Nedbank Limited
Reg No 1951/000009/06
Incorporated in the Republic of South Africa
JSE share code: NBKP
ISIN: ZAE 000043667

Preliminary audited results
for the year ended 31 December 2016

OVERVIEW

Nedbank Limited ('Nedbank') is a wholly owned subsidiary of Nedbank Group Limited ('Nedbank Group'), which is listed on JSE Limited. These summary consolidated financial results are published on SENS to provide information to holders of Nedbank's listed non-redeemable non-cumulative preference shares.

Commentary relating to the Nedbank summary consolidated financial results is included in the Nedbank Group results, as presented to shareholders on 28 February 2017. Further information is provided on the website at nedbankgroup.co.za.

BOARD AND GROUP EXECUTIVE CHANGES

Following his retirement from Old Mutual plc, Paul Hanratty stepped down as a non-executive director of Nedbank Group and Nedbank ('companies') on 12 March 2016. With effect from 1 August 2016 Errol Kruger was appointed as an independent non-executive director of the companies and Rob Leith, the Director of Managed Separation at Old Mutual plc, was appointed as a non-executive director of the companies with effect from 13 October 2016.

As a result of increasing time constraints from their respective overseas and local business commitments, Tom Boardman and David Adomakoh have notified the boards of their intention to resign as independent non-executive directors with effect from the close of Nedbank Group's Annual General Meeting on Thursday, 18 May 2017.

Ciko Thomas was appointed Managing Executive of Nedbank Retail and Business Banking (RBB) with effect from 1 April 2016 following the early retirement of Philip Wessels. Ciko has been a part of the RBB leadership team and a member of the Group Executive Committee for the past six years. Sandile Shabalala resigned as Managing Executive of Business Banking and as a member of our Group Executive Committee with effect from 2 September 2016.

ACCOUNTING POLICIES*

Nedbank is a company domiciled in SA. The summary consolidated financial results of the group at and for the period ended 31 December 2016 comprise the company and its subsidiaries ('group') and the group's interests in associates and joint arrangements.

The summary consolidated financial statements contained in the Securities Exchange News Service (SENS) announcement have been extracted from the audited consolidated financial statements. The summary consolidated financial statements have been prepared in accordance with the provisions of the JSE Listings Requirements for preliminary reports and the Companies Act applicable to summary financial statements.

The JSE Listings Requirements require preliminary reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS), the South African Institute of Chartered Accountants Financial Reporting Guides as issued by the Accounting Practices Committee, and Financial Pronouncements as issued by the Financial Reporting Standards Council and also, as a minimum, to contain the disclosure required by International Accounting Standard 34: Interim Financial Reporting. The accounting policies applied in the preparation of the consolidated financial statements, from which the summary consolidated financial statements were derived, are in terms of the IFRS and are consistent with the accounting policies that were applied in the preparation of the previous consolidated financial statements.

The summary consolidated financial results have been prepared under the supervision of Raisibe Morathi CA(SA), the Chief Financial Officer. The directors take full responsibility for the preparation of the summary consolidated financial results and for correctly extracting the financial information from those underlying audited consolidated financial statements for inclusion in the 2016 year-end results booklet and SENS announcement.

EVENTS AFTER THE REPORTING PERIOD*

There are no material events after the reporting period to report on.

AUDITED SUMMARY CONSOLIDATED FINANCIAL STATEMENTS – INDEPENDENT AUDITORS' OPINION

The summary consolidated financial statements comprise the summary consolidated statement of financial position at 31 December 2016, summary consolidated statement of comprehensive income, summary consolidated statement of changes in equity and summary consolidated statement of cashflows for the year then ended and selected explanatory notes, which are included by the symbol *.

These summary consolidated financial statements for the year ended 31 December 2016 have been audited by KPMG Inc and Deloitte & Touche, who expressed an unmodified opinion thereon. The auditors also expressed an unmodified opinion on the consolidated financial statements from which these summary consolidated financial statements were derived.

A copy of the auditors' report on the summary consolidated financial statements and of the auditors' report on the consolidated financial statements are available for inspection at the company's registered office, together with the consolidated financial statements identified in the respective auditors' reports.

The auditors' report does not necessarily report on all of the information contained in the 2016 year-end results booklet and SENS announcement. Shareholders are therefore advised that, to obtain a full understanding of the nature of the auditors' engagement, they should obtain a copy of the auditors' report, together with the accompanying financial statements, from Nedbank's registered office.

