank will apply the modified retrospective approach to implementing the new standard. 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 statement of financial position which will reflect their right to use an asset for a period of time and the associated liability for payment. The standard allows an exception for lessees, where the leases are of a short term (less than 12 months) or low-value assets. The bank will apply these exemptions. IFRS 16 substantially carries forward the lessor accounting requirements in	Annual periods commencing on or after 1 January 2019

	IAS 17; however, there are also enhanced disclosure requirements for lessors. IFRS 16 is expected to impact the bank'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 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 bank from 1 July 2021. The bank does not have any insurance related activities as the majority of insurance related activities are conducted through a fellow subsidiary FirstRand Insurance Holdings (Pty) Limited by the FNB franchise. 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 bank 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

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 amendments will not impact the bank as the bank has no subsidiaries.	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 bank has no investment properties and the amendment will have no impact on the bank.	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 bank is in the process of assessing the impact on the annual financial statements built 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 bank has always been in compliance with the guidance issued by the IFRIC.	Annual periods commencing on or after 1 January 2019
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 bank.	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

30 INTERESTS IN OTHER ENTITIES

In terms of IFRS 12, disclosures about structured entities are only required in the consolidated financial statements, unless separate financial statements are the only annual financial statements prepared by an entity. As the bank does not prepare consolidated financial statements, the following disclosures have been made. Refer to accounting policy 9.2 for additional information about the bank's decision not to prepare consolidated financial statements.

30.1 Structured entities

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

Sponsorships of unconsolidated structured entities

The bank has also provided liquidity facilities and credit enhancement facilities to a non-recourse vehicle. The non-recourse vehicle is consolidated by the bank's fellow subsidiary, FRIHL. During the current year, assets to the value of R3 883 million were transferred by the bank to this entity. Assets to the value of R334 million were transferred in the prior year.

The bank has also provided letters of support to several non-consolidated structured entities. None of these entities are consolidated by the FirstRand group however the bank's fellow subsidiary FRIHL does hold immaterial interests in some of these entities. During the current and prior year no fees were received from these entities and no assets were transferred by the bank to these entities.

30.2 Liquidity facilities

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

R million	Transaction type	**2018**	2017
Own transaction		**2 213**	1 531
iVuzi	Conduit	**2 213**	1 531
Third party transaction	Securitisation	**-**	31
Total facilities provided		**2 213**	1 562

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

31 FINANCIAL RISK

Overview of financial risks

The financial instruments recognised on the bank's statement of financial position, expose the bank to various financial risks. The information presented in this note represents the quantitative information required by IFRS 7 and sets out the bank's exposure to these financial risks This section also contains details about the bank's capital management process. For additional information, about the bank's overall risk management processes refer to the summary risk and capital management report in section B.

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

Other sources of credit risk arise from:
➢ cash and cash equivalents;
➢ accounts receivable;
➢ derivative balances; and
➢ off-balance sheet exposures.</td><td>The following information is presented for these assets:
➢ summary of all credit assets (31.1.1);
➢ information about the quality of credit assets (31.1.2);
➢ exposure to concentration risk (31.1.3); and
➢ credit risk mitigation and collateral held (31.1.4).</td></tr>
</table>

31 FINANCIAL RISK continued

Overview of financial risks		
Liquidity risk	Liquidity risk is the risk that the bank is unable to meet its obligations when these fall due and payable. It is also the risk of not being able to realise assets when to meet repayment obligations in a stress scenario.	
	Liquidity risk arises from all assets and liabilities with differing maturity profiles.	The following information is presented for these assets and liabilities: ➢ undiscounted cash flow analysis of financial liabilities (31.2.1); ➢ discounted cash flow analysis of total assets and liabilities (31.2.2); ➢ collateral pledged (31.2.3); and ➢ concentration analysis of deposits (31.2.4).
Market risk	The bank distinguishes between **market risk in the trading book** and **non-traded market risk**. For non-traded market risk, the group distinguishes between **interest rate risk in the banking book** and **structural foreign exchange risk**. Market risk in the trading book is the risk of adverse revaluation of any financial instrument as a consequence of changes in the market prices or rates.	
	Market risk in the trading book (31.3.1) emanates mainly from the provision of hedging solutions for clients, market-making activities and term-lending products, and is taken and managed by RMB.	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.
	Interest rate risk in the banking book (31.4.1) originates from the differing repricing characteristics of balance sheet positions/instruments, yield curve risk, basis risk and client optionality embedded in banking book products.	The following information is presented for interest rate risk in the banking book: ➢ projected NII sensitivity to interest rate movements; and ➢ banking book NAV sensitivity to interest rate movements as a percentage of total bank capital.
	Structural foreign exchange risk (31.4.2) arises from balances denominated in foreign currencies and bank entities with functional currencies other than the South African rand.	Information about the bank's net structural foreign exposure and the sensitivity of the exposure is presented.

31 FINANCIAL RISK continued

<table>
<tr><th colspan="3">Overview of financial risks</th></tr>
<tr><td rowspan="2">Equity investment risk</td><td colspan="2">The risk of an adverse change in the fair value of an investment in a company, fund or listed, unlisted or bespoke financial instruments.</td></tr>
<tr><td>Equity investment risk (31.5) arises primarily from equity exposures from private equity and investment banking activities in RMB, and strategic investments held by WesBank, FNB and FCC.</td><td>For equity investment risk, both the exposure and the sensitivity thereof have been presented.</td></tr>
<tr><td>Capital management</td><td colspan="2">The overall capital management objective is to maintain sound capital ratios and a strong credit rating to ensure confidence in the bank's solvency and quality of capital during calm and turbulent periods in the economy and financial markets. The bank, therefore, maintains capitalisation ratios aligned to its risk appetite and appropriate to safeguard operations and stakeholder interests. The key focus areas and considerations of capital management are to ensure an optimal level and composition of capital, effective allocation of resources including capital and risk capacity, and a sustainable dividend policy.</td></tr>
</table>

31 FINANCIAL AND INSURANCE RISK continued

31.1 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 bank 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 bank employs a granular, 100-point master rating scale, which has been mapped to the continuum of default probabilities, as illustrated in the following table. 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.

