FirstRand Bank

'19

annual report

for the year ended 30 June

about this report

The annual report covers the following:

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

A detailed description on the differences between normalised and IFRS results and a detailed reconciliation between normalised and IFRS results is provided on page A116 and pages A118 and A119.

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

FirstRand Bank

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

contents

FirstRand Bank

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

FNB RMB WesBank

A

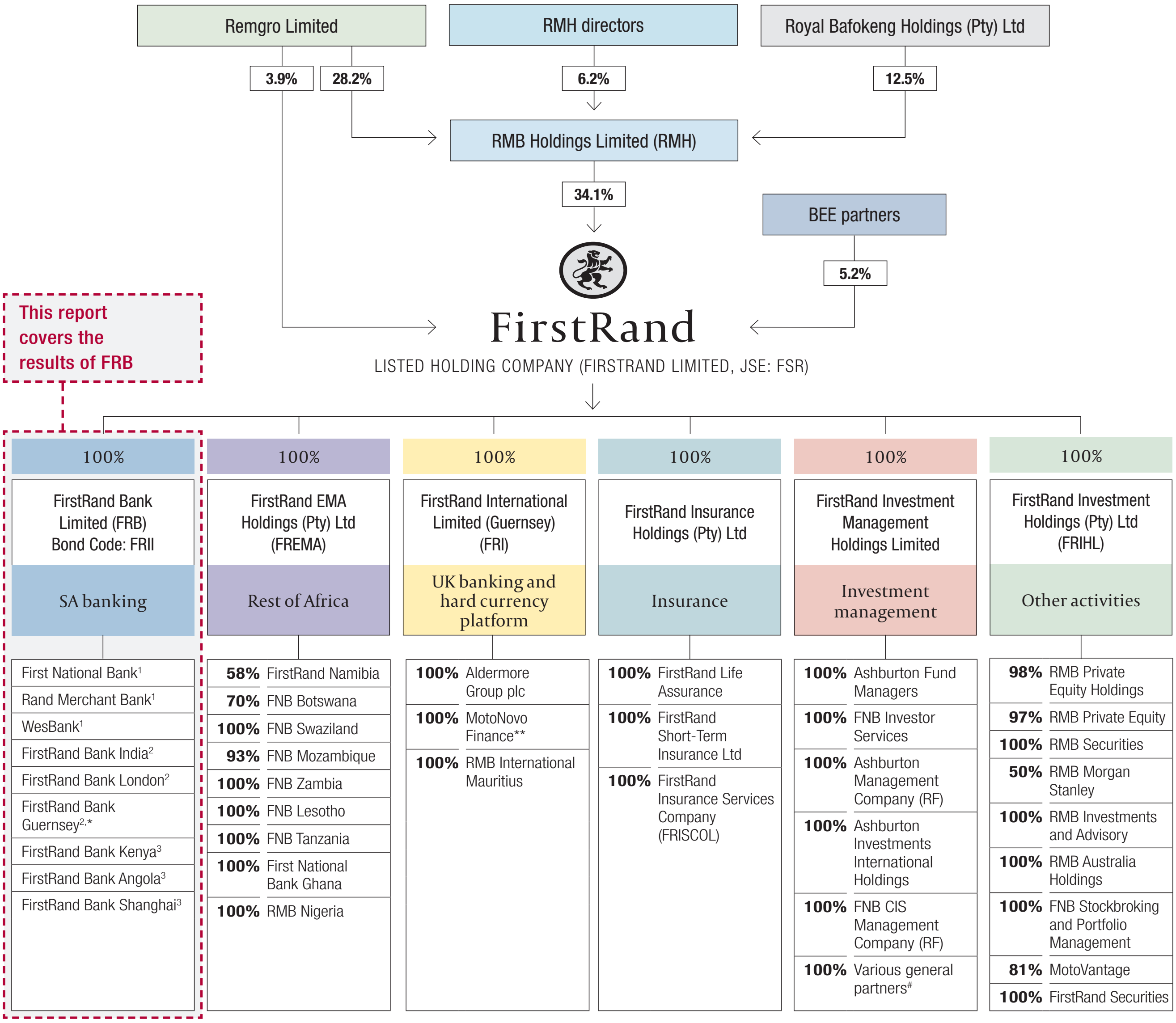
overview of firstrand bank and analysis of financial results

overview of firstrand bank and analysis of financial results

A

overview of firstrand bank

Simplified group and shareholding structure



1. *Division.*
2. *Branch.*
3. *Representative office.*

DirectAxis is a business unit of FirstRand Bank Limited.

* *Trading as FNB Channel Islands.*

** *Wholly-owned subsidiary of Aldermore Group plc.*

\# *Ashburton Investments has a number of general partners for fund seeding purposes. All of these entities fall under FirstRand Investment Management Holdings Limited.*

Structure shows effective consolidated shareholding

For segmental analysis purposes entities included in FRIHL, FREMA, FRI, FirstRand Investment Management Holdings Limited and FirstRand Insurance Holdings (Pty) Ltd are reported as part of the results of the managing business (i.e. FNB, RMB, WesBank or FCC). The group's securitisations and conduits are in FRIHL, FRI and FRB.

About this report

This report covers the audited financial results of the bank based on International Financial Reporting Standards (IFRS) for the year ended 30 June 2019.

Section A of this report includes an overview of FirstRand Bank, including:

- a simplified group and shareholding structure on page A06;
- an overview of the group's strategy on pages A22 and A23;
- corporate governance on page A09; and
- a detailed analysis of financial results for the year ended 30 June 2019.

In the detailed financial analysis section of this report, the primary results and accompanying commentary are presented on a normalised basis as the bank believes this most accurately reflects its economic performance. The normalised results have been derived from the audited financial results. Refer to page A116 for a description of the difference between IFRS and normalised results. Detailed reconciliations of normalised to IFRS results are provided on pages A118 and A119.

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

A summary risk and capital report is included in section B.

The audited financial statements are contained in Section C and supplementary information in Section D.

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

Group vs bank

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

FIRSTRAND GROUP

	Inside the bank	*Outside the bank*
Geographical presence	**Branches:** → London (including MotoNovo Finance back book, refer to page A23 for more information) → Guernsey → India **Representative offices:** → Kenya → Angola → Shanghai	**Full service banking subsidiaries in:** → Namibia → Botswana → eSwatini → Lesotho → Zambia → Mozambique → Tanzania → Ghana **Corporate and investment banking subsidiary in:** → Nigeria **Specialist UK bank:** → Aldermore (including MotoNovo Finance new book)
Activities	→ Banking in South Africa and in the branches outlined above → Cross-border activities booked on FRB's balance sheet → Insurance (commissions)	→ Banking in the subsidiaries outlined above → RMB's private equity businesses → Insurance (life licence, short-term licence, MotoVantage and cell captives) → Asset management (Ashburton Investments)

Foreign branches and representative offices

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

Representative offices (managed by RMB):

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

Branches:

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

Corporate governance

COMPLIANCE STATEMENT

FirstRand Bank Limited is a wholly-owned subsidiary of FirstRand Limited, which is a bank controlling company for the purposes of the South African Banks Act 1990. The governance structures for FirstRand Bank Limited were constituted at a FirstRand Limited level in terms of authority received from the South African Registrar of Banks. The directors of FirstRand Limited ensure compliance with all relevant regulations including the South African Banks Act, South African Companies Act, Basel Committee on Banking Supervision (BCBS) and Financial Stability Board requirements and other best practice regulations flowing from both local and international authorities. FirstRand Bank endorses and endeavours to adhere to the guidelines and principles of King IV. FirstRand Bank has applied the King IV principles as disclosed in the FirstRand Limited annual integrated report. Stakeholders are referred to FirstRand Limited's annual integrated report available on www.firstrand.co.za/investors/annual-reporting/ for detailed disclosures on the group's corporate governance practices.

BOARD CHANGES

The FirstRand Empowerment Foundation (the foundation) was established in 2005 as part of the group's broad-based black economic empowerment (B-BBEE) transaction, with the objective to create meaningful B-BBEE ownership of FirstRand. The B-BBEE participants included, amongst others, the Kagiso Charitable Trust, the WDB Trust and Mineworkers Investment Company (MIC). At that time, directors were appointed to the board in accordance with the contractual terms of the transaction and classified as non-executive, but not independent, directors.

On 31 December 2018, the B-BBEE ownership trust vested and the transactional agreements matured. At this point FirstRand was no longer contractually bound to retain these directors. However, given their skills, technical expertise, and relevant corporate and industry knowledge, the board decided to retain them in their personal capacities.

Accordingly, these directors are now classified as independent non-executive directors based on the criteria as set out in King IV and the JSE Listings Requirements and Directive 4/2018 issued in terms of section 6(6) of the Banks Act 94 of 1990.

Changes to the directorate are outlined below.

		Effective date
Appointments		
M Vilakazi	COO and executive director	1 July 2018
LL von Zeuner	Independent non-executive director	1 February 2019
Change in designation		
JP Burger	Non-executive director	1 September 2018
JJ Durand	Alternate non-executive director	3 September 2018
MS Bomela	Independent non-executive director	1 January 2019
PJ Makosholo	Independent non-executive director	1 January 2019
TS Mashego	Independent non-executive director	1 January 2019

Responsibilities of directors

The board of directors is responsible for reviewing, guiding and approving corporate strategy, major plans of action, risk appetite, risk policy, annual budgets and business plans, monitoring corporate performance and overseeing major capital expenditures, acquisitions and disposals, information technology and stakeholder relations while still retaining full and effective control over the bank.

Composition and frequency of meetings

A common, unitary board serves FirstRand Limited and FirstRand Bank Limited. William Rodger (Roger) Jardine is the independent non-executive chairman of the board with effect from 1 April 2018. Roger has extensive experience and has served as an independent non-executive director on the FirstRand Bank Limited and FirstRand Limited boards. His experience and knowledge of the FirstRand group makes him appropriate to fulfil the role of chairman efficiently and effectively. The chairman's duties and responsibilities are clearly defined in the board charter and are in accordance with the provisions of King IV, JSE Listings requirements and the Banks Act. It is also the view of the directors that a strong independent element of non-executive directors exists on the board and that this provides the necessary objectivity essential for its effective functioning. The roles of chairman and CEO are separate with segregated duties. FirstRand's audit committee is constituted in respect of its duties in terms of section 94(7) of the Companies Act. No 71 of 2008 and section 64 of the Banks Act (1990).

Corporate governance continued

The board comprises 18 directors of whom three serve in an executive capacity, one of the directors is alternate, fifteen of the directors are non-executive, and eleven of whom are independent. The directors of the bank are listed on page A11. Non-executive directors comprise individuals of high calibre with diverse backgrounds and expertise. This ensures that their views carry significant weight in the board's deliberations and decisions.

The board is satisfied that all directors, whether classified as executive, non-executive or independent non-executive, act independently, free of undue influence, and in the best interest of the group. The roles of the chairman and chief executive officer are clearly defined in the board charter, demonstrating a clear balance of power and authority at board level to ensure that no one director has unfettered powers of decision-making.

