FIRSTRAND

ANALYSIS OF FINANCIAL RESULTS

for the six months ended 31 December 2017

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about this report

This report covers the unaudited condensed consolidated financial results of FirstRand Limited (FirstRand or the group) based on International Financial Reporting Standards (IFRS) for the six months ended 31 December 2017. **The primary results and accompanying commentary are presented on a normalised basis as the group believes this most accurately reflects its economic performance.** The normalised results have been derived from the IFRS financial results.

Normalised results include a condensed consolidated income statement, statement of comprehensive income, statement of financial position, statement of cash flows and a statement of changes in equity.
A detailed description of the difference between normalised and IFRS results is provided on pages 103 and 105. Detailed reconciliations of normalised to IFRS results are provided on pages 114 to 122. Commentary is based on normalised results, unless indicated otherwise.

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

FIRSTRAND

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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

SIMPLIFIED GROUP AND SHAREHOLDING STRUCTURE

Remgro Limited
- 3.9% → FirstRand
- 28.2% → RMB Holdings Limited

Directors
- 9.9% → RMB Holdings Limited

Royal Bafokeng Holdings (Pty) Ltd
- 15.0% → RMB Holdings Limited

RMB Holdings Limited
- 34.1% → FirstRand

BEE partners
- 5.2% → FirstRand

FIRSTRAND

LISTED HOLDING COMPANY (FIRSTRAND LIMITED, JSE: FSR)

100% FirstRand Bank Limited – Banking

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

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

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

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

96%	RMB Private Equity Holdings
93%	RMB Private Equity
100%	RMB Securities
50%	RMB Morgan Stanley
100%	FNB Securities
100%	Direct Axis
81%	MotoVantage
100%	FirstRand International – Guernsey
100%	RMB Australia Holdings
100%	FirstRand Securities

100% FirstRand Investment Management Holdings Limited – Investment management

100%	Ashburton Fund Managers
100%	Ashburton Investor Services
100%	Ashburton Management Company (RF)
100%	Ashburton Investments International Holdings
100%	FNB CIS Management Company (RF)
100%	Atlantic Asset Management
100%	Various general partners[#]

100% FirstRand Insurance Holdings (Pty) Ltd – Insurance

100%	FirstRand Life Assurance
100%	FirstRand Insurance Services Company (FRISCOL)[†]

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.
† With effect from 1 July 2017.

Structure shows effective consolidated shareholding

For segmental analysis purposes, entities included in FRIHL and FREMA, FirstRand Investment Management Holdings Limited and FirstRand Insurance Holdings (Pty) Ltd are reported as part of the results of the managing franchise. The group's securitisations and conduits are in FRIHL and FirstRand Bank Ltd.

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

The group's portfolio produced a **resilient performance**

Normalised earnings per share

↑ 7%

2016: 7%

Dividend per share

↑ 9%

2016: 10%

Normalised return on equity

↓ 22.5%

2016: 22.9%

Normalised net asset value per share

↑ 9%

2016: 8%

Normalised earnings

↑ 7%

2016: 7%

FNB

Normalised earnings

↑ 12%

2016: 3%

RMB

Normalised earnings

↑ 11%

2016: 2%

WesBank

Normalised earnings

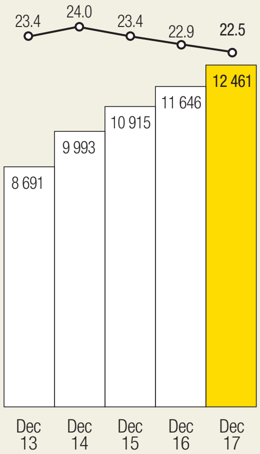
↓ 1%

2016: 9%

TRACK RECORD

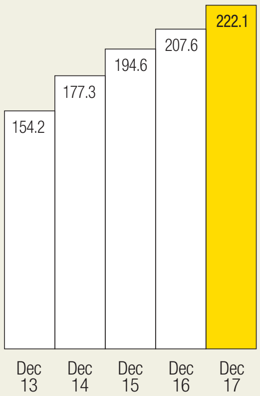
Normalised earnings (R million) *and ROE* (%)

CAGR 9%



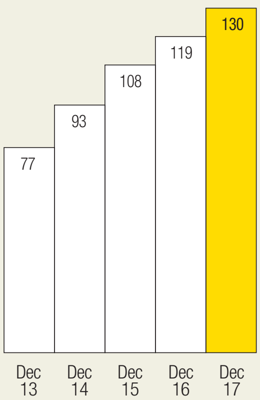
Diluted normalised earnings per share (cents)

CAGR 10%



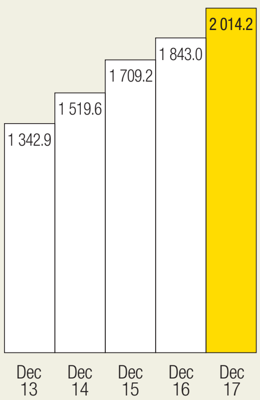
Dividend per share (cents)

CAGR 14%



Normalised net asset value per share (cents)

CAGR 11%



KEY FINANCIAL RESULTS, RATIOS AND STATISTICS – NORMALISED

This section is based on normalised results. A detailed reconciliation between IFRS and normalised results is set out on pages 114 to 122.

	Six months ended 31 December			Year ended 30 June
R million	**2017**	2016	% change	2017
Earnings performance				
Normalised earnings per share (cents)				
– Basic	**222.1**	207.6	7	436.2
– Diluted	**222.1**	207.6	7	436.2
Earnings per share (cents) – IFRS				
– Basic	**227.3**	212.0	7	438.2
– Diluted	**227.3**	212.0	7	438.2
Headline earnings per share (cents)				
– Basic	**224.2**	211.5	6	423.7
– Diluted	**224.2**	211.5	6	423.7
Attributable earnings – IFRS (refer page 106)	**12 749**	11 889	7	24 572
Headline earnings	**12 573**	11 859	6	23 762
Normalised earnings	**12 461**	11 646	7	24 471
Normalised net asset value	**112 985**	103 381	9	108 922
Normalised net asset value per share (cents)	**2 014.2**	1 843.0	9	1 941.7
Tangible normalised net asset value	**111 322**	101 692	9	107 236
Tangible normalised net asset value per share (cents)	**1 984.5**	1 812.9	9	1 911.7
Average normalised net asset value	**110 954**	101 588	9	104 358
Market capitalisation	**377 238**	298 256	26	264 487
Ordinary dividend per share (cents)	**130.0**	119.0	9	255.0
Dividend cover (times)	**1.71**	1.74		1.71
NCNR B preference dividend – paid (cents per share)*	**393.6**	394.7	–	790.3
Capital adequacy – IFRS				
Capital adequacy ratio (%)	**16.9**	17.3		17.1
Tier 1 ratio (1%)	**14.6**	14.8		14.9
Common Equity Tier 1 (CET1) (%)	**14.0**	14.1		14.3
Balance sheet				
Normalised total assets	**1 291 724**	1 180 462	9	1 217 745
Advances (net of credit impairment)	**927 732**	864 171	7	893 106
Ratio and key statistics				
ROE (%)	**22.5**	22.9		23.4
ROA (%)	**1.99**	2.00		2.07
Price earnings ratio (times)	**15.1**	12.8		10.8
Price-to-book ratio (times)	**3.3**	2.9		2.4
Average gross loan-to-deposit ratio (%)	**91.7**	93.4		93.4
Diversity ratio (%)	**44.9**	43.8		45.7
Credit impairment charge	**4 052**	3 741	8	8 054
NPLs as % of advances	**2.33**	2.37		2.41
Credit loss ratio (%)	**0.87**	0.86		0.91
Specific coverage ratio (%)	**37.6**	38.3		38.8
Total impairment coverage ratio (%)	**78.6**	79.5		77.4
Performing book coverage ratio (%)	**0.98**	1.00		0.95
Cost-to-income ratio (%)	**51.7**	51.3		51.0
Effective tax rate (%)	**22.9**	22.1		21.1
Share price (closing – rand)	**67.25**	53.17	26	47.15
Number of employees	**45 026**	45 490	(1)	44 916

* *75.56% of FNB prime lending rate.*

CONDENSED CONSOLIDATED INCOME STATEMENT – NORMALISED

R million	Six months ended 31 December 2017	Six months ended 31 December 2016	% change	Year ended 30 June 2017
Net interest income before impairment of advances	**24 565**	23 243	6	46 626
Impairment charge	**(4 052)**	(3 741)	8	(8 054)
Net interest income after impairment of advances	**20 513**	19 502	5	38 572
Total non-interest revenue	**20 002**	18 132	10	39 268
– Operational non-interest revenue	**19 514**	17 663	10	38 227
– Fee and commission income	**13 956**	12 808	9	25 598
– Insurance income	**1 942**	1 810	7	3 967
– Markets, client and other fair value income	**2 066**	1 664	24	4 255
– Investment income	**344**	89	>100	2 178
– Other non-interest revenue	**1 206**	1 292	(7)	2 229
– Share of profit of associates and joint ventures after tax	**488**	469	4	1 041
Income from operations	**40 515**	37 634	8	77 840
Operating expenses	**(23 033)**	(21 246)	8	(43 773)
Income before tax	**17 482**	16 388	7	34 067
Indirect tax	**(478)**	(573)	(17)	(1 081)
Profit before tax	**17 004**	15 815	8	32 986
Income tax expense	**(3 894)**	(3 495)	11	(6 951)
Profit for the period	**13 110**	12 320	6	26 035
NCNR preference shareholders	**(177)**	(181)	(2)	(356)
Non-controlling interests	**(472)**	(493)	(4)	(1 208)
Normalised earnings attributable to ordinary equityholders of the group	**12 461**	11 646	7	24 471

CONDENSED CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME – NORMALISED

	Six months ended 31 December			Year ended 30 June
R million	**2017**	2016	% change	2017
Profit for the period	**13 110**	12 320	6	26 035
Items that may subsequently be reclassified to profit or loss				
Cash flow hedges	**(99)**	45	(>100)	(150)
Gains/(losses) arising during the period	**139**	116	20	(141)
Reclassification adjustments for amounts included in profit or loss	**(7)**	(53)	(87)	(67)
Deferred income tax	**(231)**	(18)	>100	58
Available-for-sale financial assets	**(86)**	(210)	(59)	(282)
Losses arising during the period	**(85)**	(199)	(57)	(397)
Reclassification adjustments for amounts included in profit or loss	**(22)**	(64)	(66)	(52)
Deferred income tax	**21**	53	(60)	167
Exchange differences on translating foreign operations	**(856)**	(1 437)	(40)	(1 633)
Losses arising during the period	**(856)**	(1 437)	(40)	(1 633)
Share of other comprehensive income/(loss) of associates and joint ventures after tax and non-controlling interests	**54**	(60)	(>100)	(157)
Items that may not subsequently be reclassified to profit or loss				
Remeasurements on defined benefit post-employment plans	**13**	(28)	(>100)	286
Gains/(losses) arising during the period	**18**	(38)	(>100)	404
Deferred income tax	**(5)**	10	(>100)	(118)
Other comprehensive loss for the period	**(974)**	(1 690)	(42)	(1 936)
Total comprehensive income for the period	**12 136**	10 630	14	24 099
Attributable to				
Ordinary equityholders	**11 497**	10 024	15	22 590
NCNR preference shareholders	**177**	181	(2)	356
Equityholders of the group	**11 674**	10 205	14	22 946
Non-controlling interests	**462**	425	9	1 153
Total comprehensive income for the period	**12 136**	10 630	14	24 099

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION – NORMALISED

R million	As at 31 December 2017	As at 31 December 2016*	As at 30 June 2017*
ASSETS			
Cash and cash equivalents	**65 805**	65 983	68 483
Derivative financial instruments	**53 586**	35 721	35 459
Commodities	**15 489**	9 110	14 380
Investment securities	**188 928**	166 270	167 516
Advances	**927 732**	864 171	893 106
– Advances to customers	**874 476**	821 384	848 649
– Marketable advances	**53 256**	42 787	44 457
Accounts receivable	**9 443**	9 514	8 878
Current tax asset	**356**	509	147
Non-current assets and disposal groups held for sale	**498**	833	580
Reinsurance assets	**133**	81	89
Investments in associates	**5 726**	5 173	5 924
Investments in joint ventures	**1 890**	1 407	1 379
Property and equipment	**17 859**	17 591	17 512
Intangible assets	**1 663**	1 689	1 686
Investment properties	**675**	399	399
Defined benefit post-employment asset	**5**	8	5
Deferred income tax asset	**1 936**	2 003	2 202
Total assets	**1 291 724**	1 180 462	1 217 745
EQUITY AND LIABILITIES			
Liabilities			
Short trading positions	**15 266**	13 874	15 276
Derivative financial instruments	**58 102**	45 499	44 403
Creditors, accruals and provisions	**16 449**	16 739	17 014
Current tax liability	**415**	536	277
Liabilities directly associated with disposal groups held for sale	**–**	508	195
Deposits	**1 040 042**	952 121	983 529
– Deposits from customers	**749 388**	678 118	699 674
– Debt securities	**203 243**	172 472	194 542
– Asset-backed securities	**36 953**	38 382	35 445
– Other	**50 458**	63 149	53 868
Employee liabilities	**8 270**	7 316	9 884
Other liabilities	**6 511**	7 674	6 385
Policyholder liabilities	**4 315**	3 296	3 795
Tier 2 liabilities	**20 048**	20 146	18 933
Deferred income tax liability	**958**	1 005	832
Total liabilities	**1 170 376**	1 068 714	1 100 523
Equity			
Ordinary shares	**56**	56	56
Share premium	**8 056**	8 056	8 056
Reserves	**104 873**	95 269	100 810
Capital and reserves attributable to ordinary equityholders	**112 985**	103 381	108 922
NCNR preference shares	**4 519**	4 519	4 519
Capital and reserves attributable to equityholders of the group	**117 504**	107 900	113 441
Non-controlling interests	**3 844**	3 848	3 781
Total equity	**121 348**	111 748	117 222
Total equities and liabilities	**1 291 724**	1 180 462	1 217 745

* *Restated, refer to pages 123 and 124 for more detailed information.*

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – NORMALISED

for the six months ended 31 December

	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	56	8 056	**8 112**	(507)	308
Net proceeds of issue of share capital and premium	–	–	**–**	–	–
Proceeds from the issue of share capital	–	–	**–**	–	–
Share issue expenses	–	–	**–**	–	–
Disposal of subsidiaries	–	–	**–**	–	–
Movement in other reserves	–	–	**–**	–	–
Ordinary dividends	–	–	**–**	–	–
Preference dividends	–	–	**–**	–	–
Transfer from/(to) general risk reserves	–	–	**–**	–	–
Changes in ownership interest of subsidiaries	–	–	**–**	–	–
Total comprehensive income for the period	–	–	**–**	(28)	45
Balance as at 31 December 2016	56	8 056	**8 112**	(535)	353
Balance as at 1 July 2017	56	8 056	**8 112**	(221)	158
Net proceeds of issue of share capital and premium	–	–	**–**	–	–
Proceeds from the issue of share capital	–	–	**–**	–	–
Share issue expenses	–	–	**–**	–	–
Disposal of subsidiaries	–	–	**–**	–	–
Movement in other reserves	–	–	**–**	–	–
Ordinary dividends	–	–	**–**	–	–
Preference dividends	–	–	**–**	–	–
Transfer (to)/from general risk reserves	–	–	**–**	–	–
Changes in ownership interest of subsidiaries	–	–	**–**	–	–
Total comprehensive income for the period	–	–	**–**	13	(99)
Balance as at 31 December 2017	56	8 056	**8 112**	(208)	59

* *Headline and normalised earnings adjustments are reflected in the movement in other reserves.*

Ordinary share capital and ordinary equityholders' funds								
Share-based payment reserve	Available-for-sale reserve	Foreign currency translation reserve	Other reserves	Retained earnings	**Reserves attributable to ordinary equity-holders**	**NCNR preference shares**	**Non-controlling interests**	**Total equity**
9	(441)	3 310	374	88 629	**91 682**	**4 519**	**3 801**	**108 114**
–	–	–	–	–	**–**	**–**	**129**	**129**
–	–	–	–	–	**–**	**–**	**130**	**130**
–	–	–	–	–	**–**	**–**	**(1)**	**(1)**
–	–	–	–	–	**–**	**–**	**–**	**–**
2	–	–	54	152*	**208**	**–**	**(10)***	**198**
–	–	–	–	(6 619)	**(6 619)**	**–**	**(480)**	**(7 099)**
–	–	–	–	–	**–**	**(181)**	**–**	**(181)**
–	–	–	7	(7)	**–**	**–**	**–**	**–**
–	–	–	–	(26)	**(26)**	**–**	**(17)**	**(43)**
–	(197)	(1 395)	(47)	11 646	**10 024**	**181**	**425**	**10 630**
11	(638)	1 915	388	93 775	**95 269**	**4 519**	**3 848**	**111 748**
9	(715)	1 690	462	99 427	**100 810**	**4 519**	**3 781**	**117 222**
–	–	–	–	–	**–**	**–**	**23**	**23**
–	–	–	–	–	**–**	**–**	**23**	**23**
–	–	–	–	–	**–**	**–**	**–**	**–**
–	–	–	–	–	**–**	**–**	**(27)**	**(27)**
–	–	–	238	60*	**298**	**–**	**(81)***	**217**
–	–	–	–	(7 629)	**(7 629)**	**–**	**(289)**	**(7 918)**
–	–	–	–	–	**–**	**(177)**	**–**	**(177)**
–	–	–	(8)	8	**–**	**–**	**–**	**–**
–	–	–	–	(103)	**(103)**	**–**	**(25)**	**(128)**
–	(86)	(841)	49	12 461	**11 497**	**177**	**462**	**12 136**
9	(801)	849	741	104 224	**104 873**	**4 519**	**3 844**	**121 348**

FLOW OF FUNDS ANALYSIS – NORMALISED

R million	**December 2017 vs June 2017** **6-month movement**	December 2016 vs June 2016 6-month movement	June 2017 vs June 2016 12-month movement
Sources of funds			
Capital account movement (including profit and reserves)	**4 126**	3 634	9 108
Working capital movement	**(1 890)**	(1 235)	1 125
Short trading positions and derivative financial instruments	**(4 438)**	(842)	(274)
Deposits and long-term liabilities	**57 628**	34 189	64 384
Total	**55 426**	35 746	74 343
Application of funds			
Advances	**(34 626)**	(12 766)	(41 701)
Investments	**(2 066)**	2 223	(3 693)
Cash and cash equavalents	**2 678**	(1 680)	(4 180)
Investment securities (e.g. liquid asset portfolio)	**(21 412)**	(23 523)	(24 769)
Total	**(55 426)**	(35 746)	(74 343)

"FirstRand's portfolio of businesses produced a resilient performance, again characterised by quality topline growth, effective cost management and ongoing conservatism in both origination and provisioning strategies."

JOHAN BURGER
CEO

INTRODUCTION

FirstRand is a portfolio of integrated financial services businesses operating in South Africa, certain markets in sub-Saharan Africa, India and the UK. Many of these businesses are market leaders in their respective segments and markets, and represent 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. This approach, which is underpinned by the disciplined allocation of financial resources, allows the group to fully optimise the 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.

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.

Currently group earnings are tilted to its domestic market and are generated predominantly by lending and transactional activities, which have resulted in deep and loyal client bases, and the group is focused on protecting and growing these valuable banking businesses. It also believes that through the utilisation of the origination capabilities, operating platforms and distribution networks of these businesses, it can diversify and capture a larger share of profits from providing savings, insurance and investment products.

The growth opportunity is significant given the level of 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.

With regards the group's strategy outside of its domestic market, in the rest of Africa it is growing its presence and offerings in nine markets where it believes it can organically build competitive advantage and scale over time. In the UK, the group is acquiring Aldermore plc and will integrate its existing retail VAF business, MotoNovo, into the Aldermore portfolio. This will result in more diversified lending business in the UK with a sustainable funding franchise.

THE MACROECONOMIC ENVIRONMENT

Whilst the South African economy experienced a mild recovery, persistent elevated risk and ongoing political uncertainty resulted in weak economic performance during the period under review. GDP growth remained low, although agricultural production rebounded, business investment rose and lower inflation increased real income growth. Expenditure also received some support from slightly lower debt service costs after the South African Reserve Bank (SARB) cut the repo rate to 6.75% in July 2017. Business and consumer confidence, however, remained depressed on the back of policy and political uncertainty.

OVERVIEW OF RESULTS continued

In the rest of Africa, improved rainfall and higher commodity prices created a more supportive macro backdrop which allowed some countries to recover. Countries with links to SA were, however, weighed down by low growth in the region's largest economy, causing activity levels to remain subdued.

Growth in the UK remained surprisingly resilient despite continued uncertainty around Brexit, as its labour market continued to tighten and higher European growth supported demand for imports.

OVERVIEW OF RESULTS

Against this difficult backdrop, FirstRand's portfolio of businesses produced a resilient performance, again characterised by quality topline growth, effective cost management and ongoing conservatism in both origination and provisioning strategies. The group continued to strengthen its balance sheet and protect its return profile. Normalised earnings for the six months to 31 December 2017 increased 7% with a normalised ROE of 22.5%. The table below shows a breakdown of sources of normalised earnings from the portfolio per operating business.

Sources of normalised earnings

	Six months ended 31 December					Year ended 30 June	
R million	**2017**	**% composition**	2016	% composition	% change	2017	% composition
FNB	**7 160**	**58**	6 409	55	12	12 801	52
– FNB SA	**7 093**		6 351			12 776	
– FNB Africa	**67**		58			25	
RMB#	**3 139**	**25**	2 821	24	11	6 902	28
WesBank#	**1 915**	**15**	1 944	17	(1)	3 996	16
FCC (including Group Treasury) and other*,**	**424**	**3**	650	6	(35)	1 128	5
NCNR preference dividend	**(177)**	**(1)**	(178)	(2)	(1)	(356)	(1)
Normalised earnings	**12 461**	**100**	11 646	100	7	24 471	100

* Includes FirstRand Limited (company).
** Includes capital endowment, the impact of accounting mismatches, interest rate management and foreign currency liquidity management.
# Includes rest of Africa.

FNB's results reflect another strong operating performance from its domestic business driven by good 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. FNB's rest of Africa portfolio delivered a modest improvement off a low base.

RMB's portfolio also delivered strong, high quality growth across most of its activities underpinned by disciplined cost management and a significant reduction in the impairment charge due to the conservative proactive provisioning in previous reporting periods.

WesBank's performance showed a mixed picture. The South African VAF business experienced a tough six months on the back of worse than expected arrears and non-performing loans, however, the personal loans and corporate business performed strongly and MotoNovo delivered a solid performance.

At a group level, total NII increased 6%, underpinned by good growth in deposits (+9%) and solid advances growth (+7%). Lending margins remained under pressure from continued elevated term funding and liquidity costs, and competitive pressures. Term lending in RMB and WesBank's corporate businesses remained muted due to ongoing discipline in origination to preserve returns.

Group NIR increased 10% and reflects strong fee and commission income growth of 9%. This was driven mainly by higher volumes across FNB's digital and electronic channels and growth in customer numbers and cross-sell. Private equity realisations in RMB, whilst modest, were higher than the comparative period.

Insurance revenue increased 7%, benefiting from strong volume growth of 11% and 9%, respectively, in funeral and credit life policies in FNB. Fee, commission and insurance income represents 81% (December 2016: 83%) of group operational NIR.

Total cost growth of 8% continues to trend above inflation due to ongoing investment in the new insurance and asset management activities, platforms to extract further efficiencies and building the footprint in the rest of Africa. As a result, operating jaws were marginally negative and the cost-to-income ratio deteriorated slightly to 51.7% (December 2016: 51.3%).

The group's credit impairment ratio of 87 bps remains below the through-the-cycle threshold and well within expectations. Many of the group's lending books are trending in line or better than expected, particularly unsecured and corporate credit, mainly due to the group's early and proactive approach to origination and provisioning.

The impairment charge, however, increased 8% and was driven by the following:

- a deterioration in WesBank's SA VAF charge, mainly due to higher than expected arrears as well as increased levels of conservatism in portfolio impairments;
- a normalisation of the MotoNovo impairment charge, reflecting new business strain given strong book growth over multiple periods and increased conservatism in portfolio impairments;
- 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
- a further increase in FNB's rest of Africa charge, reflecting the ongoing tough macros in various of the jurisdictions the group operates in.

Portfolio impairments in the retail, commercial and rest of Africa portfolios increased at a franchise level. The group believes this is prudent given that the rebound in the macro environment in the six months to December 2017 was modest.

Corporate impairments decreased period-on-period, reflecting the benefit of proactive provisioning in prior reporting periods.

Overall portfolio provisions increased 5% and remain conservative, resulting in a performing book coverage ratio of 98 bps, which is above the actual charge.

OVERVIEW OF RESULTS continued

OPERATING REVIEWS

FNB

FNB represents FirstRand's activities in the retail and commercial segments in South Africa and the broader African continent. 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 11% to R10.4 billion on the back of a strong performance from its South African business, which grew pre-tax profits 12%, whilst the rest of Africa portfolio remained under pressure, down 5% (up 3% including the impact of a once-off profit in FNB India) compared to a 29% decline in December 2016. Total FNB produced an ROE of 40.6%.

FNB financial highlights

R million	Six months ended 31 December 2017	2016	% change	Year ended 30 June 2017
Normalised earnings	**7 160**	6 409	12	12 801
Normalised profit before tax	**10 430**	9 367	11	18 624
– South Africa	**9 864**	8 820	12	17 744
– Rest of Africa	**566**	547	3	880
Total assets	**413 097**	394 658	5	401 937
Total liabilities	**402 329**	384 480	5	383 680
NPLs (%)	**3.21**	3.09		3.24
Credit loss ratio (%)	**1.17**	1.15		1.20
ROE (%)	**40.6**	38.1		36.9
ROA (%)	**3.52**	3.32		3.28
Cost-to-income ratio (%)	**53.6**	54.0		54.6
Advances margin (%)	**3.63**	3.61		3.58

Segment results

R million	Six months ended 31 December 2017	2016	% change	Year ended 30 June 2017
Normalised PBT				
Retail	**5 947**	5 347	11	10 658
FNB Africa	**566**	547	3	880
Commercial	**3 917**	3 473	13	7 086
Total FNB	**10 430**	9 367	11	18 624

FNB South Africa'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.

FNB continued to see growth in customers as shown in the table below.

Customer segment	Period-on-period growth Customer numbers %
Consumer	**1**
Premium	**12**
Commercial	**7**

FNB's rest of Africa portfolio represents a mix of mature businesses with significant scale and market share, such as Namibia and Botswana, combined with newly established and start-up businesses, such as Mozambique, Zambia, Tanzania and Ghana. Whilst the portfolio has shown some recovery in the period under review, these businesses continue to face macro headwinds and regulatory challenges. The continued investment drag on the back of the organic build-out strategies continues to place pressure on current performance.

A breakdown of key performance measures from the South African and rest of Africa businesses is shown below.

%	FNB SA	Rest of Africa
PBT growth	12	3
Cost increase	9	4
Credit loss ratio	1.07	1.88
Advances growth	5	–
NPLs as % of advances	2.88	5.77
Deposit growth	12	5
Cost-to-income ratio	51.5	68.9
Operating jaws	0.5	2.2

Despite the negative endowment impact of the 25 bps decrease in the repo rate in July 2017, total FNB NII increased 7%. Advances growth remained moderate (+5%) with good growth in deposits (+11%). The table below breaks down advances and deposit growth on a segment basis and demonstrates FNB's success in continuing to attract deposits.

Segment analysis of advances and deposit growth

	Deposit growth		Advances growth	
Segment	%	R billion	%	R billion
Retail	13	24.7	4	10.7
– Consumer	10	7.4	3	1.1
– Premium	14	17.3	5	9.6
Commercial	11	20.4	8	6.7
FNB Africa	5	1.7	–	0.2
Total FNB	11	46.8	5	17.6

The subdued overall advances growth reflects ongoing prudency in FNB's origination strategies, particularly in the consumer segment where households are still experiencing pressure on disposable income. FNB's focus on 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 tables below unpack advances, at both a segment and product level, and reflect the targeted nature of FNB's risk appetite and origination strategies. The consumer segment saw good growth in its affordable housing book, but unsecured lending contracted on the back of conservative risk appetite. In the premium segment, mortgages showed muted growth as FNB continued to focus on low risk origination, however, unsecured advances grew strongly on the back of cross-sell and up-sell strategies to the existing customer base.

	Consumer		
	Advances		
R million	2017	2016	% change
Residential mortgages	**23 811**	21 339	12
Card	**9 061**	9 192	(1)
Personal loans	**6 965**	7 926	(12)
Retail other	**3 033**	3 309	(8)

	Premium		
	Advances		
R million	2017	2016	% change
Residential mortgages	**174 893**	170 098	3
Card	**16 002**	13 303	20
Personal loans	**7 597**	6 505	17
Retail other	**12 068**	11 049	9

	Commercial		
R million	2017	2016	% change
Advances	**87 900**	81 173	8

OVERVIEW OF RESULTS continued

The quality of FNB's transactional franchise is clearly demonstrated in strong NIR growth of 11%, with the premium and commercial segments delivering growth of 16% and 10%, respectively. Premium's NIR reflects the inclusion for the first time of the wealth and investment management (WIM) activities. In addition, the benefits of the actions taken last year are clearly showing up in consumer's NIR growth of 10%.

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	2017	2016	% change
ATM/ADT	**121 389**	115 141	5
Internet	**104 024**	105 141	(1)
Banking app	**73 590**	44 400	66
Mobile	**22 776**	22 161	3
Point-of-sale	**659 783**	585 418	13

Cost growth continues to trend above inflation at 8%, mainly on the back of investment in diversification strategies and rest of Africa expansion. The domestic cost-to-income ratio improved marginally to 51.5%.

FNB's overall bad debts and NPLs increased period-on-period (NPLs +9%), however, the main driver of this increase was the rest of Africa portfolio which continues to show strain (NPLs +33%). NPLs in the South African retail books are well within expectations at this point in the cycle, increasing 5%. This reflects the quality of new business written, appropriate pricing strategies and the positive effect of cutbacks in higher risk origination buckets. NPL formation in the commercial book is ticking up, but this is not unexpected given previous book growth and some residual pressure in the agricultural sector due to the drought. Overall provisioning levels and overlays have increased.

Insurance revenue increased 19%, benefiting from good volume growth of 11% and 9% in funeral and credit life policies, respectively.

As disclosed previously, from 1 July 2017 the wealth and investment management (WIM) activities were transferred from Ashburton Investments to FNB and progress is promising. On the back of the launch of asset management solutions/funds originated by Ashburton Investments to the FNB customer base (branded FNB Horizon) in July 2016, assets under management (AUM) exceeded R3.6 billion at December 2017, with total WIM assets amounting to R239 billion. A split of WIM assets is provided in the table below. Share trading and stockbroking assets under execution (AUE) increased 1% to R76 billion with good brokerage revenue growth in the second quarter due to increased market volatility.

Assets under administration (AUA) on the linked investment service provider (LISP) platform grew from R14 billion to R17 billion, and customers on the platform increased to 26 133. There was good growth in trust assets under administration from R26 billion to R36 billion and in the philanthropy trust offering. Assets under management grew 16% from R37 billion to R44 billion, including growth in offshore portfolio management. Assets under advice increased from R57 billion to R61 billion.

R million	2017	2016	% change
FNB Horizon Series AUM	**3 646**	529	>100
Assets under advice	**61 131**	57 356	7
Assets under administration	**17 973**	14 618	23
Trust assets under administration	**36 945**	26 308	40
Assets under management	**43 650**	37 740	16
Assets under execution	**76 098**	75 199	1
Total WIM assets	**239 443**	211 750	13

RMB

RMB represents the group's activities in the corporate and investment banking segments in South Africa, the broader African continent and India. The business strategy leverages a market-leading origination franchise to deliver an integrated corporate and investment banking value proposition to corporate and institutional clients. This, combined with an expanding market-making and distribution product offering and an excellent track record in private equity investments, contributes to a well-diversified and sustainable earnings base. The strategy is underpinned by sound risk management, designed to effectively balance the relationship between profit growth, returns and earnings volatility.

RMB financial highlights

	Six months ended 31 December			Year ended 30 June
R million	**2017**	2016	% change	2017
Normalised earnings	**3 139**	2 821	11	6 902
Normalised profit before tax	**4 450**	4 011	11	9 759
– South Africa	**3 611**	3 327	9	8 444
– Rest of Africa*	**839**	684	23	1 315
Total assets	**460 844**	421 350	9	431 920
Total liabilities	**451 128**	411 523	10	420 950
NPLs (%)	**0.35**	0.86		0.62
Credit loss ratio (%)	**–**	0.20		0.20
ROE (%)	**22.9**	20.8		25.8
ROA (%)	**1.40**	1.33		1.61
Cost-to-income ratio (%)	**46.7**	47.0		43.4

* *Strategy view, including in-country and cross-border activities.*

*Breakdown of profit contribution by activity**

	Six months ended 31 December			Year ended 30 June
R million	**2017**	2016	% change	2017
Investment banking and advisory	**1 811**	1 534	18	3 626
Corporate and transactional banking	**961**	877	10	1 731
Markets and structuring	**736**	735	–	1 612
Investing	**591**	625	(5)	2 841
Investment management	**19**	5	>100	15
Other	**332**	235	41	(66)
Total RMB	**4 450**	4 011	11	9 759

* *Refer to additional business unit disclosure on page 36.*

RMB delivered a strong operational performance, with pre-tax profits increasing 11% to R4.5 billion. The ROE of 22.9% demonstrates both the quality and diversification of the portfolio. RMB's balance sheet remains robust, with high quality earnings and solid operational leverage. Cost growth was well below inflation due to the benefits of platform investment and ongoing automation, despite continued spend on regulatory and compliance initiatives.

The rest of Africa portfolio remains key to RMB's strategy and delivered pre-tax profits of R839 million, up 23% on the comparative period. This performance reflects a strong performance from corporate and transactional banking and solid growth in structuring and flow trading income. Results were further bolstered by credit impairment overlay releases given the improvement in the oil and gas sector.

OVERVIEW OF RESULTS continued

The performance of investment banking and advisory activities was underpinned by good lending income aided by strong advances growth in prior periods, resilient fee income on the back of advisory and capital market mandates, lower credit impairments given historical proactive provisioning and improved operational leverage due to a continued focus on cost management. The macroeconomic environment, however, constrained advances growth in the current period, which also dampened origination and structuring fee income. The business remains disciplined in its financial resource allocation to ensure preservation of returns and maintained its strong credit provisioning levels.

Corporate and transactional banking's focus on leveraging platforms, managing costs and expanding product offerings locally and in the rest of Africa contributed to good profit growth. The business benefited from increased transactional volumes and average deposit balances in the rest of Africa. In addition, increased demand for working capital solutions bolstered the results. The global foreign exchange business, however, continued to be adversely impacted by regulatory changes in certain rest of Africa jurisdictions.

Markets and structuring activities delivered a resilient performance, reflecting good client flow, robust structuring opportunities and an ability to successfully navigate volatile fixed income and foreign exchange markets, both locally and in the rest of Africa. Earnings were, however, constrained by lower equity flows, coupled with weaker performances in the credit trading and hard commodities portfolios.

Investing activities produced satisfactory results, supported by the realisation of certain investments in the Private Equity portfolio. Given the macroeconomic environment and realisations in prior periods, annuity earnings have come under pressure. The quality and diversity of the Ventures and Corvest portfolios is, however, still reflected in the strong unrealised value of the portfolio of R3.4 billion (June 2017: R3.7 billion). The business remains in an investment cycle and during the year, several additional acquisitions were made.

Other activities benefited from the curtailment of losses in the RMB Resources and legacy portfolios, and higher endowment earned on capital invested. This was offset by costs associated with the group's market infrastructure programme which is aimed at driving efficiencies, ensuring regulatory and legislative compliance and improving risk mitigation.

WesBank

WesBank represents the group's activities in instalment credit and related services in the retail, commercial and corporate segments of South Africa and the rest of Africa (where represented), and through MotoNovo Finance 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

	Six months ended 31 December			Year ended 30 June
R million	**2017**	2016	% change	2017
Normalised earnings	**1 915**	1 944	(1)	3 996
Normalised profit before tax	**2 705**	2 755	(2)	5 612
Total assets	**216 648**	203 848	6	214 222
Total liabilities	**212 567**	200 556	6	207 809
NPLs (%)	**4.09**	3.63		3.80
Credit loss ratio (%)	**1.85**	1.65		1.68
ROE (%)	**18.6**	19.9		20.0
ROA (%)	**1.74**	1.87		1.87
Cost-to-income ratio (%)	**41.6**	40.6		40.2
Net interest margin (%)	**5.01**	5.01		4.93

WesBank's profit before tax declined 2%, resulting in an ROE of 18.6% and an ROA of 1.74%. Whilst the local personal loans and corporate lending businesses showed strong operational performances, the local VAF business had a challenging six months. MotoNovo remained resilient despite certain strategic actions taken on origination, which impacted new business volumes and some ongoing investment drag.

The table below shows the relative performance of WesBank's various activities.

*Breakdown of profit contribution by activity**

	Six months ended 31 December			Year ended 30 June
R million	**2017**	2016	% change	2017
Normalised PBT				
VAF	**1 953**	2 108	(7)	4 192
– Retail SA**	**1 155**	1 351	(15)	2 658
– MotoNovo#	**600**	588	2	1 190
– Corporate and commercial	**198**	169	17	344
Personal loans	**731**	622	18	1 352
Rest of Africa	**21**	25	(16)	68
Total WesBank	**2 705**	2 755	(2)	5 612

* *Refer to additional segment disclosure on page 37.*
** *Includes MotoVantage.*
\# *Normalised PBT for MotoNovo up 3% to GBP34.0 million.*

The performance of the SA VAF business was impacted by increased impairment levels, up from 1.42% in the prior period to 1.80%. This was partly due to an increase in the performing loans coverage ratio to 0.92% from 0.83%, but also as a result of an increase in later stage arrears and NPL levels.