31 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)

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

31.1.1 Credit assets

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

R million	2018	2017
On-balance sheet exposures		
Cash and short-term funds	**64 800**	47 136
- Money at call and short notice	**41 322**	25 684
- Balances with central banks	**23 478**	21 452
Gross advances	**858 954**	813 997
- FNB	**359 084**	332 938
- Retail	**265 122**	248 533
- Commercial*	**93 962**	84 132
- Rest of Africa**	**-**	273
- RMB investment banking	**230 200**	227 361
- RMB corporate banking	**46 592**	39 545
- WesBank	**166 693**	170 195
- FCC (including Group Treasury)	**56 385**	43 958
Derivatives	**41 386**	35 098
Debt investment securities	**149 623**	117 666
Financial accounts receivable	**4 242**	3 928
Amounts due by holding company and fellow subsidiaries	**52 419**	28 869
Off-balance sheet exposure	**159 929**	155 078
- Total contingencies	**44 680**	38 233
- Guarantees	**34 711**	31 875
- Letters of credit#	**9 969**	6 358
- Irrevocable commitments	**111 642**	112 698
- Credit derivatives	**3 607**	4 147
Total	**1 331 353**	1 201 772

* *Includes public sector.*

** *Includes FNB's activities in India. FNB's subsidiaries in the rest of Africa form part of FREMA and are not reported in the bank.*

\# *Includes acceptances.*

31 FINANCIAL RISK continued

31.1.2 Quality of credit assets

Age analysis of advances

R million	2018				
		Past due but not impaired			
	Neither past due nor impaired	One full instalment past due	Two full instalments past due	Impaired (NPLs)	Total
FNB	340 617	4 677	2 590	11 200	359 084
- Retail	249 890	4 456	2 290	8 486	265 122
- Commercial*	90 727	221	300	2 714	93 962
- Rest of Africa**	-	-	-	-	-
RMB investment banking	229 150	-	151	899	230 200
RMB corporate banking	46 462	-	1	129	46 592
WesBank	150 989	4 345	2 404	8 955	166 693
FCC (including Group Treasury)	56 385	-	-	-	56 385
Total	**823 603**	**9 022**	**5 146**	**21 183**	**858 954**
Percentage of total book (%)	**95.9**	**1.0**	**0.6**	**2.5**	**100.0**

* *Includes public sector.*

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

R million	2017				
		Past due but not impaired			
	Neither past due nor impaired	One full instalment past due	Two full instalments past due	Impaired (NPLs)	Total
FNB	315 849	4 183	3 006	9 900	332 938
- Retail	234 448	4 008	2 506	7 571	248 533
- Commercial*	81 177	175	500	2 280	84 132
- Rest of Africa**	224	-	-	49	273
RMB investment banking	226 184	37	3	1 137	227 361
RMB corporate banking	39 510	-	-	35	39 545
WesBank	156 363	4 193	2 202	7 437	170 195
FCC (including Group Treasury)	43 958	-	-	-	43 958
Total	781 864	8 413	5 211	18 509	813 997
Percentage of total book (%)	96.1	1.0	0.6	2.3	100.0

* *Includes public sector.*

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

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

31 FINANCIAL RISK continued

The following tables provide the credit quality of advances in the in-force portfolio.

Credit quality of performing advances (neither past due nor impaired)

	2018							
		FNB						
R million	**Total**	**Retail**	**Commercial***	**Rest of Africa****	**RMB investment banking**	**RMB corporate banking**	**WesBank**	**FCC (including Group Treasury)**
FR 1 - 25	**225 227**	**36 080**	**-**	**-**	**110 650**	**24 749**	**-**	**53 748**
FR 26 - 90	**589 138**	**208 178**	**89 680**	**-**	**118 412**	**21 281**	**149 041**	**2 546**
Above FR 90	**9 238**	**5 632**	**1 047**	**-**	**88**	**432**	**1 948**	**91**
Total	**823 603**	**249 890**	**90 727**	**-**	**229 150**	**46 462**	**150 989**	**56 385**

	2017							
		FNB						
R million	Total	Retail***	Commercial*	Rest of Africa**	RMB investment banking	RMB corporate banking	WesBank	FCC (including Group Treasury)
FR 1 - 25	244 353	38 999	9 234	-	118 353	21 126	13 609	43 032
FR 26 - 90	526 419	187 739	70 766	224	107 654	18 381	140 731	924
Above FR 90	11 092	7 710	1 177	-	177	3	2 023	2
Total	781 864	234 448	81 177	224	226 184	39 510	156 363	43 958

* *Includes public sector.*

** *Includes FNB's activities in India. FNB's subsidiaries in the rest of Africa form part of FREMA and are not reported in the bank.*

**** Reclassification due to the distribution of the risk bands been inferred from the PD distribution of the total book.*

For more detail about the FR rating scales and the link to rating agency scales refer to the credit section in the summary risk and capital management report in section B.