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

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

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

Limitation to appointment period

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

COMPANY SECRETARY

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

Board of directors

BOARD OF DIRECTORS OF FIRSTRAND BANK LIMITED

William Rodger (Roger) **Jardine** :: 53

Independent non-executive chairman
since April 2018
BSc, MSc
Appointed January 2004

Alan Patrick **Pullinger** :: 53

Chief executive officer
since April 2018
MCom, CA(SA), CFA
Appointed October 2015

Hetash Surendrakumar (Harry) **Kellan** :: 47

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

Johan Petrus **Burger** :: 60

Non-executive director
since September 2018
BCom (Hons), CA(SA)
Appointed May 1998

Mary Sina **Bomela** :: 46

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

Hermanus Lambertus (Herman) **Bosman** :: 50

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

Jan Jonathan (Jannie) **Durand** :: 52

Alternate non-executive director
since September 2018
BAcc (Hons), MPhil, CA(SA)
Appointed October 2012

Grant Glenn **Gelink** :: 69

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

Mary **Vilakazi** :: 42

Chief Operating Officer
BCom (Hons), CA(SA)
Appointed July 2018

Nolulamo Nobambiswano (Lulu) **Gwagwa** :: 60

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

Francois (Faffa) **Knoetze** :: 56

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

Russell Mark **Loubser** :: 69

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

Paballo Joel **Makosholo** :: 40

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

Thandie Sylvia **Mashego** :: 41

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

Ethel Gothatamodimo **Matenge-Sebesho** :: 64

Independent non-executive director
MBA, CAIB
Appointed June 2006

Amanda Tandiwe (Tandi) **Nzimande** :: 49

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

Thomas (Tom) **Winterboer** :: 63

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

Louis Leon **von Zeuner** :: 58

Independent non-executive director
BEcon, Chartered Director (SA)
Appointed February 2019

analysis of financial results – normalised

01

overview of results

Highlights

FirstRand Bank

Normalised earnings

↑ 5%

2018: 12%

Normalised return on equity

23.7%

2018: 23.4%

Normalised return on assets

1.70%

2018: 1.76%

CET1 ratio

13.4%

2018: 12.7%

LCR ratio

133%

2018: 118%

NSFR ratio

117%

2018: 111%

Advances (net of impairments)

↑ 7%

2018: 6%

Deposits

↑ 8%

2018: 11%

Credit loss ratio

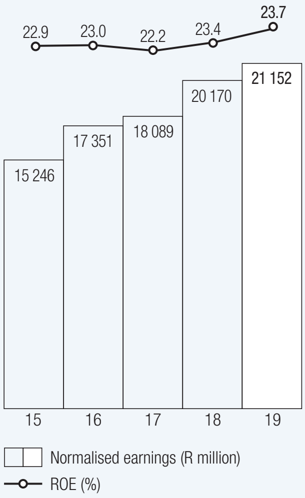
0.95%

2018: 0.80%

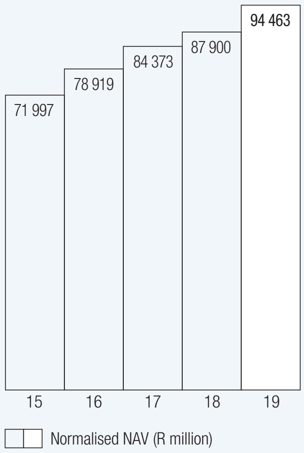
FNB RMB WesBank

Track record

NORMALISED EARNINGS *(R million)*
AND ROE *(%)*
CAGR 9%



NORMALISED
NET ASSET VALUE *(R million)*
CAGR 7%



Note: 30 June 2015 to 2018 figures are prepared on an IAS 39 basis.
30 June 2019 figures are prepared on an IFRS 9 basis.

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 A118 and A119. IFRS 9 and IFRS 15 were adopted effective 1 July 2018 and the statement of financial position at 1 July 2018 was restated. The adoption of IFRS 15 had no impact on the bank. Other comparatives were not restated, as allowed by IFRS 9. The income statement and statement of comprehensive income for the year ended 30 June 2018 and earnings-related ratios were not restated. The column headings indicate the basis of presentation.

FirstRand Bank disclosed comprehensive IFRS 9 transition information on 21 November 2018 in the transition report. The IFRS 9 transition information was also included in the analysis of financial results for the six months ended 31 December 2018. Both reports are available on the group's website at www.firstrand.co.za/investors/other-shareholder-documents/ and www.firstrand.co.za/investor/financial-results. The transition information is not included in this report.

	Year ended 30 June			As at 1 July
R million	**2019 IFRS 9**	2018 IAS 39	% change	2018 IFRS 9
Earnings performance				
Attributable earnings – IFRS (refer page C83)	**22 644**	20 283	12	
Headline earnings	**21 169**	20 076	5	
Normalised earnings	**21 152**	20 170	5	
Normalised net asset value	**94 463**	87 900	7	84 117*
Average normalised net asset value	**89 290**	86 137	4	
Ratios and key statistics				
ROE (%)	**23.7**	23.4		
ROA (%)	**1.70**	1.76		
Diversity ratio (%)	**42.5**	42.5		
Credit impairment charge	**8 460**	6 659	27	
Stage3/NPLs as a % of advances	**3.71**	2.47		3.01
Credit loss ratio (%)	**0.95**	0.80		
Total impairment coverage ratio (%)	**79.8**	72.8		89.2
Specific coverage ratio (%)	**45.8**	36.2		43.6
Performing book coverage ratio (%)	**1.31**	0.93		1.41
Cost-to-income ratio (%)	**53.6**	54.3		
Effective tax rate (%)	**24.6**	23.0		
Number of employees	**38 328**	36 449	5	

* *The adoption of IFRS 9 resulted in a reduction of R3 783 million in net asset value on 1 July 2018.*

R million	Year ended 30 June **2019 IFRS 9**	 2018 IAS 39	% change	As at 1 July 2018 IFRS 9
Balance sheet				
Normalised total assets	**1 291 404**	1 203 877	7	1 200 890
Advances (net of credit impairment)	**894 543**	843 806	6	837 883
Average gross loan-to-deposit ratio (%)	**87.5**	90.3		
Deposits	**1 058 439**	977 258	8	978 054
Capital adequacy – IFRS*				
Capital adequacy ratio (%)	**16.8**	16.8		16.8
Tier 1 ratio (%)	**14.0**	12.8		12.7
Common Equity Tier 1 ratio (%)	**13.4**	12.7		12.5
Leverage – IFRS*				
Leverage ratio (%)	**7.2**	6.8		6.8
Liquidity – IFRS				
Liquidity coverage ratio (%)	**133**	118		
Net stable funding ratio (%)	**117**	111		

* *Includes foreign branches. Ratios include unappropriated profits and the transitional Day 1 impact of IFRS 9.*

Summary income statement – normalised

for the year ended 30 June

R million	**2019 IFRS 9**	2018 IAS 39	% change
Net interest income before impairment of advances	**46 935**	42 746	10
Impairment charge	**(8 460)**	(6 659)	27
Net interest income after impairment of advances	**38 475**	36 087	7
Non-interest revenue	**34 681**	31 602	10
– Fee and commission income	**25 956**	23 554	10
– Insurance income	**560**	709	(21)
– Markets, client and other fair value income	**3 917**	3 210	22
– Investment income	**105**	485	(78)
– Other non-interest revenue	**4 143**	3 644	14
Income from operations	**73 156**	67 689	8
Operating expenses	**(43 715)**	(40 378)	8
Income before indirect tax	**29 441**	27 311	8
Indirect tax	**(829)**	(805)	3
Profit before income tax	**28 612**	26 506	8
Income tax expense	**(7 035)**	(6 102)	15
Profit for the year	**21 577**	20 404	6
Other equity instrument holders	**(425)**	(234)	82
Normalised earnings attributable to ordinary equityholders of the bank	**21 152**	20 170	5

Summary statement of other comprehensive income – normalised

for the year ended 30 June

R million	2019 IFRS 9	2018 IAS 39	% change
Profit for the year	**21 577**	20 404	6
Items that may subsequently be reclassified to profit or loss			
Cash flow hedges	**498**	185	>100
Gains arising during the year	**943**	325	>100
Reclassification adjustments for amounts included in profit or loss	**(251)**	(68)	>100
Deferred income tax	**(194)**	(72)	>100
FVOCI reserve/available-for-sale financial assets	**7**	(731)	(>100)
Gains/(losses) arising during the year	**11**	(848)	(>100)
Reclassification adjustments for amounts included in profit or loss	**(1)**	(144)	(99)
Deferred income tax	**(3)**	261	(>100)
Exchange differences on translating foreign operations	**42**	285	(85)
Gains arising during the year	**58**	285	(80)
Deferred income tax	**(16)**	–	–
Items that may not subsequently be reclassified to profit or loss			
FVOCI equity reserve	**1**	–	–
Gains arising during the year	**1**	–	–
Remeasurements on defined benefit post-employment plans	**(104)**	122	(>100)
(Losses)/gains arising during the year	**(144)**	169	(>100)
Deferred income tax	**40**	(47)	(>100)
Other comprehensive income/(loss) for the year	**444**	(139)	(>100)
Total comprehensive income for the year	**22 021**	20 265	9
Attributable to			
Ordinary equityholders	**21 596**	20 031	8
Other equity instrument holders	**425**	234	82
Total comprehensive income for the year	**22 021**	20 265	9

Summary statement of financial position – normalised

as at 30 June

	As at 30 June	As at 1 July	As at 30 June
R million	**2019 IFRS 9**	2018 IFRS 9*	2018 IAS 39
ASSETS			
Cash and cash equivalents	**77 887**	71 511	71 511
Derivative financial instruments	**43 181**	41 386	41 386
Commodities	**21 176**	13 424	13 424
Investment securities	**176 942**	158 875	157 238
Advances	**894 543**	837 883	843 806
– Advances to customers	**831 097**	781 518	787 441
– Marketable advances	**63 446**	56 365	56 365
Accounts receivable	**4 963**	6 007	6 075
Current tax asset	**–**	562	94
Amounts due by holding company and fellow subsidiaries	**53 027**	52 336	52 419
Investments in associates	**66**	65	–
Property and equipment	**15 352**	15 379	15 379
Intangible assets	**636**	383	383
Deferred income tax asset	**3 631**	3 079	2 162
Total assets	**1 291 404**	1 200 890	1 203 877
EQUITY AND LIABILITIES			
Liabilities			
Short trading positions	**5 355**	9 981	9 981
Derivative financial instruments	**48 053**	50 238	50 238
Creditors, accruals and provisions	**16 035**	14 194	14 194
Current tax liability	**1 043**	86	86
Deposits	**1 058 439**	978 054	977 258
Employee liabilities	**11 517**	10 178	10 178
Other liabilities	**3 322**	4 381	4 381
Amounts due to holding company and fellow subsidiaries	**25 784**	19 993	19 993
Tier 2 liabilities	**22 428**	26 668	26 668
Total liabilities	**1 191 976**	1 113 773	1 112 977
Equity			
Ordinary shares	**4**	4	4
Share premium	**16 804**	16 804	16 804
Reserves	**77 655**	67 309	71 092
Capital and reserves attributable to ordinary equityholders	**94 463**	84 117	87 900
Other equity instruments	**4 965**	3 000	3 000
Total equity	**99 428**	87 117	90 900
Total equities and liabilities	**1 291 404**	1 200 890	1 203 877

* *Restated, refer to the IFRS 9 transition report on the FirstRand website.*

Note: There are no reconciling items between the summarised IFRS and normalised statements of financial position.

Flow of funds analysis – normalised

	June 2019 IFRS 9 vs 1 July 2018 IFRS 9	June 2018 IAS 39 vs June 2017 IAS 39
R million	**12-month movement**	12-month movement
Sources of funds		
Capital account movement (including profit and reserves)	**12 311**	3 527
Working capital movement	**9 232**	(16 568)
Short trading positions and derivative financial instruments	**(8 606)**	(4 940)
Deposits and long-term liabilities	**76 145**	108 866
Total	**89 082**	90 885
Application of funds		
Advances	**(56 660)**	(44 387)
Investments	**(7 979)**	355
Cash and cash equivalents	**(6 376)**	(17 587)
Investment securities (e.g. liquid asset portfolio)	**(18 067)**	(29 266)
Total	**(89 082)**	(90 885)

> "FirstRand Bank produced quality growth in earnings despite a challenging operating environment. The bank also delivered a superior ROE of 23.7%.
>
> The underlying growth momentum in FNB and RMB remains strong, and WesBank continues to weather tough conditions.
>
> FirstRand's strategy to deliver **customer-centric integrated financial services** will ensure future franchise value and sustainable superior returns."
>
> **ALAN PULLINGER**
> CEO

INTRODUCTION

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

The macroeconomic environments in many of the jurisdictions in which the group operates remained challenging in the year to June 2019. Global growth began to slow and downside risks emerged, which, combined with low developed market inflation generally and US inflation specifically, led the US Federal Reserve to signal monetary policy easing to support the economy. These conditions in turn prompted other developed market central banks to halt their planned monetary policy tightening cycles and signal monetary policy easing to cushion their economies into the growth slowdown. Whilst the adjustment of monetary policy expectations provided some support to emerging market assets, this was, to some extent, offset by the increased risks to the global growth outlook.