Higher than expected NPLs in the self employed and small business segments are a result of operational issues with some scorecards, including third-party data quality. Some of this has been addressed, however, the impact of these issues will continue in the second half of the financial year. Overall NPLs continue to be impacted by lengthening recovery timelines and more customers opting for court orders for repossessions. Similar impairment increases are also evident in the underlying associate companies, further impacting associate earnings for the half year.

NIR growth of 4% has largely tracked book growth in SA retail VAF of 5%, but there is increasing competitive pressure particularly in the dealer value added products and services (VAPS) segment.

Operating expenditure growth of 9% was largely due to increased profit shares payable to alliance partners and investment costs in platforms for both efficiency and regulatory requirements.

WesBank's personal loans business performed well, on the back of strong advances growth of 15% period-on-period. Margins have stabilised post the NCAA rate caps and targeted risk cuts, and the impairment ratio has consistently trended down to 7.54% (December 2016: 8.30%; June 2017: 7.91%) on the back of collection strategies and active management of the debt-review portfolio.

The local corporate business posted a strong operational performance, albeit off a low base. This was mainly driven by resumed growth in new business and the non-repeat of provisions created in the previous reporting period.

MotoNovo delivered GBP profit growth of 3% reflecting ongoing conservatism from an origination and provisioning perspective, resulting in GBP new business production only increasing 0.3% (5.2% down in rand terms). Actions taken include targeted risk cuts and termination of certain origination relationships, which were resulting in higher risk new business. As expected, arrears are tracking up in line with the macroeconomic environment. Provisions continue to increase with a GBP impairment ratio of 1.57% for the period under review (December 2016: 1.43%; June 2017: 1.46%)

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OVERVIEW OF RESULTS continued

Segment analysis of normalised earnings

R million	2017	% composition	2016	% composition	% change	2017	% composition
Retail	**6 112**	**49**	5 730	49	7	11 421	47
– FNB*	**4 340**		3 908			7 699	
– WesBank*	**1 772**		1 822			3 722	
Commercial	**2 963**	**24**	2 623	23	13	5 376	22
– FNB	**2 820**		2 501			5 102	
– WesBank	**143**		122			274	
Corporate and investment banking	**3 139**	**25**	2 821	24	11	6 902	28
– RMB*	**3 139**		2 821			6 902	
Other	**247**	**2**	472	4	(48)	772	3
– FCC (including Group Treasury) and consolidation adjustments**	**424**		650			1 128	
– FirstRand and dividends paid on NCNR preference shares	**(177)**		(178)			(356)	
Normalised earnings	**12 461**	**100**	11 646	100	7	24 471	100

* *Includes rest of Africa.*
** *Includes the central credit overlay.*

UPDATE ON INVESTMENT MANAGEMENT STRATEGY

The group has an organic strategy to grow its asset management and WIM activities. Following the group's decision to move the WIM activities from Ashburton Investments (AI) to FNB, AI represents a pure asset management business and subsequently undertook a review of its operating platforms. This resulted in some rationalisation of the cost base and the group believes the business is now well positioned to deliver on its more focused mandate.

AI focuses on both traditional and alternative funds to be able to deliver on client needs. This includes a traditional range of equity, fixed income and multi asset funds as well as specialist credit, private equity, renewable energy and infrastructure.

AI grew AUM 15% to R101 billion. Of the R13 billion of AUM growth, R6 billion was due to the purchase of the Pointbreak Namibia asset management business and a further R3 billion from taking over the FNB Namibia funds in the previous financial year. There were good flows into traditional funds, due to a strong performance in the fixed income range. The institutional fixed income solutions business continues to deliver flows on the back of winning new mandates.

Despite a tough year for the local financial markets, investment performance continues to show resilience with the majority of funds delivering solid performances relative to peer groups.

STRATEGIC RATIONALE FOR PROPOSED ACQUISITION OF ALDERMORE PLC

On 6 November 2017, FirstRand announced its formal offer for Aldermore plc. The offer, at 313 pence per share, valued Aldermore at approximately GBP1.1 billion (R20 billion) and represented a premium of 22% to Aldermore's closing price on 12 October 2017, being the day before the first transaction announcement. The offer also implied a price to net tangible book value multiple of 1.80 times.

FirstRand's stated strategy is to achieve a more diversified revenue profile across products, segments and geographies. Currently 4% of total group earnings is generated by the group's UK business MotoNovo, one of the largest providers of motor finance for second-hand vehicles in the country. The success of this business, since it was acquired in 2006, can largely be attributed to the introduction of WesBank's operating model. FirstRand, however, believes that MotoNovo is currently undiversified from a product and market perspective and the acquisition of Aldermore will accelerate the diversification process using the strength of Aldermore's position in the SME, mortgage and savings markets.

FirstRand recognises that the existing management team of Aldermore has a deep understanding of the business environment within which Aldermore operates. MotoNovo, which has built a meaningful market share in financing second-hand vehicles and is organically building a more diversified product set, including personal loans and insurance, will be integrated within Aldermore to form a separate pillar. Phillip Monks, Aldermore's CEO will lead the new combined UK business.

Once MotoNovo and Aldermore are integrated, new business will be funded through further scaling Aldermore's deposit and funding platform supported by some securitisations. MotoNovo's back books, which are currently in FirstRand's London branch, will be run down over time. This has the added benefit for FirstRand that hard currency funding capacity currently allocated to MotoNovo from FirstRand's domestic balance sheet can be redeployed into its South African and rest of Africa growth strategies.

FirstRand will work closely with Aldermore's management team to identify growth opportunities that Aldermore can explore under FirstRand's ownership. FirstRand already sees the potential to broaden the business model of the combined platform. FirstRand also believes further UK growth can be unlocked through cross-selling the current product offerings across the MotoNovo and Aldermore customer bases, and, in the longer term, developing further financial services offerings.

Aldermore and MotoNovo are both highly profitable businesses delivering returns above FirstRand group hurdles, and FirstRand believes it can unlock further value in the short to medium term through applying its proven practices in financial resource management. FirstRand defines financial resource management as capital, funding, liquidity and risk capacity, and its approach is a recognised key differentiator and a significant contributor to its outperformance relative to peers.

FirstRand had carefully considered how current and potential macroeconomic future scenarios in the UK could impact the broader business. The group is comfortable that the financial impact of this transaction is supportive of FirstRand's previous guidance to shareholders on growth, returns, capital position and dividend policy.

MANAGEMENT OF FINANCIAL RESOURCES

The management of the group's financial resources, which it defines as capital, funding and liquidity, and risk capacity, is critical and supportive to the achievement of FirstRand's stated growth and return targets and is driven by the group's overall risk appetite. Forecast growth in 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 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. These stress scenarios include further sovereign downgrades below investment grade on a local currency basis.

The management of the group's financial resources is executed through Group Treasury and is independent of the operating franchises. This ensures the required level of discipline is applied in the allocation of financial resources and pricing of these resources. This also ensures that Group Treasury's mandate is aligned with the 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. This philosophy has translated into a resilient and sustainable foreign currency balance sheet and has limited the impact on the group of the sovereign rating downgrade to sub-investment grade in March 2017 by S&P Global Ratings. Prior to the downgrade, numerous steps to protect and enhance FirstRand's counterparty status in international funding, payments and derivative markets provided the group with enhanced access to international financial market infrastructure and greater liquidity pools.

Balance sheet strength

Capital and leverage position

Current targeted ranges and actual ratios are summarised below.

	December 2017			
	Capital			
%	CET1	Tier 1	Total	Leverage[#]
Regulatory minimum*	7.3	8.5	10.8	4.0
Targets	10.0 – 11.0	>12.0	>14.0	>5.0
Actual**	**14.0**	**14.6**	**16.9**	**8.5**

* *Excluding the bank-specific capital requirements.*
** *Includes unappropriated profits.*
[#] *Based on Basel III regulations.*

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

OVERVIEW OF RESULTS continued

The group 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 during the period. This resulted in a more efficient capital structure which is closely aligned with the group's internal targets. It remains the group's intention to continue optimising its capital stack by frequently issuing Tier 2 instruments in domestic and/or international markets. This ensures sustainable support for ongoing growth initiatives and compensates for the haircut applied to Tier 2 instruments which 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, 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 high quality liquid assets (HQLA) that are available as protection against unexpected events or market disruptions as well as to facilitate the variable liquidity needs of the operating businesses. The quantum and composition of the available sources of liquidity are defined by the behavioural funding liquidity at risk and the market liquidity depth of 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 group exceeds the 80% minimum liquidity coverage ratio (LCR) requirement set out by the Basel Committee for Banking Supervision (BCBS) with the group LCR at 107% at 31 December 2017 (December 2016: 95%). FirstRand Bank's LCR was 101% (December 2016: 104%).

At 31 December 2017, the group's available HQLA sources of liquidity per the LCR amounted to R190 billion, with an additional R13 billion of management liquidity available. FirstRand expects to be fully compliant with the net stable funding ratio (NSFR) requirements once implemented.

ACCOUNTING

IFRS 9 Financial Instruments

The group's IFRS 9 implementation project continues to meet its objective of ensuring a high-quality implementation. The project adheres to strict governance practices.

The group elected not to restate comparative information included in the analysis of financial results or annual financial statements for the year ending 30 June 2019. In the annual financial statements and analysis of financial results for the year ending 30 June 2019, the 2019 financial information will be based on IFRS 9 and the 2018 financial information will be based on *IAS 39 Financial instruments: Recognition and Measurement*. The amended disclosure requirements of *IFRS 7 Financial Instruments: Disclosures* will also be prospectively applied by the group.

The group will, however, publish detailed information about the impact of transitioning to IFRS 9 during the fourth quarter of the 2018 calendar year. The external auditors have been involved in the process, within allowed and acceptable practice per auditing regulations. This will facilitate compliance with the SARB's Directive 5/2017, *Regulatory treatment of accounting provisions – interim approach and transitional arrangements including disclosure and auditing aspects*, which requires the IFRS 9 implementation to be audited within five months of the effective date.

DIVIDEND STRATEGY

Given the group's sustained superior return profile, sound operational performance and strong balance sheet, the board remains comfortable to pay a dividend higher than earnings growth with a 1.7x cover which remains below its stated long-term cover range of 1.8x to 2.2x. This cover range is assessed on an annual basis as part of the year end process.

PROSPECTS

Since the outcome of the ANC elective conference in December 2017, sentiment and markets have staged a material recovery and the outlook for South Africa is more positive than it has been for some time.

FirstRand believes that the government should build on this renewed certainty, provide clear policy direction, appear willing to deal immediately with poor governance at some of the large and systemic SOEs, address corruption and state capture, and strengthen fiscal discipline.

In the medium to longer term, given the market leading positions of its businesses and the growth strategies it is executing on, FirstRand considers itself strategically well positioned to benefit from renewed growth.

Given the structural nature of many of South Africa's challenges, the group believes that the domestic fundamentals will not change quickly, therefore, it expects a similar macro picture for the remainder of its financial year to June 2018. The group remains committed to delivering real growth in earnings and superior returns to shareholders.

EVENTS AFTER REPORTING PERIOD

Since 31 December 2017 the group received final regulatory approval for the Aldermore transaction as disclosed in the SENS announcement of 1 March 2018. The directors are not aware of any other material events that have occurred between the end of the reporting period and the date of this report.

BOARD CHANGES

Benedict James van der Ross retired as an independent non-executive director of FirstRand Limited and FirstRand Bank Limited on 30 November 2017.

Jan Hendrik van Greuning retired as an independent non-executive director of FirstRand Limited and FirstRand Bank Limited on 30 November 2017.

Lauritz Lanser Dippenaar will retire as board chairman and non-executive director of FirstRand Limited and FirstRand Bank Limited on 31 March 2018.

William Rodger Jardine has been appointed board chairman of FirstRand Limited and FirstRand Bank Limited, effective 1 April 2018.

MANAGEMENT CHANGES

On 27 February 2018, FirstRand announced the following changes:

- Johan Petrus Burger will retire as CEO of FirstRand Limited and FirstRand Bank Limited on 31 March 2018. He will remain an executive director of FirstRand Limited and FirstRand Bank Limited until 31 August 2018 and, subject to regulatory approval, become a non-executive director of FirstRand Limited and FirstRand Bank Limited on 1 September 2018.
- Alan Patrick Pullinger, currently deputy CEO, has been appointed CEO of FirstRand Limited and FirstRand Bank Limited, effective 1 April 2018.
- Mary Vilakazi has been appointed as COO and executive director of FirstRand Limited and FirstRand Bank Limited, effective 1 July 2018.

CASH DIVIDEND DECLARATIONS

Ordinary shares

The directors declared a gross cash dividend totalling 130 cents per ordinary share out of income reserves for the six months ended 31 December 2017.

	Six months ended 31 December	
Cents per share	**2017**	2016
Interim (declared 5 March 2018)	**130.0**	119.0

The salient dates for the interim ordinary dividend are as follows:

Last day to trade cum-dividend	Monday 26 March 2018
Shares commence trading ex-dividend	Tuesday 27 March 2018
Record date	Thursday 29 March 2018
Payment date	Tuesday 3 April 2018

Share certificates may not be dematerialised or rematerialised between Tuesday 27 March 2018 and Thursday 29 March 2018, both days inclusive.

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

For South African shareholders who are subject to DWT, the net interim dividend after deducting 20% tax will be 104.00000 cents per share.

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

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

B preference shares

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

Dividends declared and paid

Cents per share	Preference dividends
Period:	
1 March 2016 – 29 August 2016	**394.7**
30 August 2016 – 27 February 2017	**395.6**
28 February 2017 – 28 August 2017	**393.6**
29 August 2017 – 26 February 2018	**386.2**

LL DIPPENAAR
Chairman

JP BURGER
CEO

C LOW
Company secretary

5 March 2018

SEGMENT REPORT

for the six months ended 31 December 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	2 164	1 286	1 268	3 287	**8 005**	4 741	1 541	**14 287**
Impairment charge	(144)	(295)	(400)	(635)	**(1 474)**	(333)	(417)	**(2 224)**
Net interest income after impairment of advances	2 020	991	868	2 652	**6 531**	4 408	1 124	**12 063**
Non-interest revenue	306	1 014	397	6 354	**8 071**	3 844	1 864	**13 779**
Income from operations	2 326	2 005	1 265	9 006	**14 602**	8 252	2 988	**25 842**
Operating expenses	(914)	(1 058)	(459)	(5 946)	**(8 377)**	(4 317)	(2 348)	**(15 042)**
Net income from operations	1 412	947	806	3 060	**6 225**	3 935	640	**10 800**
Share of profit of associates and joint ventures after tax	–	–	–	4	**4**	3	1	**8**
Income before tax	1 412	947	806	3 064	**6 229**	3 938	641	**10 808**
Indirect tax	(6)	(32)	(9)	(235)	**(282)**	(21)	(75)	**(378)**
Profit before tax	1 406	915	797	2 829	**5 947**	3 917	566	**10 430**
Income tax expense	(394)	(256)	(223)	(801)	**(1 674)**	(1 097)	(256)	**(3 027)**
Profit for the period	1 012	659	574	2 028	**4 273**	2 820	310	**7 403**
Attributable to								
Ordinary equityholders	1 012	659	574	2 028	**4 273**	2 820	67	**7 160**
NCNR preference shareholders	–	–	–	–	**–**	–	–	**–**
Non-controlling interests	–	–	–	–	**–**	–	243	**243**
Profit for the period	1 012	659	574	2 028	**4 273**	2 820	310	**7 403**
Attributable earnings to ordinary shareholders	1 012	659	574	2 028	**4 273**	2 820	67	**7 160**
Headline earnings adjustments	–	–	–	–	**–**	–	–	**–**
Headline earnings	1 012	659	574	2 028	**4 273**	2 820	67	**7 160**
TRS and IFRS 2 liability remeasurement	–	–	–	–	**–**	–	–	**–**
Treasury shares	–	–	–	–	**–**	–	–	**–**
IAS 19 adjustment	–	–	–	–	**–**	–	–	**–**
Private equity subsidiary related	–	–	–	–	**–**	–	–	**–**
Normalised earnings*	1 012	659	574	2 028	**4 273**	2 820	67	**7 160**

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

* *Normalised earnings for FNB, RMB and WesBank exclude the return on capital in the rest of Africa, cost of preference shares and other capital and, therefore, differ from franchise normalised earnings reported on page 95.*

** *Refer to additional activity disclosure on page 36.*

Refer to additional segmental information on page 37.

RMB							
Investment banking	Corporate banking	**Total RMB****	**WesBank#**	FCC (including Group Treasury) and other	**FirstRand group – normalised**	Normalised adjustments	**FirstRand group – IFRS**
2 258	1 110	**3 368**	**5 621**	1 289	**24 565**	(831)	**23 734**
(5)	5	**–**	**(1 941)**	113	**(4 052)**	–	**(4 052)**
2 253	1 115	**3 368**	**3 680**	1 402	**20 513**	(831)	**19 682**
3 524	1 138	**4 662**	**2 277**	(1 204)	**19 514**	1 875	**21 389**
5 777	2 253	**8 030**	**5 957**	198	**40 027**	1 044	**41 071**
(2 672)	(1 287)	**(3 959)**	**(3 373)**	(659)	**(23 033)**	(675)	**(23 708)**
3 105	966	**4 071**	**2 584**	(461)	**16 994**	369	**17 363**
452	–	**452**	**211**	(183)	**488**	5	**493**
3 557	966	**4 523**	**2 795**	(644)	**17 482**	374	**17 856**
(68)	(5)	**(73)**	**(90)**	63	**(478)**	–	**(478)**
3 489	961	**4 450**	**2 705**	(581)	**17 004**	374	**17 378**
(979)	(269)	**(1 248)**	**(757)**	1 138	**(3 894)**	(88)	**(3 982)**
2 510	692	**3 202**	**1 948**	557	**13 110**	286	**13 396**
2 503	636	**3 139**	**1 915**	247	**12 461**	288	**12 749**
–	–	**–**	**–**	177	**177**	–	**177**
7	56	**63**	**33**	133	**472**	(2)	**470**
2 510	692	**3 202**	**1 948**	557	**13 110**	286	**13 396**
2 503	636	**3 139**	**1 915**	247	**12 461**	288	**12 749**
–	–	**–**	**–**	–	**–**	(176)	**(176)**
2 503	636	**3 139**	**1 915**	247	**12 461**	112	**12 573**
–	–	**–**	**–**	–	**–**	(137)	**(137)**
–	–	**–**	**–**	–	**–**	8	**8**
–	–	**–**	**–**	–	**–**	(56)	**(56)**
–	–	**–**	**–**	–	**–**	73	**73**
2 503	636	**3 139**	**1 915**	247	**12 461**	–	**12 461**

SEGMENT REPORT continued

for the six months ended 31 December 2017

	FNB							
	Retail							
R million	Residential mortgages	Card	Personal loans	Retail other	**Retail**	Commercial	FNB Africa	**Total FNB**
Cost-to-income ratio (%)	37.0	46.0	27.6	61.6	**52.1**	50.3	68.9	**53.6**
Diversity ratio (%)	12.4	44.1	23.8	65.9	**50.2**	44.8	54.8	**49.1**
Credit loss ratio (%)	0.15	2.41	5.53	8.48	**1.17**	0.77	1.88	**1.17**
NPLs as a percentage of advances (%)	2.28	3.96	8.75	5.27	**3.00**	2.54	5.77	**3.21**
Consolidated income statement includes								
Depreciation	(2)	(2)	(1)	(748)	**(753)**	(22)	(142)	**(917)**
Amortisation	–	(4)	–	(43)	**(47)**	–	(11)	**(58)**
Net impairment charges	–	–	–	(14)	**(14)**	(1)	–	**(15)**
Consolidated statement of financial position includes								
Advances (after ISP – before impairments)	198 704	25 063	14 562	15 101	**253 430**	87 900	43 738	**385 068**
– Normal advances	198 704	25 063	14 562	15 101	**253 430**	87 900	43 738	**385 068**
– Securitised advances	–	–	–	–	**–**	–	–	**–**
NPLs net of ISP	4 535	993	1 274	796	**7 598**	2 235	2 523	**12 356**
Investment in associated companies	–	–	–	238	**238**	–	8	**246**
Investment in joint ventures	–	–	–	–	**–**	15	–	**15**
Total deposits (including non-recourse deposits)	677	1 714	–	215 364	**217 755**	206 666	38 416	**462 837**
Total assets	197 338	24 102	13 163	40 803	**275 406**	88 667	49 024	**413 097**
Total liabilities*	196 870	23 658	12 750	33 783	**267 061**	86 377	48 891	**402 329**
Capital expenditure	4	15	1	917	**937**	30	136	**1 103**

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

* *Total liabilities are net of interdivisional balances.*

** *Refer to additional activity disclosure on page 36.*

Refer to additional segmental information on page 37.

RMB							
Investment banking	Corporate banking	**Total RMB****	**WesBank#**	FCC (including Group Treasury) and other	**FirstRand group – normalised**	Normalised adjustments	**FirstRand group – IFRS**
42.9	57.3	**46.7**	**41.6**	(>100)	**51.7**	–	**52.0**
63.8	50.6	**60.3**	**30.7**	>100	**44.9**	–	**48.0**
–	(0.02)	**–**	**1.85**	(0.02)	**0.87**	–	**0.87**
0.38	0.19	**0.35**	**4.09**	–	**2.33**	–	**2.33**
(76)	(4)	**(80)**	**(350)**	(13)	**(1 360)**	–	**(1 360)**
(20)	–	**(20)**	**(22)**	(3)	**(103)**	–	**(103)**
–	(5)	**(5)**	**–**	(1)	**(21)**	(5)	**(26)**
239 398	51 414	**290 812**	**210 423**	58 705	**945 008**	(420)	**944 588**
239 398	51 414	**290 812**	**186 359**	58 705	**920 944**	(420)	**920 524**
–	–	**–**	**24 064**	–	**24 064**	–	**24 064**
910	100	**1 010**	**8 616**	–	**21 982**	–	**21 982**
2 487	–	**2 487**	**2 405**	588	**5 726**	–	**5 726**
1 883	–	**1 883**	**9**	(17)	**1 890**	56	**1 946**
90 131	134 916	**225 047**	**45**	352 113	**1 040 042**	–	**1 040 042**
405 983	54 861	**460 844**	**216 648**	201 135	**1 291 724**	(32)	**1 291 692**
397 558	53 570	**451 128**	**212 567**	104 352	**1 170 376**	–	**1 170 376**
61	20	**81**	**838**	5	**2 027**	–	**2 027**

SEGMENT REPORT continued
for the six months ended 31 December 2016

	FNB							
	Retail							
R million	Residential mortgages	Card	Personal loans	Retail other	Retail	Commercial	FNB Africa	Total FNB
Net interest income before impairment of advances	1 860	1 224	1 376	3 045	**7 505**	4 281	1 559	**13 345**
Impairment charge	(132)	(289)	(565)	(509)	**(1 495)**	(263)	(332)	**(2 090)**
Net interest income after impairment of advances	1 728	935	811	2 536	**6 010**	4 018	1 227	**11 255**
Non-interest revenue	293	868	415	5 651	**7 227**	3 498	1 663	**12 388**
Income from operations	2 021	1 803	1 226	8 187	**13 237**	7 516	2 890	**23 643**
Operating expenses	(890)	(991)	(478)	(5 248)	**(7 607)**	(4 022)	(2 268)	**(13 897)**
Net income from operations	1 131	812	748	2 939	**5 630**	3 494	622	**9 746**
Share of profit of associates and joint ventures after tax	–	–	–	(18)	**(18)**	–	1	**(17)**
Income before tax	1 131	812	748	2 921	**5 612**	3 494	623	**9 729**
Indirect tax	(7)	(30)	(8)	(220)	**(265)**	(21)	(76)	**(362)**
Profit before tax	1 124	782	740	2 701	**5 347**	3 473	547	**9 367**
Income tax expense	(315)	(219)	(207)	(756)	**(1 497)**	(972)	(237)	**(2 706)**
Profit for the period	809	563	533	1 945	**3 850**	2 501	310	**6 661**
Attributable to								
Ordinary equityholders	809	563	533	1 945	**3 850**	2 501	58	**6 409**
NCNR preference shareholders	–	–	–	–	**–**	–	–	**–**
Non-controlling interests	–	–	–	–	**–**	–	252	**252**
Profit for the period	809	563	533	1 945	**3 850**	2 501	310	**6 661**
Attributable earnings to ordinary shareholders	809	563	533	1 945	**3 850**	2 501	58	**6 409**
Headline earnings adjustments	–	–	–	–	**–**	–	–	**–**
Headline earnings	809	563	533	1 945	**3 850**	2 501	58	**6 409**
TRS and IFRS 2 liability remeasurement	–	–	–	–	**–**	–	–	**–**
Treasury shares	–	–	–	–	**–**	–	–	**–**
IAS 19 adjustment	–	–	–	–	**–**	–	–	**–**
Private equity subsidiary related	–	–	–	–	**–**	–	–	**–**
Normalised earnings*	809	563	533	1 945	**3 850**	2 501	58	**6 409**

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

* *Normalised earnings for FNB, RMB and WesBank exclude the return on capital in the rest of Africa, cost of preference shares and other capital and, therefore, differ from franchise normalised earnings reported on page 95.*

** *Refer to additional activity disclosure on page 36.*

\# *Refer to additional segmental information on page 37.*

RMB							
Investment banking	Corporate banking	**Total RMB****	**WesBank#**	FCC (including Group Treasury) and other	**FirstRand group – normalised**	Normalised adjustments	**FirstRand group – IFRS**
2 247	989	**3 236**	**5 200**	1 462	**23 243**	(1 043)	**22 200**
(217)	(55)	**(272)**	**(1 629)**	250	**(3 741)**	–	**(3 741)**
2 030	934	**2 964**	**3 571**	1 712	**19 502**	(1 043)	**18 459**
3 330	1 189	**4 519**	**2 187**	(1 431)	**17 663**	1 851	**19 514**
5 360	2 123	**7 483**	**5 758**	281	**37 165**	808	**37 973**
(2 617)	(1 241)	**(3 858)**	**(3 088)**	(403)	**(21 246)**	(462)	**(21 708)**
2 743	882	**3 625**	**2 670**	(122)	**15 919**	346	**16 265**
447	–	**447**	**214**	(175)	**469**	(2)	**467**
3 190	882	**4 072**	**2 884**	(297)	**16 388**	344	**16 732**
(56)	(5)	**(61)**	**(129)**	(21)	**(573)**	–	**(573)**
3 134	877	**4 011**	**2 755**	(318)	**15 815**	344	**16 159**
(881)	(246)	**(1 127)**	**(771)**	1 109	**(3 495)**	(101)	**(3 596)**
2 253	631	**2 884**	**1 984**	791	**12 320**	243	**12 563**
2 242	579	**2 821**	**1 944**	472	**11 646**	243	**11 889**
–	–	**–**	**3**	178	**181**	–	**181**
11	52	**63**	**37**	141	**493**	–	**493**
2 253	631	**2 884**	**1 984**	791	**12 320**	243	**12 563**
2 242	579	**2 821**	**1 944**	472	**11 646**	243	**11 889**
–	–	**–**	**–**	–	**–**	(30)	**(30)**
2 242	579	**2 821**	**1 944**	472	**11 646**	213	**11 859**
–	–	**–**	**–**	–	**–**	(166)	**(166)**
–	–	**–**	**–**	–	**–**	7	**7**
–	–	**–**	**–**	–	**–**	(54)	**(54)**
–	–	**–**	**–**	–	**–**	–	**–**
2 242	579	**2 821**	**1 944**	472	**11 646**	–	**11 646**

SEGMENT REPORT continued
for the six months ended 31 December 2016

	FNB							
	Retail							
R million	Residential mortgages	Card	Personal loans	Retail other	**Retail**	Commercial	FNB Africa	**Total FNB**
Cost-to-income ratio (%)	41.3	47.4	26.7	60.5	**51.7**	51.7	70.4	**54.0**
Diversity ratio (%)	13.6	41.5	23.2	64.9	**49.0**	45.0	51.6	**48.1**
Credit loss ratio (%)	0.14	2.60	7.83	7.09	**1.24**	0.66	1.52	**1.15**
NPLs as a percentage of advances (%)	2.33	3.62	8.50	5.01	**2.98**	2.75	4.36	**3.09**
Consolidated income statement includes								
Depreciation	(2)	(4)	(1)	(776)	**(783)**	(18)	(127)	**(928)**
Amortisation	–	(2)	–	(29)	**(31)**	–	(4)	**(35)**
Net impairment charges	–	–	–	(6)	**(6)**	–	–	**(6)**
Consolidated statement of financial position includes								
Advances (after ISP – before impairments)	191 437	22 495	14 431	14 358	**242 721**	81 173	43 583	**367 477**
– Normal advances	191 437	22 495	14 431	14 358	**242 721**	81 173	43 583	**367 477**
– Securitised advances	–	–	–	–	**–**	–	–	**–**
NPLs net of ISP	4 462	814	1 226	719	**7 221**	2 235	1 900	**11 356**
Investment in associated companies	–	–	–	218	**218**	–	6	**224**
Investment in joint ventures	–	–	–	–	**–**	6	–	**6**
Total deposits* (including non-recourse deposits)	698	1 611	1	190 697	**193 007**	186 291	36 697	**415 995**
Total assets	190 080	21 696	13 050	39 165	**263 991**	81 814	48 853	**394 658**
Total liabilities**	189 806	21 322	12 719	32 428	**256 275**	79 774	48 431	**384 480**
Capital expenditure	2	18	–	1 206	**1 226**	17	123	**1 366**

The segmental analysis is based on the management accounts for the respective segments.
** Restated, refer to pages 123 and 124 for more detailed information.*
*** Total liabilities are net of interdivisional balances.*
 # Refer to additional activity disclosure on page 36.
† Refer to additional segmental information on page 37.

RMB							
Investment banking	Corporate banking	**Total RMB#**	**WesBank†**	FCC (including Group Treasury) and other	**FirstRand group – normalised**	Normalised adjustments	**FirstRand group – IFRS**
43.4	57.0	**47.0**	**40.6**	(>100)	**51.3**	–	**51.5**
62.7	54.6	**60.5**	**31.6**	>100	**43.8**	–	**47.4**
0.19	0.29	**0.20**	**1.65**	(0.06)	**0.86**	–	**0.86**
0.98	0.17	**0.86**	**3.63**	–	**2.37**	–	**2.37**
(48)	(2)	**(50)**	**(323)**	(12)	**(1 313)**	(32)	**(1 345)**
(9)	–	**(9)**	**(31)**	(2)	**(77)**	(2)	**(79)**
–	(5)	**(5)**	**(10)**	(21)	**(42)**	(2)	**(44)**
234 146	40 717	**274 863**	**196 737**	41 665	**880 742**	(420)	**880 322**
234 146	40 717	**274 863**	**163 550**	41 665	**847 555**	(420)	**847 135**
–	–	**–**	**33 187**	–	**33 187**	–	**33 187**
2 288	71	**2 359**	**7 136**	–	**20 851**	–	**20 851**
2 814	–	**2 814**	**2 138**	(3)	**5 173**	–	**5 173**
1 417	–	**1 417**	**–**	(16)	**1 407**	51	**1 458**
94 536	128 847	**223 383**	**49**	312 694	**952 121**	–	**952 121**
378 971	42 379	**421 350**	**203 848**	160 606	**1 180 462**	26	**1 180 488**
370 296	41 227	**411 523**	**200 556**	72 155	**1 068 714**	–	**1 068 714**
700	7	**707**	**722**	4	**2 799**	–	**2 799**

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	3 824	2 486	2 699	6 370	**15 379**	8 730	3 178	**27 287**
Impairment charge	(285)	(699)	(1 071)	(1 062)	**(3 117)**	(531)	(788)	**(4 436)**
Net interest income after impairment of advances	3 539	1 787	1 628	5 308	**12 262**	8 199	2 390	**22 851**
Non-interest revenue	618	1 782	826	11 497	**14 723**	7 064	3 237	**25 024**
Income from operations	4 157	3 569	2 454	16 805	**26 985**	15 263	5 627	**47 875**
Operating expenses	(1 728)	(2 000)	(919)	(11 191)	**(15 838)**	(8 143)	(4 603)	**(28 584)**
Net income from operations	2 429	1 569	1 535	5 614	**11 147**	7 120	1 024	**19 291**
Share of profit of associates and joint ventures after tax	–	–	–	(4)	**(4)**	6	3	**5**
Income before tax	2 429	1 569	1 535	5 610	**11 143**	7 126	1 027	**19 296**
Indirect tax	(13)	(62)	(16)	(394)	**(485)**	(40)	(147)	**(672)**
Profit before tax	2 416	1 507	1 519	5 216	**10 658**	7 086	880	**18 624**
Income tax expense	(676)	(422)	(425)	(1 461)	**(2 984)**	(1 984)	(415)	**(5 383)**
Profit for the period	1 740	1 085	1 094	3 755	**7 674**	5 102	465	**13 241**
Attributable to								
Ordinary equityholders	1 740	1 085	1 094	3 755	**7 674**	5 102	25	**12 801**
NCNR preference shareholders	–	–	–	–	**–**	–	–	**–**
Non-controlling interests	–	–	–	–	**–**	–	440	**440**
Profit for the period	1 740	1 085	1 094	3 755	**7 674**	5 102	465	**13 241**
Attributable earnings to ordinary shareholders	1 740	1 085	1 094	3 755	**7 674**	5 102	25	**12 801**
Headline earnings adjustments	–	–	–	–	**–**	–	–	**–**
Headline earnings	1 740	1 085	1 094	3 755	**7 674**	5 102	25	**12 801**
TRS and IFRS 2 liability remeasurement	–	–	–	–	**–**	–	–	**–**
Treasury shares	–	–	–	–	**–**	–	–	**–**
IAS 19 adjustment	–	–	–	–	**–**	–	–	**–**
Private equity subsidiary related	–	–	–	–	**–**	–	–	**–**
Normalised earnings*	1 740	1 085	1 094	3 755	**7 674**	5 102	25	**12 801**

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

* *Normalised earnings for FNB, RMB and WesBank exclude the return on capital in the rest of Africa, cost of preference shares and other capital and, therefore, differ from franchise normalised earnings reported on page 95.*

** *Refer to additional activity disclosure on page 36.*

Refer to additional segmental information on page 37.

RMB							
Investment banking	Corporate banking	**Total RMB****	**WesBank#**	FCC (including Group Treasury) and other	**FirstRand group – normalised**	Normalised adjustments	**FirstRand group – IFRS**
4 417	2 023	**6 440**	**10 510**	2 389	**46 626**	(1 709)	**44 917**
(400)	(137)	**(537)**	**(3 431)**	350	**(8 054)**	–	**(8 054)**
4 017	1 886	**5 903**	**7 079**	2 739	**38 572**	(1 709)	**36 863**
8 637	2 325	**10 962**	**4 552**	(2 311)	**38 227**	2 695	**40 922**
12 654	4 211	**16 865**	**11 631**	428	**76 799**	986	**77 785**
(5 531)	(2 468)	**(7 999)**	**(6 225)**	(965)	**(43 773)**	(812)	**(44 585)**
7 123	1 743	**8 866**	**5 406**	(537)	**33 026**	174	**33 200**
1 020	–	**1 020**	**439**	(423)	**1 041**	(3)	**1 038**
8 143	1 743	**9 886**	**5 845**	(960)	**34 067**	171	**34 238**
(115)	(12)	**(127)**	**(233)**	(49)	**(1 081)**	–	**(1 081)**
8 028	1 731	**9 759**	**5 612**	(1 009)	**32 986**	171	**33 157**
(2 252)	(485)	**(2 737)**	**(1 543)**	2 712	**(6 951)**	(67)	**(7 018)**
5 776	1 246	**7 022**	**4 069**	1 703	**26 035**	104	**26 139**
5 753	1 149	**6 902**	**3 996**	772	**24 471**	101	**24 572**
–	–	**–**	**–**	356	**356**	–	**356**
23	97	**120**	**73**	575	**1 208**	3	**1 211**
5 776	1 246	**7 022**	**4 069**	1 703	**26 035**	104	**26 139**
5 753	1 149	**6 902**	**3 996**	772	**24 471**	101	**24 572**
–	–	**–**	**–**	–	**–**	(810)	**(810)**
5 753	1 149	**6 902**	**3 996**	772	**24 471**	(709)	**23 762**
–	–	**–**	**–**	–	**–**	(63)	**(63)**
–	–	**–**	**–**	–	**–**	(12)	**(12)**
–	–	**–**	**–**	–	**–**	(117)	**(117)**
–	–	**–**	**–**	–	**–**	901	**901**
5 753	1 149	**6 902**	**3 996**	772	**24 471**	–	**24 471**

SEGMENT REPORT continued

for the year ended 30 June 2017

	FNB							
	Retail							
R million	Residential mortgages	Card	Personal loans	Retail other	**Retail**	Commercial	FNB Africa	**Total FNB**
Cost-to-income ratio (%)	38.9	46.9	26.1	62.6	**52.6**	51.5	71.7	**54.6**
Diversity ratio (%)	13.9	41.8	23.4	64.3	**48.9**	44.7	50.5	**47.8**
Credit loss ratio (%)	0.15	3.05	7.43	7.27	**1.28**	0.66	1.78	**1.20**
NPLs as a percentage of advances (%)	2.33	3.89	8.54	5.77	**3.05**	2.71	5.30	**3.24**
Consolidated income statement includes								
Depreciation	(4)	(3)	(2)	(1 552)	**(1 561)**	(43)	(264)	**(1 868)**
Amortisation	–	(5)	–	(115)	**(120)**	–	(16)	**(136)**
Net impairment charges	–	–	–	(11)	**(11)**	2	–	**(9)**
Consolidated statement of financial position includes								
Advances (after ISP – before impairments)	195 498	23 800	14 372	14 863	**248 533**	84 146	44 890	**377 569**
– Normal advances	195 498	23 800	14 372	14 863	**248 533**	84 146	44 890	**377 569**
– Securitised advances	–	–	–	–	**–**	–	–	**–**
NPLs net of ISP	4 560	926	1 227	858	**7 571**	2 280	2 377	**12 228**
Investment in associated companies	–	–	–	233	**233**	–	8	**241**
Investment in joint ventures	–	–	–	–	**–**	12	–	**12**
Total deposits (including non-recourse deposits)	665	1 554	1	200 631	**202 851**	193 031	37 194	**433 076**
Total assets	194 153	22 877	12 997	37 105	**267 132**	84 846	49 959	**401 937**
Total liabilities*	193 467	22 143	12 273	25 085	**252 968**	80 730	49 982	**383 680**
Capital expenditure	4	19	1	2 076	**2 100**	189	285	**2 574**

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

* *Total liabilities are net of interdivisional balances.*

** *Refer to additional activity disclosure on page 36.*

Refer to additional segmental information on page 37.