31 FINANCIAL RISK continued

Analysis of impaired advances (NPLs)

	2018		
R million	Total net of interest in suspense	Security held and expected recoveries	Specific impairment
NPLs by class			
- Retail	8 486	5 339	3 147
- Commercial	2 714	1 699	1 015
- Rest of Africa	-	-	-
FNB	11 200	7 038	4 162
- Investment banking	898	352	546
- Corporate banking	129	115	14
RMB	1 027	467	560
WesBank	8 956	6 010	2 946
Total NPLs	21 183	13 515	7 668
NPLs by category			
Overdrafts and cash management accounts	2 096	1 032	1 064
Term loans	1 213	572	641
Card loans	1 148	375	773
Instalment sales and hire purchase agreements	7 264	4 933	2 331
Lease payments receivable	65	37	28
Property finance	5 291	4 349	942
Personal loans	3 626	1 864	1 762
Investment bank term loans	467	352	115
Other	13	1	12
Total NPLs	21 183	13 515	7 668

31 FINANCIAL RISK continued

	2017		
R million	Total net of interest in suspense	Security held and expected recoveries	Specific impairment
NPLs by class			
- Retail	7 571	4 624	2 947
- Commercial	2 280	1 224	1 056
- Rest of Africa	49	29	20
FNB	9 900	5 877	4 023
- Investment banking	1 137	453	684
- Corporate banking	35	21	14
RMB	1 172	474	698
WesBank	7 437	5 010	2 427
Total NPLs	18 509	11 361	7 148
NPLs by category			
Overdraft and cash management accounts	1 879	785	1 094
Term loans	1 060	574	486
Card loans	972	317	655
Instalment sales and hire purchase agreements	6 167	4 191	1 976
Lease payments receivable	107	68	39
Property finance	4 750	3 713	1 037
Personal loans	2 832	1 370	1 462
Investment bank term loans	721	337	384
Other	21	6	15
Total NPLs	18 509	11 361	7 148

31 FINANCIAL RISK continued

Credit quality of other financial assets (excluding advances) neither past due nor impaired.

R million	Debt investment securities	Derivatives	Cash and short-term funds	Amounts due by fellow subsidiaries	Accounts receivable	Total
	2018					
AAA to BBB-	**136 382**	**35 253**	**49 469**	**52 419**	**383**	**273 906**
BB+ to B-	**13 241**	**6 123**	**15 317**	**-**	**3 640**	**38 321**
CCC	**-**	**10**	**-**	**-**	**9**	**19**
Unrated	**-**	**-**	**14**	**-**	**-**	**14**
Total	**149 623**	**41 386**	**64 800**	**52 419**	**4 032**	**312 260**

R million	Debt investment securities	Derivatives	Cash and short-term funds	Amounts due by fellow subsidiaries	Accounts receivable	Total
	2017					
AAA to BBB-	105 840	29 014	46 384	28 869	1 057	211 164
BB+ to B-	11 826	6 084	742	-	2 701	21 353
CCC	-	-	-	-	-	-
Unrated	-	-	10	-	15	25
Total	117 666	35 098	47 136	28 869	3 773	232 542

31 FINANCIAL RISK continued

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

R million	2018					
	Neither past due nor impaired	Past due but not impaired			Impaired	Total
		1 - 30 days	31 - 60 days	61 - 90 days		
Items in transit	**2 338**	**-**	**-**	**-**	**-**	**2 338**
Interest and commission accrued	**72**	**-**	**-**	**-**	**-**	**72**
Sundry debtors	**691**	**6**	**-**	**-**	**-**	**697**
Other accounts receivable	**931**	**66**	**80**	**57**	**1**	**1 135**
Total financial accounts receivable	**4 032**	**72**	**80**	**57**	**1**	**4 242**

R million	2017					
	Neither past due nor impaired	Past due but not impaired			Impaired	Total
		1 - 30 days	31 - 60 days	61 - 90 days		
Items in transit	1 691	2	-	1	-	1 694
Interest and commission accrued	66	-	-	-	-	66
Sundry debtors	817	4	2	1	6	830
Other accounts receivable	1 199	61	34	37	7	1 338
Total financial accounts receivable	3 773	67	36	39	13	3 928

31.1.3 Concentration risk

Credit concentration risk is the risk of loss to the bank arising from an excessive concentration of exposure to a single counterparty, industry, market, product, financial instrument or type of security, country or region, or maturity. This concentration typically exists when a number of counterparties are engaged in similar activities and have similar characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

Concentration risk is managed based on the nature of the credit concentration in each portfolio. The bank's credit portfolio is well diversified, achieved through setting maximum exposure guidelines to individual counterparties. The bank constantly reviews its concentration levels and sets maximum exposure guidelines for these.

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

31 FINANCIAL RISK continued

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

Geographic concentration of significant credit asset exposure

R million	South Africa	Rest of Africa	United Kingdom	Other Europe	North and South America	Austra-lasia	Asia	Total
	2018							
On-balance sheet exposures								
Cash and short-term funds	**57 458**	**69**	**4 056**	**1 055**	**1 823**	**111**	**228**	**64 800**
Total advances	**770 259**	**33 611**	**35 973**	**12 129**	**2 281**	**2**	**4 699**	**858 954**
NPLs	**20 246**	**166**	**340**	**27**	**404**	**-**	**-**	**21 183**
Derivatives	**23 298**	**343**	**13 944**	**2 429**	**297**	**-**	**1 075**	**41 386**
Debt investment securities (excluding non-recourse investments)	**120 096**	**777**	**14 769**	**1 332**	**8 394**	**-**	**4 255**	**149 623**
Accounts receivable	**4 572**	**88**	**734**	**32**	**598**	**1**	**50**	**6 075**
Off-balance sheet exposures								
Guarantees, acceptances and letters of credit	**35 032**	**5 037**	**304**	**444**	**564**	**129**	**3 170**	**44 680**
Irrevocable commitments	**102 422**	**5 940**	**1 656**	**939**	**602**	**-**	**83**	**111 642**

31 FINANCIAL RISK 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	37 383	-	5 794	1 948	1 779	73	159	47 136
Total advances	766 429	-	35 810	5 475	2 161	1	4 121	813 997
NPLs	17 761	111	172	58	358	-	49	18 509
Derivatives	20 980	-	11 627	1 682	475	-	334	35 098
Debt investment securities (excluding non-recourse investments)	107 024	-	3 209	1 206	1 511	-	4 716	117 666
Accounts receivable	4 481	-	810	31	278	1	50	5 651
Off-balance sheet exposures								
Guarantees, acceptances and letters of credit	33 989	-	30	719	263	215	3 017	38 233
Irrevocable commitments	109 026	-	636	2 731	176	-	129	112 698

31 FINANCIAL RISK continued

Sector analysis concentration of advances

Advances expose the bank to concentration risk to the various industry sectors. The tables below set out the bank's exposure to the various industry sectors for total advances and NPLs.