In South Africa, the government continued to make some progress with implementing governance and institutional reforms, although this did not translate into an improvement in economic conditions. The real economy remained weak on account of high government indebtedness, ongoing inefficiencies in the large state-owned entities (SOEs) and a lack of government capacity, combined with low private sector confidence and investment. Electricity supply interruptions and the global slowdown placed additional pressure on real GDP growth, which remained below one per cent. These conditions in turn placed significant and sustained pressure on both household and corporate income.

In the rest of the sub-Saharan Africa region, macroeconomic conditions remained relatively stable with a few important exceptions, namely Namibia, eSwatini and Zambia, where the operating environments remained tough. Botswana continued to steadily implement its structural economic reform programme, with the government having sufficient fiscal capacity to gradually lift investment in key sectors. The Nigerian economy continued to recover from its recession.

In the UK, the macro narrative continued to be dominated by the protracted Brexit uncertainty. Although this has weighed somewhat on UK economic activity, the unemployment rate remained low and wages stable. This allowed consumer demand and house prices to hold up reasonably well, placing the economy in a resilient position to deal with the impact of Brexit.

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. Its ambition is to deliver a fully integrated financial services value proposition across its regional portfolio, built on a customer-centric focus and underpinned by leading digital platforms and capabilities. In the UK the group aims to build further franchise value through scaling, digitisation and disruption.

South Africa

Group earnings remain significantly tilted towards South Africa and are mainly generated by the large lending and transactional franchises of FirstRand Bank, which have resulted in deep and loyal customer bases. Many of the expected competitive and regulatory pressures will, however, target these traditional banking operations, particularly the transactional activities. The bank remains focused on protecting and growing its lending and transactional franchises:

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

At the same time, FirstRand is working hard to find other sources of capital-light revenues, and its strategy to deliver integrated financial services to the bank's customers in South Africa is gaining traction. This approach, which is underpinned by the disciplined allocation of financial resources and enabled by efficient digital platforms, allows FirstRand to better optimise the franchise value of its domestic portfolio.

The group's strategy to broaden its financial services offering also benefits the bank as it further entrenches the bank's relationships with its core transactional customers.

Rest of Africa

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

In the rest of Africa, the bank's balance sheet is utilised in RMB's cross-border lending and trade finance activities. The group's subsidiaries in the rest of Africa form part of FREMA (refer to the simplified group structure on page A6, which outlines the group's various legal entities, including FRB) and thus fall outside the bank.

UK

Effective May 2019, the operations of MotoNovo were sold to the Aldermore Group as part of the process to integrate the two businesses. The business is now focused on scaling its existing offerings and unlocking synergies between MotoNovo and Aldermore. The group's financial resource management methodology has also been introduced with the objective to optimise capital and funding deployment for growth in economic profits and sustainable returns.

All business written by MotoNovo post integration will be funded through further scaling Aldermore's deposit franchise and funding platform, as well as leveraging capital market securitisations and warehouse transactions with international banks. Aldermore Group and its subsidiaries are part of FRI and thus fall outside the bank. Loans originated by MotoNovo prior to integration with Aldermore (the back book) are still housed in FirstRand Bank London Branch (but managed by MotoNovo), and will continue to be funded through existing funding mechanisms, but will be run down over time. As a result, MotoNovo will ultimately cease to form part of the bank.

OVERVIEW OF RESULTS

Despite the constrained macroeconomic backdrop, the bank's portfolio of businesses produced resilient and quality topline growth. The bank continued to maintain its balance sheet strength and protect its return profile. Normalised earnings for the year ended 30 June 2019 increased 5% with a normalised ROE of 23.7%.

As outlined in the announcement of interim results, certain strategic actions taken to expedite the execution of group strategy in the last six to 12 months have resulted in some changes to the composition of earnings at an operating business level. Although these do not impact like-for-like comparisons at a bank level, they are material when assessing the breakdown of sources of normalised earnings from the portfolio and include the following:

- DirectAxis (DA), previously reported as part of WesBank's earnings, was moved into a personal loans cluster within FNB, alongside the FNB loans business. This has already resulted in faster execution of collaboration between FNB and DA.
- MotoNovo, the UK-based vehicle finance business, was reported under WesBank's results in June 2018. For the year under review, MotoNovo's back book is included in the results of FCC/Group Treasury (GTSY). The operational performance of MotoNovo (excluding the back book) is included in Aldermore's results for May and June 2019 following the integration, and is no longer part of the bank.
- Following the finalisation of the transaction with Discovery, the Discovery card business has been moved out of FNB into GTSY. A further component of the performance of GTSY was approximately R1 037 million of incremental forgone interest on the capital deployed to purchase Aldermore.

Comparatives for 2018 have been restated to reflect these changes.

In addition, FCC's performance was negatively affected by:

- the prior year's central credit overlay releases of R280 million (no release in the current year); and
- the decrease in the MotoNovo profit of £28.7 million to £16.4 million due to the impact of securitisation transactions, which eliminate at a group level, and the new book originated in Aldermore for May and June 2019.

The table below reflects these structural changes in the breakdown of sources of normalised earnings.

SOURCES OF NORMALISED EARNINGS

	Year ended 30 June				
R million	**2019 IFRS 9**	**% composition**	2018 IAS 39	% composition	% change
FNB	**15 043**	**71**	13 303	66	13
RMB	**5 241**	**25**	4 719	23	11
WesBank	**901**	**4**	1 048	5	(14)
FCC	**392**	**2**	1 334	7	(71)
– MotoNovo	**216**		357		
– FCC (included Group Treasury) and other*,**	**176**		977		
Other equity instruments	**(425)**	**(2)**	(234)	(1)	82
Normalised earnings	**21 152**	**100**	20 170	100	5

* *30 June 2018 figures have been restated to reflect the changes to the composition of earnings at an operating business level as described, as well as for Group Treasury reallocations. Refer to pages A42 and A43 for a detailed reconciliation.*

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

FNB's results reflect another strong operating performance from its domestic franchise, driven by healthy non-interest revenue (NIR) growth on the back of ongoing customer gains and increased transactional volumes, and high-quality net interest income (NII) growth, particularly from deposit generation. RMB's results were robust and benefited from good growth in earnings and solid operational leverage. In line with prior years, WesBank's results were significantly impacted by securitisations. WesBank's operational performance was resilient, given the tough operating environment.

Bank NII increased 10%, underpinned by strong growth in deposits of 8% and solid advances growth of 7%.

RMB delivered strong NII growth of 19%, driven by resilient core advances growth (+4%), supported by higher margins in the cross-border lending book, higher utilisation of trade and working capital facilities and good growth in deposits (+9%) in the corporate bank. FNB's NII growth was underpinned by robust advances growth of 10%, and strong deposit growth of 13%, particularly from the premium and commercial segments. WesBank's subdued NII reflects a tough operating environment, with advances down 3%.

Bank NIR increased 10%. The main drivers were strong fee and commission income growth of 10%, supported by higher volumes across FNB's digital and electronic channels and ongoing customer growth in the premium, commercial and corporate segments.

Insurance revenue decreased 21%, mainly due to a reduction in income in MotoNovo following the implementation of the General Data Protection Regulations (GDPR) rules in the UK in May 2018, which reduced its marketable base. Post the sale of the MotoNovo operations, effective May 2019, all new origination is in Aldermore Group, which impacted advances and income. Total fair value income, mainly driven by RMB's markets business, showed strong growth of 22% off a subdued base.

Fee, commission and insurance income represents 76% NIR.

Total cost growth of 8% continues to trend above inflation due to:

- ongoing investment in platforms to extract further efficiencies;
- staff cost increases above inflation; and
- headcount increases relating to new initiatives.

The bank's cost-to-income ratio decreased from 54.3% to 53.6%.

The bank adopted IFRS 9* on 1 July 2018 and (as permitted under the accounting standard) did not restate prior year financial information. As a result, the credit performance commentary below covers the period from 1 July 2018 to 30 June 2019 for comparability purposes (as 30 June 2018 results were prepared on an IAS 39 basis).

As previously disclosed, IFRS 9 contributes a material increase in NPLs mainly due to:

- the lengthening of the write-off period from six to 12 months, particularly in unsecured; and
- a more stringent definition for customer rehabilitation (technical cures).

These IFRS 9-related changes, particularly the lengthening of the write-off period, accounted for more than half of the growth in NPLs. The underlying credit performance is captured under the operational NPLs definition.

Taking into account the above context, total NPLs have increased 32% or R8 326 million since 1 July 2018, with operational NPLs increasing 24%, as shown in the table below.

	R million	% change	Percentage point contribution to overall NPL increase
Operational NPLs	**4 430**	**24**	**17**
Restructured debt review (D7)	**(184)**	**(5)**	**(1)**
Definition of rehabilitation (technical cures)	**487**	**13**	**2**
Lengthening of write-off period	**3 593**	**–**	**14**
Total	**8 326**	**32**	**32**

The increase in operational NPLs reflects strong book growth in certain unsecured portfolios, as well as macro pressures in some sectors affecting WesBank corporate, and drought-related impacts in FNB commercial's agric portfolio whilst RMB corporate and investment banking (CIB) was impacted by the migration of certain counters in distressed industries (up >100%). The increase in operational NPLs is within expectations and trend rate, given growth in underlying advances.

The bank's credit loss ratio of 95 bps increased 27% and remains below the bank's through-the-cycle (TTC) range of 100 – 110 bps. Most of the bank's lending books are trending in line with expectations.

IFRS 9 impacts the impairment charge in that provision levels are upfronted for new origination and similarly higher levels are maintained for arrears. The lengthening of the write-off period provides one-off relief in the year under review.

** Refer to the IFRS 9 financial instruments transition report on the group's website at https://www.firstrand.co.za/investors/other-shareholder-documents/.*

The underlying drivers of this increase, per product, are outlined below:

- FNB card impairments increased >R330 million (+56%) on the back of 23% growth in advances. Operational NPLs in card increased materially (+93%), mainly due to specific origination issues. As part of its focus on acquiring new customers and cross-selling credit cards into its base, FNB saw strong book growth from new-to-bank and new-to-product origination strategies. As vintages showed strain, FNB implemented significant risk cutbacks, however, these cuts were delayed in certain cohorts. The group expects ongoing elevated NPLs in these cohorts in the 2020 financial year. However, the credit loss ratio of 3.68% remains well below TTC levels.
- The FNB personal loans charge increased >R500 million (+63%) and was also driven by strong book growth of 36%. Operational NPLs tracked book growth. The credit loss ratio of 6.39% remains well below TTC levels.
- DA's impairment charge increased >R250 million (+23%), largely due to prior year advances growth. Operational NPLs tracked book growth, which was slightly lower year-on-year.
- The impairment charge for FNB retail other increased >R100 million (+10%), reflecting advances growth of 13% and a 24% increase in operational NPLs.
- The residential mortgages credit loss ratio increased marginally to 11 bps, still due to low inflows of NPLs on the back of conservative origination. NPLs increased in line with expectations.
- An increase in WesBank's vehicle asset (VAF) charge, due to securitisations and stress in the corporate sectors, resulting in NPL growth of 5%.
- A moderate increase in MotoNovo VAF NPLs of 3% (in pound terms) since 1 July 2018, reflecting the benefits of risk cutbacks and improved collections. The impairment charge increased to 230 bps due to securitisation of higher-quality advances.
- FNB commercial NPLs increased 36%, driven by growth in the higher collateralised agricultural portfolios against which proactive provisions were raised in prior years. The impairment charge increased to 75 bps, which has trended to the bottom of the TTC range.
- The RMB CIB portfolio reported a R1.5 billion increase in NPLs since 1 July 2018 off a very low base, reflecting the migration of certain highly collateralised counters in distressed industries. The overall portfolio reflected the higher levels of corporate stress in SA, resulting in an uptick in the credit charge in the current financial year to 2 bps from a 4 bps release in 2018.

Overall balance sheet portfolio provisions decreased 1%. Retail portfolio impairments were driven by ongoing book growth. The bank's performing book coverage ratio reduced marginally given the mix change but, at 131 bps, remains comfortably above the current financial year impairment charge.