	RMB							
	Investment banking	Corporate banking	Total RMB**	WesBank#	FCC (including Group Treasury) and other	FirstRand group – normalised	Normalised adjustments	FirstRand group – IFRS
	39.3	56.8	**43.4**	**40.2**	(>100)	**51.0**	–	**51.3**
	68.6	53.5	**65.0**	**32.2**	>100	**45.7**	–	**48.3**
	0.17	0.35	**0.20**	**1.68**	(0.04)	**0.91**	–	**0.91**
	0.71	0.09	**0.62**	**3.80**	–	**2.41**	–	**2.42**
	(127)	(5)	**(132)**	**(671)**	(19)	**(2 690)**	(38)	**(2 728)**
	(47)	–	**(47)**	**(60)**	(4)	**(247)**	(2)	**(249)**
	(1)	(9)	**(10)**	**(1)**	(17)	**(37)**	(586)	**(623)**
	240 725	42 236	**282 961**	**208 470**	41 066	**910 066**	(420)	**909 646**
	240 725	42 236	**282 961**	**178 204**	41 066	**879 800**	(420)	**879 380**
	–	–	**–**	**30 266**	–	**30 266**	–	**30 266**
	1 706	40	**1 746**	**7 931**	–	**21 905**	77	**21 982**
	2 851	–	**2 851**	**2 238**	594	**5 924**	–	**5 924**
	1 384	–	**1 384**	**–**	(17)	**1 379**	51	**1 430**
	86 961	122 348	**209 309**	**41**	341 103	**983 529**	–	**983 529**
	386 048	45 872	**431 920**	**214 222**	169 666	**1 217 745**	(38)	**1 217 707**
	377 316	43 634	**420 950**	**207 809**	88 084	**1 100 523**	–	**1 100 523**
	893	15	**908**	**1 440**	7	**4 929**	–	**4 929**

ADDITIONAL ACTIVITY DISCLOSURE – RMB

	Six months ended 31 December 2017						
R million	IB&A	C&TB	M&S	INV	IM	Other	Total
Normalised PBT							
Global Markets	**–**	**–**	**743**	**–**	**(4)**	**(75)***	**664**
IBD	**1 811**	**–**	**16**	**67**	**23**	**–**	**1 917**
Private Equity	**–**	**–**	**–**	**524**	**–**	**–**	**524**
Other RMB	**–**	**–**	**(23)**	**–**	**–**	**407**	**384**
Investment banking	**1 811**	**–**	**736**	**591**	**19**	**332**	**3 489**
Corporate banking	**–**	**961**	**–**	**–**	**–**	**–**	**961**
Total RMB	**1 811**	**961**	**736**	**591**	**19**	**332**	**4 450**

	Six months ended 31 December 2016						
R million	IB&A	C&TB	M&S	INV	IM	Other	Total
Normalised PBT							
Global Markets	–	–	703	5	(17)	(60)*	631
IBD	1 584	–	32	85	22	–	1 723
Private Equity	–	–	–	535	–	–	535
Other RMB	(50)	–	–	–	–	295	245
Investment banking	1 534	–	735	625	5	235	3 134
Corporate banking	–	877	–	–	–	–	877
Total RMB	1 534	877	735	625	5	235	4 011

	Year ended 30 June 2017						
R million	IB&A	C&TB	M&S	INV	IM	Other	Total
Normalised PBT							
Global Markets	–	–	1 601	12	(10)	(197)*	1 406
IBD	3 676	–	53	149	25	–	3 903
Private Equity	–	–	–	2 680	–	–	2 680
Other RMB	(50)	–	(42)	–	–	131	39
Investment banking	3 626	–	1 612	2 841	15	(66)	8 028
Corporate banking	–	1 731	–	–	–	–	1 731
Total RMB	3 626	1 731	1 612	2 841	15	(66)	9 759

Note:
IB&A – investment banking and advisory
C&TB – corporate and transactional banking
M&S – markets and structuring
INV – investing
IM – investment management
* *Includes investment in Global Markets' infrastructure programme.*

ADDITIONAL SEGMENTAL DISCLOSURE – WESBANK

	Six months ended 31 December 2017					
	VAF					
	Retail		Corporate and commercial	Personal loans	Rest of Africa	Total WesBank
R million	South Africa	MotoNovo				
NII before impairment of advances	**2 358**	**1 498**	**287**	**1 323**	**155**	**5 621**
Impairment charge	**(925)**	**(444)**	**(18)**	**(527)**	**(27)**	**(1 941)**
Normalised profit before tax	**1 155**	**600**	**198**	**731**	**21**	**2 705**
Normalised earnings	**809**	**432**	**143**	**526**	**5**	**1 915**
Advances	**103 789**	**54 713**	**29 768**	**14 369**	**7 784**	**210 423**
– Normal advances	**97 069**	**37 369**	**29 768**	**14 369**	**7 784**	**186 359**
– Securitised advances	**6 720**	**17 344**	**–**	**–**	**–**	**24 064**
NPLs	**6 104**	**409**	**240**	**1 595**	**268**	**8 616**
Advances margin (%)	**3.75**	**5.53**	**2.16**	**18.54**	**4.02**	**5.01**
NPLs (%)	**5.88**	**0.75**	**0.81**	**11.10**	**3.44**	**4.09**
Credit loss ratio (%)	**1.80**	**1.64**	**0.12**	**7.54**	**0.69**	**1.85**

	Six months ended 31 December 2016					
	VAF					
	Retail		Corporate and commercial	Personal loans	Rest of Africa	Total WesBank
R million	South Africa	MotoNovo				
NII before impairment of advances	2 280	1 282	281	1 182	175	5 200
Impairment charge	(709)	(344)	(25)	(505)	(46)	(1 629)
Normalised profit before tax	1 351	588	169	622	25	2 755
Normalised earnings	947	423	122	448	4	1 944
Advances	99 323	48 116	28 525	12 468	8 305	196 737
– Normal advances	92 016	22 236	28 525	12 468	8 305	163 550
– Securitised advances	7 307	25 880	–	–	–	33 187
NPLs	5 158	292	267	1 238	181	7 136
Advances margin (%)	3.83	5.53	2.28	19.15	4.27	5.01
NPLs (%)	5.19	0.61	0.94	9.93	2.18	3.63
Credit loss ratio (%)	1.42	1.40	0.17	8.30	1.11	1.65

ADDITIONAL SEGMENTAL DISCLOSURE – WESBANK continued

	Year ended 30 June 2017					
	VAF					
	Retail		Corporate and commercial	Personal loans	Rest of Africa	Total WesBank
R million	South Africa	MotoNovo				
NII before impairment of advances	4 554	2 611	566	2 417	362	10 510
Impairment charge	(1 559)	(712)	(67)	(1 006)	(87)	(3 431)
Normalised profit before tax	2 658	1 190	344	1 352	68	5 612
Normalised earnings	1 869	858	274	974	21	3 996
Advances	102 322	53 257	31 365	13 574	7 952	208 470
– Normal advances	95 284	30 029	31 365	13 574	7 952	178 204
– Securitised advances	7 038	23 228	–	–	–	30 266
NPLs	5 797	294	258	1 345	237	7 931
Advances margin (%)	3.75	5.61	2.10	18.65	4.55	4.93
NPLs (%)	5.67	0.55	0.82	9.91	2.98	3.80
Credit loss ratio (%)	1.54	1.38	0.22	7.91	1.08	1.68

income statement analysis

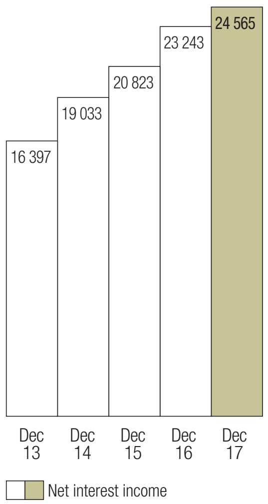
NET INTEREST INCOME (BEFORE IMPAIRMENT OF ADVANCES)

NET INTEREST INCOME (BEFORE IMPAIRMENT OF ADVANCES) – UP 6%

Net interest income

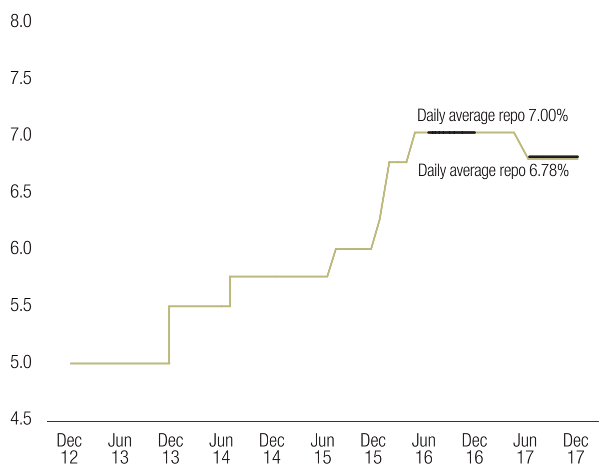
R million

CAGR 11%



Repo rate

%



Note: R210 billion = average endowment book for the period. Rates were 22 bps lower on average in the current period, which translates into a negative endowment impact of approximately R237 million for the period.

Margin cascade table

Percentage of average interest-earning banking assets	%
December 2016 normalised margin	**5.29**
Capital and deposit endowment	**0.02**
– Volume	**0.07**
– Average rate	**(0.05)**
Interest earning assets	**(0.01)**
– Change in balance sheet mix	**0.02**
– Asset pricing	**(0.03)**
Liabilities	**0.02**
– Change in funding mix	**0.11**
– Deposit pricing	**(0.09)**
Group Treasury and other movements	**(0.04)**
– Accounting mismatches (MTM vs accrual on term issuance)	**0.03**
– Liquidity management	**(0.03)**
– Increase in HQLA and liquidity mismatches	**–**
– Term funding costs	**(0.03)**
– Interest rate and FX management	**(0.04)**
– Other NII in operating franchises	**–**
December 2017 normalised margin	**5.28**

Activity analysis of net interest income before impairment of advances

R million	Six months ended 31 December		% change	Year ended 30 June
	2017	2016**		2017
Net interest income				
Lending	**10 737**	10 010	7	20 221
Transactional*	**7 631**	7 054	8	14 552
Deposits	**1 545**	1 467	5	2 811
Capital endowment	**3 261**	3 044	7	5 664
FNB Africa	**1 541**	1 559	(1)	3 178
Group Treasury	**9**	298	(97)	583
Other (negative endowment e.g. fixed assets)	**(159)**	(189)	(16)	(383)
Total net interest income	**24 565**	23 243	6	46 626

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

** *2016 numbers were restated to provide better attribution of NII by nature of activity. Lending NII now includes investment income, which is lending in nature, e.g. HQLA corporate advances.*

KEY DRIVERS

- NII growth was supported by:
  - higher capital levels; and
  - advances and deposit growth of 7% and 9%, respectively.
- Negative capital and deposit endowment rate impact from the 25 bps decrease in the repo rate in July 2017, which resulted in an average decrease of 22 bps in the repo rate period-on-period, offset by higher capital and deposit volumes.
- FNB's deposit margins decreased 28 bps, impacted by negative endowment due to the reduction in the repo rate and by a change in mix with strong growth in lower margin deposit products as well as increased competitive pressures. Deposit margins in the rest of Africa were negatively affected by low endowment from rate cuts in certain jurisdictions. Advances margins lifted modestly, reflecting an increase in residential mortgage margins as a result of repricing initiatives, and lower funding costs and mix changes. Some pressure resulted from lower unsecured lending margins which were negatively impacted by the implementation of the NCAA rate caps in 2016 as well as higher levels of suspended interest on NPLs.
- WesBank's VAF margins decreased 2 bps, impacted by the mix change in new business in the retail SA VAF book and a small decrease in MotoNovo margins due to a change in mix, as well as continued elevated liquidity costs, increased competitive pricing pressures and higher growth in lower risk advances. The decrease in loans margins is due to NCAA rate caps and high growth in debt-review accounts.
- Despite a marginal increase in margin, due to a change in asset mix, investment banking advances 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:
  - a reduction in income from financial resource activities of >R200 million;
  - the non-repeat of fair value gains on economic interest rate hedges in the comparative period;
  - a decrease of R63 million (December 2016: R96 million decrease) in Group Treasury on the 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 period-on-period; and
  - positive mark-to-market movements of R158 million (December 2016: R254 million negative movement) on fair value term funding instruments due to movements in the domestic yield curve. This will reverse over the duration of the underlying instruments, which are long dated.

NET INTEREST INCOME (BEFORE IMPAIRMENT OF ADVANCES) continued

Average balance sheet and margins

		December 2017			December 2016†		
R million	Notes	Average balance#	Interest income/ (expense)	Average rate %	Average balance	Interest income/ (expense)	Average rate %
INTEREST-EARNING ASSETS							
Average prime rate (RSA)				**10.28**			10.50
Balances with central banks		**24 411**	**–**		23 123	–	–
Cash and cash equivalents		**19 098**	**371**	**3.85**	15 390	318	4.10
Liquid assets portfolio		**106 331**	**4 101**	**7.65**	104 315	4 012	7.63
Loans and advances to customers	1	**773 941**	**42 079**	**10.79**	728 748	40 053	10.90
Interest-earning assets		**923 781**	**46 551**	**10.00**	871 576	44 383	10.10
INTEREST-BEARING LIABILITIES							
Average JIBAR				**7.15**			7.35
Deposits due to customers	2	**(577 108)**	**(13 772)**	**4.73**	(526 343)	(12 615)	4.75
Group Treasury funding		**(340 676)**	**(11 897)**	**6.93**	(301 629)	(10 213)	6.72
Interest-bearing liabilities		**(917 784)**	**(25 669)**	**5.55**	(827 972)	(22 828)	5.47
ENDOWMENT AND TRADING BOOK							
Other assets*		**257 332**	**–**	**–**	222 478	–	–
Other liabilities**		**(146 123)**	**–**	**–**	(150 628)	–	–
NCNR preference shareholders		**(4 519)**	**–**	**–**	(4 519)	–	–
Equity		**(112 687)**	**–**	**–**	(110 935)	–	–
Endowment and trading book		**(5 997)**	**3 683**	**(>100.00)**	(43 604)	1 688	(7.68)
Total interest-bearing liabilities, endowment and trading book		**(923 781)**	**(21 986)**	**4.72**	(871 576)	(21 140)	4.81
Net interest margin on average interest-earning assets		**923 781**	**24 565**	**5.28**	871 576	23 243	5.29

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

* *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.

† *Comparatives have been restated due to refinements in calculations.*

Note 1 – Margin analysis on loans and advances to customers

R million	December 2017 Average balance	December 2017 Average margin %	December 2016 Average balance	December 2016 Average margin %
Average prime rate (RSA)		**10.28**		10.50
ADVANCES				
Retail – secured	**357 974**	**3.00**	340 585	2.82
Residential mortgages	**195 643**	**1.88**	189 355	1.60
VAF	**162 331**	**4.34**	151 230	4.36
Retail – unsecured	**70 637**	**11.96**	66 104	12.49
Card	**24 652**	**8.90**	22 512	9.43
Personal loans	**30 618**	**16.06**	29 032	16.60
– FNB	**16 328**	**13.89**	16 569	14.68
– WesBank	**14 290**	**18.54**	12 463	19.15
Retail other	**15 367**	**8.69**	14 560	9.00
Corporate and commercial	**300 923**	**2.26**	279 486	2.26
FNB commercial	**83 722**	**3.53**	78 394	3.41
– Mortgages	**20 293**	**2.43**	18 726	2.30
– Overdrafts	**31 144**	**4.55**	28 886	4.31
– Term loans	**32 285**	**3.24**	30 782	3.23
WesBank corporate	**32 203**	**2.38**	31 522	2.53
RMB investment banking*	**143 086**	**1.69**	136 550	1.65
RMB corporate banking	**41 912**	**1.58**	33 020	1.75
FNB Africa	**44 407**	**3.12**	42 573	3.69
Total advances	**773 941**	**3.54**	728 748	3.53

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

The group operates a transfer pricing framework as explained on page 85, which incorporates liquidity cost and regulatory costs into product pricing.

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

NET INTEREST INCOME (BEFORE IMPAIRMENT OF ADVANCES) continued

Note 2 – Margin analysis on deposits due to customers

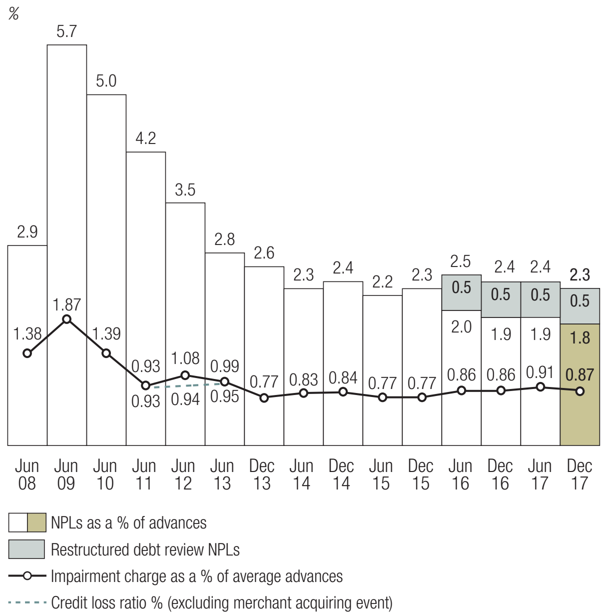
	December 2017		December 2016*	
R million	Average balance	Average margin %	Average balance	Average margin %
Average prime rate (RSA)		**10.28**		10.50
DEPOSITS				
Retail	**188 944**	**2.60**	166 853	2.96
Current and savings	**55 548**	**6.54**	53 436	6.76
Call	**59 181**	**1.11**	44 089	1.39
Term	**74 215**	**0.85**	69 328	1.03
Commercial	**200 677**	**2.76**	175 415	2.94
Current and savings	**74 004**	**5.79**	65 088	6.09
Call	**70 429**	**1.43**	66 524	1.47
Term	**56 244**	**0.44**	43 803	0.47
Corporate and investment banking	**149 129**	**1.16**	147 788	1.03
Current and savings	**67 910**	**1.31**	65 128	1.33
Call	**59 215**	**1.04**	57 208	0.94
Term	**22 004**	**1.03**	25 452	0.44
FNB Africa	**38 358**	**4.35**	36 287	4.51
Total deposits	**577 108**	**2.40**	526 343	2.52

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

* *Comparatives have been restated due to refinements in methodology and product allocation.*

CREDIT HIGHLIGHTS

NPLs and impairment history



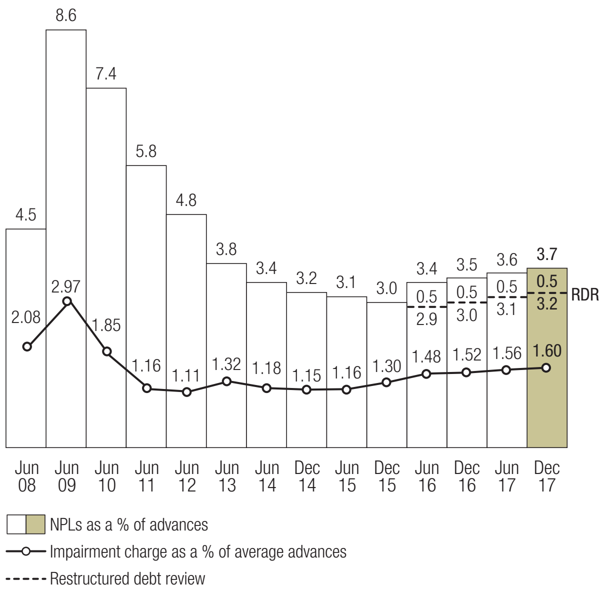
Credit highlights at a glance

R million	For the six months ended 31 December 2017	2016	% change	Year ended 30 June 2017
Total gross advances	**945 008**	880 742	7	910 066
NPLs	**21 982**	20 851	5	21 905
NPLs as a % of advances	**2.33**	2.37		2.41
Impairment charge	**4 052**	3 741	8	8 054
Credit loss ratio (%)	**0.87**	0.86		0.91
Total impairments	**17 276**	16 571	4	16 960
– Portfolio impairments	**9 011**	8 589	5	8 471
– Specific impairments	**8 265**	7 982	4	8 489
Specific coverage ratio (%)*	**37.6**	38.3		38.8
Total impairment coverage ratio (%)**	**78.6**	79.5		77.4
Performing book coverage ratio (%)#	**0.98**	1.00		0.95

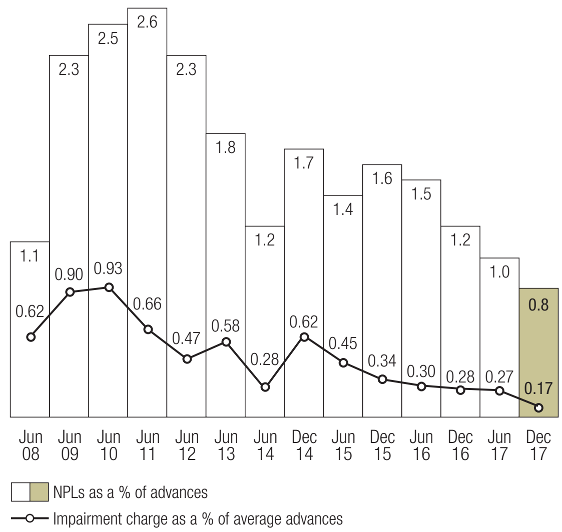
* *Specific impairments as a percentage of NPLs.*
** *Total impairments as a percentage of NPLs.*
# *Portfolio impairments as a percentage of the performing book.*

CREDIT HIGHLIGHTS continued

Retail NPLs and impairments



Corporate and commercial NPLs and impairments



Credit impairments increased 8%, with the credit loss ratio rising marginally to 87 bps from 86 bps at December 2016, although significantly down compared to June 2017 (91 bps), reflecting the benefit of the conservative origination and provisioning policies adopted over the last two financial years across the portfolio.

Retail credit impairments reflected a deterioration period-on-period to 160 bps (December 2016: 152 bps), although showing a marginal improvement from 163 bps in June.

Commercial impairments reflected a marginal deterioration to 77 bps, in line with through-the-cycle expectations.

The RMB IB portfolio reflected a zero charge, benefiting from pro-active provisioning in prior periods.

Portfolio impairments increased 5%, reflecting continued conservative provisioning in response to book growth and the constrained macroeconomic environment in South Africa, as well as an increase in emergence periods in certain retail portfolios. Proactive provisioning by RMB in previous periods 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 18 months, and the utilisation of existing provisions for the sovereign downgrade, resulted in a significant reduction of impairments raised in the current period.

The total impairment coverage ratio reduced marginally from 79.5% to 78.6% (June 2017: 77.4%), reflecting the impact of paying debt-review customers, a mix change in retail NPLs, the work-out and write-off of certain large corporate exposures and a partial central overlay release.

NPLs increased 5% from December 2016, but were flat (+0.4%) when compared to June 2017.

Retail NPLs increased 13%, primarily driven by an increase in VAF and unsecured lending. This was offset by a 30% reduction in corporate and commercial NPLs.

KEY DRIVERS

- Retail NPLs as a percentage of advances increased to 3.68% (December 2016: 3.45%, June 2017: 3.59%), driven primarily by the increase in restructured debt-review accounts which the group reflects in NPLs and are not re-aged:
  – Residential mortgage NPLs increased 2% period-on-period, primarily 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 futher impacted by growth in debt-review NPLs.
  – NPLs increased 4% in FNB loans and 22% in card. The low growth in FNB loans reflects the benefit of a more conservative credit appetite, especially in the consumer segment over the last 12 – 18 months, and 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 40% and 46%, respectively, of the FNB loans and card NPL portfolios.
  – Retail SA VAF NPLs increased 18%. The increase reflects:
    - an increase in the proportion 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 29%. The increase was due to:
    - higher debt-review accounts; and
    - a change in write-off policy.
  – The total retail SA VAF charge of 1.80% (December 2016:1.42%, June 2017 1.54%) was impacted by the growth in NPLs and increased conservatism in portfolio provisions. The reduction in the WesBank loans impairment ratio reflects the positive impact of risk cuts in prior years and continued focus on lower risk business.
  – NPLs in MotoNovo VAF increased 36% (GBP +38%). The growth was largely expected, given the historic book growth and the impact of business written before the risk cuts in the prior year.
- RMB CIB NPLs decreased 60% since December 2016 specifically due to the work-out and write-off of certain real estate and large resource-related exposures in the RMB investment banking advances book which were originated in previous reporting periods.
- FNB commercial NPLs remained flat, with an expected increase in agric offset by decreases in other portfolios.
- The rest of Africa portfolio encountered ongoing headwinds, such as high inflation, high interest rates, currency devaluation, scarce liquidity, drought conditions, regulatory intervention and modest economic growth. This resulted in a 37% increase in NPLs, with the most significant increases emanating from Namibia, Zambia and Tanzania.
- Post write-off recoveries remained robust at R1 087 million (December 2016: R1 067 million, June 2017: R2 119 million) driven by card, the personal loans portfolios and retail SA VAF.

CREDIT HIGHLIGHTS continued

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
December 2017						
Residential mortgages	**4 086**	**449**	**4 535**	**2**	**–**	**10**
Card	**535**	**458**	**993**	**22**	**(13)**	**46**
FNB personal loans	**760**	**514**	**1 274**	**4**	**(14)**	**40**
Retail other	**619**	**177**	**796**	**11**	**16**	**22**
FNB retail NPLs	**6 000**	**1 598**	**7 598**	**5**	**(2)**	**21**
WesBank personal loans	**542**	**1 053**	**1 595**	**29**	**50**	**66**
SA VAF	**3 634**	**2 470**	**6 104**	**18**	**17**	**40**
WesBank retail NPLs	**4 176**	**3 523**	**7 699**	**20**	**20**	**46**
Total NPLs	**16 861**	**5 121**	**21 982**	**5**	**–**	**23**
December 2016						
Residential mortgages	4 098	364	4 462	4	(4)	8
Card	618	196	814	53	16	24
FNB personal loans	882	344	1 226	77	28	28
Retail other	533	186	719	31	(3)	26
FNB retail NPLs	6 131	1 090	7 221	20	1	15
WesBank personal loans	362	876	1 238	22	3	71
SA VAF	3 117	2 041	5 158	19	12	40
WesBank retail NPLs	3 479	2 917	6 396	19	11	46
Total NPLs	16 844	4 007	20 851	21	(5)	19
June 2017						
Residential mortgages	4 090	470	4 560	(2)	(5)	10
Card	689	237	926	22	23	26
FNB 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	3 420	2 377	5 797	19	11	41
WesBank retail NPLs	3 767	3 375	7 142	19	9	47
Total NPLs	17 213	4 692	21 905	3	(3)	21

* *Operational NPLs includes 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.*

Coverage ratio (%)	Restructured debt-review coverage			Non-debt review coverage			Total NPL coverage				
	Dec 2017	June 2017	Dec 2016	**Dec 2017**	June 2017	Dec 2016	**Dec 2017**	June 2017	Dec 2016	Change	
FNB credit card	**52.5**	45.1	42.2	**78.6**	74.2	75.7	**66.9**	67.0	67.6	(0.7)	↓
FNB retail other	**36.2**	37.9	43.4	**80.4**	75.5	79.8	**70.0**	67.0	71.6	(1.6)	↓
FNB loans	**48.5**	48.2	71.5	**68.5**	69.2	70.1	**60.4**	61.9	70.5	(10.1)	↓
WesBank loans	**18.0**	26.3	26.7	**72.8**	71.9	70.0	**36.6**	38.1	39.4	(2.8)	↓
SA VAF	**9.5**	9.4	10.5	**42.9**	43.1	40.3	**29.4**	29.3	28.5	0.9	↑

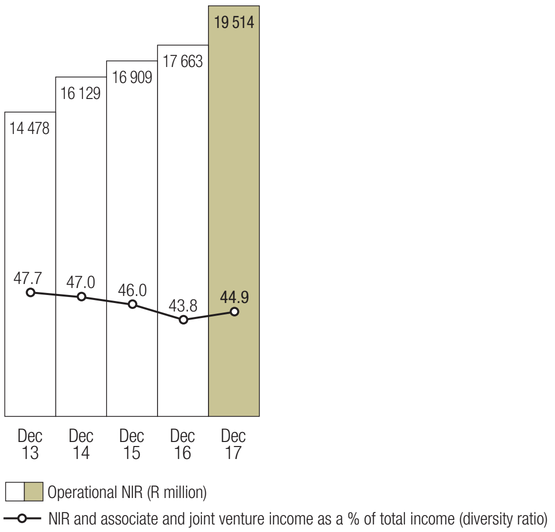
NON-INTEREST REVENUE

NON-INTEREST REVENUE – UP 10%

Operational non-interest revenue up 10%

Operational non-interest revenue and diversity ratio

Operational NIR CAGR 8%



Analysis of operational non-interest revenue

R million	Notes	Six months ended 31 December 2017	Six months ended 31 December 2016	% change	Year ended 30 June 2017
Fee, commission and insurance income		**15 898**	14 618	9	29 565
Fee and commission income	1	**13 956**	12 808	9	25 598
Insurance income	2	**1 942**	1 810	7	3 967
Markets, client and other fair value income	3	**2 066**	1 664	24	4 255
Investment income	4	**344**	89	>100	2 178
Other non-interest revenue	5	**1 206**	1 292	(7)	2 229
– Consolidated private equity income		**8**	93	(91)	6
– Other		**1 198**	1 199	–	2 223
Operational non-interest revenue		**19 514**	17 663	10	38 227

A strong NIR performance was underpinned by solid fee and commission income growth, benefiting from robust electronic transaction volume growth combined with a pleasing increase in customer numbers. Fee, commission and insurance income represents 81% (December 2016: 83%) of operational NIR.

The long-term downward trend in the diversity ratio, despite ongoing NIR growth over the past five years, results from strong deposit growth, the positive cumulative endowment impact and specific credit origination strategies (including change in mix in retail advances and repricing strategies). NIR growth has further been negatively impacted by the ongoing success of the e-migration strategy and regulatory pressures. The current period benefited from stronger NIR growth, driven by fee and commission income, and a slowdown in NII growth.

Note 1 – Fee and commission income – up 9%

R million	Six months ended 31 December 2017	2016	% change	Year ended 30 June 2017
Bank fee and commissions income	**14 417**	12 972	11	25 857
– Card commissions	**2 268**	1 959	16	3 886
– Cash deposit fees	**975**	981	(1)	1 860
– Commissions on bills, drafts and cheques	**1 240**	1 136	9	2 328
– Bank charges	**9 934**	8 896	12	17 783
Commitment fees	**776**	688	13	1 436
Other bank charges*	**9 158**	8 208	12	16 347
Knowledge-based fees	**578**	734	(21)	1 482
Management and fiduciary fees	**1 024**	943	9	1 945
Other non-bank commissions	**465**	413	13	912
Gross fee and commission income	**16 484**	15 062	9	30 196
Fee and commission expenditure	**(2 528)**	(2 254)	12	(4 598)
Total fee and commission income	**13 956**	12 808	9	25 598

* *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 reflected strong NIR growth of 11%, with growth in South Africa of 11%, driven by a continued increase in the domestic main-banked active client base and ongoing increased cross-sell and up-sell into the client base.
- Transaction volume growth remained robust at 10%. Electronic volumes increased 11%, whilst manual volumes only grew 4%, with branch transaction volumes decreasing 17% and cash centre transaction volume down 10%.

	Increase in transaction volumes %
ADT/ATM deposits	**5**
Internet banking	**(1)**
Banking app	**66**
Mobile (excluding prepaid)	**3**
Point-of-sale	**13**

- Whilst knowledge-based fees decreased, the underlying performance remained resilient, underpinned by key advisory and capital markets mandates. Origination and structuring fees were dampened by muted deal volumes driven by lower corporate activity in the period to December 2017.
- The group's management and fiduciary fee income growth of 9% benefited from an increase of 7% in AUM period-on-period, as well as a strong market performance driving the ALSI during the six months to December 2017.

NON-INTEREST REVENUE continued

Note 2 – Insurance income – up 7%

	Six months ended 31 December			Year ended 30 June
R million	**2017**	2016	% change	2017
Commissions, brokerage and cell captives	**1 118**	1 298	(14)	2 562
Insurance risk-related income	**824**	512	61	1 405
– Insurance premiums received	**1 428**	794	80	2 179
– Reinsurance expenses	**(78)**	(65)	20	(73)
– Insurance benefits and claims paid	**(395)**	(197)	>100	(598)
– Reinsurance recoveries	**5**	1	>100	5
– Transfers to policyholder liabilities	**(136)**	(21)	>100	(108)
Total insurance income	**1 942**	1 810	7	3 967

KEY DRIVERS

- Insurance revenue growth of 7% reflects strong volume growth of 11% and 9% in funeral and credit life policies in FNB.
- The structure of the insurance income reflected above changed from predominantly cell captive-related income to on-balance sheet risk underwriting income with the acquisition of the MMI insurance book in the comparative period, as well as growth in new policies written on the FirstRand Life balance sheet.
- WesBank's insurance income grew 4%, reflecting the impact of more modest new business unit volumes in the SA VAF business.

Note 3 – Markets, client and other fair value income – up 24%

	Six months ended 31 December			Year ended 30 June
R million	**2017**	2016	% change	2017
Client	**1 185**	1 051	13	2 427
Markets	**760**	609	25	1 539
Other	**121**	4	>100	289
Total markets, client and other fair value income	**2 066**	1 664	24	4 255

KEY DRIVERS

- Client revenues remained resilient, benefiting from good client flow and a satisfactory structuring performance.
- Flow trading and residual risk activities delivered a balanced performance, reflecting heightened levels of volatility in the foreign exchange and fixed income markets. This was partially offset by a softer performance in the hard commodities and credit trading portfolios.
- The increase in other fair value income is due to positive mark-to-market movements on economic foreign exchange hedges. This was partially offset by a loss on the total return swap (TRS), which in spite of the upward move in the group's share price, reduced due to a lower number of shares hedged through the TRS and further impacted by the difference in the grant and vesting values of the various schemes.

Note 4 – Investment income – up >100%

R million	Six months ended 31 December 2017	2016	% change	Year ended 30 June 2017
Private equity realisations and dividends received	**177**	60	>100	1 986
– Profit on realisation of private equity investments	**147**	53	>100	1 973
– Dividends received	**1**	–	–	1
– Other private equity income	**29**	7	>100	12
Other investment income	**167**	29	>100	192
– Profit on assets held against employee liabilities	**140**	(47)	(>100)	20
– Other investment income*	**27**	76	(64)	172
Total investment income	**344**	89	>100	2 178

* *RMB Resources was disclosed separately in the prior period and is included in other investment income in the current period.*

KEY DRIVERS

- Private equity realisation income of c.R200 million includes R50 million included in equity-accounted income. In line with the group's guidance, the 2017 financial year represented the last year of a significant three-year "harvesting cycle" and the portfolios have now entered an investment phase. The unrealised profit in the portfolio was c.R3.4 billion at 31 December 2017 (31 December 2016: R4.4 billion; 30 June 2017: R3.7 billion).
- The group's ELI asset portfolio's performance was significantly improved, positively impacted by an increase of 17% in the ALSI period-on-period (December 2016: 3% decrease) and the change in mix in the underlying asset allocation in the prior period.

Note 5 – Other non-interest revenue – down 7%

KEY DRIVERS

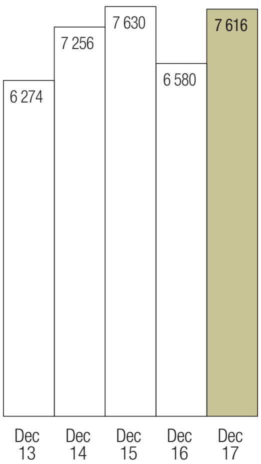
- Consolidated private equity income is down period-on-period, reflecting the impact of significant disposals in previous financial years.
- The most significant other non-interest income items relate to various rental income streams. Rental income in WesBank and FNB showed strong growth, with WesBank in particular showing strong growth in its full maintenance leasing (FML) book.