	2018			
		NPLs		
R million	Total advances	Total value net of interest in suspense	Security held and expected recoveries	Specific impairment
Sector analysis				
Agriculture	32 859	908	820	88
Banks	20 867	-	-	-
Financial institutions	137 937	79	40	39
Building and property development	48 961	672	383	289
Government, Land Bank and public authorities	22 471	313	307	6
Individuals	384 235	16 307	10 702	5 605
Manufacturing and commerce	100 870	1 134	554	580
Mining	11 297	521	51	470
Transport and communication	18 456	191	98	93
Other services	81 001	1 058	560	498
Gross value of advances	**858 954**	**21 183**	**13 515**	**7 668**
Impairment and fair value of credit of advances	(15 148)			
Net advances	**843 806**			

31 FINANCIAL RISK continued

	2017			
		NPLs		
R million	Total advances	Total value net of interest in suspense	Security held and expected recoveries	Specific impairment
Sector analysis				
Agriculture	30 220	620	508	112
Banks	4 951	-	-	-
Financial institutions	132 200	94	50	44
Building and property development	42 637	1 060	505	555
Government, Land Bank and public authorities	22 740	27	8	19
Individuals	372 740	14 084	9 120	4 964
Manufacturing and commerce	92 148	950	436	514
Mining	16 461	485	152	333
Transport and communication	18 354	152	73	79
Other services	81 546	1 037	509	528
Gross value of advances	813 997	18 509	11 361	7 148
Impairment and fair value of credit of advances	(14 578)			
Net advances	799 419			

31.1.4 Credit risk mitigation and collateral held

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

Although, in principle, credit assessment focuses on the counterparty's ability to repay the debt, credit mitigation instruments are used where appropriate to reduce the bank's lending risk, resulting in security against the majority of exposures. These include financial or other collateral, netting agreements, guarantees or credit derivatives. The collateral types are driven by portfolio, product or counterparty type.

Credit risk mitigation instruments

- Mortgage and instalment sale finance portfolios in FNB HomeLoans, FNB Wealth and WesBank are secured by the underlying assets financed.
- FNB commercial credit exposures are secured by the assets of the SME counterparties and commercial property finance deals are secured by the underlying property and associated cash flows.
- Structured facilities in RMB are secured as part of the structure through financial or other collateral, including guarantees, credit derivative instruments and assets.
- Counterparty credit risk in RMB is mitigated through the use of netting agreements and financial collateral. For additional information relating to the use of the netting agreements refer to page C185.
- Personal loans, overdrafts and credit card exposures are generally unsecured or secured by guarantees and sureties.
- Working capital facilities in RMB corporate banking are unsecured.

31 FINANCIAL RISK continued

The bank employs strict policies governing the valuation and management of collateral across all business areas. Collateral is managed internally to ensure that title is retained over collateral taken over the life of the transaction. Collateral is valued at inception of the credit agreement and subsequently where necessary through physical inspection or index valuation methods. For corporate and commercial counterparties, collateral is reassessed during the annual review of the counterparty's creditworthiness to ensure that proper title is retained. For mortgage portfolios, collateral is revalued on an ongoing basis using an index model and physical inspection is performed in the event of default at the beginning of the recovery process.

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

Concentrations in credit risk mitigation types, such as property, are monitored and managed in the three credit portfolios, FNB home loans, housing finance and wealth monitor exposure to a number of geographical areas, as well as within loan-to-value bands.

Collateral is taken into account for capital calculation purposes through the determination of LGD. Collateral reduces LGD, and LGD levels are determined through statistical modelling techniques based on historical experience of the recovery processes.

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

Collateral held per class of advance

R million	**2018**	2017
Retail	**4 221**	4 695
Commercial	**2 125**	1 119
Rest of Africa	**-**	29
FNB	**6 346**	5 843
Investment banking	**1 089**	1 291
Corporate banking	**308**	283
RMB	**1 397**	1 574
WesBank	**3 335**	2 181
FCC and other	**-**	-
Total	**11 078**	9 598

The financial effect of collateral and other credit enhancements has been calculated separately per class of advance for the performing book (IBNR and portfolio specific impairments) and the non-performing book. The amounts disclosed above represent the difference between the impairment recognised in the statement of financial position using the actual LGD and a proxy LGD for all secured portfolios. The proxy LGD is based on the LGD used to determine the impairment on the statement of financial position for unsecured portfolios.