OPERATING REVIEWS

FNB

FNB represents the bank's activities in the retail and commercial segments in South Africa. It is growing its franchise on the back of a compelling customer offering that provides a broad range of innovative financial services products. FNB's pre-tax profits increased 13% to R20.9 billion. FNB produced an improved cost-to-income ratio of 51.0%.

FNB FINANCIAL HIGHLIGHTS

	Year ended 30 June			As at 1 July
R million	**2019 IFRS 9**	2018 IAS 39	% change	2018 IFRS 9
Normalised earnings	**15 043**	13 303	13	
Normalised profit before tax	**20 893**	18 488	13	
– South Africa	**21 255**	18 979	12	
– Rest of Africa*	**(362)**	(491)	(26)	
Total assets	**411 966**	383 786	7	379 066
Total liabilities	**395 889**	365 191	8	365 243
Stage 3/NPLs as a % of advances	**5.71**	3.48		4.52
Credit loss ratio (%)	**1.51**	1.27		
Cost-to-income ratio (%)	**51.0**	53.0		
Advances margin (%)	**4.38**	4.34		

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

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

- grow and retain core transactional accounts;
- provide market-leading digital platforms to deliver cost-effective and innovative 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.

SEGMENT RESULTS

	Year ended 30 June		
R million	**2019 IFRS 9**	2018 IAS 39	% change
Normalised PBT			
Retail	**12 325**	11 086	11
Commercial	**8 930**	7 893	13
FNB rest of Africa*	**(362)**	(491)	(26)
Total FNB	**20 893**	18 488	13

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

A breakdown of key performance measures is shown below.

%	**FNB**
PBT growth	**12**
Cost increase	**8**
Advances growth	**10**
Deposit growth	**13**
Stage 3/NPLs as a % of advances	**5.71**
Credit loss ratio	**1.51**
Cost-to-income ratio	**51.0**
Operating jaws	**3.5**

FNB's total NII increased 11%, driven by strong volume growth in both advances (+10%) and deposits (+13%). FNB's focus on customer acquisition and cross-sell into its core transactional customer base continues to be the main driver of advances growth in the premium and commercial segments.

The ongoing strong growth in deposits in both retail and commercial was due to historic customer growth, cross-sell, product innovation and specific strategies to gather cash investment balances.

The following table unpacks the growth in advances and deposits on a segment basis.

SEGMENT ANALYSIS OF ADVANCES AND DEPOSIT GROWTH

	Deposit growth		Advances growth*	
Segments	**%**	**R billion**	**%**	**R billion**
Retail	**9**	**21.5**	**9**	**26.2**
– Consumer	**3**	**2.4**	**6**	**2.3**
– Premium	**13**	**19.1**	**10**	**22.7**
– DirectAxis	**–**	**–**	**8**	**1.2**
Commercial	**16**	**32.8**	**11**	**10.6**
Total FNB	**13**	**54.3**	**10**	**36.8**

* *Growth in advances reflects the change from 1 July 2018 (IFRS 9) to 30 June 2019 (IFRS 9).*

The mix of FNB's advances growth reflects its targeted, segment-specific origination strategies. The focus has been to lend to main-banked clients, creating a strong reinforcement to the transactional relationship. Mortgages (+6%) grew marginally above nominal house price inflation. Growth in both the premium and consumer segments was driven by unsecured lending origination. In consumer, this was on the back of writing to credit appetite after risk cuts in previous periods, and was mainly focused on personal loans. Card growth was down year-on-year.

The strong growth in premium personal loans and credit card was driven by:

- upward migration of customers from consumer to premium; and
- leveraging digital platforms for pre-scored origination based on customer behaviour.

Personal loans continues to focus on the displacement of other providers of credit in FNB's main-banked client base.

DA grew advances 8% reflecting some pull-back on origination and increased competition in the market.

Commercial continued to benefit from targeted customer acquisition, strong cross-sell momentum and focused asset growth, particularly in agric and commercial property finance.

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

R million	As at 30 June **2019 IFRS 9**	As at 1 July 2018 IFRS 9	% change
Consumer advances			
Residential mortgages	**25 947**	24 677	5
Card	**4 638**	4 712	(2)
Personal loans	**8 275**	7 047	17
Retail other	**2 714**	2 801	(3)
Premium advances			
Residential mortgages	**191 217**	180 953	6
Card	**23 477**	18 093	30
Personal loans	**15 082**	10 153	49
Retail other	**15 194**	13 103	16
DA advances	**16 102**	14 860	8
Commercial advances	**105 128**	94 534	11

The strength and quality of FNB's transactional franchise is demonstrated in the ongoing growth in volumes. Total customer growth was 1% year-on-year, with particularly strong new customer acquisition continuing in premium and commercial. There was some attrition of transactional accounts in the consumer segment due to conservative credit risk appetite and ongoing upward migration to premium.

CUSTOMERS

Customer segment	**Growth in customer numbers %**
Consumer	**(4)**
Premium	**17**
Commercial	**11**

NIR was driven by growth in transactional volumes across all segments. Premium saw particularly strong growth in card transactional volumes, lending NIR and digital volumes.

CHANNEL VOLUMES

Thousands of transactions	**2019**	2018	% change
ATM/ADT	**245 433**	243 023	1
Internet banking	**197 957**	205 200	(4)
Banking app	**237 873**	164 018	45
Mobile (excluding prepaid)	**42 050**	43 716	(4)
Point-of-sale merchants	**578 634**	496 673	17
Card swipes	**872 989**	785 405	11

Cost growth continues to trend above inflation at 8%, but is in line with expectations, given the level of ongoing investment in platform technology, wealth and investment management (WIM), and above-inflation wage settlements. Despite these pressures, FNB achieved positive jaws and the overall cost-to-income ratio improved to 51.0%.

FNB recorded an increase of 39% in NPLs since 1 July 2018, in part reflecting the impact of the adoption of IFRS 9 (extension of write-off periods for unsecured advances and more stringent rehabilitation rules). Operational NPLs increased 17% since 1 July 2018.

The increase in operational NPLs in personal loans was below book growth and vintages continue to trend within expectations and below TTC levels.

The commercial portfolio's NPLs were driven mainly by drought in the agric book.

RMB

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

RMB FINANCIAL HIGHLIGHTS

	Year ended 30 June			As at 1 July
R million	**2019 IFRS 9**	2018 IAS 39	% change	2018 IFRS 9
Normalised earnings	**5 241**	4 719	11	
Normalised profit before tax	**7 279**	6 555	11	
Total assets	**467 704**	425 605	10	425 841
Total liabilities	**462 181**	420 823	10	421 168
Credit loss ratio (%)	**0.02**	(0.04)		
Cost-to-income ratio (%)	**51.5**	52.7		

RMB's diversified portfolio performance was strong, with pre-tax profits increasing 11% to R7.3 billion. This was underpinned by a strong markets and structuring contribution, notably from flow trading activities, and healthy annuity income-driven growth due to balance sheet deployment. RMB's cost growth of 9% was primarily driven by ongoing platform and investment spend.

BREAKDOWN OF PROFIT CONTRIBUTION BY ACTIVITY*

	Year ended 30 June		
R million	**2019 IFRS 9**	2018 IAS 39	% change
Investment banking and advisory	**4 707**	4 191	12
Corporate and transaction banking	**1 490**	1 351	10
Markets and structuring	**1 419**	1 114	27
Investing**	**(132)**	292	(>100)
Other	**(205)**	(393)	(48)
Total RMB	**7 279**	6 555	11

* *Refer to additional activity and business unit disclosure on page A41. To improve peer group comparability, core activities now include the associated endowment earned on capital invested net of group cost allocations. Comparatives have been restated accordingly.*

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

Investment banking and advisory grew profits 12%, which was pleasing in an environment characterised by a constrained economic cycle, subdued corporate credit demand and low investor confidence. The business continued to deliver solid lending income, underpinned by prior year advances growth and higher margin income. Global and domestic corporate finance activity levelled off, resulting in lower fee income generation across advisory and capital market mandates. The business continues to maintain appropriate levels of credit provisioning given the prevailing weak credit cycle.

Corporate and transactional banking delivered solid results, up 10% year-on-year, underpinned by the continued focus on leveraging platforms to grow product offerings. Results were bolstered by higher transactional volumes and average deposit balances, and good demand for working capital solutions. The business continues to invest in platform, client experience and enablement initiatives.

Markets and structuring delivered a strong performance, up 27%, off a 2018 base characterised by an operational loss and low credit trading revenues. Income growth in the first half of the year was benign, impacted by the tough macros, resulting in lower flow activity. The business was, however, well positioned to capture the increased market-making activity and structuring opportunities offered by positive market sentiment in the fourth quarter.

The prior year results for investing activities included a profit on the sale of an investment held in the bank to a fellow subsidiary – this profit eliminates at a group level. The current period loss includes an impairment against an equity position held in the bank.

Other activities reflect the continued derisking of the legacy portfolio, and investment in the group's markets infrastructure platform.

WesBank

Following the structural changes outlined earlier, WesBank now represents the bank's activities in instalment credit, fleet management and related services in the retail, commercial and corporate segments of South Africa. The restructuring allows WesBank to focus on protecting and growing its unique and long-standing model of partnering with leading motor manufacturers, suppliers and dealer groups. This gives WesBank a market-leading point-of-sale presence.

FINANCIAL HIGHLIGHTS

	Year ended 30 June			As at 1 July
R million	**2019 IFRS 9**	2018 IAS 39	% change	2018 IFRS 9
Normalised earnings	**901**	1 048	(14)	
Normalised profit before tax	**1 251**	1 456	(14)	
Total assets	**121 816**	126 868	(4)	125 743
Total liabilities	**121 690**	125 412	(3)	125 412
Stage 3/NPLs as a % of advances	**6.03**	5.40		5.58
Credit loss ratio (%)	**1.54**	1.51		
Cost-to-income ratio (%)	**55.0**	52.2		
Net interest margin (%)	**3.23**	3.18		

On a like-for-like basis, with DA and MotoNovo excluded, normalised profit before tax decreased 14% to R1.3 billion. The performance was negatively impacted by a difficult trading environment, as well as the level of securitisation of selected assets, resulting in less day one future margin recognised in the current year. These amounts eliminate at a group level when the securitisation schemes are consolidated. Both the retail and corporate VAF businesses faced a tough macroeconomic environment characterised by:

- low consumer and business confidence resulting in a lengthening of the vehicle replacement cycle;
- declining vehicle sales; and
- affordability challenges.

In the face of increasing competition, the business focused on protecting its origination franchise and return profile through disciplined risk appetite and operational efficiencies.

WesBank's operating model and relationships strengthened with new partnerships established with KTM, Harley Davidson, Triumph and Vespa. Its partnership with Renault was renewed recently.

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

BREAKDOWN OF PROFIT CONTRIBUTION BY ACTIVITY*

	Year ended 30 June		
R million	**2019 IFRS 9**	2018 IAS 39	% change
Normalised profit before tax			
VAF	**1 251**	1 456	(14)
– Retail SA	**820**	1 036	(21)
– Corporate and commercial	**431**	420	3
Total WesBank	**1 251**	1 456	(14)

* *Refer to additional segmental disclosure on page A40.*

WesBank's credit loss ratio showed a marginal deterioration at 1.54% (2018: 1.51%), reflecting the impact of securitisations. The corporate VAF business experienced further deterioration in credit quality emanating from ongoing stress in the transport and construction sectors. Retail VAF NPLs also increased due to elevated consumer stress and protracted collection timelines as customers opt for a repossession process via court order. In addition, as previously disclosed, higher-than-expected NPLs in the self-employed and small business segments resulting from operational issues with some scorecards, including third-party data quality, continued to play out in the year. Behavioural terms continue to extend due to consumer pressure.

The risk cuts in both portfolios resulted in advances declining 3% year-on-year. Margin pressure continued, partly due to increased competitive activity and the focus on originating lower-risk business, which is generally written at lower margins, and a significant shift in new business origination mix from fixed- to floating-rate business. The improvement in margin was impacted by the securitisation of selected assets and related margins. Securitisations typically excluded fixed-rate assets and this results in a margin increase in the remaining book.

WesBank's NIR, mainly fleet revenues, increased 3% due to growth in the full maintenance leasing (FML) book.