FORWARD-LOOKING STATEMENTS

This announcement contains certain forward-looking statements with respect to the financial condition and results of operations of Nedbank and its group companies that, by their nature, involve risk and uncertainty because they relate to events and depend on circumstances that may or may not occur in the future. Factors that could cause actual results to differ materially from those in the forward-looking statements include global, national and regional economic conditions; levels of securities markets; interest rates; exchange rates; credit or other risks of lending and investment activities; as well as competitive and regulatory factors. By consequence, all forward-looking statements have not been reviewed or reported on by the group's auditors.

NEDBANK NON-REDEEMABLE NON-CUMULATIVE PREFERENCE SHARES – DECLARATION OF DIVIDEND NO 28

Notice is hereby given that gross preference dividend no 28 of 43,98905 cents per share has been declared for the period from 1 July 2016 to 31 December 2016, payable on Monday, 3 April 2017, to shareholders of the Nedbank non-redeemable non-cumulative preference shares recognised in the accounting records of the company at the close of business on Friday, 31 March 2017. The dividend has been declared out of income reserves.

The dividend will be subject to a dividend withholding tax rate of 20% (applicable in SA), resulting in a net dividend of 35,19124 cents per share to those shareholders who are not exempt from paying dividend tax. In 2015 and 2016, the dividend withholding tax rate was 15% and this increased to 20% on 22 February 2017. Nedbank's tax reference number is 9250/083/71/5 and the number of preference shares in issue at the date of declaration is 358 277 491.

In accordance with the provisions of Strate, the electronic settlement and custody system used by JSE Limited, the relevant dates for the payment of the dividend are as follows:

Last day to trade (cum dividend)	Tuesday, 28 March 2017
Shares commence trading (ex dividend)	Wednesday, 29 March 2017
Record date (date shareholders recorded in books)	Friday, 31 March 2017
Payment date	Monday, 3 April 2017

Share certificates may not be dematerialised or rematerialised between Wednesday, 29 March 2017, and Friday, 31 March 2017, both days inclusive.

Where applicable, dividends in respect of certificated shares will be transferred electronically to shareholders' bank accounts on the payment date. In the absence of specific mandates, dividend cheques will be posted to shareholders. Shareholders who have dematerialised their share certificates will have their accounts at their participant or broker credited on Monday, 3 April 2017.

For and on behalf of the board

Vassi Naidoo	**Mike Brown**
Chairman	Chief Executive

28 February 2017

Registered office
Nedbank 135 Rivonia Campus, 135 Rivonia Road, Sandown, Sandton, 2196;
PO Box 1144, Johannesburg, 2000.

Transfer secretaries
Computershare Investor Services (Pty) Limited, 15 Biermann Avenue, Rosebank, Johannesburg, 2196, SA.
PO Box 61051, Marshalltown, 2107.

Directors
V Naidoo (Chairman), MWT Brown* (Chief Executive), DKT Adomakoh (Ghanaian), TA Boardman, BA Dames, ID Gladman (British), JB Hemphill, EM Kruger, RAG Leith, PM Makwana, Dr MA Matooane, NP Mnxasana, RK Morathi* (Chief Financial Officer), JK Netshitenzhe, MC Nkuhlu* (Chief Operating Officer), S Subramoney, MI Wyman** (British).

** Executive ** Lead independent director*

Company Secretary
TSB Jali

Sponsors
Investec Bank Limited, Nedbank CIB

Nedbank Limited Reg No 1951/000009/06

Incorporated in the Republic of South Africa

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Audited summary consolidated financial statements