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

R million	**2018**	2017
Cash collateral held	**16 832**	3 942

31 FINANCIAL RISK continued

The table below sets out the collateral that the bank holds and has the ability to sell or repledge in the absence of default by the owner of the collateral:

Collateral held in structured transactions

R million	**2018** Fair Value	**2018** Fair value of collateral sold or repledged in the absence of default	2017 Fair Value	2017 Fair value of collateral sold or repledged in the absence of default
Cash and cash equivalents	**8 535**	**2 819**	5 878	-
Investment securities and other investments - held under reverse repurchase agreements	**32 203**	**16 333**	30 885	19 617
Investment securities and other investments - other*	**-**	**-**	4 121	3 578
Total collateral pledged	**40 738**	**19 152**	40 884	23 195

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

Offsetting of financial assets and financial liabilities

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

The bank uses International Swaps and Derivatives Association (ISDA) and International Securities Market Association agreements for the purpose of netting derivative transactions and repurchase transactions respectively. These master agreements as well as associated credit support annexes (CSA) set out internationally accepted valuation and default covenants, which are evaluated and applied daily, including daily margin calls based on the approved CSA thresholds.

The table on the following page includes information about financial assets and financial liabilities that are:

- offset and the net amount presented in the bank's statement of financial position in accordance with the requirements of IAS 32; and
- subject to enforceable MNA or similar agreements where the amounts have not been offset because one or both of the requirements of IAS 32 are not met or the amounts relate to financial collateral (cash or non-cash) that mitigates credit risk.

Structured transactions refer to reverse repurchase, securities borrowing and similar arrangements in the asset section of the table and repurchase securities lending and similar arrangements in the liability section of the table.

The net amount reported on the statement of financial position represents the net amount of financial assets and financial liabilities where offsetting has been applied in terms of IAS 32 and financial instruments that are subject to MNA and similar agreements but no offsetting has been applied.

31 FINANCIAL RISK continued

The financial collateral included in the table below is limited to the net statement of financial position exposure in line with the requirements of IFRS 7 and excludes the effect of any over-collateralisation. The amount of collateral included in the table for IFRS 7 disclosure purposes has been determined at a business unit level. If these limits were determined on a bank wide level, the amount of collateral included in this table could increase.

	Derivatives		**Structured transactions**		**Other advances/ (deposits)**		**Intercompany**	
R million	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Assets								
Offsetting applied								
Gross amount	**49 855**	43 987	**40 261**	37 490	**-**	-	**686**	6 288
Amount set-off	**(11 003)**	(10 478)	**(18 092)**	(9 305)	**-**	-	**(171)**	(1 187)
Net amount reported on the statement of financial position	**38 852**	33 509	**22 169**	28 185	**-**	-	**515**	5 101
Offsetting not applied								
Financial instruments subject to MNA and similar agreements	**(30 186)**	(27 480)	**(88)**	(44)	**-**	-	**(255)**	(33)
Financial collateral	**(1 406)**	(2 277)	**(22 081)**	(28 141)	**-**	-	**-**	-
Net amount	**7 260**	3 752	**-**	-	**-**	-	**260**	5 068
Financial instruments not subject to set-off or MNA	**2 534**	1 589	**10 034**	2 700	**811 603**	768 534	**51 904**	23 768
Total as per statement of financial position	**41 386**	35 098	**32 203**	30 885	**811 603**	768 534	**52 419**	28 869
Liabilities								
Offsetting applied								
Gross amount	**55 031**	49 796	**51 498**	37 681	**-**	-	**1 216**	1 262
Amount set-off	**(11 003)**	(10 478)	**(18 092)**	(9 305)	**-**	-	**(171)**	(1 187)
Net amount reported on the statement of financial position	**44 028**	39 318	**33 406**	28 376	**-**	-	**1 045**	75
Offsetting not applied								
Financial instruments subject to MNA and similar agreements	**(30 186)**	(27 480)	**(88)**	(44)	**-**	-	**(255)**	(33)
Financial collateral	**(3 151)**	(929)	**(19 693)**	(27 660)	**-**	-	**-**	-
Net amount	**10 691**	10 909	**13 625**	672	**-**	-	**790**	42
Financial instruments not subject to set-off or MNA	**6 210**	4 342	**(10 563)**	3 861	**954 415**	844 453	**18 948**	14 505
Total as per statement of financial position	**50 238**	43 660	**22 843**	32 237	**954 415**	844 453	**19 993**	14 580

31 FINANCIAL RISK continued

31.2 Liquidity risk

Objective

The bank strives to fund its activities in a sustainable, diversified, efficient and flexible manner, underpinned by strong counterparty relationships within prudential limits and minimum requirements. The objective is to maintain natural market share, but also to outperform at the margin, which will provide the group with a natural liquidity buffer.

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

Compliance with the Basel III LCR influences the 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 bank.

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

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

Assessment and management

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

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

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

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

Regular and rigorous stress tests are conducted on the funding profile and liquidity position as part of the overall stress testing framework with a focus on:

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- quantifying the potential exposure to future liquidity stresses;
- analysing the possible impact of economic and event risks on cash flows, liquidity, profitability and solvency position; and
- proactively evaluating the potential secondary and tertiary effects of other risks on the bank.

31.2.1 Undiscounted cash flow

The following table presents the bank's undiscounted cash flows of financial liabilities and off-balance sheet amounts and includes all cash outflows related to principal amounts as well as future payments. These balances will not reconcile to the balance sheet for the following reasons:

- balances are undiscounted amounts whereas the statement of financial position is prepared using discounted amounts;
- the table includes cash flows not recognised on the statement of financial position;
- all instruments held for trading purposes are included in the call to three-month bucket and not by maturity as trading instruments are typically held for short periods of time; and
- cash flows relating to principal and associated future coupon payments have been included on an undiscounted basis.