NON-INTEREST REVENUE continued

Share of profits from associates and joint ventures – up 4%

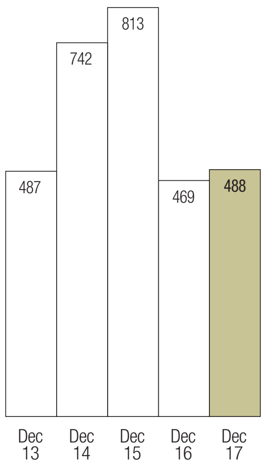
Investment in associates and joint ventures

R million



Share of profits from associates and joint ventures

R million



Share of profits from associates and joint ventures

	Six months ended 31 December			Year ended 30 June
R million	2017	2016	% change	2017
Private equity associates and joint ventures	**328**	307	7	742
– Equity-accounted income	**333**	314	6	741
– (Impairments)/reversals of impairments	**(5)**	(7)	(29)	1
WesBank associates	**211**	214	(1)	439
– Toyota Financial Services (Pty) Ltd	**113**	117	(3)	233
– Volkswagen Financial Services	**27**	42	(36)	98
– Other	**71**	55	29	108
Other operational associates and joint ventures	**134**	124	8	293
– RMB Morgan Stanley (Pty) Ltd	**81**	101	(20)	201
– Other	**53**	23	>100	92
Share of profits from associates and joint ventures before tax	**673**	645	4	1 474
Tax on profits from associates and joint ventures	**(185)**	(176)	5	(433)
Share of profits from associates and joint ventures after tax	**488**	469	4	1 041

KEY DRIVERS

- The modest growth in equity-accounted income from the RMB private equity portfolio includes the positive impact of c. R50 million of realisation income. The operational equity-accounted income reflects the impact of the significant disposals over the last three financial years as well as the negative impact the challenging macro environment had on the underlying performance of investee companies.
- WesBank's associates performance reflects the negative impact of growing NPLs and continued impairments with increased conservatism in provisioning levels, in spite of an increase in average book size and resilient margins.
- RMB Morgan Stanley's performance was adversely affected by lower client activity, with the prior period buoyed by higher market volumes.

Total income from private equity activities (Private Equity division and other private equity-related activities)

RMB earns private equity-related income primarily from its Private Equity division, however, other divisions in RMB also engage in or hold private equity-related investments (as defined in *Circular 02/2015 Headline Earnings*), which are not reported as part of the division's results. The underlying nature of the various private equity-related income streams are reflected below.

	Six months ended 31 December			Year ended 30 June
R million	2017	2016	% change	2017
RMB Private Equity division	**513**	460	12	2 734
Income from associates and joint ventures	**328**	307	7	742
– Equity-accounted income*	**333**	314	6	741
– (Impairments)/reversals of impairments*	**(5)**	(7)	(29)	1
Realisations and dividends**	**148**	53	>100	1 974
Other private equity income**	**29**	7	>100	12
Consolidated private equity income#	**8**	93	(91)	6
Other business units	**49**	(17)	(>100)	45
Income from associates and joint ventures and other investments	**40**	62	(35)	124
– Equity-accounted income*	**62**	43	44	80
– Impairments*	**(19)**	(2)	>100	(2)
– Other investment income**	**(3)**	21	(>100)	46
Consolidated other income†	**9**	(79)	(>100)	(79)
Private equity activities before tax	**562**	443	27	2 779
Tax on equity-accounted private equity investments	**(102)**	(86)	19	(239)
Private equity activities after tax	**460**	357	29	2 540

* *Refer to analysis of income from associates and joint ventures on page 54.*
** *Refer to investment income analysis on page 53.*
# *Refer to non-interest revenue analysis on page 50.*
† *Included in NII, credit impairment charge and other NIR depending on the underlying nature of the item. In the prior period, the underlying assets in a subsidiary were impaired.*

KEY DRIVERS

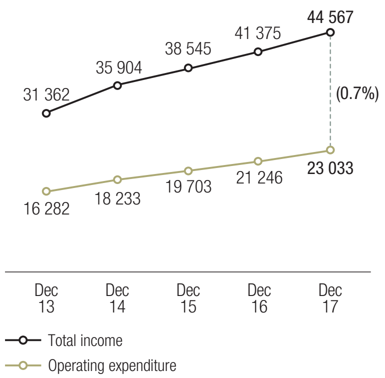
- Positive impact from higher levels of realisation income than the comparative period.
- The constrained macro environment and harvesting cycle of the last three financial years dampened equity-accounted annuity income growth from private equity activities.
- Consolidated private equity income is down period-on-period resulting from significant disposals in the previous financial years.

OPERATING EXPENSES

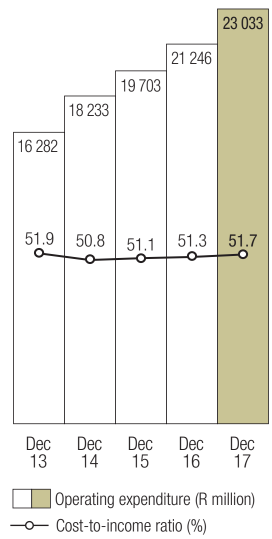
OPERATING EXPENSES – UP 8%

Operating jaws

R million



Operating efficiency



Operating expenses

	Six months ended 31 December			Year ended 30 June
R million	**2017**	2016	% change	2017
Staff expenditure	**13 487**	12 313	10	25 847
– Direct staff expenditure	**9 226**	8 665	6	17 227
– Other staff-related expenditure	**4 261**	3 648	17	8 620
Depreciation of property and equipment	**1 360**	1 313	4	2 690
Amortisation of intangible assets	**103**	77	34	247
Advertising and marketing	**918**	916	–	1 660
Insurance	**76**	76	–	127
Lease charges	**819**	832	(2)	1 645
Professional fees	**945**	909	4	1 889
Audit fees	**164**	151	9	309
Computer expenses	**1 143**	1 119	2	2 181
Repairs and maintenance	**567**	609	(7)	1 290
Telecommunications	**253**	205	23	422
Cooperation agreements and joint ventures	**349**	291	20	655
Property	**507**	486	4	988
Business travel	**218**	217	–	396
Assets costing less than R7 000	**161**	129	25	251
Stationery and printing	**125**	123	2	236
Donations	**243**	221	10	228
Other expenditure	**1 595**	1 259	27	2 712
Total operating expenses	**23 033**	21 246	8	43 773

IT spend

The group's income statement is presented on a nature basis, however, to better illustrate the composition of IT spend, the table below reflects the breakdown on a functional basis.

Functional presentation of IT spend

	Six months ended 31 December			Year ended 30 June
R million	**2017**	2016*	% change	2017
IT-related staff cost	**1 828**	1 812	1	2 890
Non-staff IT-related costs	**2 361**	2 213	7	4 572
– Computer expenses	**1 143**	1 119	2	2 181
– Professional fees	**378**	344	10	785
– Repairs and maintenance	**153**	156	(2)	316
– Depreciation	**414**	418	(1)	844
– Amortisation and software	**92**	74	24	193
– Other	**181**	102	77	253
Total spend	**4 189**	4 025	4	7 462

* *Numbers within the functional categories have been restated due to refinement of the process.*

OPERATING EXPENSES continued

KEY DRIVERS

- Cost growth of 8% reflects the group's ongoing cost management efforts, in spite of continuing investment spend on new initiatives and platforms.
- Staff costs, which comprise 59% of the group's total operating expenses, increased 10%.

	% change	REASONS
Direct staff costs	6	Impacted by unionised increases at an average of 7.8% in August 2017, partly offset by a 1% decrease in staff complement across the group. Local operations decreased headcount 2% with an increase in the rest of Africa and MotoNovo (2%).
Other staff-related expenditure	17	The significant increase in variable costs reflects the strong growth in earnings and NIACC (in particular from FNB and RMB) in the current period compared to the more subdued levels in the previous period. Normalised share-based payment expenses increased marginally, given the increase in the group's share price, resulting in higher grant values.

- The 4% increase in depreciation was driven by strong growth in WesBank's FML book, continuing investment in infrastructure (e.g. ATMs/ADTs), ongoing investment in electronic platforms and the commissioning of new premises over the three previous financial years.
- The 34% increase in amortisation of intangibles is due to software capitalisation in FNB and RMB, recognition of other intangible assets related to the acquired MMI book and other acquisitions.
- The decline in lease charges reflects the acquisition of office buildings previously leased, which resulted in an increase in depreciation and property expenses.
- Professional fees and computer expenses growth slowed to 4% and 2%, respectively, from 5% and 19% in the comparative period, despite continued spend on projects related to various electronic platforms and infrastructure upgrades, both domestically and in the rest of Africa. The slowdown in cost growth reflects the maturing of certain projects resulting in an increase in the component of costs being capitalised as the projects enter the implementation and "go live" phase.
- Repairs and maintenance decreased 7% due to base adjustments in the FML book in the prior period, which have now stabilised.
- The 23% 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 20%, driven by a strong performance by the Discovery card book and improved performance in the underlying alliances within the WesBank portfolio.

balance sheet analysis and financial resource management

60 – 98

ECONOMIC VIEW OF THE BALANCE SHEET

The structure of the balance sheet reflects the group'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 group's asset profile is dominated by a balanced advances portfolio, which constitutes 77% of total assets. The composition of the net advances portfolio consists of retail secured (36%), retail unsecured (9%), corporate and commercial (43%), and rest of Africa and other (12%) with 96% of advances rated B or better. At 31 December 2017, total NPLs amounted to R21 982 million (2.33% as a percentage of advances) with a credit loss ratio of 0.87%.

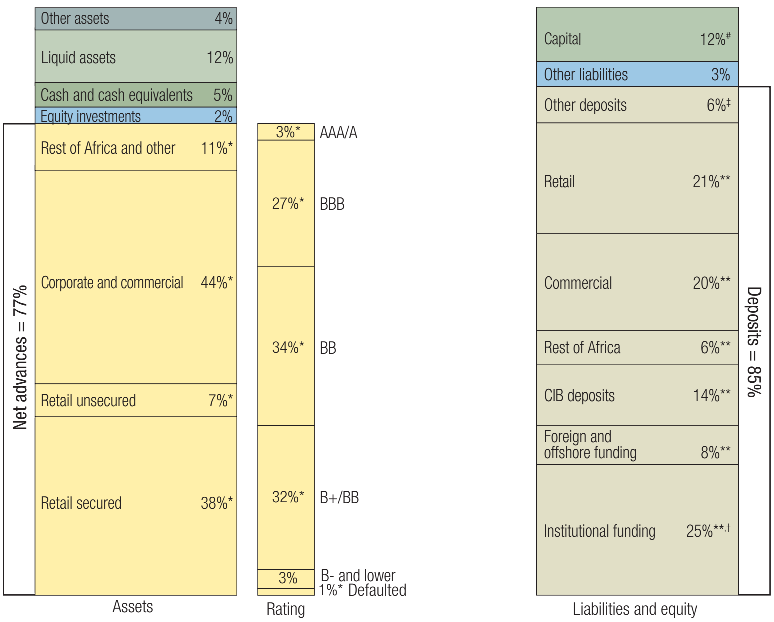
Cash and cash equivalents, and liquid assets represent 5% and 12%, respectively, of total assets. Only a small portion of assets relate to the investment and markets businesses. Market risk arising from trading activities has remained low and the group's equity investments relate primarily to RMB's private equity-related activities.

FirstRand's funding profile continues to reflect the structural funding issues associated with the South African banking sector, however, the group has continued to improve its risk-adjusted funding profile whilst targeting a lower proportion of institutional funding relative to peers. The weighted average remaining term of the group's institutional funding was 34 months at 31 December 2017 (December 2016: 32 months).

The group's capital ratios remained strong with a CET1 ratio of 14.0%, Tier 1 ratio of 14.6% and total capital adequacy ratio of 16.9%. Gearing decreased slightly to 11.3 times (December 2016: 11.5 times).

Economic view of the balance sheet

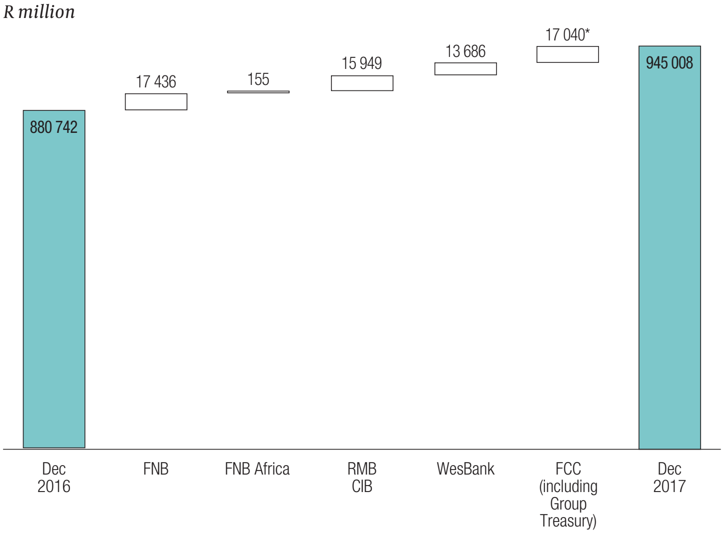
%



* *As a proportion of loans and advances.*
** *As a proportion of deposits.*
\# *Ordinary equity and non-controlling interests (10%) and NCNR preference shares and Tier 2 liabilities (2%).*
† *Includes CIB institutional funding and institutional funding on foreign branch platforms.*
‡ *Consist of liabilities relating to conduits and securitisations.*
Note: Non-recourse assets have been netted off against deposits.
Derivative-, securities lending- and short trading position assets and liabilities have been netted off.

ADVANCES – UP 7%

Gross advances growth by franchise



* *Includes HQLA advances managed by the Group Treasurer.*

Advances

	As at 31 December			As at 30 June
R million	**2017**	2016	% change	2017
Gross advances	**945 008**	880 742	7	910 066
Impairment of advances	**(17 276)**	(16 571)	4	(16 960)
Net advances	**927 732**	864 171	7	893 106

Advances increased 7%, marginally above nominal inflation, and a modest increase on the 5% growth recorded for the financial year ended 30 June 2017.

Growth rates remained modest across most of the retail portfolios, which reflects the ongoing impact of the difficult macroeconomic environment leading to disciplined resource allocation and the strengthening of the rand against the US dollar and British pound period-on-period. On a constant-currency basis, the group achieved 8% advances growth.

The economic environment, high funding costs and disciplined pricing of financial resources continue to place pressure on the corporate portfolio, specifically in the investment grade segment in South Africa. Despite this, the portfolio produced solid balance sheet growth.

ADVANCES

PORTFOLIO/PRODUCT	% CHANGE	KEY DRIVERS
FNB retail	**4**	
Residential mortgages	4	• 3% growth in FNB HomeLoans, reflecting a slowdown in nominal house price inflation and lower demand. • Satisfactory growth of 12% in secured affordable housing on the back of client demand.
Card	11	• Underpinned by targeted client acquisition, ongoing client migration as well as increased limits and utilisation in the premium segment. Growth in the consumer segment was marginally negative given reduced risk appetite.
Personal loans	1	• Low growth reflects a more conservative origination appetite specifically in the consumer segment where the book contracted. The premium segment showed strong growth of 17%.
Retail other	5	• Growth driven by increases in transactional banking accounts (primarily overdrafts), although moderating from the prior period, due to lower risk appetite.
FNB Africa	**–**	
Namibia	11	• Primarily driven by growth of 7% in residential mortgages and >15% in card, overdrafts and term loans.
Botswana	8	• Modest growth of 2% from residential mortgages but strong growth of >15% from most unsecured lending products. Overall growth in pula terms was 7%.
FNB commercial	**8**	• Reflecting targeted new client acquisition in the business segment, resulting in growth of 11% in agric and 10% in commercial property finance.
RMB CIB core	**11**	• Growth from the SA core advances book was solid despite the constrained macroeconomic environment and competitive pressures. Cross-border growth was up 8% in constant currency terms, reflecting drawdowns of pre-existing facilities and targeted new credit extension. In rand terms, the cross-border book decreased 3% period-on-period.
WesBank	**7**	• Production in overall retail VAF has grown 10% period-on-period, whilst advances have grown 5%, impacted by the run-off of business now written on associates' balance sheets. • New business volumes in MotoNovo remained resilient with the book growing 15% in GBP terms (14% in rand), driven by increased volumes, new products and increased footprint. On a rolling six-month basis, growth rates have moderated to 5% in GBP terms, reflecting tightening of credit criteria in higher risk origination buckets. • Loans reflected good growth of 15%, benefiting from increased growth in lower risk segments of the market, offset by cuts in higher risk buckets and impacted by the introduction of NCAA rate caps.

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.

		Six months ended 31 December			Year ended 30 June
R million	Notes	2017	2016	% change	2017
Total gross advances	1	**945 008**	880 742	7	910 066
NPLs	2	**21 982**	20 851	5	21 905
NPLs as a % of advances	2	**2.33**	2.37		2.41
Impairment charge	3	**4 052**	3 741	8	8 054
Credit loss ratio (%)	3	**0.87**	0.86		0.91
Total impairments	4	**17 276**	16 571	4	16 960
– Portfolio impairments		**9 011**	8 589	5	8 471
– Specific impairments		**8 265**	7 982	4	8 489
Specific coverage ratio (%)*	4	**37.6**	38.3		38.8
Total impairment coverage ratio (%)**	4	**78.6**	79.5		77.4
Performing book coverage ratio (%)#		**0.98**	1.00		0.95

* *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.

CREDIT continued

NOTE 1: ANALYSIS OF ADVANCES

Segmental analysis of advances

	Advances				
	As at 31 December			% composition	As at 30 June
R million	2017	2016	% change	2017	2017
Retail	**426 301**	402 628	6	**45**	417 686
Retail – secured	**356 270**	338 876	5	**36**	350 582
Residential mortgages	**198 704**	191 437	4	**20**	195 498
VAF	**157 566**	147 439	7	**16**	155 084
– SA	**103 789**	99 323	4	**10**	102 322
– MotoNovo*	**53 777**	48 116	12	**6**	52 762
Retail – unsecured	**70 031**	63 752	10	**9**	67 104
Card	**25 063**	22 495	11	**3**	23 800
Personal loans	**29 867**	26 899	11	**4**	28 441
– FNB	**14 562**	14 431	1	**2**	14 372
– WesBank	**14 369**	12 468	15	**2**	13 574
– MotoNovo	**936**	–	–	**–**	495
Retail other	**15 101**	14 358	5	**2**	14 863
Corporate and commercial	**418 116**	397 533	5	**43**	410 564
FNB commercial	**87 900**	81 173	8	**9**	84 146
WesBank corporate	**29 768**	28 525	4	**3**	31 365
RMB investment banking**,†	**234 936**	230 315	2	**24**	236 964
RMB corporate banking†	**48 532**	38 658	26	**5**	39 545
HQLA corporate advances#	**16 980**	18 862	(10)	**2**	18 544
Rest of Africa	**58 866**	57 778	2	**7**	59 294
FNB	**43 738**	43 583	–	**5**	44 890
WesBank	**7 784**	8 305	(6)	**1**	7 952
RMB (corporate and investment banking)†	**7 344**	5 890	25	**1**	6 452
FCC (including Group Treasury)	**41 725**	22 803	83	**5**	22 522
Securitisation notes	**24 238**	17 812	36	**3**	19 223
Other‡	**17 487**	4 991	>100	**2**	3 299
Total advances	**945 008**	880 742	7	**100**	910 066
Of which:					
Accrual book	**733 093**	633 021	16	**78**	676 976
Fair value book^	**211 915**	247 721	(14)	**22**	233 090

* *MotoNovo VAF book GBP3.24 billion (+14%) (December 2016: GBP2.85 billion; June 2017: GBP3.11 billion).*
** *Includes activities in India and represents the in-country balance sheet.*
# *Managed by the Group Treasurer.*
† *Corporate and investment banking advances total R290.81 billion (December 2016: R274.86 billion; June 2017: R282.96 billion).*
‡ *Include R12.5 billion fully collateralised reverse repo advances.*
^ *Includes advances classified as available-for-sale.*

Assets under agreement to resell included in the RMB corporate and investment banking loan books.

	Advances				
	As at 31 December			% composition	As at 30 June
R million	**2017**	2016	% change	**2017**	2017
Corporate and investment banking advances*	**290 812**	274 863	6	**100**	282 961
Less: assets under agreements to resell	**(19 580)**	(30 246)	(35)	**(7)**	(29 047)
RMB advances net of assets under agreements to resell	**271 232**	244 617	11	**93**	253 914

* *Includes rest of Africa advances.*

Strategy view of CIB advances

	Advances				
	As at 31 December			% composition	As at 30 June
R million	**2017**	2016	% change	**2017**	2017
RMB investment banking	**234 936**	230 315	2	**82**	236 964
Less: assets under agreements to resell	**(19 472)**	(29 248)	(33)	**(7)**	(28 448)
RMB investment banking core advances	**215 464**	201 067	7	**75**	208 516
– South Africa	**193 181**	179 254	8	**67**	185 221
– Cross-border (rest of Africa)	**22 283**	21 813	2	**8**	23 295
RMB corporate banking	**48 532**	38 658	26	**17**	39 545
Less: assets under agreements to resell	**(108)**	(998)	(89)	**–**	(599)
RMB corporate banking core advances	**48 424**	37 660	29	**17**	38 946
– South Africa	**40 226**	28 078	43	**14**	31 830
– Cross-border (rest of Africa)	**8 198**	9 582	(14)	**3**	7 116
HQLA corporate advances	**16 980**	18 862	(10)	**6**	18 544
RMB rest of Africa (in-country)	**7 344**	5 890	25	**2**	6 452
CIB total core advances	**288 212**	263 479	9	**100**	272 458

CIB core advances – South Africa*	**250 387**	226 194	11	**87**	235 595
CIB core advances – rest of Africa**	**37 825**	37 285	1	**13**	36 863
CIB total core advances	**288 212**	263 479	9	**100**	272 458

* *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, RMB CB cross-border advances and RMB rest of Africa in-country advances.*

CREDIT continued

Sector and geographical analysis of advances

	Advances				
	As at 31 December			% composition	As at 30 June
R million	**2017**	2016	% change	**2017**	2017
Gross advances	**947 174**	882 655	7	**100**	912 140
Less: interest in suspense	**(2 166)**	(1 913)	13	**–**	(2 074)
Advances net of interest in suspense	**945 008**	880 742	7	**100**	910 066
Sector analysis					
Agriculture	**32 669**	32 369	1	**3**	33 147
Banks	**19 524**	5 431	>100	**2**	4 960
Financial institutions*	**144 835**	122 292	18	**15**	134 248
Building and property development	**50 348**	53 295	(6)	**5**	48 460
Government, Land Bank and public authorities	**25 000**	24 524	2	**3**	25 096
Individuals	**443 452**	403 197	10	**48**	433 990
Manufacturing and commerce	**113 478**	104 260	9	**12**	105 415
Mining	**11 470**	19 097	(40)	**1**	18 827
Transport and communication	**18 972**	19 221	(1)	**2**	20 541
Other services*	**85 260**	97 056	(12)	**9**	85 382
Total advances	**945 008**	880 742	7	**100**	910 066
Geographic analysis					
South Africa	**773 308**	731 126	6	**82**	752 017
Other Africa	**86 177**	83 942	3	**9**	86 003
UK	**72 670**	52 072	40	**8**	59 041
Other Europe	**5 759**	4 773	21	**1**	5 521
North America	**2 058**	2 413	(15)	**–**	1 455
South America	**–**	16	(100)	**–**	434
Australasia	**471**	1 840	(74)	**–**	1 474
Asia	**4 565**	4 560	–	**–**	4 121
Total advances	**945 008**	880 742	7	**100**	910 066

* *An analysis of other services was undertaken resulting in R17 812 million being reclassified to financial institutions in the prior period.*

NOTE 2: ANALYSIS OF NPLs

The table below provides an analysis of NPLs.

	NPLs					NPLs as a % of advances		
	As at 31 December			% com-position	As at 30 June	As at 31 December		As at 30 June
R million	**2017**	2016	% change	**2017**	2017	**2017**	2016	2017
Retail	**15 706**	13 909	13	**73**	15 007	**3.68**	3.45	3.59
Retail – secured	**11 036**	9 912	11	**51**	10 650	**3.10**	2.92	3.04
Residential mortgages	**4 535**	4 462	2	**21**	4 560	**2.28**	2.33	2.33
VAF	**6 501**	5 450	19	**30**	6 090	**4.13**	3.70	3.93
– SA	**6 104**	5 158	18	**28**	5 797	**5.88**	5.19	5.67
– MotoNovo*	**397**	292	36	**2**	293	**0.74**	0.61	0.56
Retail – unsecured	**4 670**	3 997	17	**22**	4 357	**6.67**	6.27	6.49
Card	**993**	814	22	**5**	926	**3.96**	3.62	3.89
Personal loans	**2 881**	2 464	17	**13**	2 573	**9.65**	9.16	9.05
– FNB	**1 274**	1 226	4	**6**	1 227	**8.75**	8.50	8.54
– WesBank	**1 595**	1 238	29	**7**	1 345	**11.10**	9.93	9.91
– MotoNovo	**12**	–	–	**–**	1	**1.28**	–	0.20
Retail other	**796**	719	11	**4**	858	**5.27**	5.01	5.77
Corporate and commercial	**3 419**	4 861	(30)	**15**	4 279	**0.82**	1.22	1.04
FNB commercial	**2 235**	2 235	–	**10**	2 280	**2.54**	2.75	2.71
WesBank corporate	**240**	267	(10)	**1**	258	**0.81**	0.94	0.82
RMB investment banking**	**909**	2 288	(60)	**4**	1 706	**0.39**	0.99	0.72
RMB corporate banking	**35**	71	(51)	**–**	35	**0.07**	0.18	0.09
HQLA corporate advances#	**–**	–	–	**–**	–	**–**	–	–
Rest of Africa	**2 857**	2 081	37	**12**	2 619	**4.85**	3.60	4.42
FNB	**2 523**	1 900	33	**11**	2 377	**5.77**	4.36	5.30
WesBank	**268**	181	48	**1**	237	**3.44**	2.18	2.98
RMB (corporate and investing banking)	**66**	–	–	**–**	5	**0.90**	–	0.08
FCC (including Group Treasury)	**–**	–	–	**–**	–	**–**	–	–
Securitisation notes	**–**	–	–	**–**	–	**–**	–	–
Other	**–**	–	–	**–**	–	**–**	–	–
Total NPLs	**21 982**	20 851	5	**100**	21 905	**2.33**	2.37	2.41
Of which:								
Accrual book	**21 656**	19 293	12	**99**	21 052	**2.95**	3.05	3.11
Fair value book	**326**	1 558	(79)	**1**	853	**0.15**	0.63	0.37

* *MotoNovo VAF NPLs of GBP24 million (+42%) (December 2016: GBP17 million; June 2017: GBP17 million).*

** *Includes activities in India and represents the in-country balance sheets.*

\# *Managed by the Group Treasurer.*

CREDIT continued

Sector and geographic analysis of NPLs

	NPLs					NPLs as a % of advances		
	As at 31 December			% composition	As at 30 June	As at 31 December		As at 30 June
R million	2017	2016	% change	2017	2017	2017	2016	2017
Sector analysis								
Agriculture	**941**	676	39	**4**	788	**2.88**	2.09	2.38
Banks	**–**	–	–	**–**	3	**–**	–	0.06
Financial institutions	**332**	122	>100	**2**	113	**0.23**	0.10	0.08
Building and property development	**981**	1 518	(35)	**4**	1 396	**1.95**	2.85	2.88
Government, Land Bank and public authorities	**14**	14	–	**–**	28	**0.06**	0.06	0.11
Individuals	**15 964**	13 628	17	**73**	15 171	**3.60**	3.38	3.50
Manufacturing and commerce	**1 864**	1 794	4	**8**	2 416	**1.64**	1.72	2.29
Mining	**137**	987	(86)	**1**	277	**1.19**	5.17	1.47
Transport and communication	**353**	285	24	**2**	310	**1.86**	1.48	1.51
Other services	**1 396**	1 827	(24)	**6**	1 403	**1.64**	1.88	1.64
Total NPLs	**21 982**	20 851	5	**100**	21 905	**2.33**	2.37	2.41
Geographic analysis								
South Africa	**18 566**	17 560	6	**85**	18 690	**2.40**	2.40	2.49
Other Africa	**2 890**	2 715	6	**13**	2 681	**3.35**	3.23	3.12
UK	**409**	292	40	**2**	294	**0.56**	0.56	0.50
Other Europe	**67**	64	5	**–**	103	**1.16**	1.34	1.87
North America	**–**	86	(100)	**–**	88	**–**	3.56	6.05
South America	**–**	–	–	**–**	–	**–**	–	–
Australasia	**–**	1	(100)	**–**	–	**–**	0.05	–
Asia	**50**	133	(62)	**–**	49	**1.10**	2.92	1.19
Total NPLs	**21 982**	20 851	5	**100**	21 905	**2.33**	2.37	2.41

Security and recoverable amounts by portfolio

R million	As at 31 December 2017			As at 31 December 2016			As at 30 June 2017		
	NPLs	Security held and expected recoveries	Specific impairment	NPLs	Security held and expected recoveries	Specific impairment	NPLs	Security held and expected recoveries	Specific impairment
Retail	**15 706**	**10 076**	**5 630**	13 909	8 857	5 052	15 007	9 678	5 329
Retail – secured	**11 036**	**7 992**	**3 044**	9 912	7 277	2 635	10 650	7 788	2 862
Residential mortgages	**4 535**	**3 516**	**1 019**	4 462	3 474	988	4 560	3 567	993
VAF	**6 501**	**4 476**	**2 025**	5 450	3 803	1 647	6 090	4 221	1 869
– SA	**6 104**	**4 310**	**1 794**	5 158	3 686	1 472	5 797	4 099	1 698
– MotoNovo	**397**	**166**	**231**	292	117	175	293	122	171
Retail – unsecured	**4 670**	**2 084**	**2 586**	3 997	1 580	2 417	4 357	1 890	2 467
Card	**993**	**329**	**664**	814	264	550	926	306	620
Personal loans	**2 881**	**1 516**	**1 365**	2 464	1 112	1 352	2 573	1 301	1 272
– FNB	**1 274**	**504**	**770**	1 226	362	864	1 227	468	759
– WesBank	**1 595**	**1 011**	**584**	1 238	750	488	1 345	833	512
– MotoNovo	**12**	**1**	**11**	–	–	–	1	–	1
Retail other	**796**	**239**	**557**	719	204	515	858	283	575
Corporate and commercial	**3 419**	**1 871**	**1 548**	4 861	2 730	2 131	4 279	2 224	2 055
FNB commercial	**2 235**	**1 278**	**957**	2 235	1 213	1 022	2 280	1 224	1 056
WesBank corporate	**240**	**124**	**116**	267	105	162	258	111	147
RMB investment banking	**909**	**448**	**461**	2 288	1 376	912	1 706	868	838
RMB corporate banking*	**35**	**21**	**14**	71	36	35	35	21	14
HQLA corporate advances**	**–**	**–**	**–**	–	–	–	–	–	–
Rest of Africa	**2 857**	**1 770**	**1 087**	2 081	1 282	799	2 619	1 514	1 105
FNB	**2 523**	**1 619**	**904**	1 900	1 211	689	2 377	1 405	972
WesBank	**268**	**112**	**156**	181	71	110	237	109	128
RMB (corporate and investment banking)	**66**	**39**	**27**	–	–	–	5	–	5
FCC (including Group Treasury)	**–**	**–**	**–**	–	–	–	–	–	–
Securitisation notes	**–**	**–**	**–**	–	–	–	–	–	–
Other	**–**	**–**	**–**	–	–	–	–	–	–
Total	**21 982**	**13 717**	**8 265**	20 851	12 869	7 982	21 905	13 416	8 489

* *Includes activities in India and represents the in-country balance sheets.*
** *Managed by the Group Treasurer.*

CREDIT continued

NOTE 3: ANALYSIS OF INCOME STATEMENT CREDIT IMPAIRMENTS

Income statement impairments

	Total impairment charge				As a % of average advances			
	Six months ended 31 December			Year ended 30 June	Six months ended 31 December		Year ended 30 June	Six months ended 30 June
R million	**2017**	2016	% change	2017	**2017**	2016	2017	2017
Retail	**3 370**	3 053	10	6 394	**1.60**	1.52	1.56	1.63
Retail – secured	**1 491**	1 185	26	2 544	**0.84**	0.70	0.74	0.79
Residential mortgages	**144**	132	9	285	**0.15**	0.14	0.15	0.16
VAF	**1 347**	1 053	28	2 259	**1.72**	1.42	1.48	1.59
– SA	**925**	709	30	1 559	**1.80**	1.42	1.54	1.69
– MotoNovo*	**422**	344	23	700	**1.58**	1.40	1.36	1.41
Retail – unsecured	**1 879**	1 868	(1)	3 850	**5.48**	5.91	5.94	6.06
Card	**295**	289	2	699	**2.41**	2.60	3.05	3.54
Personal loans	**949**	1 070	(11)	2 089	**6.51**	8.04	7.63	7.37
– FNB	**400**	565	(29)	1 071	**5.53**	7.83	7.43	7.03
– WesBank	**527**	505	4	1 006	**7.54**	8.30	7.91	7.70
– MotoNovo	**22**	–	–	12	**6.15**	–	4.85	9.70
Retail other	**635**	509	25	1 062	**8.48**	7.09	7.27	7.57
Corporate and commercial	**354**	545	(35)	1 077	**0.17**	0.28	0.27	0.26
FNB commercial	**333**	263	27	531	**0.77**	0.66	0.66	0.65
WesBank corporate	**18**	25	(28)	67	**0.12**	0.17	0.22	0.28
RMB investment banking**	**(3)**	220	(>100)	404	**–**	0.19	0.17	0.16
RMB corporate banking	**6**	37	(84)	75	**0.03**	0.20	0.20	0.19
HQLA corporate advances#	**–**	–	–	–	**–**	–	–	–
Rest of Africa	**441**	393	12	933	**1.49**	1.36	1.60	1.85
FNB	**417**	332	26	788	**1.88**	1.52	1.78	2.06
WesBank	**27**	46	(41)	87	**0.69**	1.11	1.08	1.01
RMB (corporate and investment banking)	**(3)**	15	(>100)	58	**(0.09)**	0.52	0.95	1.39
FCC (including Group Treasury)	**(113)**	(250)	(55)	(350)	**(0.02)**	(0.06)	(0.04)	(0.02)
Securitisation notes	**–**	–	–	–	**–**	–	–	–
Other	**(113)**	(250)	(55)	(350)	**(0.02)**	(0.06)	(0.04)	(0.02)
Total impairment charge	**4 052**	3 741	8	8 054	**0.87**	0.86	0.91	0.96
Of which:								
Portfolio impairment charge	**605**	303	100	422	**0.13**	0.07	0.05	0.03
Specific impairment charge	**3 447**	3 438	–	7 632	**0.74**	0.79	0.86	0.94

* *MotoNovo VAF impairment charge of GBP24 million (+25%) (December 2016: GBP19 million; June 2017: GBP41 million). (Impairment charge as a percentage of average advances in GBP terms – December 2017: 1.51%; December 2016: 1.43% and June 2017: 1.44%).*

** *Includes activities in India and represents the in-country balance sheets.*

\# *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 31 December			As at 30 June	As at 31 December		As at 30 June
R million	2017	2016	% change	2017	2017	2016	2017
Specific impairments							
Retail	**5 630**	5 052	11	5 329	**35.8**	36.3	35.5
Retail – secured	**3 044**	2 635	16	2 862	**27.6**	26.6	26.9
Residential mortgages	**1 019**	988	3	993	**22.5**	22.1	21.8
VAF	**2 025**	1 647	23	1 869	**31.1**	30.2	30.7
– SA*	**1 794**	1 472	22	1 698	**29.4**	28.5	29.3
– MotoNovo	**231**	175	32	171	**58.2**	59.9	58.4
Retail – unsecured	**2 586**	2 417	7	2 467	**55.4**	60.5	56.6
Card	**664**	550	21	620	**66.9**	67.6	67.0
Personal loans	**1 365**	1 352	1	1 272	**47.4**	54.9	49.4
– FNB*	**770**	864	(11)	759	**60.4**	70.5	61.9
– WesBank*	**584**	488	20	512	**36.6**	39.4	38.1
– MotoNovo	**11**	–	–	1	**91.7**	–	100.0
Retail other	**557**	515	8	575	**70.0**	71.6	67.0
Corporate and commercial	**1 548**	2 131	(27)	2 055	**45.3**	43.8	48.0
FNB commercial	**957**	1 022	(6)	1 056	**42.8**	45.7	46.3
WesBank corporate	**116**	162	(28)	147	**48.3**	60.7	57.0
RMB investment banking**	**461**	912	(49)	838	**50.7**	39.9	49.1
RMB corporate banking	**14**	35	(60)	14	**40.0**	49.3	40.0
HQLA corporate advances#	**–**	–	–	–	**–**	–	–
Rest of Africa	**1 087**	799	36	1 105	**38.0**	38.4	42.2
FNB	**904**	689	31	972	**35.8**	36.3	40.9
WesBank	**156**	110	42	128	**58.2**	60.8	54.0
RMB (corporate and investment banking)	**27**	–	–	5	**40.9**	–	100.0
FCC (including Group Treasury)	**–**	–	–	–	**–**	–	–
Securitisation notes	**–**	–	–	–	**–**	–	–
Other	**–**	–	–	–	**–**	–	–
Total specific impairments/implied loss given default†	**8 265**	7 982	4	8 489	**37.6**	38.3	38.8
Portfolio impairments‡	**9 011**	8 589	5	8 471	**41.0**	41.2	38.6
Total impairments/total impairment coverage ratio^	**17 276**	16 571	4	16 960	**78.6**	79.5	77.4

* *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.*

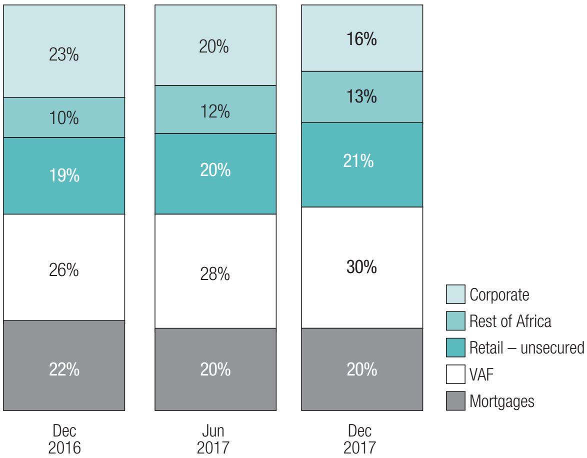
‡ *Portfolio impairments as a percentage of NPLs.*

^ *Total impairments as a percentage of NPLs.*

CREDIT continued

The graph below provides the NPL distribution over the last three financial periods across all portfolios, showing decreases in the proportion of corporate and residential mortgages and an increase in VAF, unsecured lending and rest of Africa 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 31 December		As at 30 June	As at 31 December		As at 30 June	As at 31 December		As at 30 June
R million	**2017**	2016	2017	**2017**	2016	2017	**2017**	2016	2017
Non-performing book	**8 115**	7 435	8 076	**150**	547	413	**8 265**	7 982	8 489
Performing book	**6 913**	6 069	6 209	**2 098**	2 520	2 262	**9 011**	8 589	8 471
Total impairments	**15 028**	13 504	14 285	**2 248**	3 067	2 675	**17 276**	16 571	16 960

The following table provides a reconciliation of balance sheet impairments.