for the year ended 31 December 2016

Summary consolidated statement of comprehensive income

for the year ended	Change %	31 December 2016 (Audited) Rm	31 December 2015 (Audited) Rm
Interest and similar income	26,7	**69 862**	55 128
Interest expense and similar charges	38,6	**45 344**	32 724
Net interest income	9,4	**24 518**	22 404
Impairments charge on loans and advances	(7,7)	**4 254**	4 608
Income from lending activities	13,9	**20 264**	17 796
Non-interest revenue	10,5	**19 361**	17 514
Operating income	12,2	**39 625**	35 310
Total operating expenses	7,8	**25 283**	23 459
Indirect taxation	21,3	**810**	668
Profit from operations before non-trading and capital items	21,0	**13 532**	11 183
Non-trading and capital items	> 100	**(289)**	(144)
Profit from operations	20,0	**13 243**	11 039
Share of losses of associate companies and joint arrangements	> 100	**(20)**	(1)
Profit from operations before direct taxation	19,8	**13 223**	11 038
Total direct taxation	16,2	**3 286**	2 828
Direct taxation		**3 328**	2 860
Taxation on non-trading and capital items		**(42)**	(32)
Profit for the year	21,0	**9 937**	8 210
Other comprehensive (losses)/income net of taxation	< (100)	**(453)**	578
Items that may subsequently be reclassified to profit or loss			
Exchange differences on translating foreign operations		**(231)**	190
Fair-value adjustments on available-for-sale assets		**(13)**	(9)
Items that may not subsequently be reclassified to profit or loss			
Gains on property revaluations		**24**	118
Remeasurements on long-term employee benefit assets		**(233)**	279
Total comprehensive income for the year	7,9	**9 484**	8 788
Profit attributable to:			
– Ordinary and preference equity holders	21,2	**9 896**	8 163
– Non-controlling interest – ordinary shareholders	(12,8)	**41**	47
Profit for the year	21,0	**9 937**	8 210
Total comprehensive income attributable to:			
– Ordinary and preference equity holders	8,1	**9 443**	8 739
– Non-controlling interest – ordinary shareholders	(16,3)	**41**	49
Total comprehensive income for the year	7,9	**9 484**	8 788

Headline earnings reconciliation

for the year ended

	Change %	31 December 2016 (Audited) Rm Gross	31 December 2016 (Audited) Rm Net of taxation	31 December 2015 (Audited) Rm Gross	31 December 2015 (Audited) Rm Net of taxation
Profit attributable to ordinary and preference equity holders	21,2		**9 896**		8 163
Non-trading and capital items	> 100	**289**	**247**	144	112
IAS 16 – Loss on disposal of property and equipment		**44**	**44**	35	35
IAS 36 – Impairment of property and equipment				8	7
IAS 38 – Impairment of intangible assets		**145**	**103**	110	79
IAS 39 – Loss on sale of available-for-sale financial assets		**94**	**94**		
IAS 39 – Profit on sale of available-for-sale financial assets				(9)	(9)
IAS 40 – Loss on disposal of investment properties		**6**	**6**		
Headline earnings	22,6		**10 143**		8 275

Summary consolidated statement of financial position

at	Change %	31 December 2016 (Audited) Rm	31 December 2015 (Audited) Rm
Assets			
Cash and cash equivalents	11,5	**20 241**	18 151
Other short-term securities	13,5	**68 218**	60 078
Derivative financial instruments	(41,7)	**18 044**	30 948
Government and other securities	18,6	**50 687**	42 733
Loans and advances	3,8	**691 925**	666 807
Other assets	> 100	**8 164**	3 925
Current taxation assets	(51,3)	**440**	904
Investment securities	15,8	**1 908**	1 648
Non-current assets held for sale	> 100	**287**	2
Investments in private-equity associates, associate companies and joint arrangements	83,9	**2 575**	1 400
Deferred taxation assets	> 100	**266**	67
Property and equipment	1,0	**8 197**	8 114
Long-term employee benefit assets	3,2	**5 042**	4 885
Mandatory reserve deposits with central banks	12,0	**18 139**	16 190
Intangible assets	21,5	**5 928**	4 881
Total assets	4,6	**900 061**	860 733
Equity and liabilities			
Ordinary share capital		**28**	28
Ordinary share premium	3,5	**19 182**	18 532
Reserves	13,5	**42 698**	37 610
Total equity attributable to equity holders of the parent	10,2	**61 908**	56 170
Preference share capital and premium		**3 561**	3 561
Additional tier 1 capital instruments		**2 000**	
Non-controlling interest attributable to:			
– Ordinary shareholders	13,5	**253**	223
Total equity	13,0	**67 722**	59 954
Derivative financial instruments	(60,4)	**13 469**	33 996
Amounts owed to depositors	6,0	**750 319**	708 036
Provisions and other liabilities	28,3	**12 717**	9 911
Current taxation liabilities	(39,1)	**53**	87
Deferred taxation liabilities	(48,8)	**391**	763
Long-term employee benefit liabilities	10,6	**3 328**	3 009
Long-term debt instruments	15,8	**52 062**	44 977
Total liabilities	3,9	**832 339**	800 779
Total equity and liabilities	4,6	**900 061**	860 733