	2018			
		Term to maturity		
R million	Total	Call - 3 months	4 - 12 months	> 12 months and non-contractual
On-balance sheet amounts				
Deposits and current accounts	1 067 260	664 113	144 308	258 839
Short trading positions	9 981	9 981	-	-
Derivative financial instruments	50 451	48 837	237	1 377
Creditors, accruals and provisions	14 197	9 135	780	4 282
Tier 2 liabilities	34 099	357	9 146	24 596
Other liabilities	4 725	609	1 919	2 197
Amounts due to holding company and fellow subsidiaries	19 752	19 202	462	88
Off-balance sheet amounts				
Financial and other guarantees	42 132	39 679	2 343	110
Operating lease commitments	2 404	310	739	1 355
Other contingencies and commitments	2 593	985	1 550	58
Facilities not drawn	111 642	111 642	-	-

31 FINANCIAL RISK continued

	2017			
		Term to maturity		
R million	Total	Call - 3 months	4 - 12 months	> 12 months and non-contractual
On-balance sheet amounts				
Deposits and current accounts	951 487	627 229	143 523	180 735
Short trading positions	15 211	15 211	-	-
Derivative financial instruments	43 907	41 222	708	1 977
Creditors, accruals and provisions	13 081	9 149	658	3 274
Tier 2 liabilities	24 333	338	2 883	21 112
Other liabilities	4 744	729	455	3 560
Amounts due to holding company and fellow subsidiaries	14 631	13 830	615	186
Off-balance sheet amounts				
Financial and other guarantees	35 718	34 547	1 003	168
Operating lease commitments	2 820	272	703	1 845
Other contingencies and commitments	3 563	1 129	1 926	508
Facilities not drawn	112 698	112 698	-	-

31 FINANCIAL RISK continued

31.2.2 Discounted cash flow analysis

The following table represents the bank's contractual discounted cash flows of total assets, liabilities and equity for the bank. Relying solely on the liquidity mismatch when assessing a bank's maturity analysis would overstate risk, since this represents an absolute worst case assessment of cash flows at maturity.

Due to South Africa's structural liquidity position, banks tend to have a particularly pronounced negative gap in the shorter term due to short-term institutional funds which represent a significant proportion of banks' liabilities. These are used to fund long-term assets, e.g. mortgages.

	2018			
		Term to maturity		
R million	**Carrying amount**	**Call - 3 months**	**4 - 12 months**	**> 12 months**
Total assets	**1 203 877**	**386 041**	**127 184**	**690 652**
Total equity and liabilities	**1 203 877**	**754 330**	**144 378**	**305 169**
Net liquidity gap	**-**	**(368 289)**	**(17 194)**	**385 483**
Cumulative liquidity gap	**-**	**(368 289)**	**(385 483)**	**-**

	2017			
		Term to maturity		
R million	Carrying amount	Call - 3 months	4 - 12 months	> 12 months
Total assets	1 082 151	353 777	116 574	611 800
Total equity and liabilities	1 082 151	708 452	136 461	237 238
Net liquidity gap	-	(354 675)	(19 887)	374 562
Cumulative liquidity gap	-	(354 675)	(374 562)	-

As illustrated in the table above, the negative liquidity short-term gap increased in the short end on a cumulative basis. This is aligned to the funding strategy to grow the deposit franchise via transactional deposit accounts. Management continues to align stress funding buffers both locally and offshore, taking into account prevailing economic and market conditions.

31 FINANCIAL RISK continued

31.2.3 Collateral pledged

The bank pledges assets under the following terms and conditions:

- mandatory reserve deposits are held with the central bank in accordance with statutory requirements and these deposits are not available to finance the bank's day-to-day operations;
- assets are pledged as collateral under repurchase agreements with other banks and for security deposits relating to local futures and options; and
- collateral in the form of cash and other investment securities is pledged when the bank borrows equity securities from third parties. These transactions are conducted under the terms and conditions that are usual and customary to standard securities lending arrangements.

All other pledges are conducted under terms which are usual and customary to lending arrangements. Pledged assets are not available in the normal course of business.

The following assets have been pledged to secure the liabilities set out in the table below. These assets are not available in the normal course of business.

R million	**2018**	2017
Cash and cash equivalents	**16 932**	2 205
Advances	**3 983**	1 801
Investment securities - held under repurchase agreements	**13 754**	25 880
Investment securities - other	**13 496**	-
Total assets pledged	**48 165**	29 886

The following liabilities have been secured by the bank pledging either its own or borrowed financial assets, except for the short trading positions which are covered by borrowed securities only.

R million	**2018**	2017
Short trading positions	**9 981**	15 211
Creditors and accruals	**85**	-
Total deposits	**35 210**	32 300
- Deposits under repurchase agreements	**19 334**	28 140
- Deposits in securities lending transactions	**3 509**	4 098
- Other secured deposits	**12 367**	62
Other	**20 820**	3 944
Total liabilities secured	**66 096**	51 455

Securities lending transactions include only those where cash is placed against the securities borrowed. Transactions where securities are lent and borrowed and other securities placed against the borrowing and lending are excluded.

31 FINANCIAL RISK continued

31.2.4 Concentration analysis of deposits

R million	2018	2017
Sector analysis		
Deposit current accounts and other loans		
Sovereigns, including central banks	**97 200**	68 358
Public sector entities	**28 576**	33 215
Local authorities	**9 004**	7 907
Banks	**67 424**	59 478
Securities firms	**9 907**	17 453
Corporate customers	**518 546**	428 456
Retail customers	**241 609**	259 598
Other	**4 992**	2 225
Total deposits	**977 258**	876 690
Geographical analysis		
South Africa	**873 719**	811 319
Rest of Africa	**20 126**	20 651
UK	**54 924**	28 123
Other	**28 489**	16 597
Total deposits	**977 258**	876 690

31 FINANCIAL RISK continued

31.3 Market risk

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

Objective

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

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

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.

31.3.1 Market risk in the trading book

VaR analysis by risk type

The following table reflects the 1-day VaR at the 99% confidence level at 30 June 2018.