Total balance sheet impairments

	As at 31 December			As at 30 June
R million	**2017**	2016	% change	2017
Opening balance	**16 960**	16 577	2	16 577
Reclassifications and transfers	**39**	–	–	(40)
Exchange rate difference	**(120)**	(155)	(23)	(149)
Unwinding and discounted present value on NPLs	**(69)**	(57)	21	(97)
Bad debts written off	**(4 673)**	(4 602)	2	(9 504)
Net new impairments created	**5 139**	4 808	7	10 173
Closing balance	**17 276**	16 571	4	16 960

Income statement impairments

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

	Six moths ended 31 December			Year ended 30 June
R million	**2017**	2016	% change	2017
Specific impairment charge	**4 533**	4 504	1	9 751
Specific impairment charge – amortised cost	**4 545**	4 448	2	9 621
Credit fair value adjustments – non-performing book	**(12)**	56	(>100)	130
Portfolio impairment charge	**606**	304	99	422
Portfolio impairment charge – amortised cost	**762***	261	>100	408
Credit fair value adjustments – performing book	**(156)***	43	(>100)	14
Total impairments before recoveries	**5 139**	4 808	7	10 173
Recoveries of bad debts written off	**(1 087)**	(1 067)	2	(2 119)
Total impairments	**4 052**	3 741	8	8 054

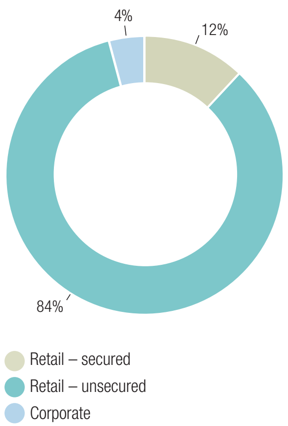
* *In anticipation of the adoption of IFRS 9, a significant portion of new originated investment banking advances in RMB, which would previously have been recognised at fair value, is now recognised as amortised cost advances. This has resulted in a shift between fair value and amortised cost performing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

CREDIT continued

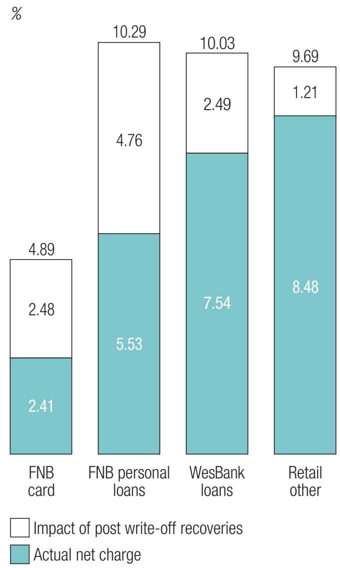
IMPACT OF POST WRITE-OFF RECOVERIES

Post write-off recoveries amounted to R1 087 million (December 2016: R1 067 million; June 2017: R2 119 million), primarily emanating from the unsecured retail lending portfolio, specifically FNB loans, WesBank loans and FNB card.

Post write-off recoveries split



Retail credit loss ratios and recoveries

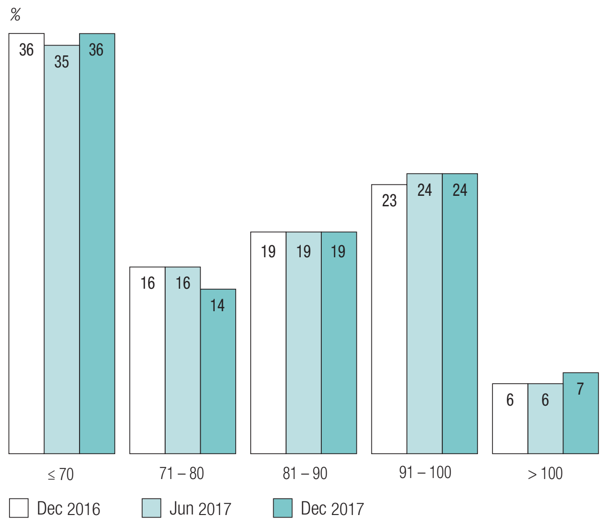


RISK ANALYSES

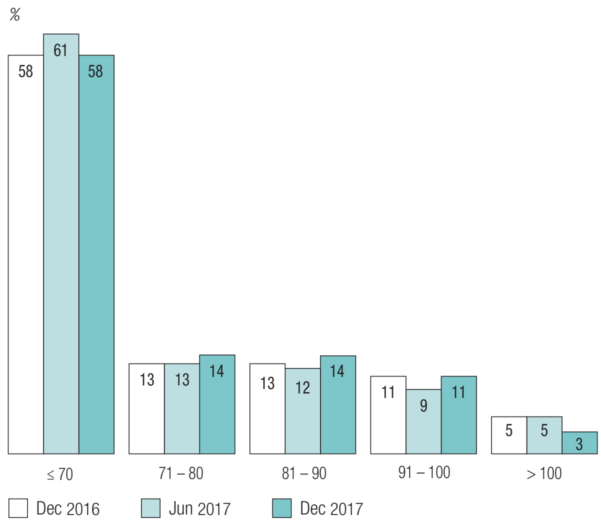
The graphs below provide loan balance-to-value ratios and age distributions of residential mortgages.

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

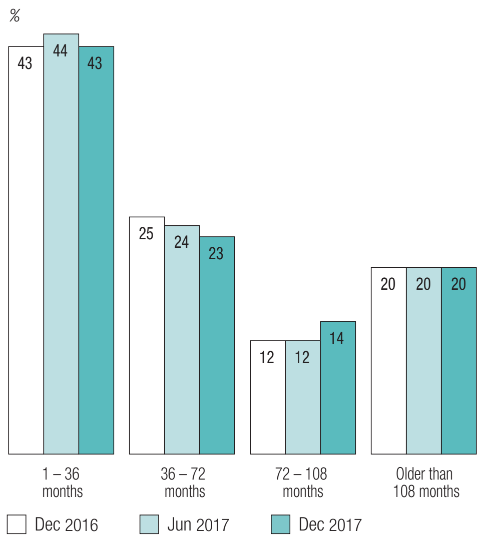
Residential mortgages balance-to-original value



Residential mortgages balance-to-market value



Residential mortgages age distribution

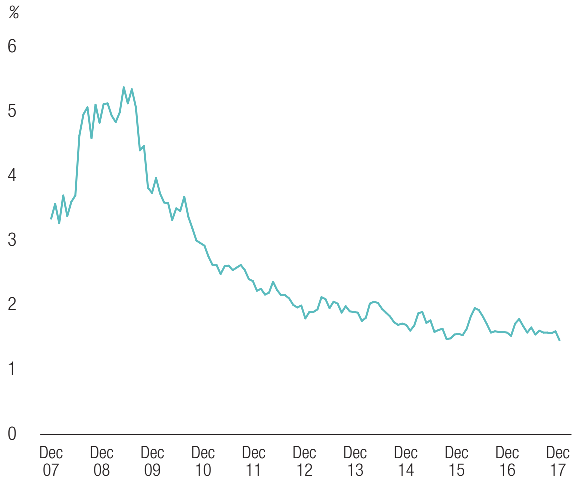


CREDIT continued

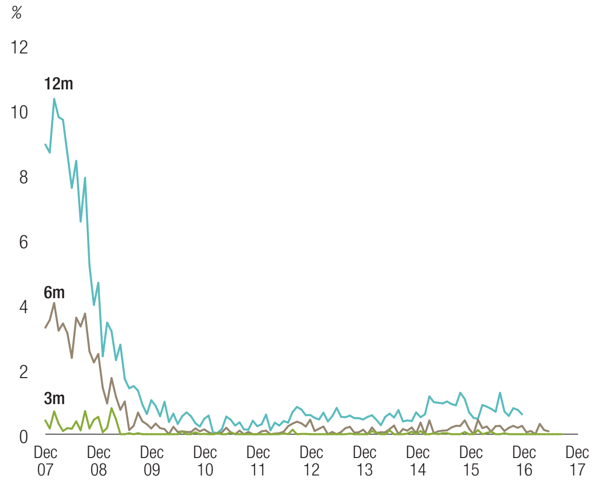
The following graph shows arrears in the FNB HomeLoans portfolio. It includes accounts where more than one full payment is in arrears, expressed as a percentage of total advances. The increase in arrears in the 12-month period from December 2015 to December 2016 reflected the reclassification of restructured debt review accounts to arrear status. Since then arrears have stabilised and as a percentage of advances, trended downwards. The 30- and 60-day arrears percentages reduced as collections improved and book growth has remained modest.

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

FNB HomeLoans arrears



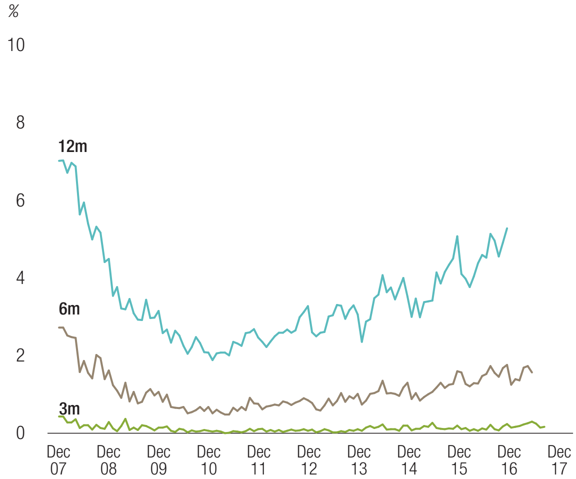
FNB HomeLoans vintage analysis



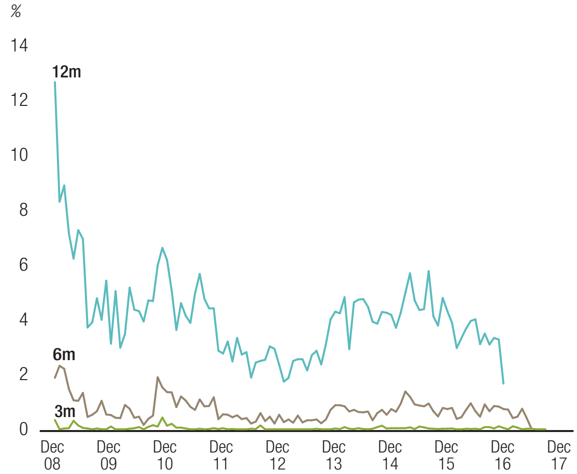
The retail SA VAF vintages continued to increase to levels similar to that of December 2015. The increase reflects the impact of deterioration in the self-employed and small business segments, lengthening recovery timelines and more customers opting for court orders for repossessions, the challenging macroeconomic environment as well as the ongoing increase in debt-review NPLs. Risk appetite was adjusted during the latter part of 2017, with a continued focus on originating a greater proportion of low-risk business. In the six- and three-month vintages, the risk appetite adjustments have already led to a reduction of the early vintages.

FNB card growth differed across segments over the past six month period. Card growth in premium benefited from customer growth, while the book contracted in the consumer segment as appetite remained conservative. The vintages trended lower given the change in mix and better collections.

WesBank retail SA VAF vintage analysis



FNB card vintage analysis

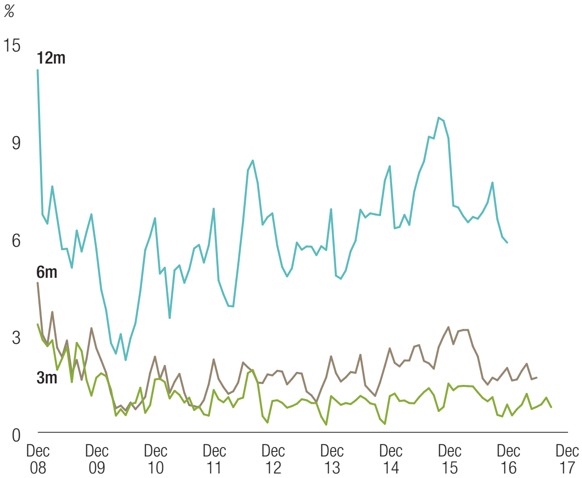


CREDIT continued

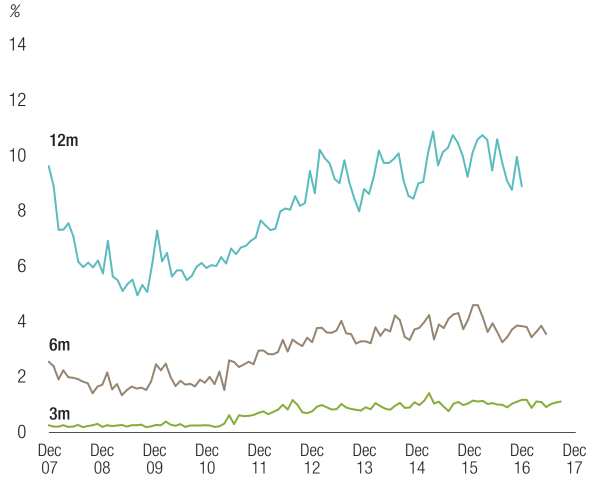
FNB personal loans growth was concentrated in the premium segment. The change in risk mix and effective collections resulted in vintages trending downwards since December 2016. Although the debt-review NPL portfolio grew proportionally more when compared to the performing book, it still remains a relatively small percentage when compared to the total book. Collections in the debt-review book are, however better than normal NPLs, further improving vintages.

WesBank personal loans vintages have been stable since December 2013 due to continuous adjustments to risk appetite. This proactive approach has proved to be effective and assisted in countering the macroeconomic conditions.

FNB personal loans vintage analysis



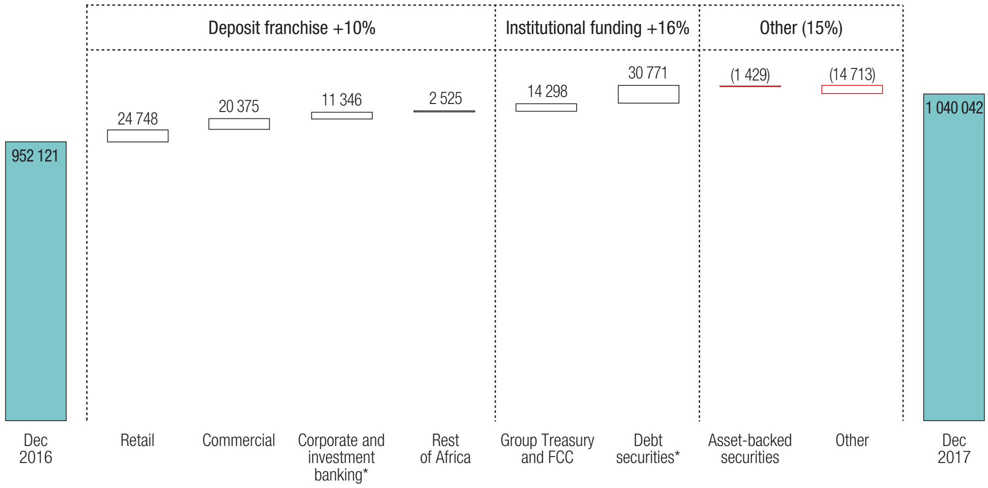
WesBank personal loans vintage analysis



DEPOSITS – UP 9%

Funding portfolio period-on-period growth

R million



* *Includes reclassification of inflation-linked and credit-linked notes previously disclosed as corporate and investment banking deposits.*

KEY DRIVERS

- FNB's deposits increased 11%, with 12% growth recorded in FNB SA:
  - retail deposit growth of 13% was supported by ongoing product innovation, with excellent growth of 14% from the premium segment; and
  - commercial deposit growth of 11% was driven by new client acquisition and cross-sell.
- RMB corporate and investment banking deposits (CIB) grew deposits 9%. Average deposit growth from the African subsidiaries grew 18% period-on-period, anchored to new client onboarding and ongoing product roll-out.
- In line with the SA banking sector, FirstRand receives institutional funding in the form of Group Treasury deposits (which grew 13%) and debt securities, which reflected significant growth of 18%. This was impacted by:
  - foreign currency funding, structured issuances in the domestic market, NCDs, and debt securities; and
  - given favourable liquidity conditions in the last quarter of 2017, the group elected to pre-fund liquidity requirements ahead of ratings or 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 sustainable, diversified, efficient and flexible 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, which will provide the group with a natural liquidity buffer.

Given the liquidity risk introduced by its business activities, the group's objective is to optimise its funding profile within structural and regulatory constraints to enable its franchises to operate in an efficient and sustainable manner.

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

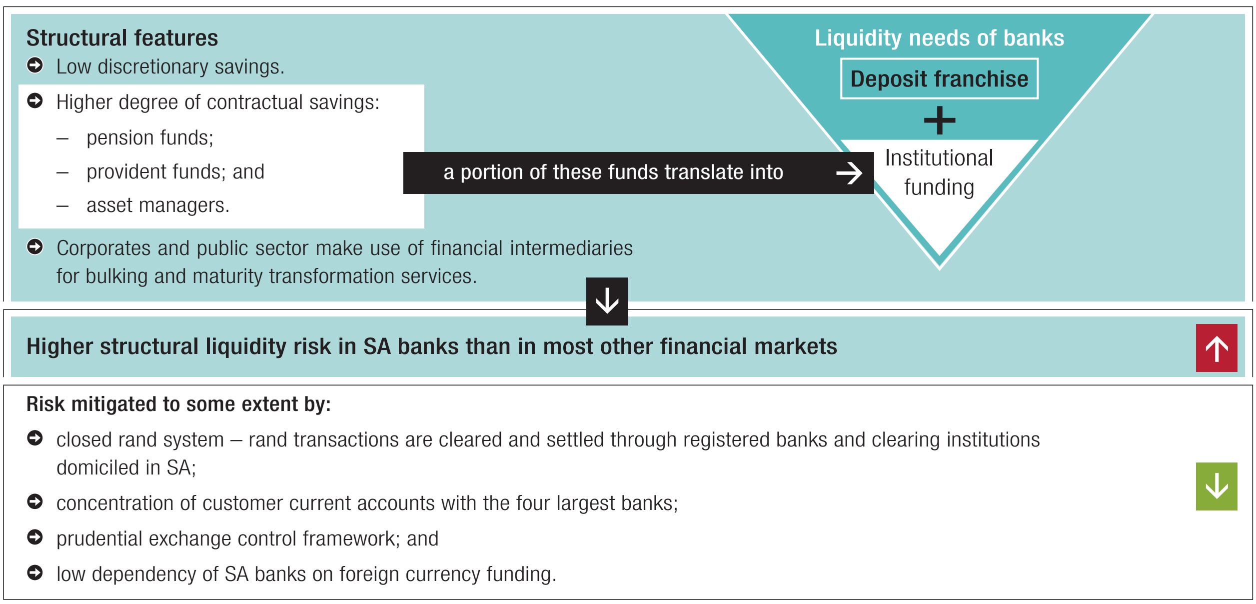
Given market conditions and the regulatory environment, the group increased its holdings of available liquidity in line with risk appetite over the period. The group utilised new market structures, platforms and the SARB committed liquidity facility to efficiently increase available liquidity holdings.

At 31 December 2017, the group exceeded the 80% minimum LCR requirement with a LCR measurement of 107% (December 2016: 95%). The bank's LCR was 101% (December 2016: 104%).

At 31 December 2017, the group's available HQLA sources of liquidity per the LCR amounted to R190 billion, with an additional R13 billion of management liquidity available.

FUNDING MANAGEMENT

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



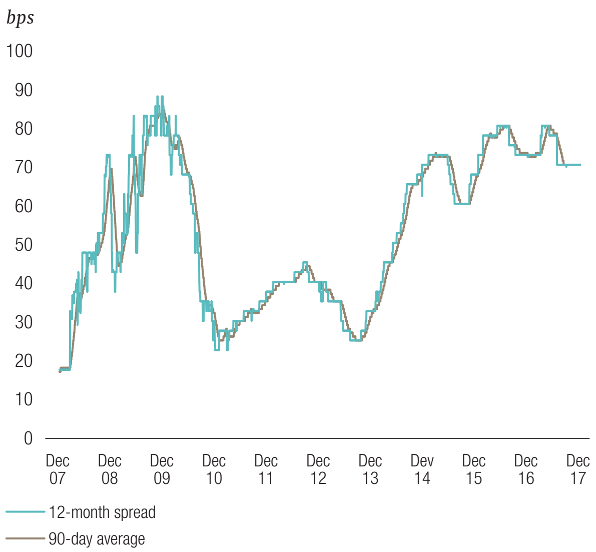
Liquidity demanded by banks as a consequence of money supply constraints introduced by the LCR and the central bank's open market operations without a commensurate increase in savings flows, resulted in higher liquidity costs. In light of the structural features discussed above, focus remains on achieving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

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

To ensure maximum efficiency and flexibility in accessing funding opportunities, a range of debt programmes have been established. The group's strategy for domestic vanilla public issuances is to create actively-traded benchmarks, which facilitate secondary market liquidity in both domestic and offshore markets. The value of this strategy is that it assists in identifying cost-effective funding opportunities whilst ensuring a good understanding of market liquidity.

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

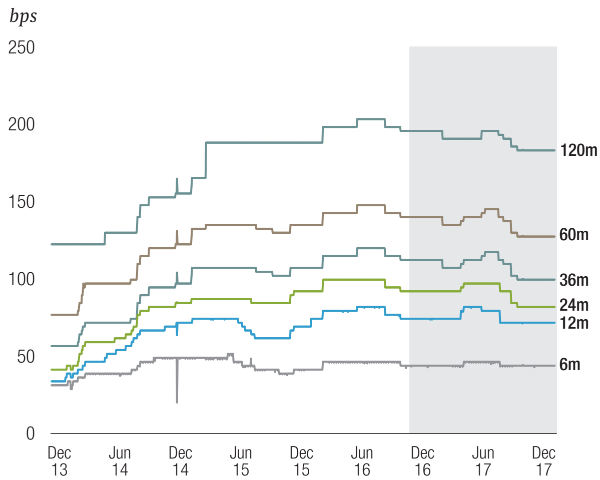
12-month floating rate note mid-market spread



Source: Bloomberg (RMBP screen) and Reuters.

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

Long-term funding spreads



Source: Bloomberg (RMBP screen) and Reuters.

Funding measurement and activity

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

The group manages its funding structure by source, counterparty type, product, currency and market. The deposit franchise is the most efficient source of funding and represented 59% of total group funding liabilities as at 31 December 2017 (December 2016: 60%). The deposit franchise represents 60% of total bank funding as at 31 December 2017 (December 2016: 61%).

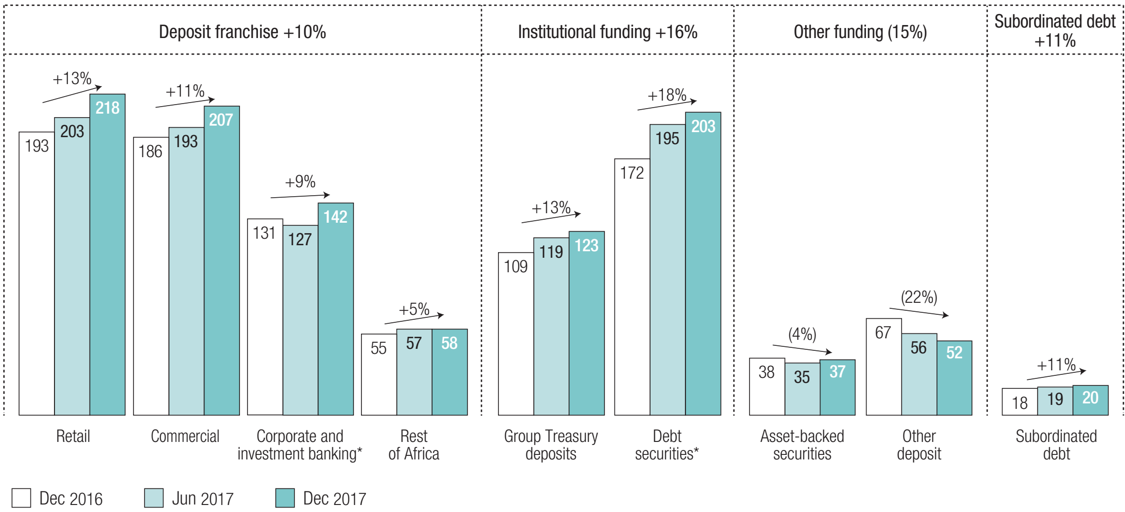
The group continued to focus on growing its deposit franchise across all segments, with increasing emphasis on savings and investment products. Progress continues to be made in developing suitable products to attract a greater proportion of clients' available liquidity with improved risk-adjusted pricing for source and behaviour. To fund operations, the group accesses the domestic money markets daily and, from time to time, capital markets. The group 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.

FUNDING AND LIQUIDITY RISK continued

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

Funding portfolio growth

R billion



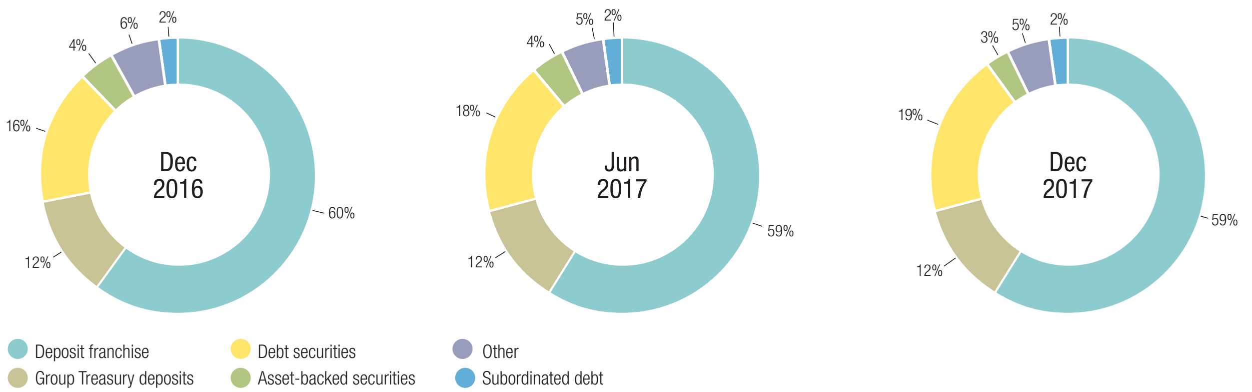
Note 1: Percentage growth is based on actual, not rounded numbers shown in the bar graphs.

Note 2: The above graph is completed using the group segmental reporting split based on funding product type, and, therefore, differs from the risk counterparty view on page 79, which is product agnostic. These views highlight the group's strength in raising deposits through the segments, as well as the diversification of the group's funding from a counterparty perspective.

* *The December 2016 and June 2017 numbers have been restated due to a resubmission of the BA900 returns due to a reclassification of credit-linked notes and inflation-linked notes previously disclosed as CIB deposits.*

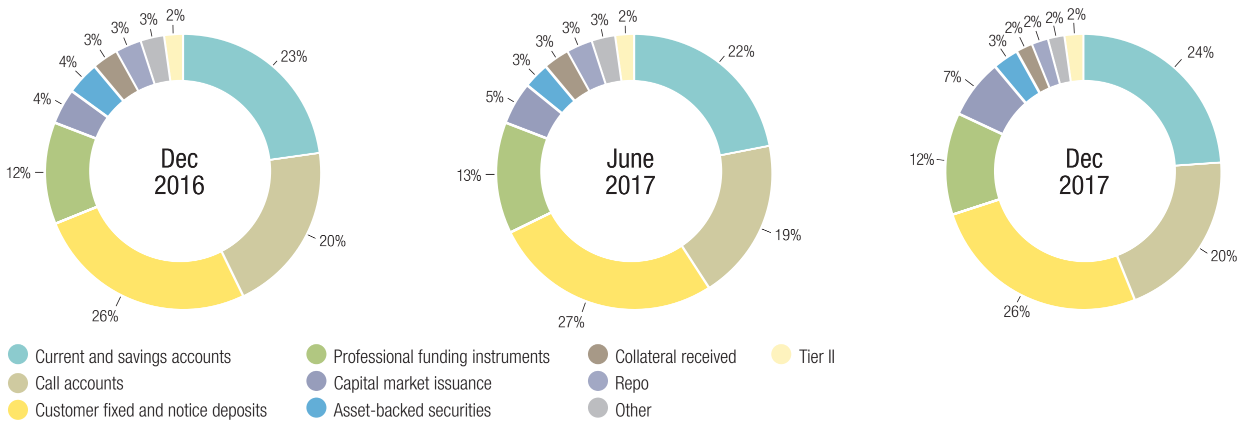
The graphs below show that the group's funding mix has remained stable over the last 12 months.

Group's funding mix



The following chart illustrates the group's funding instruments by type, including senior debt and securitisations.

Group's funding analysis by instrument type



Note: The December 2016 and June 2017 numbers have been restated due to a resubmission of the BA900 return due to a reclassification of credit-linked notes and inflation-linked notes previously disclosed as CIB deposits.

As a result of the group's focus on growing its deposit and transactional banking franchise, a significant proportion of funds are contractually short-dated. As these deposits are anchored to clients' service requirements and given the behavioural characteristics created by individual clients' independent activity, the resultant liquidity risk profile is improved.

The table below provides an analysis of the bank's funding sources per counterparty type as opposed to the FirstRand segment view.

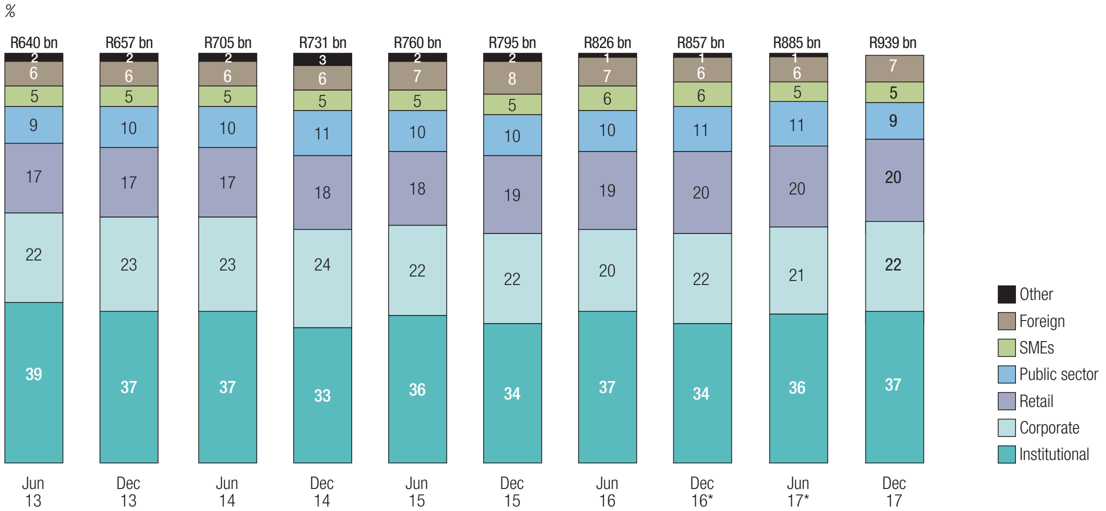
	December 2017				December 2016*	June 2017*
% of funding liabilities	Total	Short term	Medium term	Long term	Total	Total
Institutional funding	**36.8**	**11.7**	**7.7**	**17.4**	35.2	37.0
Deposit franchise	**63.2**	**50.0**	**7.6**	**5.6**	64.8	63.0
Corporate	**21.9**	**18.7**	**2.3**	**0.9**	22.6	20.1
Retail	**20.2**	**16.2**	**2.6**	**1.4**	19.9	19.2
SMEs	**5.3**	**4.4**	**0.6**	**0.3**	5.4	5.5
Governments and parastatals	**9.0**	**7.2**	**1.1**	**0.7**	10.4	10.2
Foreign	**6.8**	**3.5**	**1.0**	**2.3**	6.4	6.9
Other	**–**	**–**	**–**	**–**	0.1	1.1
Total	**100.0**	**61.7**	**15.3**	**23.0**	100.0	100.0

* *The December 2016 and June 2017 numbers have been restated due to a resubmission of the BA900 return due to a reclassification of credit-linked notes and inflation-linked notes previously disclosed as CIB deposits.*

FUNDING AND LIQUIDITY RISK continued

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

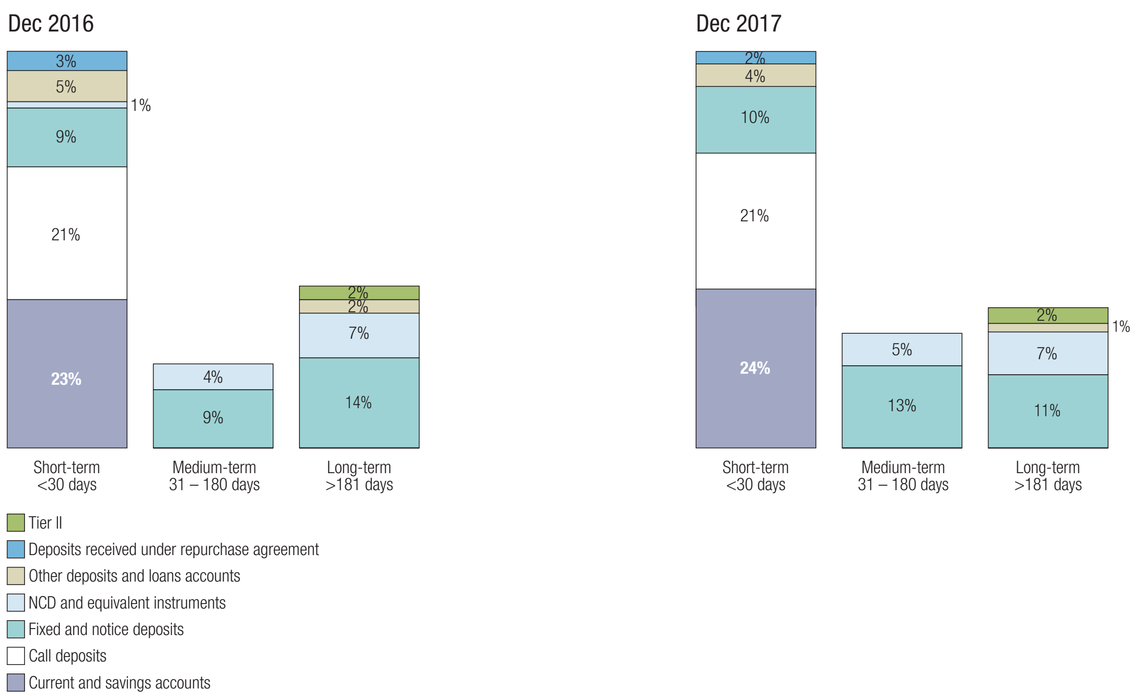
Funding analysis by source of FirstRand Bank (excluding foreign branches)



* *The December 2016 and June 2017 numbers have been restated due to a resubmission of the BA900 return due to a reclassification of credit-linked notes and inflation-linked notes previously disclosed as CIB deposits.*

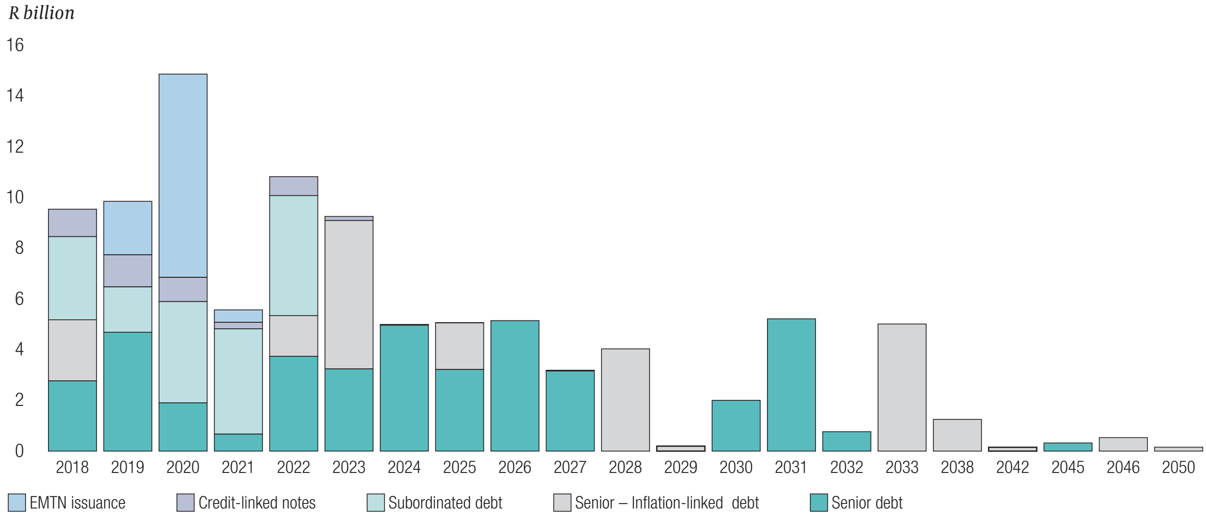
The following chart illustrates a breakdown of the group's funding liabilities by instrument and term.