Summary consolidated statement of changes in equity

	Total equity attributable to equity holders of the parent Rm	Preference share capital and premium Rm	Non-controlling interest attributable to ordinary shareholders Rm	Non-controlling interest attributable to additional tier 1 capital instruments Rm	Total equity Rm
Audited balance at 31 December 2014	52 236	3 561	183		55 980
Preference share dividend	(371)				(371)
Dividend to ordinary shareholders	(5 200)		(9)		(5 209)
Issues of shares net of expenses	1 111				1 111
Total comprehensive income for the year	8 739		49		8 788
Share-based payment reserve movement	(343)				(343)
Other movements	(2)				(2)
Audited balance at 31 December 2015	**56 170**	**3 561**	**223**	**–**	**59 954**
Additional tier 1 capital instruments issued				**2 000**	**2 000**
Preference share dividend	**(377)**				**(377)**
Additional tier 1 capital instruments interest paid	**(78)**				**(78)**
Dividend to ordinary shareholders	**(4 250)**		**(11)**		**(4 261)**
Issues of shares net of expenses	**650**				**650**
Total comprehensive income for the year	**9 443**		**41**		**9 484**
Share-based payment reserve movement	**360**				**360**
Regulatory risk reserve provision	**(10)**				**(10)**
Reviewed balance at 31 December 2016	**61 908**	**3 561**	**253**	**2 000**	**67 722**

Summary consolidated statement of cashflows

for the year ended	31 December 2016 (Audited) Rm	31 December 2015 (Audited) Rm
Cash generated by operations	**21 707**	19 257
Change in funds for operating activities	**(14 185)**	(9 508)
Net cash from operating activities before taxation	**7 522**	9 749
Taxation paid	**(4 020)**	(3 771)
Cashflows from operating activities	**3 502**	5 978
Cashflows utilised by investing activities	**(5 265)**	(2 070)
Cashflows from financing activities	**5 030**	4 884
Effects of exchange rate changes on opening cash and cash equivalents (excluding foreign borrowings)	**772**	(51)
Net increase in cash and cash equivalents	**4 039**	8 741
Cash and cash equivalents at the beginning of the year[1]	**34 341**	25 600
Cash and cash equivalents at the end of the year[1]	**38 380**	34 341

[1] *Including mandatory reserve deposits with central banks.*

Summary consolidated segmental reporting

for the year ended	31 December 2016 (Audited) Rm	31 December 2015 (Audited) Rm	31 December 2016 (Audited) Rm	31 December 2015 (Audited) Rm	31 December 2016 (Audited) Rm	31 December 2015 (Audited) Rm	31 December 2016 (Audited) Rm	31 December 2015 (Audited) Rm
	Total assets		Total liabilities		Operating income/(losses)		Headline earnings/(losses)	
Nedbank Corporate and Investment Banking	**491 480**	470 567	**463 018**	447 471	**13 649**	12 101	**6 014**	5 208
Nedbank Retail and Business Banking	**304 842**	292 560	**278 588**	265 636	**25 810**	23 715	**4 960**	4 460
Nedbank Wealth	**62 042**	61 322	**58 655**	58 588	**4 362**	4 320	**1 192**	1 134
Rest of Africa	**36 189**	32 941	**28 247**	26 142	**1 713**	1 358	**(287)**	691
Centre	**71 469**	68 336	**55 803**	49 138	**(159)**	(650)	**(414)**	(662)
Total for Nedbank Group	**966 022**	925 726	**884 311**	846 975	**45 375**	40 844	**11 465**	10 831
Fellow-subsidiary adjustments	**(65 961)**	(64 993)	**(51 972)**	(46 196)	**(5 750)**	(5 534)	**(1 322)**	(2 556)
Total	**900 061**	860 733	**832 339**	800 779	**39 625**	35 310	**10 143**	8 275

Contingent liabilities and commitments

CONTINGENT LIABILITIES AND UNDRAWN FACILITIES

	31 December 2016 (Audited) Rm	31 December 2015 (Audited) Rm
Guarantees on behalf of clients	**22 177**	26 374
Letters of credit and discounting transactions	**3 360**	4 419
Irrevocable unutilised facilities and other	**101 566**	101 747
	127 103	132 540

The group, in the ordinary course of business, enters into transactions that expose it to tax, legal and business risks. Provisions are made for known liabilities that are expected to materialise. Possible obligations and known liabilities where no reliable estimate can be made or it is considered improbable that an outflow would result are reported as contingent liabilities. This is in accordance with IAS 37: Provisions, Contingent Liabilities and Contingent Assets.

There are a number of legal or potential claims against Nedbank Ltd and its subsidiary companies, the outcome of which cannot at present be foreseen.