	2018				2017
R million	**Min***	**Max***	**Average**	**Period end**	Period end
Risk type#					
Equities	**0.6**	**131.2**	**14.3**	**1.7**	5.3
Interest rates	**16.3**	**159.4**	**37.8**	**22.0**	55.5
Foreign exchange	**10.4**	**87.0**	**30.3**	**36.3**	23.6
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	**-**	**-**	**-**	**(37.4)**	(75.0)
Diversified total	**25.7**	**272.9**	**62.5**	**45.1**	36.7

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

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

\# *Excludes foreign branches and subsidiaries in the rest of Africa, which are reported on the standardised approach for market risk.*

The following table reflects the 10-day VaR and sVaR at the 99% confidence level. The 10-day VaR calculation is performed using 10-day scenarios created from the past 260 trading days, whereas the 10-day sVaR is calculated using scenario data from the static stress period.

	2018		2017	
	Period end		Period end	
R million	**VaR**	**sVaR**	VaR	sVaR
Risk type*				
Equities	**5.0**	**8.8**	12.0	27.0
Interest rates	**93.6**	**90.8**	77.3	107.2
Foreign exchange	**130.4**	**181.6**	86.1	116.1
Commodities	**18.8**	**37.7**	38.6	35.4
Traded credit	**59.3**	**12.2**	17.9	21.9
Diversification effect	**(122.2)**	**(126.5)**	(152.7)	(120.1)
Diversified total	**185.0**	**204.7**	79.2	187.5

* *Excludes foreign branches and subsidiaries in the rest of Africa, which are reported on the standardised approach for market risk. The VaR numbers relates to FirstRand Bank SA only.*

31 FINANCIAL RISK continued

31.4 Non-traded market risk

31.4.1 Interest rate risk in the banking book

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 in the rest of Africa 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.

Earnings sensitivity

Earnings models are run on a monthly basis to provide a measure of the NII sensitivity of the existing banking book to shocks in interest rates. Underlying transactions are modelled on a contractual basis and behavioural adjustments are applied where relevant. The calculation, assumes a constant balance sheet size and product mix over the forecast horizon.. A pass-through assumption is applied in relation to non-maturing deposits, which reprice at the bank's discretion. This assumption is based on historical product behaviour.

31 FINANCIAL RISK continued

The following tables show the 12-month NII sensitivity for a sustained, instantaneous parallel 200 bps downward and upward shock to interest rates.

Most of NII sensitivity is a result of the endowment book mismatch. The bank's average endowment book was R211 billion for the year (2017: R183 billion).

Projected ZAR NII sensitivity to interest rate movements

	Change in projected 12-month NII	
R million	**2018**	2017
Downward 200 bps	**(3 045)**	(1 498)
Upward 200 bps	**2 551**	957

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 045 million (2017: R1 498 million). A similar increase in interest rates would result in an increase in projected 12-month NII of R2 551 million (2017: R957 million).

31 FINANCIAL RISK continued

Economic value of equity (EVE)

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

The EVE shock applied is based on regulatory guidelines and is a sustained, instantaneous parallel 200 bps downward and upward shock to interest rates. This is applied to risk portfolios as managed by Group Treasury which, as a result of the risk transfer through the internal funds transfer pricing process, captures relevant open risk positions in the banking book. This measure does not take into account the unrealised economic benefit embedded as a result of the banking book products which are not recognised at fair value.

The following table:
- highlights the sensitivity of banking book NAV as a percentage of total capital; and
- reflects a point-in-time view which is dynamically managed and can fluctuate over time.

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

%	2018	2017
Downward 200 bps	**3.07**	2.53
Upward 200 bps	**(2.69)**	(2.26)

31 FINANCIAL RISK continued

Objective

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

Structural foreign exchange risk as a result of net investments in entities with a functional currency other than rand is an unavoidable consequence of having offshore operations and can be a source of 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.

31.4.2 Structural foreign exchange risk

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

Net structural foreign exposures

	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
United States dollar	**2 807**	**421**	2 390	358
Sterling	**2 220**	**333**	1 833	275
Indian rupee	**636**	**95**	611	92
Total	**5 663**	**849**	4 834	725

31.5 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.

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.

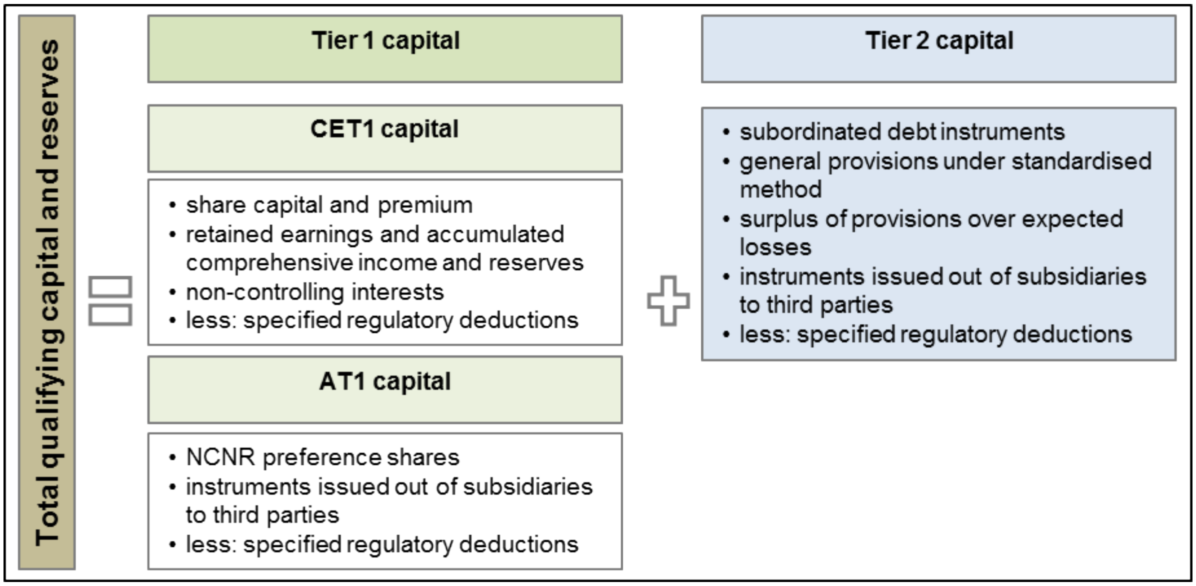
The table below shows the equity investment risk exposure and sensitivity. The 10% sensitivity movement is calculated on the carrying value of investments excluding investments subject to expected tail loss (ETL) process. The impact of the sensitivity movements would be recognised in profit or loss