Group's funding liabilities by instrument type and term



The maturity profile of all issued capital markets instruments is shown in the following chart. The group does not have concentration risk in any one year and seeks to efficiently issue across the curve considering investor demand.

Maturity profile of capital market instruments of the bank (including foreign branches)



Funds transfer pricing

The group operates a funds transfer pricing framework which incorporates liquidity costs and benefits as well as regulatory friction costs into product pricing and performance measurement for all on- and off-balance sheet activities. Franchises are incentivised to:

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

FOREIGN CURRENCY BALANCE SHEET

Given that the group continues to grow its businesses in the rest of Africa and the size of MotoNovo, the active management of foreign currency liquidity risk continues to be a strategic focus. The group seeks to avoid exposing itself to undue liquidity risk and to maintain liquidity risk within the risk appetite approved by the board and risk committee. The SARB via *Exchange Control Circular 6/2010* introduced macro-prudential limits applicable to authorised dealers. The group utilises its own foreign currency balance sheet measures based on economic risk and has set internal limits below those allowed by the macro-prudential limits framework.

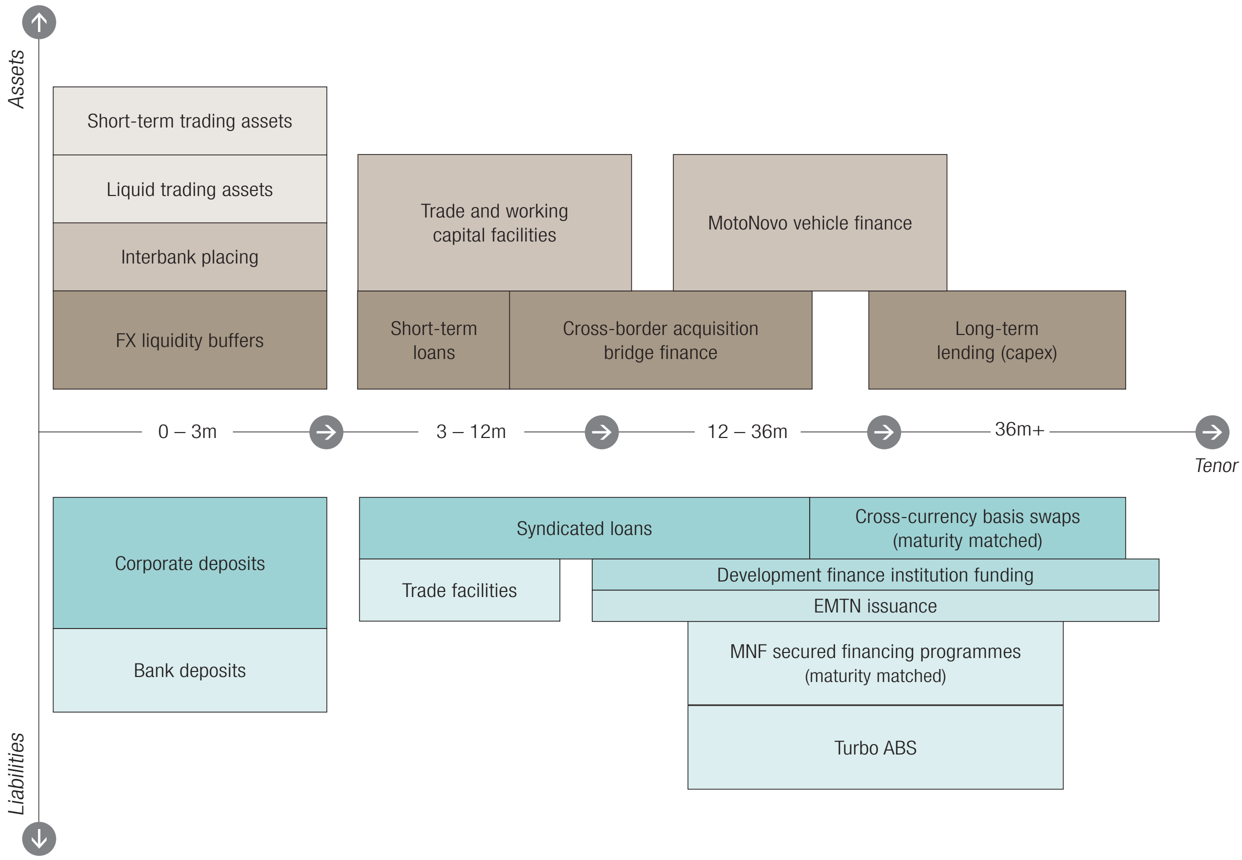
FirstRand's foreign currency activities, specifically lending and trade finance, have steadily increased over the past five years. It is, therefore, important to have a sound framework for the assessment and management of foreign currency external debt, given the inherent vulnerabilities and liquidity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

Philosophy on foreign currency external debt

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

FUNDING AND LIQUIDITY RISK continued

Graphical representation of the foreign currency balance sheet



REGULATORY UPDATE

BASEL III REFORMS	The BCBS finalised the Basel III reforms in December 2017, with specific focus on reducing the variability of risk weighted assets. The BCBS has agreed on a lengthy five-year transitional period, starting 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 in the internal models for regulatory capital purposes. The impact on the group 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.
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 80%, with 10% incremental step-ups each calendar year to 100% on 1 January 2019. The group remains focused on building a diversified pool of available HQLA, which is constrained by the limited availability of these assets in the South African market.
DISCLOSURE REQUIREMENTS	The BCBS published the liquidity coverage ratio disclosure standards in March 2014 with the objective to reduce market uncertainty around liquidity positions. The standardised templates are completed semi-annually and the bank publishes the quarterly disclosure templates on its website. These disclosures reveal industry reporting inconsistencies which are being addressed via the Banking Association South Africa with SARB and the South African Institute of Chartered Accountants.
NET STABLE FUNDING RATIO	The NSFR is a structural balance sheet ratio focusing on promoting a more resilient banking sector. The ratio calculates the amount of available stable funding relative to the amount of required stable funding. The industry continues to await communication from the SARB in terms of prudential requirements in relation to NSFR prudential requirements at a consolidated group level. In line with *Directive 4/2016*, banks have been submitting a monthly NSFR monitoring template since August 2016 to enable the SARB to assess the readiness of banks to comply with the 100% NSFR requirement from 1 January 2018 per the Bank of International Settlements (BIS) timelines. Banks have been engaging on a bilateral basis on interpretive matters relating to this form. The SARB, via proposed *Directive 15/8 of 2017*, has employed national discretion with respect to the calibration of the NSFR. The SARB, after due consideration and noting that rand funding is contained in the financial system, has concluded it to be appropriate to apply a 35% available stable funding (ASF) to deposits from financial institutions less than R6 million. In line with several other international regulators the SARB has also provided clarity on the alignment of the LCR and NSFR, applying a 5% required stable funding (RSF) to the assets net of their haircut eligible for CLF purposes. These changes are anchored in the assessment of the true liquidity risk and will significantly assist the South African banking sector in meeting the NSFR requirements.

FUNDING AND LIQUIDITY RISK continued

RESOLUTION FRAMEWORK	The South African regulatory architecture is currently undergoing significant transformation to create a regulatory framework that will support an effective resolution regime. The country is in the process of adopting a twin peaks supervisory framework model that will reduce the number of agencies involved in supervision, with the establishment of two new regulatory agencies: the Prudential Authority (PA) in the SARB, and a Market Conduct Authority (MCA) that will replace the Financial Services Board. 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. As part of the Resolution Framework and powers of the Resolution Authority, deposit insurance scheme (DIS) is 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 on the size of the fund and the funding mechanics.

LIQUIDITY RISK POSITION

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

Group's composition of liquid assets

	Marketable assets	HQLA Basel III view after haircut*					Management view after haircuts		
R billion	Total December 2017	Level 1	Level 2	Total December 2017	Total December 2016	Total June 2017	Total December 2017	Total December 2016	Total June 2017
Cash and deposits with central banks	**45**	**36**		**36**	34	35	**36**	34	35
Government bonds and bills	**131**	**119**		**119**	108	98	**131**	108	107
Other liquid assets	**46**		**35**	**35**	31	34	**37**	40	43
Total	**222**	**155**	**35**	**190**	173	167	**204**	182	185

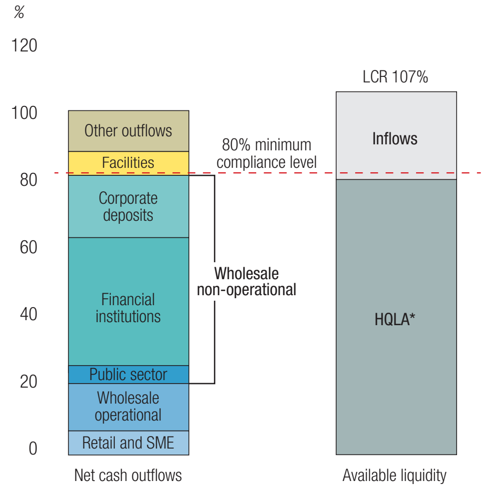
Liquidity buffers are actively managed via high quality, highly liquid assets that are available as protection against unexpected events or market disruptions. The quantum and composition of the available sources of liquidity are defined by the behavioural funding liquidity at-risk and the market liquidity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

The bank's LCR decreased from 104% to 101% at 31 December 2017 due to an increase in HQLA holdings of R20 billion offsetting an increase in net cash outflows of R24 billion.

The following graph illustrates the group's LCR position and demonstrates compliance with the 80% (December 2016: 70%) minimum requirement. FirstRand group's LCR was 107% at 31 December 2017 (December 2016: 95%).

Funding from institutional clients is a significant contributor to the group'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 group 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.

Group LCR



* *HQLA held by subsidiaries and foreign branches in excess of the required LCR minimum of 80% have been excluded on consolidation as per Directive 11 of 2014.*

CAPITAL

The group 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 additional 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 group remains appropriately capitalised under a range of normal and severe stress scenarios, which includes expansion initiatives, corporate transactions, as well as ongoing regulatory, accounting and tax developments. The group aims to back all economic risk with loss-absorbing capital and remains well capitalised in the current environment. FirstRand's internal targets have been aligned to the SARB 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 period.

The group is currently subject to the SARB transitional capital requirements, which include a 50% phased-in requirement for both the capital conservation and domestic systemically important banks (D-SIB) buffer add-ons. The SARB has not implemented any countercyclical buffer (CCyB) requirements for South African exposures, however, the group is required to calculate the CCyB requirement on private sector credit exposures in foreign jurisdictions where these buffer requirements are applicable. The BCBS finalised the Basel III reforms in December 2017, with specific focus on reducing the variability of RWA and the introduction of transitional arrangements from 1 January 2022. The impact on the group capital position depends on final implementation by the SARB given the 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.

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

PERIOD UNDER REVIEW

FirstRand comfortably operated above its capital and leverage targets during the period, and its capital adequacy and leverage position is summarised in the table below.

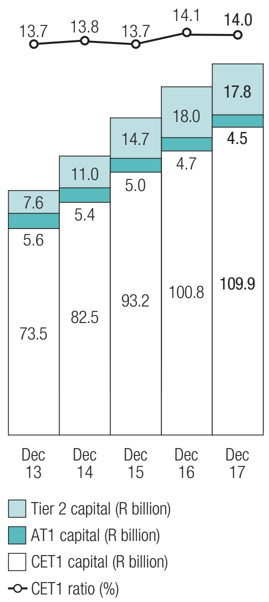
Capital adequacy and leverage position

	Capital			Leverage
%	CET1	Tier 1	Total	Total
Regulatory minimum*	7.3	8.5	10.8	4.0
Internal target	10.0 – 11.0	>12.0	>14.0	>5.0
Actual				
Including unappropriated profits	**14.0**	**14.6**	**16.9**	**8.5**
Excluding unappropriated profits	12.8	13.3	15.6	7.8

* *Excluding the bank-specific capital requirements.*

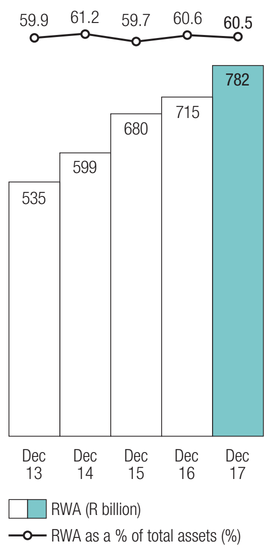
The graphs below show the historical overview of the group's capital adequacy, RWA and leverage.

*Capital adequacy**

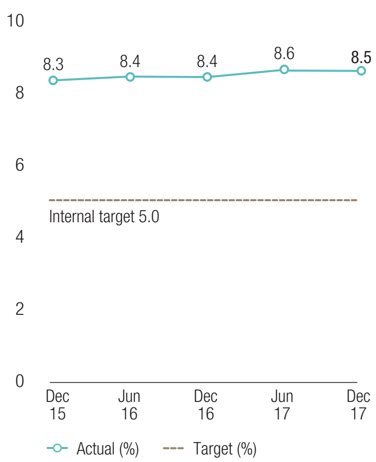


* *Includes unappropriated profits.*

RWA history



*Leverage**



* *Includes unappropriated profits.*

CAPITAL continued

Supply of capital

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

Composition of capital analysis

	As at 31 December		As at 30 June
R million	2017	2016	2017
Including unappropriated profits			
CET1	**109 850**	100 844	105 737
Tier 1	**114 318**	105 556	110 035
Total qualifying capital	**132 077**	123 546	126 191
Excluding unappropriated profits			
CET1	**99 769**	85 322	92 490
Tier 1	**104 237**	90 034	96 788
Total qualifying capital	**121 996**	108 024	112 944

KEY DRIVERS: DECEMBER 2017 VS DECEMBER 2016

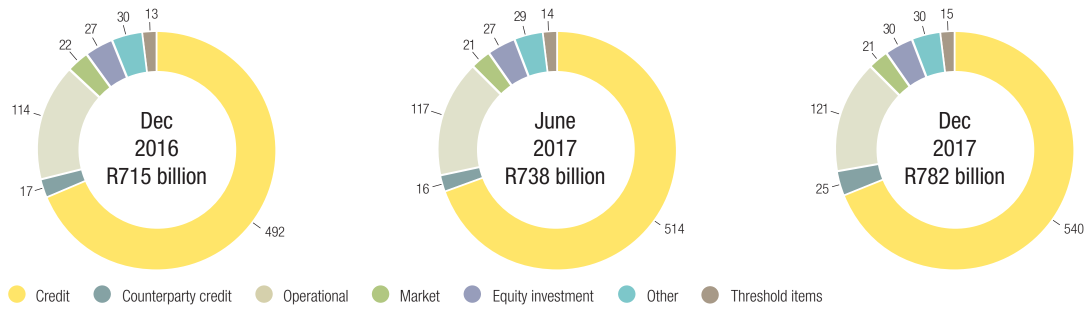
CET1 capital	↑	Ongoing capital generation through earnings coupled with sustainable dividend payout.
AT1 capital	↓	Additional 10% haircut on NCNR preference shares not compliant with Basel III and movement in third party capital.
Tier 2 capital	↓	Additional 10% haircut on Tier 2 instruments not compliant with Basel III, redemption of FRB11 (R1.5 billion) in December 2017, and movement in third party capital. Issuance of Basel III compliant instruments totalling R2.75 billion (December 2016: R2.3 billion). Tier 2 mix comprises instruments compliant with Basel III of R16.1 billion and old-style instruments of R3.2 billion.

Demand for capital

The graphs below unpack the RWA composition per risk type.

RWA analysis

R billion



KEY DRIVERS: DECEMBER 2017 VS DECEMBER 2016		
Credit	↑	• Organic growth and model recalibrations. • Incorporates impact of the downgrade on the South Africa sovereign, state-owned entities and large corporates.
Counterparty credit	↑	• Volumes, mark-to-market and exchange rate movements. • Incorporates impact of the downgrade on the South Africa sovereign, state-owned entities and large corporates.
Operational	↑	• Recalibration of portfolios subject to the advanced measurement approach. • Increase in gross income for entities on the standardised approach.
Market	↓	• Volume and mark-to-market movements. • Incorporates impact of the downgrade on the South Africa sovereign.
Equity investment	↑	• New investments and fair value adjustments.
Threshold items*	↑	• Movement in deferred tax assets and investments in financial, banking and insurance entities.

* *Risk weighted at 250%.*

CAPITAL continued

Capital adequacy position for the group, its regulated subsidiaries and the bank's foreign branches

The group's registered banking subsidiaries must comply with SARB regulations and those of the respective in-country regulators, with primary focus placed on Tier 1 capital and total capital adequacy ratios. Based on the outcome of detailed stress testing, each entity targets a capital level in excess of the regulatory minimum. Adequate controls and processes are in place to ensure that each entity is adequately capitalised to meet local and SARB regulatory requirements. Capital generated by subsidiaries/branches in excess of targeted levels is returned to FirstRand, usually in the form of dividends/return of profits. During the period, no restrictions were experienced on the repayment of such dividends or profits to the group.

The RWA and capital adequacy positions of FirstRand, its regulated subsidiaries and the bank's foreign branches are set out below.

RWA and capital adequacy positions of FirstRand, its regulated subsidiaries and the bank's foreign branches

	As at 31 December				As at 30 June
	2017			2016	2017
	RWA R million	Tier 1 %	Total capital adequacy %	Total capital adequacy %	Total capital adequacy %
Basel III (SARB regulations)					
FirstRand*	**781 996**	**14.6**	**16.9**	17.3	17.1
FirstRand Bank*,**	**629 875**	**14.1**	**17.3**	17.7	17.3
FirstRand Bank South Africa*	**580 652**	**14.3**	**17.3**	17.5	17.2
FirstRand Bank London#	**47 824**	**8.7**	**14.0**	20.2	17.8
FirstRand Bank India#	**1 926**	**32.4**	**32.9**	24.7	31.7
FirstRand Bank Guernsey#,†	**196**	**16.5**	**16.5**	36.2	37.9
Basel II (local regulations)					
FNB Namibia	**26 952**	**13.8**	**17.3**	17.2	17.2
FNB Mozambique	**2 015**	**15.1**	**15.1**	12.3	15.6
RMB Nigeria	**2 491**	**46.0**	**46.0**	54.6	43.4
FNB Botswana	**20 390**	**15.4**	**19.9**	18.5	17.7
Basel I (local regulations)					
FNB Swaziland	**3 309**	**26.3**	**27.6**	27.3	28.3
FNB Lesotho	**998**	**12.7**	**16.0**	15.5	17.6
FNB Zambia	**3 926**	**18.4**	**20.8**	22.8	21.2
FNB Tanzania	**1 199**	**43.2**	**44.8**	52.0	41.9
First National Bank Ghana	**365**	**92.9**	**92.9**	>100	>100

* *Includes unappropriated profits.*
** *Includes foreign branches.*
# *Branches of FirstRand Bank Limited.*
† *Trading as FNB Channel Islands.*

In terms of Regulation 43 of the *Regulations relating to Banks*, the following additional common disclosures are required:

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

Refer to www.firstrand.co.za/investorcentre/pages/commondisclosure.aspx.

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

PERFORMANCE MEASUREMENT

The group aims to deliver sustainable returns to its shareholders and each business unit is evaluated on shareholder value created. This is measured through ROE and the group's specific benchmark of economic profit, net income after cost of capital (NIACC).

NIACC is embedded across the group and, as a function of normalised earnings and the cost of capital, provides a clear indication of economic value added.

Targeted hurdle rates are set for the business units and capital is allocated to each business unit based on its risk profile. The capital allocation process is based on internal assessment of the capital requirements as well as Basel III requirements.

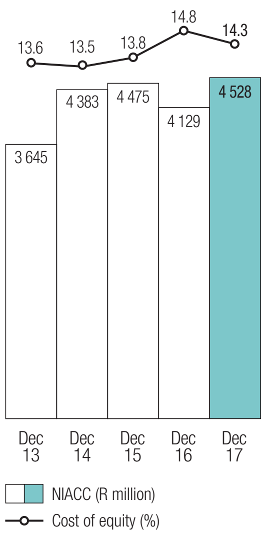
Growth in normalised earnings and a decrease in the cost of equity resulted in an increase in NIACC as illustrated in the table below.

NIACC and ROE

	Six months ended 31 December			Year ended 30 June
R million	2017	2016	% change	2017
Normalised earnings attributable to ordinary shareholders	**12 461**	11 646	7	24 471
Capital charge*	**(7 933)**	(7 517)	6	(14 923)
NIACC**	**4 528**	4 129	10	9 548
Average ordinary shareholders' equity and reserves	**110 954**	101 588	9	104 358
ROE (%)	**22.5**	22.9		23.4
Cost of equity (%)#	**14.3**	14.8		14.3
Return on average RWA (%)	**3.28**	3.29		3.41

* *Capital charge based on cost of equity.*
** *NIACC = normalised earnings less (cost of equity x average ordinary shareholders' equity and reserves).*
\# *Cost of equity is based on the capital asset pricing model and is reflective of the latest market factors which have improved since the estimate at 31 December 2016.*

NIACC and cost of equity



PERFORMANCE MEASUREMENT continued

SHAREHOLDER VALUE CREATION

The group continues to achieve returns above its cost of equity resulting in positive NIACC despite higher levels of capital.

Decomposition of the ROE indicates that the reduction in ROE was largely driven by the decrease in gearing, as illustrated in the table below.

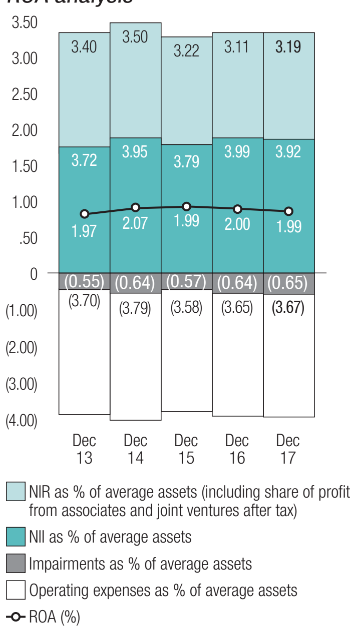
Historical analysis of ROA, gearing and ROE

	Six months ended 31 December					Year ended 30 June
	2017	2016	2015	2014	2013	2017
ROA (%)	**1.99**	2.00	1.99	2.07	1.97	2.07
Gearing*	**11.3**	11.5	11.8	11.5	11.9	11.3
ROE (%)	**22.5**	22.9	23.4	24.0	23.4	23.4

* *Gearing = average total assets/average equity.*

The following graph provides a high level summary of drivers of returns over time.

ROA analysis



Note: *The graph shows each item before taxation and non-controlling interests as a percentage of average assets. ROA is calculated as normalised earnings after tax and non-controlling interests as a percentage of average assets.*

FRANCHISE PERFORMANCE

Targeted hurdle rates are set for business units and capital is allocated to each franchise using the following inputs:

- targeted capital levels informed by regulatory capital and economic capital requirements; and
- regulatory capital impairments where relevant.

The tables below provide a summary of performance of the group's operating franchises, which all produced returns above the cost of allocated equity.

Franchise ROEs and normalised earnings

	Six months ended 31 December				Year ended 30 June	
	2017		2016		2017	
R million	Normalised earnings#	ROE %	Normalised earnings#,†	ROE %	Normalised earnings#,†	ROE %
FNB	**7 179**	**40.6**	6 460	38.1	12 900	36.9
RMB	**3 115**	**22.9**	2 792	20.8	6 826	25.8
WesBank	**1 879**	**18.6**	1 913	19.9	3 925	20.0
FCC (including Group Treasury)*	**288**	**2.0**	481	4.5	820	3.5
FirstRand Limited	**12 461**	**22.5**	11 646	22.9	24 471	23.4
Total rest of Africa**	**788**	**16.3**	664	14.0	1 153	12.0

* *Includes Ashburton Investments as well as unallocated surplus capital.*
** *Reflects the franchises' combined operations in the legal entities in the rest of Africa.*
# *Includes the return on capital in African operations and the cost of preference shares and other capital and, therefore, differs from franchise normalised earnings in the segment report on pages 24 to 37.*
† *Comparatives were restated for segmentation changes.*

Franchise ROAs

	ROA		
	Six months ended 31 December		Year ended 30 June
%	2017	2016**	2017**
FNB	**3.52**	3.32	3.28
RMB	**1.40**	1.33	1.61
WesBank	**1.74**	1.87	1.87
FCC (including Group Treasury)*	**0.31**	0.64	0.53
FirstRand Limited	**1.99**	2.00	2.07

* *Includes Ashburton Investments as well as unallocated surplus capital.*
** *Comparatives were restated for segmentation changes.*

CREDIT RATINGS

The following rating actions were taken on the South African sovereign on 24 November 2017:

- S&P Global Ratings (S&P) lowered the long-term foreign currency credit rating on the South African sovereign to BB from BB+, reflecting its view of further deterioration in South Africa's economic outlook and public finances. The long-term local currency sovereign credit rating was also lowered to BB+ from BBB-.
- Moody's Investors Service (Moody's) placed the Baa3 sovereign rating on review for downgrade, driven by developments which, in the agency's view, suggested that South Africa's economic and fiscal challenges were more pronounced than it had previously assumed. These included weaker growth prospects, material budgetary revenue shortfalls and increased spending pressures, which the agency believes will cause a faster and larger rise in government debt-to-GDP than previously anticipated.

The table below summarises the South African sovereign ratings following these actions.

Sovereign ratings as at 5 March 2018

	South Africa sovereign – long-term ratings		
	Outlook	Foreign currency	Local currency
S&P	Stable	BB	BB+
Moody's	Rating under review	Baa3	Baa3

Sources: S&P Global Ratings and Moody's Investors Service.

Following the South African sovereign rating actions described above, similar ratings actions were taken on the South African banks. This is because the banks' issuer credit ratings are constrained by the sovereign rating given the direct and indirect impact that sovereign distress would have on domestic banks' operations.

The tables below summarise the credit ratings for both FirstRand Bank Limited and FirstRand Limited.

FirstRand Bank Limited counterparty credit ratings as at 5 March 2018

	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	Rating under review	Baa3	P-3	Aaa.za	P-1.za	baa3

* *Refers to a rating agency's measure of a bank's intrinsic creditworthiness before considering external factors, e.g. affiliate or government support. S&P uses the standalone credit profile and Moody's the baseline credit assessment.*
Sources: S&P Global Ratings and Moody's Investors Service.

FirstRand Bank's standalone credit ratings continue to reflect its strong market position in South Africa, focused strategy, good core profitability, financial flexibility, robust risk management and sound capitalisation.

FirstRand Limited counterparty credit ratings as at 5 March 2018

	FirstRand Limited				
		Counterparty		National scale	
	Outlook	Long term	Short term	Long term	Short term
S&P	Stable	B+	B	zaBBB+	zaA-2

Source: S&P Global Ratings.

FirstRand Limited's ratings reflect its status as the non-operating holding company of the FirstRand group and the entity's consequent structural subordination and reliance on dividends from operating companies to meet its obligations, which exposes it to potential regulatory impositions. It is standard practice for a holding company to be rated below the operating company (in this case, FirstRand Bank). It is important to note that the group issues debt out of the bank, the credit counterparty. No debt is issued from FirstRand.

IFRS information

PRESENTATION

BASIS OF PRESENTATION

FirstRand prepares its condensed consolidated interim financial statements in accordance with and containing information required by:

- International Financial Reporting Standard, *IAS 34 Interim Financial Reporting*;
- Financial Reporting Pronouncements as issued by Financial Reporting Standards Council;
- SAICA Financial Reporting Guides as issued by the Accounting Practices Committee; and
- requirements of the Companies Act no 71 of 2008.

The condensed consolidated interim results for the six months ended 31 December 2017 have not been audited or independently reviewed by the group's external auditors.

ACCOUNTING POLICIES

The accounting policies applied in the preparation of the condensed consolidated interim financial statements are in terms of IFRS and are consistent with those applied for the year ended 30 June 2017. The condensed consolidated interim financial statements are prepared in accordance with the going concern principle under the historical cost basis as modified by the fair value accounting of certain assets and liabilities where required or permitted by IFRS.

The group has made voluntary changes to the presentation of deposits. These changes relate to the presentation of accrued interest on certain deposits and the classification of negotiable notes with specific contractual terms. The changes in presentation have had no impact on the profit or loss or net asset value of the group and only affects the classification of items on the statement of financial position. Impacts on previously reported results are set out on pages 123 and 124.

Amendments to *IAS 7 Statement of Cash Flows* (IAS 7) and *IAS 12 Income Taxes* (IAS 12) became effective in the current year. These amendments have not had an impact on the group's reported earnings, financial position or reserves, or a material impact on the accounting policies.

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

No other new or amended IFRS became effective for the six months ended 31 December 2017 that impacted the group's reported earnings, financial position or reserves, or the accounting policies.

IFRS 9 UPDATE

The group has completed the classification and measurement phase of the project. The impact will depend on the composition of the group's balance sheet at 1 July 2018. Based on the work performed to date, the main impact of the revised classification and measurement requirements are:

- certain advances in RMB Investment Banking division will be reclassified from fair value through profit or loss (FVTPL) to amortised cost;
- the above-mentioned reclassifications from FVTPL to amortised cost will impact revenue recognition of origination fees that are an integral part of generating an involvement with the resulting advance;
- certain investment securities held in the group's liquidity portfolio will be reclassified from available-for-sale to amortised cost because they are held to collect contractual cash flows which are solely repayments of principal and interest; and
- certain deposits and other liabilities will be reclassified from amortised cost to FVTPL to ensure that the measurement of liabilities match the measurement of assets which they fund.

The revised hedge accounting requirements will be applied prospectively by the group, and, as such, will not have an impact on the amounts recognised upon adoption of IFRS 9.

The introduction of IFRS 9 results in earlier loss recognition and higher overall provisioning requirements than under IAS 39, due to the requirement to calculate provisions for expected credit losses rather than incurred losses. In addition, IFRS 9 requires the calculation of expected credit losses to incorporate probability-weighted, forward-looking information, whereas under IAS 39, only current macroeconomic conditions are considered. IFRS 9 also requires expected credit losses to be calculated for loan commitments and financial guarantees. IAS 39 did not apply to these off-balance sheet exposures.

The group has developed and/or amended the applicable credit and accounting policies to incorporate the new IFRS 9 requirements. In addition, group-wide definitions, such as the definition of default and significant increase in credit risk, have been finalised to ensure consistent application of key terms in model development across the group, with the significant items described in the table below.

MODELLING OVERVIEW	The group will be adopting the probability of default (PD)/loss given default (LGD) approach for the calculation of expected credit losses (ECL) for material advances and a simplified approach for less material balances, such as certain exposures in the rest of Africa and non-advances, e.g. accounts receivable. The ECL will be 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 exposure at default (EAD) models and parameter term structures to facilitate the calculation of ECL. All required models are being developed in the group and are validated independently internally by the independent validations unit in ERM. Significant models are validated by the group's external auditors. Model development has been guided by appropriate frameworks, which articulate minimum required standards, and reference industry guidance and best practice. Where possible, existing methodologies used in the regulatory models have 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 INCREASES 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 most recent date at which the group had an opportunity to price or reprice 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.
DEFINITION OF DEFAULT	Advances are considered credit impaired if these meet the definition of default. The group's definition of default applied for calculating provisions under IFRS 9 has been aligned to the definition applied for regulatory capital calculations across all portfolios, and consider delinquency as well as indicators of unlikeliness to pay. Any distressed restructures of accounts which have experienced a significant increase in credit risk since initial recognition are defined as default events. Accounts are considered no longer to be in default if these meet the stringent cure definition, which is determined at portfolio level with reference to re-default rates.
PERIOD OF EXPOSURE TO CREDIT RISK	Lifetime expected credit losses are measured over the period that the entity is exposed to credit risk for accounts in stages 2 and 3. 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.

PRESENTATION continued

INCORPORATION OF FORWARD-LOOKING INFORMATION	Forward-looking macroeconomic 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), upside and downside scenarios. 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 macroeconomic scenarios catered for through the quantitative modelling process are not adequately reflective of potential macroeconomic 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 macroeconomic 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.
GOVERNANCE	Existing governance frameworks will be 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 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.
IMPACT	Impact assessments have been performed on a six-monthly basis since the formal inception of the IFRS 9 project in 2015 and the group continues to refine the calculations. An accurate indication of the impact of IFRS 9 is dependent on the internal independent validation and external audit of models, which are still ongoing, the distribution of the advances portfolio and forward-looking macroeconomic expectations, amongst other factors on the date of adoption.

National Treasury has released the *Taxation Laws Amendment Act 2017*, which contains updated requirements for the deductibility of loss allowances relating to impairments in accordance with IFRS 9. The group's South African banking entity will be able to claim the following allowances in the impairment provisions with effect from the reporting period beginning 1 July 2018:

- 25% on stage 1 exposures;
- 40% on stage 2 exposures;
- 85% on stage 3 exposures; and
- 100% on written off advances.

It is expected that the revised allowances will result in an increase in the deferred tax asset recognised by the group.

No guidance on the tax treatment of IFRS 9 credit impairments has been provided yet by the authorities in jurisdictions in the rest of Africa where the group operates.

IFRS 9 will negatively impact the group's regulatory capital position due to the increased impairment provisions and related deferred tax assets. The SARB issued Directive 5/2017, which allows banks to apply a three-year transitional phase-in for regulatory capital purposes only. The transitional arrangements will only apply to incremental provisions that arise upon adoption of IFRS 9 on 1 July 2018. The group intends to apply the three-year phase-in and will continue to be appropriately capitalised. Once implemented, both the phased-in and fully loaded impact on capital will be disclosed.

NORMALISED RESULTS

The group 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 group'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 group's financial position, changes in equity, and results of operations or cash flows.

DESCRIPTION OF DIFFERENCE BETWEEN NORMALISED AND IFRS RESULTS

Consolidated private equity subsidiaries

In accordance with IFRS, operating costs of consolidated private equity subsidiaries are included in profit or loss as part of operating expenses. When calculating normalised results, these operating costs are reclassified to NIR, where income earned from these entities is included. This presentation of net income earned from consolidated private equity subsidiaries more accurately reflects the underlying economic substance of the group's relationship with these entities.

FirstRand shares held for client trading activities

The group invests in FirstRand shares to offset its exposure as a result of client trading positions. Depending on the nature of the client trading position and resulting risks, FirstRand shares may be held long or sold short by the group.

In terms of *IAS 32 Financial Instruments: Presentation*, FirstRand shares held by the group are deemed to be treasury shares for accounting purposes. For the statement of financial position, the cost price of FirstRand shares held long is deducted from equity and the consideration received from selling FirstRand shares short is added back to equity. All gains and losses on FirstRand shares are reversed to profit or loss.

In addition, in terms of *IAS 28 Investments in Associates*, upstream and downstream profits are eliminated when equity accounting is applied, and, in terms of IAS 32, profits or losses cannot be recognised on an entity's own equity instruments. For the income statement, the group's portion of the fair value change in FirstRand shares is, therefore, deducted from equity-accounted earnings and the investment recognised using the equity-accounted method.

Changes in the fair value of FirstRand shares and dividends declared on these shares affect the fair value of client trading positions reflected in the statement of financial position, unless the client trading position is itself an equity instrument. The change in the fair value of client trading positions is recognised in profit or loss. However, because of the rules relating to treasury shares and the elimination of upstream and downstream profits, when equity accounting is applied the corresponding fair value changes (or the group's portion of the fair value changes) in the FirstRand shares held to match client trading positions are reversed or eliminated. This results in a mismatch in the overall equity and profit or loss of the group.

For purposes of calculating normalised results, the adjustments described above are reversed and FirstRand shares held for client trading positions are treated as issued to parties external to the group.

Where the client trading position is itself an equity instrument, then neither gains nor losses on client trading positions or FirstRand shares held to hedge these are reflected in profit or loss or on the statement of financial position.

PRESENTATION continued

Margin-related items included in fair value income

In terms of IFRS, the group 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 in 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 NII to NIR includes the following items:

- NII on the wholesale advances book in RMB;
- fair value gains on derivatives that are used as interest rate hedges but which do not qualify for hedge accounting; and
- currency translations and associated costs inherent to the USD funding and liquidity pool.

Classification of impairment on restructured advance

Included in gross advances and impairment of advances is an amount in respect of an advance that was restructured to an equity investment. The restructure resulted in the group having significant influence over the counterparty and an investment in an associate was recognised. The group believes that the circumstances that led to the impairment arose prior to the restructure. For normalised reporting, therefore, the group retained the gross advance and impairment. This amount is classified in advances rather than investments in associates as this 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 adjustment 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.

Realisation on the sale of private equity subsidiaries

In terms of *Circular 2/2015 Headline Earnings*, gains or losses from the sale of subsidiaries are excluded from headline earnings.

The circular includes specific industry rules. Rule 1 allows entities to include in headline earnings gains or losses associated with private equity investments that are associates or joint ventures, which form part of trading or operating activities. This exclusion, however, does not apply to gains or losses associated with private equity investments that are subsidiaries. The group includes gains or losses on the sale of private equity subsidiaries in normalised results to reflect the nature of these investments.

Cash-settled share-based payments and the economic hedge

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

In terms of *IAS 39 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 group 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 group's results. This reflects the economic substance of the hedge and associated IFRS 2 impact for the group.

In addition, the portion of the share-based payment expense which relates to the remeasurement of the liability arising from changes in the share price is reclassified from operating expenses into NIR in accordance with the economics of the transaction. The share-based payment expense included in operating expenses is equal to the grant date fair value of the awards given.