COMMITMENTS

Capital expenditure approved by directors

	31 December 2016 (Audited) Rm	31 December 2015 (Audited) Rm
Contracted	**515**	1 314
Not yet contracted	**2 092**	2 222
	2 607	3 536

Funds to meet capital expenditure commitments will be provided from group resources. In addition, capital expenditure is incurred in the normal course of business throughout the year.

Fair-value hierarchy

FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE

The fair value of a financial instrument is the price that would be received for the sale of an asset or paid for the transfer of a liability in an orderly transaction between market participants at the measurement date. Underlying the definition of fair value is an assumption that an entity is a going concern without any intention or need to liquidate, to curtail materially the scale of its operations or to undertake a transaction on adverse terms. Fair value is not, therefore, the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distressed sale.

The existence of published price quotations in an active market is the most reliable evidence of fair value and, where they exist, they are used to measure the financial asset or financial liability. A market is considered to be active if transactions occur with sufficient volumes and frequencies to provide pricing information on an ongoing basis. These quoted prices would generally be classified as level 1 in terms of the fair-value hierarchy.

Where a quoted price does not represent fair value at the measurement date or where the market for a financial instrument is not active, the group establishes fair value by using a valuation technique. These valuation techniques include, but are not limited to, reference to the current fair value of another instrument that is substantially the same in nature, reference to the value of the assets of underlying business, earnings multiples, discounted-cashflow analysis and various option pricing models. Valuation techniques applied by the group would generally be classified as level 2 or level 3 in terms of the fair-value hierarchy. The determination of whether an instrument is classified as level 2 or level 3 is dependent on the significance of observable inputs versus unobservable inputs in relation to the fair value of the instrument. Inputs typically used in valuation techniques include discount rates, appropriate swap rates, volatility, servicing costs, equity prices, commodity prices, counterparty credit risk, and the group's own credit on financial liabilities.

The group has an established control framework for the measurement of fair value, which includes formalised review protocols for the independent review and validation of fair values separate from the business unit entering into the transaction. The valuation methodologies, techniques and inputs applied to the fair-value measurement of the financial instruments have been applied in a manner consistent with that of the previous financial year.

FAIR-VALUE HIERARCHY

The financial instruments recognised at fair value have been categorised into the three input levels of the International Financial Reporting Standards (IFRS) fair-value hierarchy as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that are accessible at the measurement date.

Level 2: Valuation techniques based on (directly or indirectly) market-observable inputs. Various factors influence the availability of observable inputs. These factors may vary from product to product and change over time. Factors include the depth of activity in the relevant market, the type of product, whether the product is new and not widely traded in the market, the maturity of market modelling and the nature of the transaction (bespoke or generic).

Level 3: Valuation techniques based on significant inputs that are not observable. To the extent that a valuation is based on inputs that are not market-observable the determination of the fair value can be more subjective, depending on the significance of the unobservable inputs to the overall valuation. Unobservable inputs are determined on the basis of the best information available and may include reference to similar instruments, similar maturities, appropriate proxies or other analytical techniques.

All fair values disclosed below are recurring in nature.

Fair-value hierarchy (continued)

	Total financial assets		Total financial assets recognised at amortised cost		Total financial assets classified as level 1		Total financial assets classified as level 2		Total financial assets classified as level 3	
	31 December 2016 (Audited) Rm	31 December 2015 (Audited) Rm	31 December 2016 (Audited) Rm	31 December 2015 (Audited) Rm	31 December 2016 (Audited) Rm	31 December 2015 (Audited) Rm	31 December 2016 (Audited) Rm	31 December 2015 (Audited) Rm	31 December 2016 (Audited) Rm	31 December 2015 (Audited) Rm
Financial assets										
Cash and cash equivalents	**38 380**	34 341	**38 380**	34 341						
Other short-term securities	**68 218**	60 078	**33 184**	32 863	**37**		**34 997**	27 215		
Derivative financial instruments	**18 044**	30 948			**36**	86	**17 983**	30 844	**25**	18
Government and other securities[1]	**50 687**	42 733	**22 393**	18 807	**15 881**	11 239	**12 413**	12 687		
Loans and advances	**691 925**	666 807	**602 139**	571 603			**89 709**	95 171	**77**	33
Other assets	**8 164**	3 925	**8 159**	3 913	**5**	12				
Investments in private-equity associates, associate companies and joint arrangements	**2 350**	1 154							**2 350**	1 154
Investment securities	**1 908**	1 648			**19**	432	**798**	526	**1 091**	690
	879 676	841 634	**704 255**	661 527	**15 978**	11 769	**155 900**	166 443	**3 543**	1 895