Investment risk exposure and sensitivity of investment risk exposure

R million	**2018**	2017
Listed investment risk exposure included in the equity investment risk ETL		
Estimated sensitivity of remaining investment balances		
Sensitivity to 10% movement in market value on investment fair value	**163**	221

31 FINANCIAL RISK continued

31.6 Capital management



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

The bank 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 bank 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 banks'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.

Composition of capital analysis

	CET1 capital	Tier 1 capital	Total qualifying capital
Internal targets	10% - 11%	> 12%	> 14%

31 FINANCIAL RISK continued

Capital adequacy position for the bank and its foreign branches

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

32 SUBSEQUENT EVENTS

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. At 30 June 2018, FNB includes Discovery Card advances with a gross value of R4.4 billion which will also be transferred at carrying value. This transaction is expected to be concluded during the financial year ending 30 June 2019.

The directors are not aware of any other material events that have occurred between the date of the statement of financial position and the date of this report.

D supplementary information

03 _ 08

D supplementary information

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 director 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

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JSE DEBT SPONSOR

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Listed debt instruments

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	FRS126	ZAG000125188	FRS149	ZAG000136573
FRS101	ZAG000111774	FRS127	ZAG000125394	FRS150	ZAG000136615
FRS103	ZAG000111840	FRS129	ZAG000125865	FRS151	ZAG000136987
FRS104	ZAG000111857	FRS131	ZAG000126186	FRS152	ZAG000136995
FRS108	ZAG000113515	FRS132	ZAG000126194	FRS153	ZAG000137670
FRS109	ZAG000113564	FRS133	ZAG000126541	FRS157	ZAG000144197
FRS110	ZAG000113663	FRS134	ZAG000126574	FRS158	ZAG000145012
FRS112	ZAG000115395	FRS135	ZAG000126608	FRS159	ZAG000145020
FRS113	ZAG000115478	FRS136	ZAG000126780	FRS160	ZAG000145038
FRS114	ZAG000116070	FRS137	ZAG000127549	FRS161	ZAG000145046
FRS119	ZAG000118951	FRS138	ZAG000127556	FRS162	ZAG000145111
FRS120	ZAG000119298	FRS142	ZAG000130782	FRS163	ZAG000145129
FRS121	ZAG000120643	FRS143	ZAG000130790	FRS164	ZAG000145160
FRS122	ZAG000121062	FRS145	ZAG000134263	FRS165	ZAG000145178
FRS123	ZAG000121328	FRS146	ZAG000134636	FRS166	ZAG000145756
FRS124	ZAG000122953	FRS147	ZAG000135724	FRS167	ZAG000145764
FRS169	ZAG000145780	FRS36	ZAG000077397	FRS168	ZAG000145772
FRS170	ZAG000145954	FRS37	ZAG000077793	FRS81	ZAG000100892
FRS171	ZAG000147448	FRS43	ZAG000078643	FRS85	ZAG000104985
FRS172	ZAG000147455	FRS46	ZAG000079807	FRS87	ZAG000105420
FRS173	ZAG000148180	FRS49	ZAG000081787	FRS90	ZAG000106410
FRS174	ZAG000148198	FRS51	ZAG000086117	FRS94	ZAG000107871
FRS175	ZAG000149451	FRS62	ZAG000090614	FRS96	ZAG000108390
FRS176	ZAG000149444	FRS64	ZAG000092529		

Bond code	ISIN code	Bond code	ISIN code	Bond code	ISIN code
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

Bond code	
Senior unsecured	**Subordinated debt**
XS1178685084	XS1810806395
XS0610341967	
XS1225512026	

SWISS STOCK EXCHANGE (SIX)

Bond code
Senior unsecured
CH0238315680

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	Countercyclical buffer.
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.

LCR	Liquidity coverage ratio.
LGD	Loss given default.
LISP	Linked investment service provider.
LSE	London Stock Exchange.
M&S	Markets and structuring.
MCA	Market Conduct Authority.
MTM	Mark-to-market.
NCAA	National Credit Amendment Act.
NCNR	Non-cumulative non-redeemable.
NIACC	Net income after capital charge.
NII	Net interest income.
NIR	Non-interest revenue.
NPLs	Non-performing loans.
NSFR	Net stable funding ratio.
NSX	Namibian Stock Exchange.
PA	Prudential Authority.
P/E	Price earnings.
RA	Resolution Authority.
RMB	Rand Merchant Bank.
ROA	Return on assets.
ROE	Return on equity.
RSF	Required stable funding.
RWA	Risk weighted assets.
S&P	S&P Global Ratings.
SAICA	South African Institute of Chartered Accountants.
SARB	South African Reserve Bank.
SIX	Swiss Stock Exchange.
SRB	Special Resolution Bill.
TLAC	Total loss absorbing capacity.
TRS	Total return swap.
UK	United Kingdom.
VAF	Vehicle asset finance.
VAPS	Value added products and services.
WIM	Wealth and investment management.

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
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