Headline earnings adjustments

All adjustments required by *Circular 2/2015 Headline Earnings* in calculating headline earnings are included in normalised earnings on a line-by-line basis based on the nature of the adjustment.

The description and the amount of these adjustments are provided in the reconciliation between headline earnings and IFRS profit on page 112.

CONDENSED CONSOLIDATED INCOME STATEMENT – IFRS

	Six months ended 31 December			Year ended 30 June
R million	**2017**	2016	% change	2017
Net interest income before impairment of advances	**23 734**	22 200	7	44 917
Impairment and fair value of credit of advances	**(4 052)**	(3 741)	8	(8 054)
Net interest income after impairment of advances	**19 682**	18 459	7	36 863
Non-interest revenue	**21 389**	19 514	10	40 922
Income from operations	**41 071**	37 973	8	77 785
Operating expenses	**(23 708)**	(21 708)	9	(44 585)
Net income from operations	**17 363**	16 265	7	33 200
Share of profit of associates after tax	**283**	340	(17)	757
Share of profit of joint ventures after tax	**210**	127	65	281
Income before tax	**17 856**	16 732	7	34 238
Indirect tax	**(478)**	(573)	(17)	(1 081)
Profit before tax	**17 378**	16 159	8	33 157
Income tax expense	**(3 982)**	(3 596)	11	(7 018)
Profit for the period	**13 396**	12 563	7	26 139
Attributable to				
Ordinary equityholders	**12 749**	11 889	7	24 572
NCNR preference shareholders	**177**	181	(2)	356
Equityholders of the group	**12 926**	12 070	7	24 928
Non-controlling interests	**470**	493	(5)	1 211
Profit for the period	**13 396**	12 563	7	26 139
Earnings per share (cents)				
– Basic	**227.3**	212.0	7	438.2
– Diluted	**227.3**	212.0	7	438.2
Headline earnings per share (cents)				
– Basic	**224.2**	211.5	6	423.7
– Diluted	**224.2**	211.5	6	423.7

CONDENSED CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME – IFRS

R million	Six months ended 31 December 2017	Six months ended 31 December 2016	% change	Year ended 30 June 2017
Profit for the period	**13 396**	12 563	7	26 139
Items that may subsequently be reclassified to profit or loss				
Cash flow hedges	**(99)**	45	(>100)	(150)
Gains/(losses) arising during the period	**139**	116	20	(141)
Reclassification adjustments for amounts included in profit or loss	**(7)**	(53)	(87)	(67)
Deferred income tax	**(231)**	(18)	>100	58
Available-for-sale financial assets	**(86)**	(210)	(59)	(282)
Losses arising during the period	**(85)**	(199)	(57)	(397)
Reclassification adjustments for amounts included in profit or loss	**(22)**	(64)	(66)	(52)
Deferred income tax	**21**	53	(60)	167
Exchange differences on translating foreign operations	**(856)**	(1 437)	(40)	(1 633)
Losses arising during the period	**(856)**	(1 437)	(40)	(1 633)
Share of other comprehensive income/(loss) of associates and joint ventures after tax and non-controlling interests	**54**	(60)	(>100)	(157)
Items that may not subsequently be reclassified to profit or loss				
Remeasurements on defined benefit post-employment plans	**(43)**	(82)	(48)	169
(Losses)/gains arising during the period	**(60)**	(113)	(47)	241
Deferred income tax	**17**	31	(45)	(72)
Other comprehensive loss for the period	**(1 030)**	(1 744)	(41)	(2 053)
Total comprehensive income for the period	**12 366**	10 819	14	24 086
Attributable to				
Ordinary equityholders	**11 729**	10 213	15	22 574
NCNR preference shareholders	**177**	181	(2)	356
Equityholders of the group	**11 906**	10 394	15	22 930
Non-controlling interests	**460**	425	8	1 156
Total comprehensive income for the period	**12 366**	10 819	14	24 086

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION – IFRS

R million	As at 31 December 2017	As at 31 December 2016*	As at 30 June 2017*
ASSETS			
Cash and cash equivalents	**65 805**	65 983	68 483
Derivative financial instruments	**53 586**	35 721	35 459
Commodities	**15 489**	9 110	14 380
Investment securities	**188 840**	166 245	167 427
Advances	**927 732**	864 171	893 106
– Advances to customers	**874 476**	821 384	848 649
– Marketable advances	**53 256**	42 787	44 457
Accounts receivable	**9 443**	9 514	8 878
Current tax asset	**356**	509	147
Non-current assets and disposal groups held for sale	**498**	833	580
Reinsurance assets	**133**	81	89
Investments in associates	**5 726**	5 173	5 924
Investments in joint ventures	**1 946**	1 458	1 430
Property and equipment	**17 859**	17 591	17 512
Intangible assets	**1 663**	1 689	1 686
Investment properties	**675**	399	399
Defined benefit post-employment asset	**5**	8	5
Deferred income tax asset	**1 936**	2 003	2 202
Total assets	**1 291 692**	1 180 488	1 217 707
EQUITY AND LIABILITIES			
Liabilities			
Short trading positions	**15 266**	13 874	15 276
Derivative financial instruments	**58 102**	45 499	44 403
Creditors, accruals and provisions	**16 449**	16 739	17 014
Current tax liability	**415**	536	277
Liabilities directly associated with disposal groups held for sale	**–**	508	195
Deposits	**1 040 042**	952 121	983 529
– Deposits from customers	**749 388**	678 118	699 674
– Debt securities	**203 243**	172 472	194 542
– Asset-backed securities	**36 953**	38 382	35 445
– Other	**50 458**	63 149	53 868
Employee liabilities	**8 270**	7 316	9 884
Other liabilities	**6 511**	7 674	6 385
Policyholder liabilities	**4 315**	3 296	3 795
Tier 2 liabilities	**20 048**	20 146	18 933
Deferred income tax liability	**958**	1 005	832
Total liabilities	**1 170 376**	1 068 714	1 100 523
Equity			
Ordinary shares	**56**	56	56
Share premium	**7 985**	8 034	7 960
Reserves	**104 912**	95 317	100 868
Capital and reserves attributable to ordinary equityholders	**112 953**	103 407	108 884
NCNR preference shares	**4 519**	4 519	4 519
Capital and reserves attributable to equityholders of the group	**117 472**	107 926	113 403
Non-controlling interests	**3 844**	3 848	3 781
Total equity	**121 316**	111 774	117 184
Total equities and liabilities	**1 291 692**	1 180 488	1 217 707

* *Restated, refer to pages 123 and 124 for more detailed information.*

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS – IFRS

R million	Six months ended 31 December 2017	Six months ended 31 December 2016	Year ended 30 June 2017
Cash generated from operating activities			
Interest and fee commission receipts	**58 490**	53 326	108 306
Trading and other income	**1 410**	1 378	2 857
Interest payments	**(19 724)**	(17 308)	(35 285)
Other operating expenses	**(19 182)**	(18 183)	(35 106)
Dividends received	**2 889**	2 441	5 971
Dividends paid	**(7 806)**	(6 800)	(13 650)
Dividends paid to non-controlling interests	**(289)**	(480)	(1 099)
Cash generated from operating activities	**15 788**	14 374	31 994
Movement in operating assets and liabilities			
Liquid assets and trading securities	**(21 231)**	(23 372)	(24 588)
Advances	**(42 808)**	(21 869)	(59 143)
Deposits	**61 484**	37 909	71 085
Creditors (net of debtors)	**(1 150)**	543	3 262
Employee liabilities	**(4 902)**	(4 956)	(5 337)
Other net liabilities	**(4 947)**	4 323	(319)
Taxation paid	**(4 113)**	(3 891)	(8 237)
Net cash generated from/(utilised by) operating activities	**(1 879)**	3 061	8 717
Cash flows from investing activities			
Acquisition of investments in associates	**(176)**	(88)	(98)
Proceeds on disposal of investments in associates	**11**	1	38
Acquisition of investments in joint ventures	**(354)**	(44)	(44)
Proceeds on disposal of investments in joint ventures	**–**	16	17
Acquisition of investments in subsidiaries	**–**	–	(257)
Proceeds on disposal of investments in subsidiaries	**212**	–	1 815
Acquisition of property and equipment	**(1 934)**	(2 585)	(4 581)
Proceeds on disposal of property and equipment	**218**	198	514
Acquisition of intangible assets and investment properties	**(101)**	(237)	(434)
Proceeds on disposal of intangible assets and investment properties	**–**	(8)	–
Proceeds on disposal of non-current assets held for sale	**219**	246	170
Net cash outflow from investing activities	**(1 905)**	(2 501)	(2 860)
Cash flows from financing activities			
Issue/(redemption) of other liabilities	**656**	(232)	(1 675)
Proceeds from the issue of Tier 2 liabilities	**1 121**	2 153	941
Acquisition of additional interest in subsidiaries from non-controlling interests	**(23)**	(43)	(162)
Issue of share of additional interest in subsidiaries from non-controlling interests	**23**	129	–
Net cash inflow from financing activities	**1 777**	2 007	(896)
Net (decrease)/increase in cash and cash equivalents	**(2 007)**	2 567	4 961
Cash and cash equivalents at the beginning of the period	**68 483**	64 303	64 303
Effect of exchange rate changes on cash and cash equivalents	**(671)**	(767)	(763)
Transfer to non-current assets held for sale	**–**	(120)	(18)
Cash and cash equivalents at the end of the period	**65 805**	65 983	68 483
Mandatory reserve balances included above*	**25 919**	24 048	24 749

* *Banks are required to deposit a minimum average balance, calculated monthly with the central bank, which is not available for use in the group's day-to-day operations. The deposit bears no or low interest. Money at short notice constitutes amounts withdrawable in 32 days or less.*

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – IFRS

for the six months ended 31 December

	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	56	7 952	**8 008**	(930)	308
Net proceeds of issue of share capital and premium	–	–	**–**	–	–
Proceeds from the issue of share capital	–	–	**–**	–	–
Share issue expenses	–	–	**–**	–	–
Disposal of subsidiaries	–	–	**–**	–	–
Movement in other reserves	–	–	**–**	–	–
Ordinary dividends	–	–	**–**	–	–
Preference dividends	–	–	**–**	–	–
Transfer from/(to) general risk reserves	–	–	**–**	–	–
Changes in ownership interest of subsidiaries	–	–	**–**	–	–
Consolidation of treasury shares	–	82	**82**	–	–
Total comprehensive income for the period	–	–	**–**	(82)	45
Balance as at 31 December 2016	56	8 034	**8 090**	(1 012)	353
Balance as at 1 July 2017	56	7 960	**8 016**	(761)	158
Net proceeds of issue of share capital and premium	–	–	**–**	–	–
Proceeds from the issue of share capital	–	–	**–**	–	–
Share issue expenses	–	–	**–**	–	–
Disposal of subsidiaries	–	–	**–**	–	–
Movement in other reserves	–	–	**–**	–	–
Ordinary dividends	–	–	**–**	–	–
Preference dividends	–	–	**–**	–	–
Transfer (to)/from general risk reserves	–	–	**–**	–	–
Changes in ownership interest of subsidiaries	–	–	**–**	–	–
Consolidation of treasury shares	–	25	**25**	–	–
Total comprehensive income for the period	–	–	**–**	(43)	(99)
Balance as at 31 December 2017	56	7 985	**8 041**	(804)	59

	Ordinary share capital and ordinary equityholders' funds								
	Share-based payment reserve	Available-for-sale reserve	Foreign currency translation reserve	Other reserves	Retained earnings	**Reserves attributable to ordinary equity-holders**	**NCNR preference shares**	**Non-controlling interests**	**Total equity**
	9	(441)	3 310	374	89 107	**91 737**	**4 519**	**3 801**	**108 065**
	–	–	–	–	–	**–**	**–**	**129**	**129**
	–	–	–	–	–	**–**	**–**	**130**	**130**
	–	–	–	–	–	**–**	**–**	**(1)**	**(1)**
	–	–	–	–	–	**–**	**–**	**–**	**–**
	2	–	–	54	(44)	**12**	**–**	**(10)**	**2**
	–	–	–	–	(6 619)	**(6 619)**	**–**	**(480)**	**(7 099)**
	–	–	–	–	–	**–**	**(181)**	**–**	**(181)**
	–	–	–	7	(7)	**–**	**–**	**–**	**–**
	–	–	–	–	(26)	**(26)**	**–**	**(17)**	**(43)**
	–	–	–	–	–	**–**	**–**	**–**	**82**
	–	(197)	(1 395)	(47)	11 889	**10 213**	**181**	**425**	**10 819**
	11	(638)	1 915	388	94 300	**95 317**	**4 519**	**3 848**	**111 774**
	9	(715)	1 690	462	100 025	**100 868**	**4 519**	**3 781**	**117 184**
	–	–	–	–	–	**–**	**–**	**23**	**23**
	–	–	–	–	–	**–**	**–**	**23**	**23**
	–	–	–	–	–	**–**	**–**	**–**	**–**
	–	–	–	–	–	**–**	**–**	**(27)**	**(27)**
	–	–	–	238	(180)	**58**	**–**	**(79)**	**(21)**
	–	–	–	–	(7 629)	**(7 629)**	**–**	**(289)**	**(7 918)**
	–	–	–	–	–	**–**	**(177)**	**–**	**(177)**
	–	–	–	(8)	8	**–**	**–**	**–**	**–**
	–	–	–	–	(103)	**(103)**	**–**	**(25)**	**(128)**
	–	–	–	–	(11)	**(11)**	**–**	**–**	**14**
	–	(86)	(841)	49	12 749	**11 729**	**177**	**460**	**12 366**
	9	(801)	849	741	104 859	**104 912**	**4 519**	**3 844**	**121 316**

STATEMENT OF HEADLINE EARNINGS – IFRS

R million	Six months ended 31 December 2017	Six months ended 31 December 2016	% change	Year ended 30 June 2017
Profit for the period (refer page 106)	**13 396**	12 563	7	26 139
NCNR preference shareholders	**(177)**	(181)	(2)	(356)
Non-controlling interests	**(470)**	(493)	(5)	(1 211)
Earnings attributable to ordinary equityholders	**12 749**	11 889	7	24 572
Adjusted for:	**(176)**	(30)	>100	(810)
Gain on disposal of investment securities of a capital nature	**(31)**	–		(3)
Gain on disposal of available-for-sale assets	**(22)**	(64)		(52)
Loss on disposal of non-private equity associates	**–**	4		5
Impairment of non-private equity associates	**–**	–		4
(Gain)/loss on disposal of investments in subsidiaries	**(97)**	6		(1 817)
Loss on reclassification of non-current assets and disposal groups held for sale which were not sold	**–**	–		95
(Gain)/loss on disposal of property and equipment	**(27)**	9		14
Fair value movement on investment properties	**(4)**	–		–
Impairment of goodwill	**–**	–		119
Impairment of assets in terms of IAS 36	**–**	1		370
Other	**(30)**	(1)		–
Tax effects of adjustments	**13**	15		26
Non-controlling interests adjustments	**22**	–		429
Headline earnings	**12 573**	11 859	6	23 762

RECONCILIATION FROM HEADLINE TO NORMALISED EARNINGS

R million	Six months ended 31 December		% change	Year ended 30 June
	2017	2016		2017
Headline earnings	**12 573**	11 859	6	23 762
Adjusted for	**(112)**	(213)	(47)	709
TRS and IFRS 2 liability remeasurement*	**(137)**	(166)		(63)
Treasury shares**	**8**	7		(12)
IAS 19 adjustment	**(56)**	(54)		(117)
Private equity-related#	**73**	–		901
Normalised earnings	**12 461**	11 646	7	24 471

* *The group uses a TRS with external parties to economically hedge itself against the exposure to changes in the FirstRand share price associated with the group'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 period, FirstRand's share price increased by R20.10 and during the prior period increased by R8.33.
This resulted in a significant mark-to-market fair value profit in the current period being included in the group'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 103 to 105.

** *Includes FirstRand shares held for client trading activities.*

\# *Realisation of private equity subsidiaries net of private equity-related goodwill and other asset impairments.*

RECONCILIATION OF NORMALISED TO IFRS CONDENSED CONSOLIDATED INCOME STATEMENT

for the six months ended 31 December 2017

R million	Normalised	Private equity expenses	Treasury shares*	Margin related items included in fair value income
Net interest income before impairment of advances	**24 565**	–	–	(878)
Impairment charge	**(4 052)**	–	–	–
Net interest income after impairment of advances	**20 513**	–	–	(878)
Total non-interest revenue	**20 002**	201	(8)	878
– Operational non-interest revenue	**19 514**	201	(13)	878
– Share of profit of associates and joint ventures after tax	**488**	–	5	–
Income from operations	**40 515**	201	(8)	–
Operating expenses	**(23 033)**	(201)	–	–
Income before tax	**17 482**	–	(8)	–
Indirect tax	**(478)**	–	–	–
Profit before tax	**17 004**	–	(8)	–
Income tax expense	**(3 894)**	–	–	–
Profit for the period	**13 110**	–	(8)	–
Attributable to				
NCNR preference shareholders	**(177)**	–	–	–
Non-controlling interests	**(472)**	–	–	–
Ordinary equityholders of the group	**12 461**	–	(8)	–
Headline and normalised earnings adjustments	**–**	–	8	
Normalised earnings attributable to ordinary equityholders of the group	**12 461**	–	–	–

* *FirstRand shares held for client trading activities.*

IAS 19 adjustment	Private equity subsidiary realisations	Other headline earnings adjustments	TRS and IFRS 2 liability remeasurement	IFRS
–	–	–	47	**23 734**
–	–	–	–	**(4 052)**
–	–	–	47	**19 682**
–	(97)	211	695	**21 882**
–	(97)	211	695	**21 389**
–	–	–	–	**493**
–	(97)	211	742	**41 564**
78	–	–	(552)	**(23 708)**
78	(97)	211	190	**17 856**
–	–	–	–	**(478)**
78	(97)	211	190	**17 378**
(22)	–	(13)	(53)	**(3 982)**
56	(97)	198	137	**13 396**
–	–	–	–	**(177)**
–	24	(22)	–	**(470)**
56	(73)	176	137	**12 749**
(56)	73	(176)	(137)	**(288)**
–	–	–	–	**12 461**

RECONCILIATION OF NORMALISED TO IFRS CONDENSED CONSOLIDATED INCOME STATEMENT

for the six months ended 31 December 2016

R million	Normalised	Private equity expenses	Treasury shares*	Margin related items included in fair value income
Net interest income before impairment of advances	23 243	–	–	(1 043)
Impairment charge	(3 741)	–	–	–
Net interest income after impairment of advances	19 502	–	–	(1 043)
Total non-interest revenue	18 132	282	(7)	1 043
– Operational non-interest revenue	17 663	282	(8)	1 043
– Share of profit of associates and joint ventures after tax	469	–	1	–
Income from operations	37 634	282	(7)	–
Operating expenses	(21 246)	(282)	–	–
Income before tax	16 388	–	(7)	–
Indirect tax	(573)	–	–	–
Profit before tax	15 815	–	(7)	–
Income tax expense	(3 495)	–	–	–
Profit for the period	12 320	–	(7)	–
Attributable to				
NCNR preference shareholders	(181)	–	–	–
Non-controlling interests	(493)	–	–	–
Ordinary equityholders of the group	11 646	–	(7)	–
Headline and normalised earnings adjustments	–	–	7	–
Normalised earnings attributable to ordinary equityholders of the group	11 646	–	–	–

* *FirstRand shares held for client trading activities.*

IAS 19 adjustment	Private equity subsidiary realisations	Other headline earnings adjustments	TRS and IFRS 2 liability remeasurement	IFRS
–	–	–	–	22 200
–	–	–	–	(3 741)
–	–	–	–	18 459
–	–	46	485	19 981
–	–	49	485	19 514
–	–	(3)	–	467
–	–	46	485	38 440
75	–	(1)	(254)	(21 708)
75	–	45	231	16 732
–	–	–	–	(573)
75	–	45	231	16 159
(21)	–	(15)	(65)	(3 596)
54	–	30	166	12 563
–	–	–	–	(181)
–	–	–	–	(493)
54	–	30	166	11 889
(54)	–	(30)	(166)	(243)
–	–	–	–	11 646

RECONCILIATION OF NORMALISED TO IFRS CONDENSED CONSOLIDATED INCOME STATEMENT

for the year ended 30 June 2017

R million	Normalised	Private equity expenses	Treasury shares*	Margin related items included in fair value income
Net interest income before impairment of advances	46 626	–	–	(1 796)
Impairment charge	(8 054)	–	–	–
Net interest income after impairment of advances	38 572	–	–	(1 796)
Total non-interest revenue	39 268	745	12	1 796
– Operational non-interest revenue	38 227	745	11	1 796
– Share of profit of associates and joint ventures after tax	1 041	–	1	–
Income from operations	77 840	745	12	–
Operating expenses	(43 773)	(314)	–	–
Income before tax	34 067	431	12	–
Indirect tax	(1 081)	–	–	–
Profit before tax	32 986	431	12	–
Income tax expense	(6 951)	–	–	–
Profit for the year	26 035	431	12	–
Attributable to				
NCNR preference shareholders	(356)	–	–	–
Non-controlling interests	(1 208)	–	–	–
Ordinary equityholders of the group	24 471	431	12	–
Headline and normalised earnings adjustments	–	(431)**	(12)	–
Normalised earnings attributable to ordinary equityholders of the group	24 471	–	–	–

* *FirstRand shares held for client trading activities.*
** *Private equity-related goodwill and other asset impairments.*

IAS 19 adjustment	Private equity subsidiary realisations	Other headline earnings adjustments	TRS and IFRS 2 liability remeasurement	IFRS
–	–	–	87	44 917
–	–	–	–	(8 054)
–	–	–	87	36 863
–	(1 788)	1 849	78	41 960
–	(1 788)	1 853	78	40 922
–	–	(4)	–	1 038
–	(1 788)	1 849	165	78 823
163	–	(584)	(77)	(44 585)
163	(1 788)	1 265	88	34 238
–	–	–	–	(1 081)
163	(1 788)	1 265	88	33 157
(46)	30	(26)	(25)	(7 018)
117	(1 758)	1 239	63	26 139
–	–	–	–	(356)
–	426	(429)	–	(1 211)
117	(1 332)	810	63	24 572
(117)	1 332	(810)	(63)	(101)
–	–	–	–	24 471

RECONCILIATION OF NORMALISED TO IFRS CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2017

R million	Normalised	Treasury shares*	IFRS
ASSETS			
Cash and cash equivalents	**65 805**	–	**65 805**
Derivative financial instruments	**53 586**	–	**53 586**
Commodities	**15 489**	–	**15 489**
Investment securities	**188 928**	(88)	**188 840**
Advances	**927 732**	–	**927 732**
– Advances to customers	**874 476**	–	**874 476**
– Marketable advances	**53 256**	–	**53 256**
Accounts receivable	**9 443**	–	**9 443**
Current tax asset	**356**	–	**356**
Non-current assets and disposal groups held for sale	**498**	–	**498**
Reinsurance assets	**133**	–	**133**
Investments in associates	**5 726**	–	**5 726**
Investments in joint ventures	**1 890**	56	**1 946**
Property and equipment	**17 859**	–	**17 859**
Intangible assets	**1 663**	–	**1 663**
Investment properties	**675**	–	**675**
Defined benefit post-employment asset	**5**	–	**5**
Deferred income tax asset	**1 936**	–	**1 936**
Total assets	**1 291 724**	(32)	**1 291 692**
EQUITY AND LIABILITIES			
Liabilities			
Short trading positions	**15 266**	–	**15 266**
Derivative financial instruments	**58 102**	–	**58 102**
Creditors, accruals and provisions	**16 449**	–	**16 449**
Current tax liability	**415**	–	**415**
Liabilities directly associated with disposal groups held for sale	**–**	–	**–**
Deposits	**1 040 042**	–	**1 040 042**
– Deposits from customers	**749 388**	–	**749 388**
– Debt securities	**203 243**	–	**203 243**
– Asset-backed securities	**36 953**	–	**36 953**
– Other	**50 458**	–	**50 458**
Employee liabilities	**8 270**	–	**8 270**
Other liabilities	**6 511**	–	**6 511**
Policyholder liabilities	**4 315**	–	**4 315**
Tier 2 liabilities	**20 048**	–	**20 048**
Deferred income tax liability	**958**	–	**958**
Total liabilities	**1 170 376**	–	**1 170 376**
Equity			
Ordinary shares	**56**	–	**56**
Share premium	**8 056**	(71)	**7 985**
Reserves	**104 873**	39	**104 912**
Capital and reserves attributable to ordinary equityholders	**112 985**	(32)	**112 953**
NCNR preference shares	**4 519**	–	**4 519**
Capital and reserves attributable to equityholders of the group	**117 504**	(32)	**117 472**
Non-controlling interests	**3 844**	–	**3 844**
Total equity	**121 348**	(32)	**121 316**
Total equities and liabilities	**1 291 724**	(32)	**1 291 692**

* *FirstRand shares held for client trading activities.*

RECONCILIATION OF NORMALISED TO IFRS CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2016

R million	Normalised	Treasury shares*	IFRS
ASSETS			
Cash and cash equivalents	65 983	–	65 983
Derivative financial instruments	35 721	–	35 721
Commodities	9 110	–	9 110
Investment securities	166 270	(25)	166 245
Advances	864 171	–	864 171
– Advances to customers	821 384	–	821 384
– Marketable advances	42 787		42 787
Accounts receivable	9 514	–	9 514
Current tax asset	509	–	509
Non-current assets and disposal groups held for sale	833	–	833
Reinsurance assets	81	–	81
Investments in associates	5 173	–	5 173
Investments in joint ventures	1 407	51	1 458
Property and equipment	17 591	–	17 591
Intangible assets	1 689	–	1 689
Investment properties	399	–	399
Defined benefit post-employment asset	8	–	8
Deferred income tax asset	2 003	–	2 003
Total assets	1 180 462	26	1 180 488
EQUITY AND LIABILITIES			
Liabilities			
Short trading positions	13 874	–	13 874
Derivative financial instruments	45 499	–	45 499
Creditors, accruals and provisions**	16 739	–	16 739
Current tax liability	536	–	536
Liabilities directly associated with disposal groups held for sale	508	–	508
Deposits**	952 121	–	952 121
– Deposits from customers	678 118	–	678 118
– Debt securities	172 472	–	172 472
– Asset-backed securities	38 382	–	38 382
– Other	63 149	–	63 149
Employee liabilities	7 316	–	7 316
Other liabilities	7 674	–	7 674
Policyholder liabilities	3 296	–	3 296
Tier 2 liabilities	20 146	–	20 146
Deferred income tax liability	1 005	–	1 005
Total liabilities	1 068 714	–	1 068 714
Equity			
Ordinary shares	56	–	56
Share premium	8 056	(22)	8 034
Reserves	95 269	48	95 317
Capital and reserves attributable to ordinary equityholders	103 381	26	103 407
NCNR preference shares	4 519	–	4 519
Capital and reserves attributable to equityholders of the group	107 900	26	107 926
Non-controlling interests	3 848	–	3 848
Total equity	111 748	26	111 774
Total equities and liabilities	1 180 462	26	1 180 488

* *FirstRand shares held for client trading activities.*
** *Restated, refer to pages 123 and 124 for more detailed information.*

RECONCILIATION OF NORMALISED TO IFRS CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 June 2017

R million	Normalised	Treasury shares*	IFRS
ASSETS			
Cash and cash equivalents	68 483	–	68 483
Derivative financial instruments	35 459	–	35 459
Commodities	14 380	–	14 380
Investment securities	167 516	(89)	167 427
Advances	893 106	–	893 106
– Advances to customers	848 649	–	848 649
– Marketable advances	44 457	–	44 457
Accounts receivable	8 878	–	8 878
Current tax asset	147	–	147
Non-current assets and disposal groups held for sale	580	–	580
Reinsurance assets	89	–	89
Investments in associates	5 924	–	5 924
Investments in joint ventures	1 379	51	1 430
Property and equipment	17 512	–	17 512
Intangible assets	1 686	–	1 686
Investment properties	399	–	399
Defined benefit post-employment asset	5	–	5
Deferred income tax asset	2 202	–	2 202
Total assets	1 217 745	(38)	1 217 707
EQUITY AND LIABILITIES			
Liabilities			
Short trading positions	15 276	–	15 276
Derivative financial instruments	44 403	–	44 403
Creditors, accruals and provisions	17 014	–	17 014
Current tax liability	277	–	277
Liabilities directly associated with disposal groups held for sale	195	–	195
Deposits**	983 529	–	983 529
– Deposits from customers	699 674	–	699 674
– Debt securities	194 542	–	194 542
– Asset-backed securities	35 445	–	35 445
– Other	53 868	–	53 868
Employee liabilities	9 884	–	9 884
Other liabilities	6 385	–	6 385
Policyholder liabilities	3 795	–	3 795
Tier 2 liabilities	18 933	–	18 933
Deferred income tax liability	832	–	832
Total liabilities	1 100 523	–	1 100 523
Equity			
Ordinary shares	56	–	56
Share premium	8 056	(96)	7 960
Reserves	100 810	58	100 868
Capital and reserves attributable to ordinary equityholders	108 922	(38)	108 884
NCNR preference shares	4 519	–	4 519
Capital and reserves attributable to equityholders of the group	113 441	(38)	113 403
Non-controlling interests	3 781	–	3 781
Total equity	117 222	(38)	117 184
Total equities and liabilities	1 217 745	(38)	1 217 707

* *FirstRand shares held for client trading activities.*

** *Restated, refer to pages 123 and 124 for more detailed information.*

RESTATEMENT OF PRIOR YEAR NUMBERS

DESCRIPTION OF RESTATEMENTS

The group made the following changes to the presentation of deposits.

Accrued interest on deposits

The group previously recognised accrued interest on certain deposits as part of creditors, accruals and provisions in the statement of financial position. During the current financial period, accrued interest was reclassified to deposits. This is more in line with the group's current practice for advances where the accrued interest is recognised as part of the carrying value of the underlying financial instrument.

Classification of debt securities

The SARB issued guidance clarifying that negotiable notes with an issue price, a redemption/maturity date and redemption price or face value should be classified as debt securities rather than deposits from customers. The group reclassified certain issued notes to align the regulatory and statutory reporting requirements.

These changes in presentation had no impact on the profit or loss or net asset value of the group and only affected the classification of items on the statement of financial position.

RESTATED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION – IFRS

	As at 31 December 2016				As at 30 June 2017		
R million	As previously reported	Debt securities	Accrued interest on deposits	Restated	As previously reported	Debt securities	Restated
ASSETS							
Cash and cash equivalents	65 983	–	–	65 983	68 483	–	68 483
Derivative financial instruments	35 721	–	–	35 721	35 459	–	35 459
Commodities	9 110	–	–	9 110	14 380	–	14 380
Investment securities	166 245	–	–	166 245	167 427	–	167 427
Advances	864 171	–	–	864 171	893 106	–	893 106
– Advances to customers	821 384	–	–	821 384	848 649	–	848 649
– Marketable advances	42 787	–	–	42 787	44 457	–	44 457
Accounts receivable	9 514	–	–	9 514	8 878	–	8 878
Current tax asset	509	–	–	509	147	–	147
Non-current assets and disposal groups held for sale	833	–	–	833	580	–	580
Reinsurance assets	81	–	–	81	89	–	89
Investments in associates	5 173	–	–	5 173	5 924	–	5 924
Investments in joint ventures	1 458	–	–	1 458	1 430	–	1 430
Property and equipment	17 591	–	–	17 591	17 512	–	17 512
Intangible assets	1 689	–	–	1 689	1 686	–	1 686
Investment properties	399	–	–	399	399	–	399
Defined benefit post-employment asset	8	–	–	8	5	–	5
Deferred income tax asset	2 003	–	–	2 003	2 202	–	2 202
Total assets	1 180 488	–	–	1 180 488	1 217 707	–	1 217 707
EQUITY AND LIABILITIES							
Liabilities							
Short trading positions	13 874	–	–	13 874	15 276	–	15 276
Derivative financial instruments	45 499	–	–	45 499	44 403	–	44 403
Creditors, accruals and provisions	16 890	–	(151)	16 739	17 014	–	17 014
Current tax liability	536	–	–	536	277	–	277
Liabilities directly associated with disposal groups held for sale	508	–	–	508	195	–	195
– Deposits	951 970	–	151	952 121	983 529	–	983 529
– Deposits from customers	693 053	(14 950)	15	678 118	715 101	(15 427)	699 674
– Debt securities	157 522	14 950	–	172 472	179 115	15 427	194 542
– Asset-backed securities	38 382	–	–	38 382	35 445	–	35 445
– Other	63 013	–	136	63 149	53 868	–	53 868
Employee liabilities	7 316	–	–	7 316	9 884	–	9 884
Other liabilities	7 674	–	–	7 674	6 385	–	6 385
Policyholder liabilities	3 296	–	–	3 296	3 795	–	3 795
Tier 2 liabilities	20 146	–	–	20 146	18 933	–	18 933
Deferred income tax liability	1 005	–	–	1 005	832	–	832
Total liabilities	1 068 714	–	–	1 068 714	1 100 523	–	1 100 523
Equity							
Ordinary shares	56	–	–	56	56	–	56
Share premium	8 034	–	–	8 034	7 960	–	7 960
Reserves	95 317	–	–	95 317	100 868	–	100 868
Capital and reserves attributable to ordinary equityholders	103 407	–	–	103 407	108 884	–	108 884
NCNR preference shares	4 519	–	–	4 519	4 519	–	4 519
Capital and reserves attributable to equityholders of the group	107 926	–	–	107 926	113 403	–	113 403
Non-controlling interests	3 848	–	–	3 848	3 781	–	3 781
Total equity	111 774	–	–	111 774	117 184	–	117 184
Total equities and liabilities	1 180 488	–	–	1 180 488	1 217 707	–	1 217 707

FAIR VALUE MEASUREMENTS

VALUATION METHODOLOGY

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

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

Non-recurring fair value measurements

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

- classification of assets and liabilities as non-current assets or disposal groups held for sale under IFRS 5 where the recoverable amount is based on the fair value less costs to sell;
- IFRS 3 assets and liabilities measured at fair value at acquisition date in terms of IFRS 3; and
- Assets where the recoverable amount is based on the fair value less costs to sell, in terms of IAS 36.

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

Financial instruments

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

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

Financial instruments not measured at fair value

This category includes assets and liabilities not measured at fair value but for which fair value disclosures are required under another IFRS e.g. financial instruments at amortised cost. Except for the amounts included on page 140, for all other financial instruments at amortised cost the carrying value is equal to or a reasonable approximation of the fair value.