	Total financial liabilities		Total financial liabilities recognised at amortised cost		Total financial liabilities classified as level 1		Total financial liabilities classified as level 2		Total financial liabilities classified as level 3	
	31 December 2016 (Audited) Rm	31 December 2015 (Audited) Rm	31 December 2016 (Audited) Rm	31 December 2015 (Audited) Rm	31 December 2016 (Audited) Rm	31 December 2015 (Audited) Rm	31 December 2016 (Audited) Rm	31 December 2015 (Audited) Rm	31 December 2016 (Audited) Rm	31 December 2015 (Audited) Rm
Financial liabilities										
Derivative financial instruments	**13 469**	33 996			**11**	126	**13 458**	33 870		
Amounts owed to depositors[1]	**750 319**	708 036	**674 784**	631 619			**75 535**	76 417		
Provisions and other liabilities	**11 739**	8 980	**9 127**	6 020	**2 235**	2 744	**377**	216		
Long-term debt instruments	**52 062**	44 977	**51 761**	44 576		156	**301**	245		
	827 589	795 989	**735 672**	682 215	**2 246**	3 026	**89 671**	110 748	**–**	–

[1] *Amounts owed to depositors of R93 079m were included in the prior year as held-for-trading liabilities, whereas these instruments were classified and measured as financial liabilities at amortised cost. Accordingly, the held-for-trading and financial liabilities at amortised cost categories have been restated to reflect the correct classification.*

LEVEL 3 RECONCILIATION

31 December 2016 (Audited)	Opening balance at 1 January Rm	Gains/ (Losses) in profit for the year Rm	Gains/ (Losses) in other comprehensive income for the year Rm	Purchases and issues	Sales and settlements	Transfers in/ (out)	Closing balance at 31 December
Financial assets							
Derivative financial instruments	**18**	**7**					**25**
Loans and advances	**33**	**4**				**40**	**77**
Investment securities	**690**	**(28)**		**53**	**(34)**	**410**	**1 091**
Investments in private-equity associates, associate companies and joint arrangements	**1 154**	**274**		**1 130**	**(208)**		**2 350**
	1 895	**257**	**–**	**1 183**	**(242)**	**450**	**3 543**

31 December 2015 (Audited)	Opening balance at 1 January Rm	Gains/ (Losses) in profit for the year Rm	Gains/ (Losses) in other comprehensive income for the year Rm	Purchases and issues	Sales and settlements	Transfers in/ (out)	Closing balance at 31 December
Financial assets							
Derivative financial instruments		18					18
Loans and advances	33						33
Investment securities	800	(36)		1	(75)		690
Investments in private-equity associates, associate companies and joint arrangements	898	89		304	(137)		1 154
	1 731	71	–	305	(212)	–	1 895

EFFECT OF CHANGES IN SIGNIFICANT UNOBSERVABLE ASSUMPTIONS TO REASONABLE POSSIBLE ALTERNATIVES — LEVEL 3 INSTRUMENTS

The fair-value measurement of financial instruments is, in certain circumstances, measured using valuation techniques that include assumptions that are not market-observable. Where these scenarios apply, the group performs stress testing on the fair value of the relevant instruments. In performing the stress testing, appropriate levels for the unobservable-input parameters are chosen so that they are consistent with prevailing market evidence and in line with the group's approach to valuation control. The following information is intended to illustrate the potential impact of the relative uncertainty in the fair value of financial instruments for which valuation is dependent on unobservable-input parameters and which are classified as level 3 in the fair-value hierarchy. However, the disclosure is neither predictive nor indicative of future movements in fair value.

FINANCIAL ASSETS

31 December 2016 (Audited)	Valuation technique	Significant unobservable input	Variance in fair value %	Value per statement of financial position Rm	Favourable change in fair value Rm	Unfavourable change in fair value Rm
Derivative financial instruments	Discounted cashflows	Discount rates, EBITDA	Between (12) and 9	25	2	(3)
Loans and advances	Discounted cashflows	Credit spreads and discount rates	Between (12 and 9	77	7	(9)
Investment securities	Discounted cashflows, adjusted net asset value, earnings multiples, third-party valuations, dividend yields	Valuation multiples, correlations, volatilities and credit spreads	Between (12) and 9	1 091	103	(129)
Investments in private-equity associates, associate companies and joint arrangements	Discounted cashflows, earnings multiples	Valuation multiples	Between (12) and 9	2 350	221	(278)
Total financial assets classified as level 3				3 543	333	(419)