WesBank continues to control operational expenditure, and invest in digital process improvements and its growing FML fleet. Fleet depreciation increased R62 million.

Whilst the cost-to-income ratio has deteriorated due to topline pressure, overall cost growth tracked well below inflation at 4%.

SEGMENT ANALYSIS OF NORMALISED EARNINGS

	Year ended 30 June				
R million	2019 IFRS 9	% composition	2018 IAS 39	% composition	% change
Retail	**9 204**	**43**	8 366	41	10
– FNB*	**8 613**		7 620		
– WesBank	**591**		746		
Commercial	**6 740**	**32**	5 985	30	13
– FNB	**6 430**		5 683		
– WesBank	**310**		302		
Corporate and investment banking	**5 241**	**25**	4 719	23	11
– RMB	**5 241**		4 719		
Other	**(33)**	**–**	1 100	6	(>100)
– FCC (including Group Treasury) and elimination adjustments	**392**		1 334		
– Other equity instruments	**(425)**		(234)		
Normalised earnings	**21 152**	**100**	20 170	100	5

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

MANAGEMENT OF FINANCIAL RESOURCES

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

The management of the group's financial resources is executed through Group Treasury and is independent of the operating businesses. This ensures the required level of discipline is applied in the allocation and pricing of financial resources. This also ensures that Group Treasury's mandate is aligned with the portfolio's growth, return and volatility targets to deliver shareholder value. The group continues to monitor and proactively manage a fast-changing regulatory environment, competitive landscape 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 self-imposed structural borrowing and liquidity risk limits, which are more onerous than those required in terms of regulations. The group's philosophy is that, in the longer term, foreign currency assets should be supported by foreign currency liabilities, primarily in the same jurisdiction. It aligns with one of the group's strategic priorities to increase diversification by jurisdiction, which is evidenced by the integration of the MotoNovo business with Aldermore Group in the UK, as well as the utilisation of the RMB International Mauritius platform for the group's rest of Africa dollar exposures.

Despite increasing competition, the group believes that its disciplined and dynamic approach to financial resource management provides it with the ability to further enhance the value proposition to customers and optimally utilise platforms across the group to deliver on commitments to stakeholders.

Balance sheet strength

Capital position

Capital ratios as at 30 June 2019 are summarised below.

		As at 30 June	
%	Internal targets	2019 IFRS 9	2018 IAS 39
Capital*			
CET1	10.0 – 11.0	**13.4**	12.7
Tier 1	>12.0	**14.0**	12.8
Total	>14.0	**16.8**	16.8

* *FRB includes foreign branches. Ratios include unappropriated profits and the Day 1 transitional impact of IFRS 9.*

The bank's Common Equity Tier 1 (CET1) ratio strengthened significantly over the past year (+70 bps from 30 June 2018) and relates to the following:

- ongoing net internal capital generation and lower RWA growth;
- the one-off Discovery card transaction;
- transfer of dollar exposures from the bank to RMB's Mauritius platform (in FRI); and
- successful financial resource management optimisation strategies.

This was partly offset by the Day 1 transitional impact of IFRS 9 (≈11 bps decrease) on 1 July 2018.

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

The bank continues to actively manage its capital composition by issuing Additional Tier 1 (AT1) and Tier 2 instruments to align with its internal targets. To this end, the bank issued the following instruments in the domestic market during the year under review:

- AT1 of R5.0 billion; and
- Tier 2 of R2.6 billion.

The AT1 instruments issued in November 2018 have now been classified as equity and the coupon payment as dividends. Previously they were classified as financial liabilities and the coupon payment as NII. Contractually the redemption and coupon payments are at the discretion of the bank, resulting in an equity classification in terms of IFRS, however, from an economic perspective, the bank continues to view these AT1 instruments as liability in nature. The AT1 instruments, together with Tier 2 instruments, are considered to be funding, and are not used to support risk in the group.

It remains the bank's intention to continue optimising its regulatory capital stack by issuing AT1 and Tier 2 capital instruments in the domestic and/or international markets. This will ensure sustainable support for ongoing growth initiatives and redemption of existing capital instruments.

Liquidity position

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

The liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) as at 30 June 2019 are summarised in the table below.

%	2019	2018
LCR*		
Regulatory minimum	**100**	90
Actual**	**133**	118
Average available HQLA (R billion)	**226**	182
NSFR*		
Regulatory minimum	**100**	100
Actual**	**117**	111

* *The bank's LCR and NSFR reflects its operations in South Africa only.*

** *Exceeds regulatory minimum requirements with appropriate buffers.*

Regulatory update – South Africa's intended approach to bank resolution

The South African Reserve Bank (SARB) released a discussion paper on South Africa's intended approach to bank resolution on 23 July 2019. The discussion paper outlines the objectives of the resolution framework, and planning and conducting a resolution with an emphasis on open-bank resolution. This is applicable to systemically important institutions. The intended approach to bank resolution provides more clarity on the regulator's approach to further enhance financial stability in the country.

The discussion paper is a first draft and likely to be revised and expanded in future. Comments received on this discussion paper will assist the SARB in drafting the regulatory standards for resolution once the Financial Sector Laws Amendment Bill (FSLAB) is promulgated.

The FSLAB introduced a new tranche of loss-absorbing instruments, i.e. first loss-absorbing capacity (FLAC) instruments, which are subordinated to other unsecured creditors and intended for bail-in in resolution. FLAC requirements will be applicable to banks with open bank resolution plans. The SARB acknowledges the international approaches towards calibration of total loss-absorbing capacity, but has not detailed how the quantum of required FLAC will be calculated for relevant institutions, nor the deadline for compliance. The SARB will be conducting a study (with the support of the World Bank) in the second half of 2019 to analyse various aspects relevant to FLAC instrument requirements.

PROSPECTS

Given the structural nature of South Africa's challenges, the group believes that domestic economic activity will remain under pressure for the foreseeable future.

Weak domestic demand and low income growth will continue to weigh on real GDP growth and core inflation, and the real economy remains constrained by high government indebtedness, inefficiency of large SOEs, and low private sector investment.

The country needs urgent economic reform, which should, at a minimum, include energy supply, price stability and policy certainty in key areas such as fiscal consolidation, SOE reform, land reform and mining rights. Without action on these critical issues, the risk of further sovereign rating downgrades remains elevated.

FirstRand remains optimistic that, despite this difficult backdrop, it is executing on appropriate strategies to deliver ongoing growth in earnings and sustainable superior returns to shareholders. FNB's momentum is expected to continue, on the back of customer and volume growth. Cross-sell and up-sell strategies will deliver higher insurance revenues and good deposit and advances growth. RMB's client franchises are expected to remain resilient and the business has the benefit of an earnings rebase to grow off in the coming financial year. WesBank's performance is expected to remain subdued given underlying macro constraints, such as low vehicle sales.

The run-down of MotoNovo's back book in FCC/GTSY will reduce the UK's contribution to the bank's overall earnings.

DISCOVERY CARD

FirstRand received the final consideration for the Discovery card transaction on 21 November 2018, with a resultant after-tax profit of ±R2.3 billion for the FirstRand group, of which approximately R1.5 billion is attributable to the bank. This resulted in attributable earnings increasing 12% for the year. However, given the non-operational nature of the profit, it was excluded from headline and normalised earnings. At 30 June 2019, FCC included Discovery card advances with a gross value of R4.3 billion, which will be transferred at carrying value.

EVENTS AFTER REPORTING PERIOD

The directors are not aware of any material events that have occurred between the date of the statement of financial position and the date of this report.

WR Jardine

WR JARDINE	AP PULLINGER	C LOW
Chairman	CEO	Company secretary

4 September 2019

Segment report

for the year ended 30 June 2019 IFRS 9

	Retail and commercial							
	FNB							
	Retail							
R million	Residential mortgages	Card	FNB loans	DirectAxis loans	Total personal loans	Retail other	**Retail**	Commercial
Net interest income before impairment of advances	4 487	2 350	3 676	3 085	6 761	7 258	**20 856**	10 774
Impairment charge	(232)	(937)	(1 296)	(1 379)	(2 675)	(1 285)	**(5 129)**	(750)
Net interest income after impairment of advances	4 255	1 413	2 380	1 706	4 086	5 973	**15 727**	10 024
Non-interest revenue	409	1 904	993	293	1 286	11 406	**15 005**	8 455
Income from operations	4 664	3 317	3 373	1 999	5 372	17 379	**30 732**	18 479
Operating expenses	(1 877)	(1 907)	(1 151)	(1 347)	(2 498)	(11 590)	**(17 872)**	(9 497)
Income before indirect tax	2 787	1 410	2 222	652	2 874	5 789	**12 860**	8 982
Indirect tax	(13)	(49)	(18)	(83)	(101)	(372)	**(535)**	(52)
Profit before income tax	2 774	1 361	2 204	569	2 773	5 417	**12 325**	8 930
Income tax expense	(777)	(383)	(617)	(160)	(777)	(1 515)	**(3 452)**	(2 500)
Profit for the year	1 997	978	1 587	409	1 996	3 902	**8 873**	6 430
Attributable to								
Ordinary equityholders	1 997	978	1 587	409	1 996	3 902	**8 873**	6 430
Other equity instrument holders	–	–	–	–	–	–	**–**	–
Profit for the year	1 997	978	1 587	409	1 996	3 902	**8 873**	6 430
Attributable earnings to ordinary shareholders	1 997	978	1 587	409	1 996	3 902	**8 873**	6 430
Headline earnings adjustments	–	–	–	–	–	–	**–**	–
Headline earnings	1 997	978	1 587	409	1 996	3 902	**8 873**	6 430
TRS and IFRS 2 liability remeasurement	–	–	–	–	–	–	**–**	–
IAS 19 adjustment	–	–	–	–	–	–	**–**	–
Normalised earnings	1 997	978	1 587	409	1 996	3 902	**8 873**	6 430

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

* *FNB Africa results reported above relate to head office costs. Earnings of the African subsidiaries form part of FREMA (see simplified group structure on page A6) and are not reported in bank.*

** *Refer to additional segmental information on page A40.*

Refer to additional activity and business unit disclosure on page A41.

† *FCC represents group-wide functions.*

Notes:

During the current financial period:

- *Discovery card is included in FCC (including Group Treasury) and other;*
- *DirectAxis loans, previously referred to as WesBank loans, is included in FNB retail personal loans;*
- *a change in the intergroup recovery methodology impacting FNB, RMB and FCC;*
- *HQLA, managed by the Group Treasurer, reallocated from FCC to RMB; and*
- *the MotoNovo back book is included in FCC (including Group Treasury) and other.*

Retail and commercial				Corporate and institutional						
				RMB						
FNB Africa*	**Total FNB**	**WesBank****	**Retail and commercial**	Investment banking	Corporate banking	**Total RMB#**	FCC† (including Group Treasury) and other	**FRB – normalised**	Normalised adjustments	**FRB – IFRS**
(60)	**31 570**	**4 641**	**36 211**	4 999	2 025	**7 024**	3 700	**46 935**	535	**47 470**
–	**(5 879)**	**(1 916)**	**(7 795)**	(26)	(25)	**(51)**	(614)	**(8 460)**	–	**(8 460)**
(60)	**25 691**	**2 725**	**28 416**	4 973	2 000	**6 973**	3 086	**38 475**	535	**39 010**
862	**24 322**	**2 413**	**26 735**	6 504	1 894	**8 398**	(452)	**34 681**	1 371	**36 052**
802	**50 013**	**5 138**	**55 151**	11 477	3 894	**15 371**	2 634	**73 156**	1 906	**75 062**
(1 162)	**(28 531)**	**(3 879)**	**(32 410)**	(5 548)	(2 395)	**(7 943)**	(3 362)	**(43 715)**	16	**(43 699)**
(360)	**21 482**	**1 259**	**22 741**	5 929	1 499	**7 428**	(728)	**29 441**	1 922	**31 363**
(2)	**(589)**	**(8)**	**(597)**	(140)	(9)	**(149)**	(83)	**(829)**	–	**(829)**
(362)	**20 893**	**1 251**	**22 144**	5 789	1 490	**7 279**	(811)	**28 612**	1 922	**30 534**
102	**(5 850)**	**(350)**	**(6 200)**	(1 620)	(418)	**(2 038)**	1 203	**(7 035)**	(430)	**(7 465)**
(260)	**15 043**	**901**	**15 944**	4 169	1 072	**5 241**	392	**21 577**	1 492	**23 069**
(260)	**15 043**	**901**	**15 944**	4 169	1 072	**5 241**	(33)	**21 152**	1 492	**22 644**
–	**–**	**–**	**–**	–	–	**–**	425	**425**	–	**425**
(260)	**15 043**	**901**	**15 944**	4 169	1 072	**5 241**	392	**21 577**	1 492	**23 069**
(260)	**15 043**	**901**	**15 944**	4 169	1 072	**5 241**	(33)	**21 152**	1 492	**22 644**
–	**–**	**–**	**–**	–	–	**–**	–	**–**	(1 475)	**(1 475)**
(260)	**15 043**	**901**	**15 944**	4 169	1 072	**5 241**	(33)	**21 152**	17	**21 169**
–	**–**	**–**	**–**	–	–	**–**	–	**–**	80	**80**
–	**–**	**–**	**–**	–	–	**–**	–	**–**	(97)	**(97)**
(260)	**15 043**	**901**	**15 944**	4 169	1 072	**5 241**	(33)	**21 152**	–	**21 152**