FAIR VALUE HIERARCHY AND MEASUREMENTS

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

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

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

FAIR VALUE MEASUREMENTS continued

FAIR VALUE HIERARCHY AND MEASUREMENTS *continued*

Measurement of assets and liabilities at level 2

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

INSTRUMENT	VALUATION TECHNIQUE	DESCRIPTION OF VALUATION TECHNIQUE AND MAIN ASSUMPTIONS	OBSERVABLE INPUTS
Derivative financial instruments			
Forward rate agreements	Discounted cash flows	Future cash flows are projected using a forward curve and then discounted using a market-related discount curve over the contractual period. The reset date is determined in terms of legal documents.	Market interest rates, interest rate curves and credit spreads
Swaps	Discounted cash flows	Future cash flows are projected using a forward curve and then discounted using a market-related discount curve over the contractual period. The reset date of each cash flow is determined in terms of legal documents.	Market interest rates and interest rate, credit and currency basis curves
Options	Option pricing model	The Black Scholes model is used.	Strike price of the option, market related discount rate and forward rate
Forwards	Discounted cash flows	Future cash flows are projected using a forward curve and then discounted using a market-related discount curve over the contractual period. Projected cash flows are obtained by subtracting the strike price of the forward contract from the market projected forward value.	Spot price of underlying instrument, interest rate curves and dividend yield
Equity derivatives	Industry standard models	The models calculate fair value based on input parameters such as share prices, dividends, volatilities, interest rates, equity repo curves and, for multi-asset products, correlations. Unobservable model inputs are determined by reference to liquid market instruments and applying extrapolation techniques to match the appropriate risk profile.	Market interest rates, interest rate curves, volatilities, dividends and share prices
Loans and advances to customers			
Other loans and advances	Discounted cash flows	Future cash flows are discounted using market-related interest rates adjusted for credit inputs, over the contractual period. In the event that credit spreads are observable for a counterparty, loans and advances to customers are classified as level 2 of the fair value hierarchy.	Market interest rates, interest rate curves and credit spreads
Investment securities			
Equities listed in an inactive market	Discounted cash flows	For listed equities, the listed price is used where the market is active (i.e. level 1). However, if the market is not active and the listed price is not representative of fair value, a valuation technique is used to determine the fair value. The valuation technique will be based on risk parameters of comparable securities and the potential pricing difference in spread and/or price terms with the traded comparable is considered. Future cash flows are discounted using market-related interest rates. Where the valuation technique incorporates observable inputs, level 2 of the fair value hierarchy is deemed appropriate.	Market interest rates and interest rate curves

FAIR VALUE HIERARCHY AND MEASUREMENTS *continued*

INSTRUMENT	VALUATION TECHNIQUE	DESCRIPTION OF VALUATION TECHNIQUE AND MAIN ASSUMPTIONS	OBSERVABLE INPUTS
Investment securities *continued*			
Unlisted bonds or bonds listed in an inactive market	Discounted cash flows	Unlisted bonds or bonds listed in an inactive market are valued similarly to advances measured at fair value. Future cash flows are discounted using market-related interest rates adjusted for credit inputs, over the contractual period. Where the valuation technique incorporates observable inputs for credit risk, level 2 of the fair value hierarchy is deemed appropriate.	Market interest rates and interest rate curves
Unlisted equities	Price earnings (P/E) model and discounted cash flows	For unlisted equities, the earnings included in the model are derived from a combination of historical and budgeted earnings depending on the specific circumstances of the entity whose equity is being valued. The P/E multiple is derived from current market observations taking into account an appropriate discount for unlisted companies. The valuation of these instruments may be corroborated by a discounted cash flow valuation or by the observation of other market transactions that have taken place in which case level 2 classifications are used.	Market transactions
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	JSE Debt Market bond pricing model	The JSE Debt Market bond pricing model uses the JSE Debt Market mark-to-market bond yield.	Market interest rates and interest rate curves
Non-recourse investments	Discounted cash flows	Future cash flows are discounted using a discount rate which is determined as a base rate plus a spread. The base rate is determined by the legal agreements as either a bond or swap curve. The spread approximates the level of risk attached to the cash flows. When there is a change in the base rate in the market, the valuation is adjusted accordingly. The valuation model is calibrated to reflect transaction price at initial recognition.	Market interest rates and interest rate curves
Investments in funds and unit trusts	Third party valuations	For certain investments in funds (such as hedge funds) or unit trusts, where an internal valuation technique is not applied, the group places reliance on valuations from third parties such as broker quotes or valuations from asset managers. Where considered necessary, the group applies minority and marketability or liquidity discount adjustments to these third party valuations. Third party valuations are reviewed by the relevant franchise's investment committee on a regular basis. Where these underlying investments are listed, these third party valuations can be corroborated with reference to listed share prices and other market data and are thus classified in level 2 of the fair value hierarchy.	Market transactions (listed)

FAIR VALUE MEASUREMENTS continued

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

FAIR VALUE HIERARCHY AND MEASUREMENTS *continued*

Measurement of assets and liabilities at level 3

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

INSTRUMENT	VALUATION TECHNIQUE	DESCRIPTION OF VALUATION TECHNIQUE AND MAIN ASSUMPTIONS	SIGNIFICANT UNOBSERVABLE INPUTS OF LEVEL 3 ITEMS
Derivative financial instruments			
Option	Option pricing model	The Black Scholes model is used.	Volatilities
Equity derivatives	Industry standard models	The models calculate fair value based on input parameters such as share prices, dividends, volatilities, interest rates, equity repo curves and, for multi-asset products, correlations. Unobservable model inputs are determined by reference to liquid market instruments and applying extrapolation techniques to match the appropriate risk profile.	Volatilities and unlisted share prices
Loans and advances to customers			
Investment banking book	Discounted cash flows	The group has elected to designate a significant portion of the investment banking book of advances at fair value through profit or loss. Credit risk is not observable and could have a significant impact on the fair value measurement of these advances and as such, these advances are classified as level 3 on the fair value hierarchy. Future cash flows are discounted using market-related interest rates, adjusted for credit inputs. To calculate the fair value of credit the group uses a valuation methodology based on the credit spread matrix, which considers loss given default, tenor and the internal credit committee rating criteria. The fair value measurement includes the original credit spread and is repriced when there is a change in rating of the counterparty. A decline in credit rating would result in an increase in the spread above the base rate for discounting purposes and consequently a reduction of the fair value of the advance. Similarly, an increase in credit rating would result in a decrease in the spread below the base rate and an increase of the fair value of the advance.	Credit inputs
Other loans and advances	Discounted cash flows	Future cash flows are discounted using market-related interest rates adjusted for credit inputs, over the contractual period. Although the fair value of credit is not significant year-on-year it may become significant in future. For this reason, together with the fact that the majority of South African counterparties do not have actively traded or observable credit spreads, the group has classified other loans and advances to customers at level 3 of the fair value hierarchy.	Credit inputs

FAIR VALUE MEASUREMENTS continued

INSTRUMENT	VALUATION TECHNIQUE	DESCRIPTION OF VALUATION TECHNIQUE AND MAIN ASSUMPTIONS	SIGNIFICANT UNOBSERVABLE INPUTS OF LEVEL 3 ITEMS
Investment securities			
Equities listed in an inactive market	Discounted cash flows	For listed equities, the listed price is used where the market is active (i.e. level 1). However, if the market is not active and the listed price is not representative of fair value, a valuation technique is used to determine the fair value. The valuation technique will be based on risk parameters of comparable securities and the potential pricing difference in spread and/or price terms with the traded comparable is considered. Future cash flows are discounted using market-related interest rates. Where the valuation technique incorporates unobservable inputs for equities, e.g. PE ratios, level 3 of the fair value hierarchy is deemed appropriate.	Unobservable P/E ratios
Unlisted bonds or bonds listed in an inactive market	Discounted cash flows	Unlisted bonds or bonds in an inactive market are valued similarly to advances measured at fair value. Future cash flows are discounted using market-related interest rates adjusted for credit inputs, over the contractual period. Where the valuation technique incorporates unobservable inputs for credit risk, level 3 of the fair value hierarchy is deemed appropriate.	Credit inputs
Unlisted equities	P/E model and discounted cash flows	For unlisted equities, the earnings included in the model are derived from a combination of historical and budgeted earnings depending on the specific circumstances of the entity whose equity is being valued. The P/E multiple is derived from current market observations taking into account an appropriate discount rate for unlisted companies. The valuation of these instruments may be corroborated by a discounted cash flow valuation or by the observation of other market transactions that have taken place.	Growth rates and P/E ratios
Investments in funds and unit trusts	Third party valuations	For certain investments in funds (such as hedge funds) or unit trusts, where an internal valuation technique is not applied, the group places reliance on valuations from third parties such as broker quotes or valuations from asset managers. Where considered necessary, the group applies minority and marketability or liquidity discount adjustments to these third party valuations. Third party valuations are reviewed by the relevant franchise's investment committee on a regular basis. Where these underlying investments are unlisted, the group has classified these at level 3 of the fair value hierarchy, as there is no observable market data to which to compare the third party valuations.	None (unlisted) – third party valuations used, minority and marketability adjustments
Investment properties	Adjusted market prices	The fair value of investment properties is determined by obtaining a valuation from an independent professional valuer not related to the group. This fair value is based on observable market prices adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. Variables are obtained through surveys and comparable recent market transactions not publicly quoted. These valuations are reviewed annually by a combination of independent and internal valuation experts. The fair value is based on unobservable income capitalisation rate inputs. These rates are impacted predominantly by expected market rental growth, contract tenure, occupancy rates and vacant periods that arise on expiry of existing contracts. The fair value of these properties will change favourably with increases in the expected market rental growth, contract tenure and occupancy rates and decreases in the average vacant period; and unfavourably if the inverse occurs.	Income capitalisation rates

FAIR VALUE HIERARCHY AND MEASUREMENTS *continued*

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

Non-recurring fair value measurements

For non-recurring fair value measurements, the fair value hierarchy classification and valuation technique applied in determining fair value will depend on the underlying asset or liability being measured. Where the underlying assets or liabilities are those for which recurring fair value measurements are required as listed in the table above, the technique applied and the inputs into the models would be in line with those as set out in the table. Where the underlying assets or liabilities are not items for which recurring fair value measurements are required, for example, property and equipment or intangible assets, the carrying value is considered to be equal to or a reasonable approximation of the fair value. This will be assessed per transaction.

There were two business combination transactions resulting in investments in subsidiaries at 30 June 2017. The assets and liabilities of these subsidiaries were measured at fair value on acquisition date and classified as level 2 and 3 on the fair value hierarchy, depending on the nature of the assets and liabilities. Further details were provided in note 29 of the published June 2017 annual financial statements.

An investment in a subsidiary was classified as a disposal group held for sale at 30 June 2017. The assets and liabilities in the disposal group were measured at fair value less costs to sell and classified as level 2 and level 3 on the fair value hierarchy, depending on the nature of the specific underlying asset and liability. Further details were provided in note 14 of the published June 2017 annual financial statements.

For the financial year ended 30 June 2017, impairments were recognised for assets that were measured at fair value on a non-recurring basis.

For the financial periods ended 31 December 2016 and 31 December 2017, there were no assets measured at fair value on a non-recurring basis.

FAIR VALUE MEASUREMENTS continued

FAIR VALUE HIERARCHY AND MEASUREMENTS *continued*

Fair value hierarchy

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

	As at 31 December 2017			
R million	Level 1	Level 2	Level 3	Total fair value
Assets				
Recurring fair value measurements				
Derivative financial instruments	747	52 769	70	53 586
Advances	–	22 206	187 460	209 666
Investment securities	115 309	32 005	1 937	149 251
Non-recourse investments	–	10 302	–	10 302
Commodities	15 489	–	–	15 489
Investment properties	–	–	942	942
Total fair value assets	131 545	117 282	190 409	439 236
Liabilities				
Recurring fair value measurements				
Short trading positions	15 266	–	–	15 266
Derivative financial instruments	481	57 402	220	58 103
Deposits	1 905	81 259	681	83 845
Non-recourse deposits	–	10 302	–	10 302
Other liabilities	–	2 320	1 533	3 853
Policyholder liabilities under investment contracts	–	3 506	–	3 506
Total fair value liabilities	17 652	154 789	2 434	174 875

FAIR VALUE HIERARCHY AND MEASUREMENTS *continued*

	As at 31 December 2016			
R million	Level 1	Level 2	Level 3	Total fair value
Assets				
Recurring fair value measurements				
Derivative financial instruments	242	35 409	70	35 721
Advances	–	30 150	214 504	244 654
Investment securities	90 117	37 135	2 416	129 668
Non-recourse investments	–	11 426	–	11 426
Commodities	9 110	–	–	9 110
Investment properties	–	–	399	399
Total fair value assets	99 469	114 120	217 389	430 978
Liabilities				
Recurring fair value measurements				
Short trading positions	13 874	–	–	13 874
Derivative financial instruments	260	45 080	159	45 499
Deposits	2 019	87 196	521	89 736
Non-recourse deposits	–	11 426	–	11 426
Other liabilities	–	3 989	1 498	5 487
Policyholder liabilities under investment contracts	–	2 746	–	2 746
Total fair value liabilities	16 153	150 437	2 178	168 768

FAIR VALUE MEASUREMENTS continued

FAIR VALUE HIERARCHY AND MEASUREMENTS *continued*

	As at 30 June 2017			
R million	Level 1	Level 2	Level 3	Total fair value
Assets				
Recurring fair value measurements				
Derivative financial instruments	268	35 183	8	35 459
Advances	–	31 236	199 179	230 415
Investment securities	86 118	38 931	2 230	127 279
Non-recourse investments	–	10 369	–	10 369
Commodities	14 380	–	–	14 380
Investment properties	–	–	399	399
Total fair value assets – recurring	100 766	115 719	201 816	418 301
Non-recurring fair value measurements				
Assets acquired in a business combination	–	49	166	215
Non-current assets and disposal groups held for sale	–	188	79	267
Total fair value assets – non-recurring	–	237	245	482
Total financial assets measured at fair value	100 766	115 956	202 061	418 783
Liabilities				
Recurring fair value measurements				
Short trading positions	15 276	–	–	15 276
Derivative financial instruments	307	43 863	233	44 403
Deposits	1 962	75 482	536	77 980
Non-recourse deposits	–	10 369	–	10 369
Other liabilities	–	2 226	1 543	3 769
Policyholder liabilities under investment contracts	–	3 150	–	3 150
Total fair value liabilities – recurring	17 545	135 090	2 312	154 947
Non-recurring fair value measurements				
Liabilities acquired in business combinations	–	–	215	215
Liabilities associated with disposal groups held for sale	–	123	–	123
Total fair value liabilities – non-recurring	–	123	215	338
Total financial liabilities measured at fair value	17 545	135 213	2 527	155 285

ADDITIONAL DISCLOSURES FOR LEVEL 3 FINANCIAL INSTRUMENTS

Transfers between fair value hierarchy levels

There were no transfers in or out of the various levels for the financial periods ended 31 December 2016 and 31 December 2017.

The following represents the significant transfers into levels 1, 2 and 3 and the reasons for these transfers for the year ended 30 June 2017. Transfers between levels of the fair value hierarchy are deemed to occur at the beginning of the reporting period.

	As at 30 June 2017		
R million	Transfers in	Transfers out	Reasons for significant transfers in
Level 1	–	–	There were no transfers into level 1.
Level 2	–	(38)	There were no transfers into level 2.
Level 3	38	–	The JSE publishes volatilities of strike prices of options between 70% and 130%. Any volatility above or below this range results in inputs becoming unobservable. During the year ended 30 June 2017, 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)	

FAIR VALUE MEASUREMENTS continued

ADDITIONAL DISCLOSURES FOR LEVEL 3 FINANCIAL INSTRUMENTS *continued*

Changes in level 3 instruments with recurring fair value measurements

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

R million	**Derivative financial assets**	**Advances**	**Investment securities**	**Investment properties**	**Derivative financial liabilities**	**Other liabilities**	**Deposits**
Balance as at 30 June 2017	**8**	**199 179**	**2 230**	**399**	**233**	**1 543**	**536**
Gains/losses recognised in profit or loss	**73**	**7 729**	**43**	**4**	**18**	**59**	**(7)**
Gains/losses recognised in other comprehensive income	**–**	**(1)**	**(5)**	**–**	**–**	**–**	**–**
Purchases, sales, issue and settlements	**(11)**	**(19 092)**	**(325)**	**–**	**(31)**	**(69)**	**156**
Acquisitions/disposals of subsidiaries	**–**	**–**	**–**	**539**	**–**	**–**	**–**
Transfer into level 3	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Exchange rate differences	**–**	**(355)**	**(6)**	**–**	**–**	**–**	**(4)**
Balance as at 31 December 2017	**70**	**187 460**	**1 937**	**942**	**220**	**1 533**	**681**

R million	Derivative financial assets	Advances	Investment securities	Investment properties	Derivative financial liabilities	Other liabilities	Deposits
Balance as at 30 June 2016	62	204 736	2 380	386	128	1 479	679
Gains/losses recognised in profit or loss	8	6 205	7	–	–	71	(7)
Gains/losses recognised in other comprehensive income	–	–	5	–	–	–	–
Purchases, sales, issue and settlements	–	4 247	37	13	31	(52)	(147)
Acquisitions/disposals of subsidiaries	–	–	–	–	–	–	–
Transfer into level 3	–	–	–	–	–	–	–
Exchange rate differences	–	(684)	(13)	–	–	–	(4)
Balance as at 31 December 2016	70	214 504	2 416	399	159	1 498	521

R million	Derivative financial assets	Advances	Investment securities	Investment properties	Derivative financial liabilities	Other liabilities	Deposits
Balance as at 30 June 2016	62	204 736	2 380	386	128	1 479	679
Gains/losses recognised in profit or loss	(54)	15 295	80	–	71	175	(33)
Gains/losses recognised in other comprehensive income	–	(1)	(21)	–	–	–	–
Purchases, sales, issue and settlements	–	(18 910)	(192)	13	(5)	(110)	(103)
Acquisitions/disposals of subsidiaries	–	(947)	–	–	–	–	–
Transfer into level 3	–	–	–	–	38	–	–
Exchange rate differences	–	(994)	(17)	–	1	(1)	(7)
Balance as at 30 June 2017	8	199 179	2 230	399	233	1 543	536

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

ADDITIONAL DISCLOSURES FOR LEVEL 3 FINANCIAL INSTRUMENTS *continued*

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.

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.

	Six months ended 31 December 2017		Six months ended 31 December 2016		Year ended 30 June 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	Gains/losses recognised in the income statement	Gains/losses recognised in other comprehensive income
Assets						
Derivative financial instruments	**73**	**–**	9	–	8	–
Advances*	**5 839**	**(1)**	6 436	–	12 148	(1)
Investment securities	**23**	**(5)**	6	–	257	(21)
Investment properties	**4**	**–**	–	–	–	–
Total	**5 939**	**(6)**	6 451	–	12 413	(22)
Liabilities						
Derivative financial instruments	**18**	**–**	–	–	(72)	–
Deposits	**(7)**	**–**	(7)	–	(27)	–
Other liabilities	**59**	**–**	54	–	97	–
Total	**70**	**–**	47	–	(2)	–

* *Amount is mainly accrued interest on fair value loans and advances and movements in interest rates and foreign currency that have been economically hedged. This is the portion of RMB's advances that are classified as fair value to effectively manage the interest rate and foreign exchange risk on these portfolios. These are classified as level 3 primarily as credit spreads could be a significant input, and are not observable for loans and advances in most of RMB's key markets. Refer to page 73 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.

FAIR VALUE MEASUREMENTS continued

ADDITIONAL DISCLOSURES FOR LEVEL 3 FINANCIAL INSTRUMENTS *continued*

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

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

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

ADDITIONAL DISCLOSURES FOR LEVEL 3 FINANCIAL INSTRUMENTS *continued*

	Reasonably possible alternative fair value								
	As at 31 December 2017			As at 31 December 2016			As at 30 June 2017		
R million	Fair value	Using more positive assumptions	Using more negative assumptions	Fair value	Using more positive assumptions	Using more negative assumptions	Fair value	Using more positive assumptions	Using more negative assumptions
Assets									
Derivative financial instruments	**70**	**71**	**69**	70	77	63	8	11	4
Advances	**187 460**	**188 073**	**187 028**	214 504	215 504	213 456	199 179	199 854	198 783
Investment securities	**1 937**	**2 050**	**1 844**	2 416	2 659	2 189	2 230	2 394	2 100
Total financial assets measured at fair value in level 3	**189 467**	**190 194**	**188 941**	216 990	218 240	215 708	201 417	202 259	200 887
Liabilities									
Derivative financial instruments	**220**	**179**	**224**	159	151	167	233	227	246
Deposits	**681**	**671**	**692**	521	475	583	536	526	547
Other liabilities	**1 533**	**1 516**	**1 551**	1 498	1 480	1 646	1 543	1 526	1 561
Total financial liabilities measured at fair value in level 3	**2 434**	**2 366**	**2 467**	2 178	2 106	2 396	2 312	2 279	2 354

FAIR VALUE MEASUREMENTS continued

FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE

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

	As at 31 December 2017				
R million	**Carrying value**	**Total fair value**	**Level 1**	**Level 2**	**Level 3**
Assets					
Advances	**718 066**	**723 431**	**–**	**123 890**	**599 541**
Investment securities	**29 287**	**29 567**	**24 563**	**4 001**	**1 003**
Total financial assets at amortised cost	**747 353**	**752 998**	**24 563**	**127 891**	**600 544**
Liabilities					
Deposits	**945 895**	**946 769**	**2 351**	**937 774**	**6 644**
Other liabilities	**2 651**	**2 651**	**–**	**1 129**	**1 522**
Tier 2 liabilities	**20 048**	**20 412**	**–**	**20 412**	**–**
Total financial liabilities at amortised cost	**968 594**	**969 832**	**2 351**	**959 315**	**8 166**

	As at 31 December 2016				
R million	Carrying value	Total fair value	Level 1	Level 2	Level 3
Assets					
Advances	619 517	625 247	–	143 547	481 700
Investment securities	25 152	24 855	16 299	8 556	–
Total financial assets at amortised cost	644 669	650 102	16 299	152 103	481 700
Liabilities					
Deposits	850 808	849 437	8 650	837 501	3 286
Other liabilities	2 167	2 167	–	1 004	1 163
Tier 2 liabilities	20 146	20 339	–	20 339	–
Total financial liabilities at amortised cost	873 121	871 943	8 650	858 844	4 449

	As at 30 June 2017				
R million	Carrying value	Total fair value	Level 1	Level 2	Level 3
Assets					
Advances	662 691	667 600	–	105 381	562 219
Investment securities	29 779	29 843	22 121	6 995	727
Total financial assets at amortised cost	692 470	697 443	22 121	112 376	562 946
Liabilities					
Deposits	895 180	897 677	41	888 725	8 911
Other liabilities	2 602	2 601	–	967	1 634
Tier 2 liabilities	18 933	19 242	–	19 242	–
Total financial liabilities at amortised cost	916 715	919 520	41	908 934	10 545

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.

	As at 31 December		As at 30 June
R million	**2017**	2016	2017
Opening balance	**51**	39	39
Day 1 profits or losses not recognised on financial instruments initially recognised in the current year	**2**	11	17
Amount recognised in profit or loss as a result of changes which would be observable by market participants	**–**	(2)	(5)
Closing balance	**53**	48	51

CONDENSED SEGMENT REPORT – IFRS

	Six months ended 31 December 2017								
	FNB		RMB						
R million	FNB	FNB Africa	Investment banking	Corporate banking	WesBank	FCC (including Group Treasury) and other	FirstRand group normalised	Normalised adjustments	Total
Profit before tax	**9 864**	**566**	**3 489**	**961**	**2 705**	**(581)**	**17 004**	**374**	**17 378**
Total assets	**364 073**	**49 024**	**405 983**	**54 861**	**216 648**	**201 135**	**1 291 724**	**(32)**	**1 291 692**
Total liabilities	**353 438**	**48 891**	**397 558**	**53 570**	**212 567**	**104 352**	**1 170 376**	**–**	**1 170 376**

	Six months ended 31 December 2016								
	FNB		RMB						
R million	FNB	FNB Africa	Investment banking	Corporate banking	WesBank	FCC (including Group Treasury) and other	FirstRand group normalised	Normalised adjustments	Total
Profit before tax	8 820	547	3 134	877	2 755	(318)	15 815	344	16 159
Total assets	345 805	48 853	378 971	42 379	203 848	160 606	1 180 462	26	1 180 488
Total liabilities	336 049	48 431	370 296	41 227	200 556	72 155	1 068 714	–	1 068 714

	Year ended 30 June 2017								
	FNB		RMB						
R million	FNB	FNB Africa	Investment banking	Corporate banking	WesBank	FCC (including Group Treasury) and other	FirstRand group normalised	Normalised adjustments	Total
Profit before tax	17 744	880	8 028	1 731	5 612	(1 009)	32 986	171	33 157
Total assets	351 978	49 959	386 048	45 872	214 222	169 666	1 217 745	(38)	1 217 707
Total liabilities	333 698	49 982	377 316	43 634	207 809	88 084	1 100 523	–	1 100 523

supplementary information

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HEADLINE EARNINGS ADDITIONAL DISCLOSURE

Set out below is additional information pertaining to Section 1 of *Circular 02/2015- Sector-Specific Rules for Headline Earnings*.

ISSUE 1 – RE-MEASUREMENT RELATING TO PRIVATE EQUITY ACTIVITIES (ASSOCIATES AND JOINT VENTURES, EXCLUDING ANY PRIVATE EQUITY INVESTMENTS CARRIED AT FAIR VALUE IN TERMS OF IAS 39) REGARDED AS OPERATING OR TRADING ACTIVITIES

	Six months ended 31 December			Year ended 30 June
R million	2017	2016	% change	2017
Aggregate cost of portfolio	**2 106**	1 734	21	1 701
Aggregate carrying value	**3 837**	3 733	3	3 762
Aggregate fair value*	**7 214**	7 316	(1)	8 048
Equity-accounted income**	**269**	262	3	580
Profit on realisation#	**36**	40	(10)	63

* *Aggregate fair value is disclosed including non-controlling interests.*
** *Income from associates and joint ventures is disclosed post-tax.*
# *Profit on realisation is disclosed post-tax and non-controlling interests.*

ISSUE 2 – CAPITAL APPRECIATION ON INVESTMENT PRODUCTS

	Six months ended 31 December			Year ended 30 June
R million	2017	2016	% change	2017
Carrying value of investment properties	**675**	399	69	399
Fair value of investment properties	**675**	399	69	399

CONTINGENCIES AND COMMITMENTS

	As at 31 December			As at 30 June
R million	**2017**	2016	% change	2017
Contingencies and commitments				
Guarantees (endorsements and performance guarantees)	**35 028**	40 317	(13)	34 006
Letters of credit	**8 329**	6 318	32	6 731
Total contingencies	**43 357**	46 635	(7)	40 737
Irrevocable commitments	**114 604**	115 381	(1)	119 325
Committed capital expenditure	**2 659**	1 736	53	3 936
Operating lease commitments	**3 742**	4 101	(9)	3 779
Other	**222**	318	(30)	306
Contingencies and commitments	**164 584**	168 171	(2)	168 083
Commitments				
Commitments in respect of capital expenditure and long-term investments approved by the directors	**2 659**	1 736	53	3 936

NUMBER OF ORDINARY SHARES IN ISSUE

	Six months ended 31 December				Year ended 30 June	
	2017		2016		2017	
	IFRS	**Normalised**	IFRS	Normalised	IFRS	Normalised
Shares in issue						
Opening balance as at 1 July	**5 609 488 001**	**5 609 488 001**	5 609 488 001	5 609 488 001	5 609 488 001	5 609 488 001
Less: treasury shares	**(1 314 888)**	**–**	(473 626)	–	(311 919)	–
– Shares for client trading*	**(1 314 888)**	**–**	(473 626)	–	(311 919)	–
Number of shares in issue (after treasury shares)	**5 608 173 113**	**5 609 488 001**	5 609 014 375	5 609 488 001	5 609 176 082	5 609 488 001
Weighted average number of shares						
Weighted average number of shares before treasury shares	**5 609 488 001**	**5 609 488 001**	5 609 488 001	5 609 488 001	5 609 488 001	5 609 488 001
Less: treasury shares	**(1 656 596)**	**–**	(1 075 586)	–	(1 480 934)	–
– Shares for client trading*	**(1 656 596)**	**–**	(1 075 586)	–	(1 480 934)	–
Basic and diluted weighted average number of shares in issue	**5 607 831 405**	**5 609 488 001**	5 608 412 415	5 609 488 001	5 608 007 067	5 609 488 001

* *For normalised reporting, shares held for client trading activities are treated as externally issued.*

KEY MARKET INDICATORS AND SHARE STATISTICS

	Six months ended 31 December			Year ended 30 June
	2017	2016	% change	2017
Market indicators				
USD/ZAR exchange rate				
– Closing	**12.29**	13.72	(10)	13.10
– Average	**13.38**	13.98	(4)	13.58
GBP/ZAR exchange rate				
– Closing	**16.60**	16.86	(2)	17.00
– Average	**17.63**	17.85	(1)	17.21
SA prime overdraft (%)	**10.25**	10.50		10.50
SA average prime overdraft (%)	**10.28**	10.50		10.50
SA average CPI (%)	**4.77**	6.30		6.04
JSE All Share Index	**59 505**	50 654	17	51 611
JSE Banks Index	**9 619**	7 755	24	7 140
Share statistics				
Share price				
– High for the year (cents)	**6 725**	5 446	23	5 446
– Low for the year (cents)	**4 669**	4 198	11	4 198
– Closing (cents)	**6 725**	5 317	26	4 715
Shares traded				
– Number of shares (millions)	**1 568**	1 813	(14)	3 537
– Value of shares (R million)	**85 692**	87 342	(2)	171 871
– Turnover in shares traded (%)	**27.96**	32.33		63.07
Share price performance				
FirstRand average share price (cents)	**5 408**	4 836	12	4 914
JSE Bank Index (average)	**7 946**	7 145	11	7 287
JSE All Share Index (average)	**56 893**	51 646	10	52 090

COMPANY INFORMATION

DIRECTORS

LL Dippenaar (chairman), JP Burger (chief executive officer), AP Pullinger (deputy chief executive officer), HS Kellan (financial director), MS Bomela, HL Bosman, JJ Durand, GG Gelink, PM Goss, NN Gwagwa, PK Harris, WR Jardine, F Knoetze, RM Loubser, PJ Makosholo, TS Mashego, EG Matenge-Sebesho, AT Nzimande

COMPANY SECRETARY AND REGISTERED OFFICE

C Low
4 Merchant Place, Corner Fredman Drive and Rivonia Road
Sandton 2196
PO Box 650149, Benmore 2010
Tel: +27 11 282 1808
Fax: +27 11 282 8088
Website: www.firstrand.co.za

JSE SPONSOR

Rand Merchant Bank (a division of FirstRand Bank Limited)
Corporate Finance
1 Merchant Place, Corner Fredman Drive and Rivonia Road
Sandton 2196
Tel: +27 11 282 8000
Fax: +27 11 282 4184

NAMIBIAN SPONSOR

Simonis Storm Securities (Pty) Ltd
4 Koch Street
Klein Windhoek
Namibia

TRANSFER SECRETARIES – SOUTH AFRICA

Computershare Investor Services (Pty) Ltd
1st Floor, Rosebank Towers
15 Biermann Avenue
Rosebank 2196
PO Box 61051, Marshalltown 2107
Tel: +27 11 370 5000
Fax: +27 11 688 5248

TRANSFER SECRETARIES – NAMIBIA

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4 Robert Mugabe Avenue, Windhoek
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4 Lisbon Lane
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2090

Deloitte & Touche
Building 8, Deloitte Place
The Woodlands, Woodlands Drive
Woodmead, Sandton

LISTED FINANCIAL INSTRUMENTS

LISTED EQUITY INSTRUMENTS

Johannesburg Stock Exchange (JSE)

ORDINARY SHARES		
Issuer	**Share code**	**ISIN code**
FirstRand Limited	FSR	ZAE000066304

NON-CUMULATIVE NON-REDEEMABLE B PREFERENCE SHARES		
Issuer	**Share code**	**ISIN code**
FirstRand Limited	FSRP	ZAE000060141

Namibian Stock Exchange (NSX)

ORDINARY SHARES		
Issuer	**Share code**	**ISIN code**
FirstRand Limited	FST	ZAE000066304
FNB Namibia Holdings Limited	FNB	NA0003475176

Botswana Stock Exchange (BSE)

ORDINARY SHARES		
Issuer	**Share code**	**ISIN code**
First National Bank of Botswana Limited	FNBB	BW0000000066

LISTED DEBT INSTRUMENTS

Issuer: FirstRand Bank Limited

JSE

Domestic medium term note programme

BOND CODE	ISIN CODE
Subordinated debt	
FRB05	ZAG000031337
FRB12	ZAG000116278
FRB13	ZAG000116286
FRB14	ZAG000116294
FRB15	ZAG000124199
Senior unsecured	
FRBZ01	ZAG000049255
FRBZ02	ZAG000072711
FRBZ03	ZAG000080029
FRJ18	ZAG000084187
FRJ19	ZAG000104563
FRJ20	ZAG000109596
FRJ21	ZAG000115858
FRJ22	ZAG000142498
FRJ25	ZAG000124256
FRJ27	ZAG000141912
FRS36	ZAG000077397
FRS37	ZAG000077793
FRS43	ZAG000078643
FRS46	ZAG000079807
FRS49	ZAG000081787
FRS51	ZAG000086117
FRS62	ZAG000090614

BOND CODE	ISIN CODE
Subordinated debt	
FRB16	ZAG000127622
FRB17	ZAG000127630
FRB18	ZAG000135229
FRB19	ZAG000135310
FRB20	ZAG000135385
Senior unsecured	
FRS101	ZAG000111774
FRS103	ZAG000111840
FRS104	ZAG000111857
FRS108	ZAG000113515
FRS109	ZAG000113564
FRS110	ZAG000113663
FRS112	ZAG000115395
FRS113	ZAG000115478
FRS114	ZAG000116070
FRS115	ZAG000116740
FRS119	ZAG000118951
FRS120	ZAG000119298
FRS121	ZAG000120643
FRS122	ZAG000121062
FRS123	ZAG000121328
FRS124	ZAG000122953
FRS126	ZAG000125188

BOND CODE	ISIN CODE
Subordinated debt	
FRB21	ZAG000140856
FRB22	ZAG000141219
FRB23	ZAG000146754
FRBC21	ZAG000052283
FRBC22	ZAG000052390
Senior unsecured	
FRS137	ZAG000127549
FRS138	ZAG000127556
FRS142	ZAG000130782
FRS143	ZAG000130790
FRS145	ZAG000131483
FRS146	ZAG000134636
FRS147	ZAG000135724
FRS149	ZAG000136573
FRS150	ZAG000136615
FRS151	ZAG000136987
FRS152	ZAG000136995
FRS153	ZAG000137670
FRS157	ZAG000144197
FRS158	ZAG000145012
FRS159	ZAG000145020
FRS160	ZAG000145038
FRS64	ZAG000092529

LISTED FINANCIAL INSTRUMENTS continued

LISTED DEBT INSTRUMENTS *continued*

BOND CODE	ISIN CODE
Senior unsecured	
FRS81	ZAG000100892
FRS85	ZAG000104985
FRS86	ZAG000105008
FRS87	ZAG000105420
FRS90	ZAG000106410
FRS94	ZAG000107871
FRS96	ZAG000108390
FRS100	ZAG000111634
FRS170	ZAG000145954
FRS171	ZAG000147448
FRS172	ZAG000147455
FRS173	ZAG000148180
FRS174	ZAG000148198
FRX18	ZAG000076472
FRS127	ZAG000125394
Inflation-linked bonds	
FRBI22	ZAG000079666
FRBI23	ZAG000076498
FRBI25	ZAG000109588
FRBI28	ZAG000079237
Credit-linked notes	
FRC66	ZAG000088485
FRC69	ZAG000088766
FRC71	ZAG000088923
FRC107	ZAG000094574
FRC163	ZAG000102898
FRC166	ZAG000103573
FRC167	ZAG000104019
FRC168	ZAG000104753
FRC169	ZAG000104852
FRC170	ZAG000105586
FRC171	ZAG000105719
FRC172	ZAG000105818
FRC174	ZAG000105891
FRC176	ZAG000107178
FRC177	ZAG000107632
FRC178	ZAG000107897
FRC179	ZAG000108168
FRC181	ZAG000108549
FRC183	ZAG000109356
FRC185	ZAG000111451
FRC188	ZAG000111873
FRC189	ZAG000112145
Structured notes	
FRPT01	ZAE000205480

BOND CODE	ISIN CODE
Senior unsecured	
FRS129	ZAG000125865
FRS130	ZAG000125873
FRS131	ZAG000126186
FRS132	ZAG000126194
FRS133	ZAG000126541
FRS134	ZAG000126574
FRS135	ZAG000126608
FRS136	ZAG000126780
FRX19	ZAG000073685
FRX20	ZAG000109604
FRX23	ZAG000104969
FRX24	ZAG000073693
FRX26	ZAG000112160
FRX27	ZAG000142506
FRS161	ZAG000145046
Inflation-linked bonds	
FRBI29	ZAG000145608
FRBI33	ZAG000079245
FRBI46	ZAG000135302
FRBI50	ZAG000141649
Credit-linked notes	
FRC192	ZAG000114521
FRC195	ZAG000114745
FRC206	ZAG000116088
FRC207	ZAG000117649
FRC208	ZAG000117656
FRC209	ZAG000118613
FRC210	ZAG000120296
FRC212	ZAG000121054
FRC213	ZAG000121047
FRC215	ZAG000121021
FRC219	ZAG000121138
FRC221	ZAG000121229
FRC225	ZAG000121435
FRC231	ZAG000125030
FRC233	ZAG000128752
FRC234	ZAG000130816
FRC236	ZAG000135211
FRC237	ZAG000135203
FRC238	ZAG000135237
FRC239	ZAG000135245
FRC240	ZAG000135252
FRC241	ZAG000135393
Structured notes	
FKR01	ZAE000193454

BOND CODE	ISIN CODE
Senior unsecured	
FRS162	ZAG000145111
FRS163	ZAG000145129
FRS164	ZAG000145160
FRS165	ZAG000145178
FRS166	ZAG000145756
FRS167	ZAG000145764
FRS168	ZAG000145772
FRS169	ZAG000145780
FRX30	ZAG000124264
FRX31	ZAG000084195
FRX32	ZAG000142514
FRX45	ZAG000104969
Inflation-linked bonds	
FRI33	ZAG000141706
FRI38	ZAG000141862
Credit-linked notes	
FRC242	ZAG000135401
FRC243	ZAG000135419
FRC244	ZAG000135427
FRC245	ZAG000135468
FRC246	ZAG000135476
FRC247	ZAG000135484
FRC248	ZAG000135450
FRC249	ZAG000135542
FRC250	ZAG000135559
FRC251	ZAG000141813
FRC252	ZAG000142225
FRC254	ZAG000144825
FRC255	ZAG000145566
FRC256	ZAG000145806
FRC257	ZAG000146564
FRC258	ZAG000146580
FRC259	ZAG000147414
FRC260	ZAG000147596
FRC261	ZAG000147653
FRC262	ZAG000147646
FRC263	ZAG000148230

Issuer: FirstRand Bank Limited
London Stock Exchange (LSE)
European medium term note programme

ISIN CODE
Senior unsecured
XS0610341967
XS1225512026
XS1178685084

Issuer: FirstRand Bank Limited
Swiss Stock Exchange (SIX)

ISIN CODE
Senior unsecured
CH0238315680

Issuer: First National Bank of Namibia Limited
JSE

BOND CODE	ISIN CODE
Senior unsecured	
FRJ20Z	ZAG000142803
FRJ22Z	ZAG000142902

Issuer: First National Bank of Namibia Limited
NSX
Domestic medium term note programme

ISIN CODE
Senior unsecured
NA000A188PX0
NA000A188PW2
NA000A188PV4
NA000A19FKU3
NA000A188PY8
NA000A19FKV1

Issuer: First National Bank of Botswana Limited
BSE
Domestic medium term note programme

BOND CODE	ISIN CODE
Subordinated debt	
FNBB007	BW0000001668
FNBB008	BW0000001700

BOND CODE	ISIN CODE
Senior unsecured	
FNBB005	BW0000001510
FNBB006	BW0000001528
FNBB009	BW0000001916

DEFINITIONS

Additional Tier 1 capital (AT1)	Non-cumulative non-redeemable (NCNR) preference share capital plus 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.
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.
CET1	Common Equity Tier 1 capital.
CIB	RMB corporate and investment banking.
CLF	Committed liquidity facility.
DIS	Deposit insurance scheme.
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.

ABBREVIATIONS continued

M&S	Markets and structuring.
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.
P/E	Price earnings.
RMB	Rand Merchant Bank.
ROA	Return on assets.
ROE	Return on equity.
RPS	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.
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.

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