FINANCIAL ASSETS

31 December 2015 (Audited)	Valuation technique	Significant unobservable input	Variance in fair value %	Value per statement of financial position Rm	Favourable change in fair value Rm	Unfavourable change in fair value Rm
Derivative financial instruments	Discounted-cashflow model, Black-Scholes model and multiple valuation techniques	Discount rates, risk-free rates, volatilities, credit spreads and valuation multiples	Between (13) and 10	18	2	(2)
Loans and advances	Discounted cashflows	Credit spreads and discount rates	Between (13) and 10	33	3	(4)
Investment securities	Discounted cashflows, adjusted net asset value, earnings multiples, third-party valuations, dividend yields	Valuation multiples, correlations, volatilities and credit spreads	Between (13) and 10	690	62	(77)
Investments in private-equity associates, associate companies and joint arrangements	Discounted cashflows, earnings multiples	Valuation multiples	Between (7) and 8	1 154	96	(108)
Total financial assets classified as level 3				1 895	163	(191)

UNREALISED GAINS OR LOSSES

The unrealised gains or losses arising on instruments classified as level 3 include the following:

	31 December 2016 (Audited) Rm	December 2015 (Audited) Rm
Private-equity gains	**257**	71
	257	71

SUMMARY OF PRINCIPAL VALUATION TECHNIQUES — LEVEL 2 INSTRUMENTS

The following table sets out the group's principal valuation techniques used in determining the fair value of financial assets and financial liabilities classified as level 2 in the fair-value hierarchy:

Assets	Valuation technique	Key inputs
Other short-term securities	Discounted-cashflow model	Discount rates
Derivative financial instruments	Discounted-cashflow model	Discount rates
	Black-Scholes model	Risk-free rate and volatilities
	Multiple valuation techniques	Valuation multiples
Government and other securities	Discounted-cashflow model	Discount rates
Loans and advances	Discounted-cashflow model	Interest rate curves
Investment securities	Discounted-cashflow model	Money market rates and interest rates
	Adjusted net asset value	Underlying price of market-traded instruments
	Dividend yield method	Dividend growth rates
Liabilities		
Derivative financial instruments	Discounted-cashflow model	Discount rates
	Black-Scholes model	Risk-free rate and volatilities
	Multiple valuation techniques	Valuation multiples
Amounts owed to depositors	Discounted-cashflow model	Discount rates
Provisions and other liabilities	Discounted-cashflow model	Discount rates
Long-term debt instruments	Discounted-cashflow model	Discount rates

Assets and liabilities not measured at fair value for which fair value is disclosed

Certain financial instruments of the group are not carried at fair value, including those categorised as held to maturity, loans and receivables, and financial liabilities at amortised cost. The calculation of the fair value of these financial instruments incorporates the group's best estimate of the value at which these financial assets could be exchanged, or financial liabilities could be transferred, between market participants at the measurement date. The group's estimate of what fair value is does not necessarily represent the amount for which the group would be able to sell the asset or transfer the respective financial liability in an involuntary liquidation or distressed sale.

The fair values of these respective financial instruments at the reporting date detailed below are estimated only for the purpose of IFRS disclosure, as follows:

Rm	Carrying value	Fair value	Level 1	Level 2	Level 3
31 December 2016 (Audited)					
Financial assets	**657 716**	**648 545**	**21 828**	**33 128**	**593 589**
Other short-term securities	**33 184**	**33 128**		**33 128**	
Government and other securities	**22 393**	**21 828**	**21 828**		
Loans and advances	**602 139**	**593 589**			**593 589**
Financial liabilities	**51 761**	**48 880**	**20 432**	**28 448**	**–**
Long-term debt instruments	**51 761**	**48 880**	**20 432**	**28 448**	

Rm	Carrying value	Fair value	Level 1	Level 2	Level 3
31 December 2015 (Audited)					
Financial assets	623 273	618 012	17 415	32 709	567 888
Other short-term securities	32 863	32 709		32 709	
Government and other securities	18 807	17 415	17 415		
Loans and advances	571 603	567 888			567 888
Financial liabilities	44 576	42 933	24 269	18 664	–
Long-term debt instruments	44 576	42 933	24 269	18 664	

There has been no significant changes in the methodology used to estimate the fair value of the above instruments during the year.

LOANS AND ADVANCES

Loans and advances that are not recognised at fair value principally comprise variable-rate financial assets. The interest rates on these variable rate-financial assets are adjusted when the applicable benchmark interest rate changes.