Segment report continued

for the year ended 30 June 2019 IFRS 9

	Retail and commercial							
	FNB							
	Retail							
R million	Residential mortgages	Card	FNB loans	DirectAxis loans	Total personal loans	Retail other	**Retail**	Commercial
Cost-to-income ratio (%)	38.3	44.8	24.7	39.9	31.0	62.1	**49.8**	49.4
Diversity ratio (%)	8.4	44.8	21.3	8.7	16.0	61.1	**41.8**	44.0
Credit loss ratio (%)	0.11	3.68	6.39	8.93	7.49	7.60	**1.77**	0.75
Stage3/NPLs as a % of advances (%)	3.98	8.08	14.65	15.13	14.84	11.07	**6.19**	4.33
Income statement includes								
Depreciation	(6)	(4)	(2)	(6)	(8)	(1 612)	**(1 630)**	(50)
Amortisation	–	(13)	–	(22)	(22)	(29)	**(64)**	–
Impairment charges	–	–	–	–	–	(81)	**(81)**	–
Statement of financial position includes								
Advances (before impairments)	217 164	28 115	23 357	16 012	39 369	17 908	**302 556**	105 128
Stage 3/NPLs	8 638	2 272	3 421	2 422	5 843	1 982	**18 735**	4 556
Investment in associated company	–	–	–	–	–	–	**–**	–
Total deposits	533	2 393	10	–	10	245 408	**248 344**	240 215
Total assets	214 679	25 548	19 308	13 434	32 742	33 934	**306 903**	104 469
Total liabilities‡	214 061	25 503	18 721	14 278	32 999	21 857	**294 420**	100 514
Capital expenditure	15	21	5	62	67	1 892	**1 995**	69

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

* *FNB Africa results reported above relate to head office costs. Earnings of the African subsidiaries form part of FREMA (see simplified group structure on page A6) and are not reported in bank.*

** *Refer to additional segmental information on page A40.*

[#] *Refer to additional activity and business unit disclosure on page A41.*

[†] *FCC represents group-wide functions.*

[‡] *Total liabilities are net of interdivisional balances.*

Notes:

During the current financial period:

- *Discovery card is included in FCC (including Group Treasury) and other;*
- *DirectAxis loans, previously referred to as WesBank loans, is included in FNB retail personal loans;*
- *a change in the intergroup recovery methodology impacting FNB, RMB and FCC;*
- *HQLA, managed by the Group Treasurer, reallocated from FCC to RMB; and*
- *the MotoNovo back book is included in FCC (including Group Treasury) and other.*

Retail and commercial				Corporate and institutional						
				RMB						
FNB Africa*	Total FNB	WesBank**	Retail and commercial	Investment banking	Corporate banking	Total RMB#	FCC† (including Group Treasury) and other	FRB – normalised	Normalised adjustments	FRB – IFRS
>100	**51.0**	**55.0**	**51.5**	48.2	61.1	**51.5**	>100	**53.6**	–	**52.3**
>100	**43.5**	**34.2**	**42.5**	56.5	48.3	**54.5**	(13.9)	**42.5**	–	**43.2**
–	**1.51**	**1.54**	**0.87**	0.01	0.05	**0.02**	0.92	**0.95**	–	**0.95**
–	**5.71**	**6.03**	**5.79**	0.91	0.59	**0.85**	1.11	**3.71**	–	**3.71**
(2)	**(1 682)**	**(656)**	**(2 338)**	(93)	(9)	**(102)**	(59)	**(2 499)**	–	**(2 499)**
–	**(64)**	**(7)**	**(71)**	(46)	–	**(46)**	(18)	**(135)**	–	**(135)**
–	**(81)**	**2**	**(79)**	(6)	–	**(6)**	–	**(85)**	(83)	**(168)**
–	**407 684**	**122 696**	**530 380**	266 959	57 932	**324 891**	66 575	**921 846**	–	**921 846**
–	**23 291**	**7 398**	**30 689**	2 434	341	**2 775**	741	**34 205**	–	**34 205**
	–	**–**	**–**	–	–	**–**	66	**66**	–	**66**
–	**488 559**	**55**	**488 614**	88 612	120 429	**209 041**	360 784	**1 058 439**	–	**1 058 439**
594	**411 966**	**121 816**	**533 782**	407 507	60 197	**467 704**	289 918	**1 291 404**	–	**1 291 404**
955	**395 889**	**121 690**	**517 579**	402 578	59 603	**462 181**	212 216	**1 191 976**	–	**1 191 976**
2	**2 066**	**1 365**	**3 431**	297	2	**299**	67	**3 797**	–	**3 797**

Segment report continued

for the year ended 30 June 2018 IAS 39

	Retail and commercial							
	FNB							
	Retail							
R million	Residential mortgages	Card	FNB loans	DirectAxis loans	Total personal loans	Retail other	**Retail**	Commercial
Net interest income before impairment of advances	4 516	2 232	2 693	2 712	5 405	6 793	**18 946**	9 602
Impairment charge	(149)	(599)	(793)	(1 125)	(1 918)	(1 171)	**(3 837)**	(670)
Net interest income after impairment of advances	4 367	1 633	1 900	1 587	3 487	5 622	**15 109**	8 932
Non-interest revenue	387	1 479	792	203	995	10 282	**13 143**	7 525
Income from operations	4 754	3 112	2 692	1 790	4 482	15 904	**28 252**	16 457
Operating expenses	(1 819)	(1 624)	(921)	(1 251)	(2 172)	(11 096)	**(16 711)**	(8 520)
Income before indirect tax	2 935	1 488	1 771	539	2 310	4 808	**11 541**	7 937
Indirect tax	(11)	(41)	(17)	(59)	(76)	(327)	**(455)**	(44)
Profit before income tax	2 924	1 447	1 754	480	2 234	4 481	**11 086**	7 893
Income tax expense	(818)	(405)	(492)	(134)	(626)	(1 256)	**(3 105)**	(2 210)
Profit for the period	2 106	1 042	1 262	346	1 608	3 225	**7 981**	5 683
Attributable to								
Ordinary equityholders	2 106	1 042	1 262	346	1 608	3 225	**7 981**	5 683
Other equity instrument holders	–	–	–	–	–	–	**–**	–
Profit for the period	2 106	1 042	1 262	346	1 608	3 225	**7 981**	5 683
Attributable earnings to ordinary shareholders	2 106	1 042	1 262	346	1 608	3 225	**7 981**	5 683
Headline earnings adjustments	–	–	–	–	–	–	**–**	–
Headline earnings	2 106	1 042	1 262	346	1 608	3 225	**7 981**	5 683
TRS and IFRS 2 liability remeasurement	–	–	–	–	–	–	**–**	–
Private equity-related realisations	–	–	–	–	–	–	**–**	–
IAS 19 adjustment	–	–	–	–	–	–	**–**	–
Normalised earnings	2 106	1 042	1 262	346	1 608	3 225	**7 981**	5 683

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

* *FNB Africa results reported above relate to head office costs. Earnings of the African subsidiaries form part of FREMA (see simplified group structure on page A6) and are not reported in bank.*

** *Refer to additional segmental information on page A40.*

\# *Refer to additional activity and business disclosure on page A41.*

† *FCC represents group-wide functions.*

Notes:

The year ended 30 June 2018 information was restated for the following, due to an internal restructure:

- *Discovery card was reclassified from Card in FNB to FCC (including Group Treasury) and other;*
- *DirectAxis loans, previously referred to as WesBank loans, was reclassified from WesBank to FNB retail personal loans;*
- *a change in the intergroup recovery methodology impacting FNB, RMB and FCC;*
- *HQLA, managed by the Group Treasurer, reallocated from FCC to RMB; and*
- *the MotoNovo back book was reclassified from WesBank to FCC (including Group Treasury) and other.*

The effect of these transfers can be found on pages A42 and A43.

Retail and commercial				Corporate and institutional						
				RMB						
FNB Africa*	**Total FNB**	**WesBank****	**Retail and commercial**	Investment banking	Corporate banking	**Total RMB#**	FCC† (including Group Treasury) and other	**FRB – normalised**	Normalised adjustments	**FRB – IFRS**
(33)	**28 515**	4 793	**33 308**	4 125	1 798	**5 923**	3 515	**42 746**	(1 583)	**41 163**
2	**(4 505)**	(1 904)	**(6 409)**	105	(3)	**102**	(352)	**(6 659)**	–	**(6 659)**
(31)	**24 010**	2 889	**26 899**	4 230	1 795	**6 025**	3 163	**36 087**	(1 583)	**34 504**
814	**21 482**	2 336	**23 818**	6 205	1 765	**7 970**	(186)	**31 602**	2 085	**33 687**
783	**45 492**	5 225	**50 717**	10 435	3 560	**13 995**	2 977	**67 689**	502	**68 191**
(1 272)	**(26 503)**	(3 722)	**(30 225)**	(5 118)	(2 202)	**(7 320)**	(2 833)	**(40 378)**	(319)	**(40 697)**
(489)	**18 989**	1 503	**20 492**	5 317	1 358	**6 675**	144	**27 311**	183	**27 494**
(2)	**(501)**	(47)	**(548)**	(113)	(7)	**(120)**	(137)	**(805)**	–	**(805)**
(491)	**18 488**	1 456	**19 944**	5 204	1 351	**6 555**	7	**26 506**	183	**26 689**
130	**(5 185)**	(408)	**(5 593)**	(1 458)	(378)	**(1 836)**	1 327	**(6 102)**	(70)	**(6 172)**
(361)	**13 303**	1 048	**14 351**	3 746	973	**4 719**	1 334	**20 404**	113	**20 517**
(361)	**13 303**	1 048	**14 351**	3 746	973	**4 719**	1 100	**20 170**	113	**20 283**
–	**–**	–	**–**	–	–	**–**	234	**234**	–	**234**
(361)	**13 303**	1 048	**14 351**	3 746	973	**4 719**	1 334	**20 404**	113	**20 517**
(361)	**13 303**	1 048	**14 351**	3 746	973	**4 719**	1 100	**20 170**	113	**20 283**
–	**–**	–	**–**	–	–	**–**	–	**–**	(207)	**(207)**
(361)	**13 303**	1 048	**14 351**	3 746	973	**4 719**	1 100	**20 170**	(94)	**20 076**
–	**–**	–	**–**	–	–	**–**	–	**–**	(56)	**(56)**
–	**–**	–	**–**	–	–	**–**	–	**–**	259	**259**
–	**–**	–	**–**	–	–	**–**	–	**–**	(109)	**(109)**
(361)	**13 303**	1 048	**14 351**	3 746	973	**4 719**	1 100	**20 170**	–	**20 170**

Segment report continued

for the year ended 30 June 2018 IAS 39

	Retail and commercial							
	FNB							
	Retail							
R million	Residential mortgages	Card	FNB loans	DirectAxis loans	Total personal loans	Retail other	**Retail**	Commercial
Cost-to-income ratio (%)	37.1	43.8	26.4	42.9	33.9	65.0	**52.1**	49.7
Diversity ratio (%)	7.9	39.9	22.7	7.0	15.5	60.2	**41.0**	43.9
Credit loss ratio (%)	0.07	2.83	5.03	7.93	6.40	7.62	**1.44**	0.75
Stage3/NPLs as a percentage of advances (%)‡	3.86	4.47	8.90	12.61	10.62	6.59	**4.85**	3.54
Income statement includes								
Depreciation	(3)	(4)	(1)	–	(1)	(1 510)	**(1 518)**	(47)
Amortisation	–	(9)	–	–	–	(40)	**(49)**	–
Impairment charges	–	–	–	–	–	(10)	**(10)**	(3)
Statement of financial position includes								
Advances (before impairments)‡	205 630	22 805	17 200	14 860	32 060	15 904	**276 399**	94 534
Stage 3/NPLs‡	7 934	1 019	1 531	1 874	3 405	1 048	**13 406**	3 350
Investment in associated company ‡	–	–	–	–	–	–	**–**	–
Total deposits‡	543	1 347	8	–	8	224 977	**226 875**	207 388
Total assets‡	203 336	21 307	14 873	12 649	27 522	31 755	**283 920**	94 556
Total liabilities^,‡	202 603	21 240	14 694	13 225	27 919	21 095	**272 857**	91 335
Capital expenditure	8	17	2	57	59	1 744	**1 828**	56

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

* *FNB Africa results reported above relate to head office costs. Earnings of the African subsidiaries form part of FREMA (see simplified group structure on page A6) and are not reported in bank.*

** *Refer to additional segmental information on page A40.*

Refer to additional activity and business disclosure on page A41.