Loans and advances are not actively traded in most markets and it is therefore not possible to determine the fair value of these loans and advances using observable market prices and market inputs. Due to the unique characteristics of the loans and advances portfolio and the fact that there have been no recent transactions involving the disposals of such loans and advances, there is no basis to determine a price that could be negotiated between market participants in an orderly transaction. The group is not currently in the position of a forced sale of such underlying loans and advances and it would therefore be inappropriate to value the loans and advances on a forced-sale basis.

For specifically impaired loans and advances the carrying value as determined after consideration of the group's IAS 39 credit impairments, is considered the best estimate of fair value.

The group has developed a methodology and model to determine the fair value of the gross exposures for the performing loans and advances measured at amortised cost. This model incorporates the use of average interest rates and projected monthly cashflows per product type. Future cashflows are discounted using interest rates at which similar loans would be granted to borrowers with similar credit ratings and maturities. Methodologies and models are updated on a continuous basis for changes in assumptions, forecasts and modelling techniques. Future forecasts of the group's probability of default (PDs) and loss given defaults (LGDs) for periods 2017 to 2019 (2015: for periods 2016 to 2018) are based on the latest available internal data and is applied to the first three years' projected cashflows. Thereafter, PDs and LGDs are gradually reverted to their long-run averages and are applied to the remaining projected cashflows. Inputs into the model include various assumptions utilised in the pricing of loans and advances. The determination of such inputs is highly subjective and therefore any change to one or more of the assumptions may result in a significant change in the determination of the fair value of loans and advances.

GOVERNMENT AND OTHER SECURITIES

The fair value of government and other securities is determined based on available market prices (level 1) or discounted cashflow analysis (level 2), where an instrument is not quoted or the market is considered to be inactive.

OTHER SHORT-TERM SECURITIES

The fair value of other short-term securities is determined using a discounted cashflow analysis (level 2).

LONG-TERM DEBT INSTRUMENTS

The fair value of long-term debt instruments is determined based on available market prices (level 1) or discounted cashflow analysis (level 2) where an instrument is not quoted or the market is considered to be inactive.

AMOUNTS OWED TO DEPOSITORS

The amounts owed to depositors principally comprise of variable-rate liabilities. The carrying value of the amounts owed to depositors approximates fair value because the instruments reprice to current market rates at frequent intervals. In addition, a significant portion of the balance is callable or is short term in nature.

CASH AND CASH EQUIVALENTS, OTHER ASSETS, MANDATORY DEPOSITS WITH CENTRAL BANKS, AND PROVISIONS AND OTHER LIABILITIES

The carrying values of cash and cash equivalents, other assets, mandatory deposits with central banks and provisions and other liabilities are considered a reasonable approximation of their respective fair values, as they are either short term in nature or are repriced to current market rates at frequent intervals.

Liquidity coverage ratio

Rm	Total unweighted value[1] (average)	Total weighted value[2] (average)
High-quality liquid assets (HQLA)		
Total HQLA		**132 856**
Cash outflows		
Retail deposits and deposits from small-business clients	168 571	16 857
Stable deposits	–	–
Less: stable deposits	168 571	16 857
Unsecured wholesale funding	212 079	102 448
Operational deposits (all counterparties) and deposits in institutional networks of cooperative banks	113 688	32 685
Non-operational deposits (all counterparties)	98 391	69 763
Unsecured debt	–	–
Secured wholesale funding	21 328	42
Additional requirements	80 000	11 958
Outflows related to derivative exposures and other collateral requirements	1 126	1 126
Outflows related to loss of funding on debt products	699	699
Credit and liquidity facilities	78 175	10 133
Other contractual funding obligations	–	–
Other contingent funding obligations	187 080	8 299
Total cash outflows	**669 058**	**139 604**
Cash inflows		
Secured lending (eg reverse repurchase agreements)	14 370	716
Inflows from fully performing exposures	31 675	16 906
Other cash inflows	4 879	4 879
Total cash inflows	**50 924**	**22 501**
Total HQLA		132 856
Total net cash outflows		117 103
Liquidity coverage ratio (%)		**113,5%**

[1] *Unweighted values are calculated as outstanding balances maturing or callable within 30 days (for inflows and outflows).*

[2] *Weighted values are calculated after the application of respective haircuts (for HQLA) or inflow and outflow rates (for inflows and outflows).*

The figures above reflect the simple average of the month-end values at 31 October 2016, 30 November 2016 and 31 December 2016 based on regulatory submissions to the South African Reserve Bank. This section on the liquidity coverage ratio has not been audited by the group's auditors.