† *FCC represents group-wide functions.*

‡ *1 July 2018 IFRS 9 figures.*

^ *Total liabilities are net of interdivisional balances.*

Notes:

The year ended 30 June 2018 information was restated for the following, due to an internal restructure:

- *Discovery card was reclassified from Card in FNB to FCC (including Group Treasury) and other;*
- *DirectAxis loans, previously referred to as WesBank loans, was reclassified from WesBank to FNB retail personal loans;*
- *a change in the intergroup recovery methodology impacting FNB, RMB and FCC;*
- *HQLA, managed by the Group Treasurer, reallocated from FCC to RMB; and*
- *the MotoNovo back book was reclassified from WesBank to FCC (including Group Treasury) and other.*

The effect of these transfers can be found on pages A42 and A43.

Retail and commercial				Corporate and institutional						
				RMB						
FNB Africa*	Total FNB	WesBank**	Retail and commercial	Investment banking	Corporate banking	Total RMB#	FCC† (including Group Treasury) and other	FRB – normalised	Normalised adjustments	FRB – IFRS
>100	53.0	52.2	52.9	49.5	61.8	52.7	85.1	54.3	–	54.3
>100	43.0	32.8	41.7	60.1	49.5	57.4	(5.6)	42.5	–	45.0
(1.47)	1.27	1.51	0.74	(0.04)	0.01	(0.04)	0.55	0.80	–	0.80
–	4.52	5.58	4.79	0.46	0.37	0.45	1.11	3.01	–	3.01
(2)	(1 567)	(603)	(2 170)	(133)	(7)	(140)	(56)	(2 366)	–	(2 366)
–	(49)	(5)	(54)	(35)	–	(35)	(5)	(94)	–	(94)
(161)	(174)	(1)	(175)	–	–	–	–	(175)	–	(175)
–	370 933	126 352	497 285	249 488	46 636	296 124	67 552	860 961	–	860 961
–	16 756	7 052	23 808	1 145	173	1 318	753	25 879	–	25 879
–	–	–	–	–	–	–	65	65	–	65
–	434 263	50	434 313	68 842	110 825	179 667	364 074	978 054	–	978 054
590	379 066	125 743	504 809	376 378	49 463	425 841	270 240	1 200 890	–	1 200 890
1 051	365 243	125 412	490 655	372 164	49 004	421 168	201 950	1 113 773	–	1 113 773
2	1 886	1 288	3 174	130	30	160	101	3 435	–	3 435

Additional segmental disclosure – WesBank

R million	Year ended 30 June 2019 IFRS 9		
	Retail	**Corporate and commercial**	**Total WesBank**
NII before impairment of advances	**4 038**	**603**	**4 641**
Impairment of advances	**(1 834)**	**(82)**	**(1 916)**
Normalised profit before tax	**820**	**431**	**1 251**
Normalised earnings	**591**	**310**	**901**
Advances	**94 751**	**27 945**	**122 696**
Stage 3/NPLs	**6 874**	**524**	**7 398**
Advances margin (%)	**3.52**	**2.31**	**3.23**
Stage 3/NPLs as a % of advances (%)	**7.25**	**1.88**	**6.03**
Credit loss ratio (%)	**1.94**	**0.27**	**1.54**

R million	Year ended 30 June 2018 IAS 39		
	Retail	Corporate and commercial	Total WesBank
NII before impairment of advances	4 183	610	4 793
Impairment of advances	(1 856)	(48)	(1 904)
Normalised profit before tax	1 036	420	1 456
Normalised earnings	746	302	1 048
Advances*	94 188	32 164	126 352
Stage 3/NPLs*	6 658	394	7 052
Advances margin (%)	3.50	2.18	3.18
Stage 3/NPLs as a % of advances (%)*	7.07	1.22	5.58
Credit loss ratio (%)	1.96	0.15	1.51

* *1 July 2018 IFRS 9.*

Additional activity and business unit disclosure – RMB

	Year ended 30 June 2019 IFRS 9						
R million	**IB&A**	**C&TB**	**M&S**	**INV**	**IM**	**Other**	**Total**
Normalised profit before tax							
Global Markets	**–**	**–**	**1 442**	**–**	**–**	**(269)***	**1 173**
Investment Banking Division	**4 637**	**–**	**–**	**(93)**	**–**	**–**	**4 544**
Private Equity	**–**	**–**	**–**	**(39)**	**–**	**–**	**(39)**
Other RMB	**70**	**–**	**(23)**	**–**	**–**	**64**	**111**
Investment banking	**4 707**	**–**	**1 419**	**(132)**	**–**	**(205)**	**5 789**
Corporate banking	**–**	**1 490**	**–**	**–**	**–**	**–**	**1 490**
Total RMB	**4 707**	**1 490**	**1 419**	**(132)**	**–**	**(205)**	**7 279**

	Year ended 30 June 2018 IAS 39**						
R million	IB&A	C&TB	M&S	INV	IM	Other	Total
Normalised PBT							
Global Markets	–	–	1 160	12	–	(186)*	986
Investment Banking Division	3 966	–	–	18	–	–	3 984
Private Equity	–	–	–	262	–	–	262
Other RMB	225	–	(46)	–	–	(207)	(28)
Investment banking	4 191	–	1 114	292	–	(393)	5 204
Corporate banking	–	1 351	–	–	–	–	1 351
Total RMB	4 191	1 351	1 114	292	–	(393)	6 555

* *Includes investments in Global Market's infrastructure programme.*

** *To improve peer comparability, core activities now include the associated endowment earned on capital invested net of group allocations. Comparatives have been restated accordingly.*

Note:

IB&A – investment banking and advisory

C&TB – corporate and transactional banking

M&S – markets and structuring

INV – investing

IM – investment management

Additional information on the internal restructure

for the year ended 30 June 2018 IAS 39

	FNB					WesBank			
R million	**Total FNB previously published**	Discovery card	DirectAxis loans	Change in intergroup recovery methodology	**Total FNB after reallocation**	**Total WesBank previously published**	MotoNovo retail	DirectAxis loans	**Total WesBank after reallocation**
Net interest income before impairment of advances	**26 212**	(409)	2 712	–	**28 515**	**9 443**	(1 938)	(2 712)	**4 793**
Impairment charge	**(3 451)**	71	(1 125)	–	**(4 505)**	**(3 540)**	511	1 125	**(1 904)**
Net interest income after impairment of advances	**22 761**	(338)	1 587	–	**24 010**	**5 903**	(1 427)	(1 587)	**2 889**
Non-interest revenue	**21 925**	(553)	203	(93)	**21 482**	**2 877**	(338)	(203)	**2 336**
Income from operations	**44 686**	(891)	1 790	(93)	**45 492**	**8 780**	(1 765)	(1 790)	**5 225**
Operating expenses	**(25 906)**	561	(1 251)	93	**(26 503)**	**(6 186)**	1 213	1 251	**(3 722)**
Income before indirect tax	**18 780**	(330)	539	–	**18 989**	**2 594**	(552)	(539)	**1 503**
Indirect tax	**(467)**	25	(59)	–	**(501)**	**(162)**	56	59	**(47)**
Profit before income tax	**18 313**	(305)	480	–	**18 488**	**2 432**	(496)	(480)	**1 456**
Income tax expense	**(5 136)**	85	(134)	–	**(5 185)**	**(681)**	139	134	**(408)**
Profit for the year	**13 177**	(220)	346	–	**13 303**	**1 751**	(357)	(346)	**1 048**
Attributable to									
Ordinary equityholders	**13 177**	(220)	346	–	**13 303**	**1 751**	(357)	(346)	**1 048**
Other equity instrument holders	**–**	–	–	–	**–**	**–**	–	–	**–**
Profit for the year	**13 177**	(220)	346	–	**13 303**	**1 751**	(357)	(346)	**1 048**
Attributable earnings to ordinary shareholders	**13 177**	(220)	346	–	**13 303**	**1 751**	(357)	(346)	**1 048**
Headline earnings adjustments	**–**	–	–	–	**–**	**–**	–	–	**–**
Headline earnings	**13 177**	(220)	346	–	**13 303**	**1 751**	(357)	(346)	**1 048**
TRS and IFRS 2 liability remeasurement	**–**	–	–	–	**–**	**–**	–	–	**–**
IAS 19 adjustment	**–**	–	–	–	**–**	**–**	–	–	**–**
Normalised earnings	**13 177**	(220)	346	–	**13 303**	**1 751**	(357)	(346)	**1 048**
Cost-to-income ratio (%)	**53.8**	–	–	–	**53.0**	**50.2**	–	–	**52.2**
Diversity ratio (%)	**45.5**	–	–	–	**43.0**	**23.4**	–	–	**32.8**
Credit loss ratio (%)	**1.00**	–	–	–	**1.27**	**2.10**	–	–	**1.51**
Stage 3/NPLs as a % of advances (%)*	**4.17**	–	–	–	**4.52**	**5.72**	–	–	**5.58**
Income statement includes									
Depreciation	**(1 567)**	–	–	–	**(1 567)**	**(646)**	43	–	**(603)**
Amortisation	**(49)**	–	–	–	**(49)**	**(9)**	4	–	**(5)**
Impairment charges	**(174)**	–	–	–	**(174)**	**(1)**	–	–	**(1)**
Statement of financial position includes									
Advances (before impairments)*	**360 423**	(4 350)	14 860	–	**370 933**	**166 725**	(25 513)	(14 860)	**126 352**
Stage 3/NPLs*	**15 023**	(141)	1 874	–	**16 756**	**9 538**	(612)	(1 874)	**7 052**
Investment in associated company*	**–**	–	–	–	**–**	**–**	–	–	**–**
Total deposits*	**434 548**	(285)	–	–	**434 263**	**50**	–	–	**50**
Total assets*	**370 531**	(4 114)	12 649	–	**379 066**	**165 718**	(27 326)	(12 649)	**125 743**
Total liabilities*	**356 046**	(4 028)	13 225	–	**365 243**	**165 781**	(27 144)	(13 225)	**125 412**
Capital expenditure	**1 829**	–	57	–	**1 886**	**1 442**	(97)	(57)	**1 288**

* *1 July 2018 IFRS 9.*

RMB				FCC (Including Group Treasury) and other					
Total RMB previously published	Change in intergroup recovery methodology	Reallocation of HQLA managed by the Group Treasurer	**Total RMB after reallocation**	**Total FCC previously published**	Discovery card	MotoNovo retail	Reallocation of HQLA managed by the Group Treasurer	Change in intergroup recovery methodology	**Total FCC after reallocation**
5 923	–	–	**5 923**	**1 168**	409	1 938	–	–	**3 515**
102	–	–	**102**	**230**	(71)	(511)	–	–	**(352)**
6 025	–	–	**6 025**	**1 398**	338	1 427	–	–	**3 163**
7 872	98	–	**7 970**	**(1 072)**	553	338	–	(5)	**(186)**
13 897	98	–	**13 995**	**326**	891	1 765	–	(5)	**2 977**
(7 222)	(98)	–	**(7 320)**	**(1 064)**	(561)	(1 213)	–	5	**(2 833)**
6 675	–	–	**6 675**	**(738)**	330	552	–	–	**144**
(120)	–	–	**(120)**	**(56)**	(25)	(56)	–	–	**(137)**
6 555	–	–	**6 555**	**(794)**	305	496	–	–	**7**
(1 836)	–	–	**(1 836)**	**1 551**	(85)	(139)	–	–	**1 327**
4 719	–	–	**4 719**	**757**	220	357	–	–	**1 334**
4 719	–	–	**4 719**	**523**	220	357	–	–	**1 100**
–	–	–	**–**	**234**	–	–	–	–	**234**
4 719	–	–	**4 719**	**757**	220	357	–	–	**1 334**
4 719	–	–	**4 719**	**523**	220	357	–	–	**1 100**
–	–	–	**–**	**–**	–	–	–	–	**–**
4 719	–	–	**4 719**	**523**	220	357	–	–	**1 100**
–	–	–	**–**	**–**	–	–	–	–	**–**
–	–	–	**–**	**–**	–	–	–	–	**–**
4 719	–	–	**4 719**	**523**	220	357	–	–	**1 100**
52.4	–	–	**52.7**	**>100**	–	–	–	–	**85.1**
57.1	–	–	**57.4**	**(>100)**	–	–	–	–	**(5.6)**
(0.04)	–	–	**(0.04)**	**(0.03)**	–	–	–	–	**0.55**
0.47	–	–	**0.45**	**–**	–	–	–	–	**1.11**
(140)	–	–	**(140)**	**(13)**	–	(43)	–	–	**(56)**
(35)	–	–	**(35)**	**(1)**	–	(4)	–	–	**(5)**
–	–	–	**–**	**–**	–	–	–	–	**–**
277 490	–	18 634	**296 124**	**56 323**	4 350	25 513	(18 634)	**–**	**67 552**
1 318	–	–	**1 318**	**–**	141	612	–	**–**	**753**
–	–	–	**–**	**65**	–	–	–	**–**	**65**
179 667	–		**179 667**	**363 789**	285	–	–	**–**	**364 074**
407 207	–	18 634	**425 841**	**257 434**	4 114	27 326	(18 634)	**–**	**270 240**
402 534	–	18 634	**421 168**	**189 412**	4 028	27 144	(18 634)	**–**	**201 950**
160	–	–	**160**	**4**	–	97	–	**–**	**101**

02

income statement analysis

Introduction

The comparative information in the income statement for the year ended 30 June 2018 is presented on an IAS 39 and IAS 18 basis. The statement of financial position was restated on 1 July 2018 for the impact of IFRS 9 and IFRS 15.

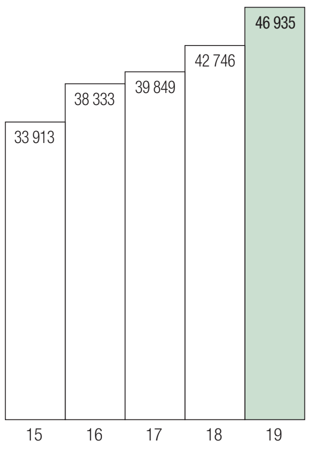
FRB disclosed comprehensive IFRS 9 transition information on 21 November 2018 in the transition report. IFRS 15 had no impact on the bank. The IFRS 9 transition information was also included in the analysis of financial results for the six months ended 31 December 2018. Both reports are available on the group's website, at www.firstrand.co.za/investors/other-shareholder-documents/ and www.firstrand.co.za/investors/financial-results/. The IFRS 9 transition report was presented on an IFRS and not on a normalised basis. The transition information is not included in this report.

Given the material impact of the adoption of IFRS 9 on the level of stage 3/NPL balances and balance sheet provisions, all balance sheet-related credit analyses focus on the changes in credit metrics since 1 July 2018 (restated for IFRS 9) and 30 June 2019, unless stated otherwise.

Net interest income (before impairment of advances)

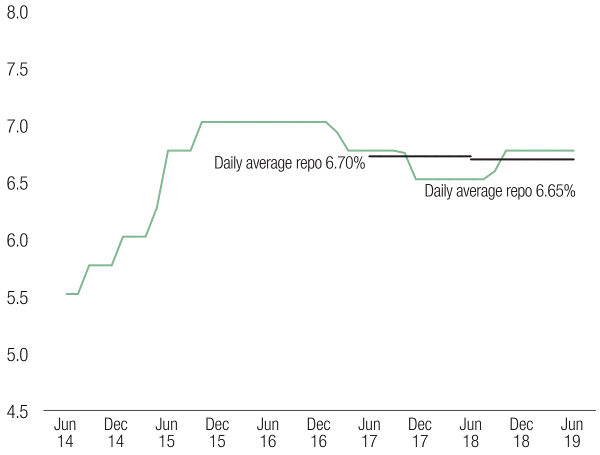
NET INTEREST INCOME (BEFORE IMPAIRMENT OF ADVANCES) – UP 10%

NET INTEREST INCOME
R million
CAGR 8%



Note: Figures for 2015 to 2018 are presented on an IAS 39 basis. The 2019 figure is presented on an IFRS 9 basis.

REPO RATE – SOUTH AFRICA
%



Note: R230 billion = average endowment book for the year. Rates were lower by 5 bps on average in the current year, which translates into a negative endowment impact of approximately R109 million for the year on an unhedged basis.

Net interest income (before impairment of advances) continued

MARGIN CASCADE TABLE

Percentage of average interest-earning banking assets	%
June 2018 normalised margin	**5.17**
Capital and deposit endowment	**0.05**
– Volume	**0.08**
– Average rate	**(0.03)**
Interest earning assets	**(0.07)**
– Change in balance sheet advances mix	**0.02**
– Increase in HQLA	**(0.07)**
– Change in basis spreads (difference between prime and JIBAR)	**–**
– Asset pricing*	**0.02**
– Change in interest suspended under IFRS 9	**(0.04)**
Liabilities	**(0.05)**
– Change in deposit franchise composition	**0.01**
– Deposit pricing	**(0.06)**
Group Treasury and other movements	**(0.02)**
– Accounting mismatches (MTM vs accrual on term issuance)	**0.01**
– Interest rate and FX management	**0.01**
– Term funding costs	**(0.04)**
June 2019 normalised operating margin excluding Aldermore	**5.08**
Aldermore forgone interest relating to invested capital	**(0.11)**
June 2019 normalised margin	**4.97**

** Includes impact of securitisation.*

Net interest income (before impairment of advances) continued

ACTIVITY ANALYSIS OF NET INTEREST INCOME BEFORE IMPAIRMENT OF ADVANCES

	Year ended 30 June		
R million	**2019 IFRS 9**	2018 IAS 39**	% change
Net interest income			
Lending	**22 385**	20 035	12
Transactional*	**16 303**	14 469	13
Deposits	**3 239**	3 002	8
Capital endowment	**6 057**	5 494	10
Group Treasury	**(1 124)**	(153)	>100
Other (negative endowment, e.g. fixed assets)	**75**	(101)	(>100)
Total net interest income	**46 935**	42 746	10

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

** *2018 numbers were restated in order to provide better attribution of NII by nature of activity.*

KEY DRIVERS

- NII growth was supported by gross advances and deposit growth of 7% and 8%, respectively.
- The decrease of 5 bps in the average repo rate year-on-year resulted in a small negative rate endowment impact on capital and deposits. This was offset by higher capital levels and deposit volumes.
- FNB's deposit margin decreased 10 bps, impacted by negative endowment and a change in mix, with strong growth in lower-margin deposit products, as well as increased competitive pressures. Overall NII was bolstered by strong growth in deposits, especially from cash investment products in the retail segment, Islamic banking and public sector deposits.
- FNB's advances margin increased 8 bps, benefiting from a change in mix of advances and repricing initiatives, partially offset by a change in transfer pricing on certain products. Margins were slightly impacted by the change in the treatment of ISP under IFRS 9 and the change in treatment of interest on cured advances reflected against credit impairments of R98 million following an interpretation by the IFRS-IC during the financial year.
- WesBank's SA VAF margins increased by 5 bps mostly impacted by securitisations (R5 billion of advances). High-quality and variable rate assets are securitised and these generally carry lower margins. Their exclusion from WesBank SA VAF has an upward effect on the remaining VAF SA margins. New business margins remain under pressure impacted by the mix change in new business and increased competitive pressures.
- RMB's NII growth of 19% was robust, benefiting from strong advances growth year-on-year, with margins supported by higher-yielding cross-border activities, higher utilisation in trade and working capital facilities, and strong average deposits growth in the corporate bank, as well as liquidity premium rebates from Group Treasury.
- Group Treasury NII was impacted by:
  - an increase in income from interest rate risk and foreign exchange management activities of R88 million (June 2018: >R100 million decrease);
  - higher levels of interest on capital paid to operating businesses of >R400 million;
  - the continued build-up of HQLA, with a resultant negative impact of >R600 million (June 2018: >R270 million);
  - an increase of R87 million (June 2018: R149 million decrease) in dollar funding carry costs relating to forex moves;
  - positive mark-to-market movements of c.R25 million (June 2018: c.R100 million positive movement) on fair value term and structured funding instruments due to movements in the domestic yield curve. This will reverse over the duration of the underlying instruments, which are long dated and have decreased significantly from the prior year following the reclassification of certain liabilities from fair value through profit or loss to amortised cost on adoption of IFRS 9; and
  - the increase in forgone interest year-on-year of R1 037 million on the capital deployed for the acquisition of Aldermore on 1 April 2018. This impact is expected to normalise in the 2020 financial year.
- MotoNovo margins reduced 150 bps year-on-year, negatively impacted by the timing and accounting treatment of a securitisation transaction, together with elevated funding costs (due to an increase in UK base rates) as well as increased competitive pricing.

Net interest income (before impairment of advances) continued

AVERAGE BALANCE SHEET

		June 2019 IFRS 9			June 2018 IAS 39		
R million	Notes	**Average balance***	**Interest income/ (expense)**	**Average rate %**	Average balance	Interest income/ (expense)	Average rate %
INTEREST-EARNING ASSETS							
Average prime rate (RSA)				**10.15**			10.20
Balances with central banks		**24 671**	**–**		22 142	–	
Cash and cash equivalents		**32 593**	**1 690**	**5.19**	17 712	802	4.53
Liquid assets portfolio		**135 321**	**9 906**	**7.32**	100 276	7 832	7.81
Loans and advances to customers	1	**752 217**	**81 902**	**10.89**	686 482	75 531	11.00
Interest-earning assets		**944 802**	**93 498**	**9.90**	826 612	84 165	10.18
INTEREST-BEARING LIABILITIES							
Average JIBAR				**7.06**			7.11
Deposits due to customers	2	**(596 955)**	**(29 317)**	**4.91**	(533 448)	(25 938)	4.86
Group Treasury funding		**(365 556)**	**(24 689)**	**6.75**	(322 536)	(21 799)	6.76
Interest-bearing liabilities		**(962 511)**	**(54 006)**	**5.61**	(855 984)	(47 737)	5.58
ENDOWMENT AND TRADING BOOK							
Other assets**		**230 160**	**–**	**–**	248 175	–	–
Other liabilities#		**(119 482)**		**–**	(126 126)		–
NCNR preference shareholders		**(2 164)**	**–**	**–**	(3 000)	–	–
Equity		**(90 805)**	**–**	**–**	(89 677)	–	–
Endowment and trading book		**17 709**	**7 443**	**42.03**	29 372	6 318	21.51
Total interest-bearing liabilities, endowment and trading book		**(944 802)**	**(46 563)**	**4.93**	(826 612)	(41 419)	5.01
Net interest margin on average interest-earning assets		**944 802**	**46 935**	**4.97**	826 612	42 746	5.17

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

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

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

Include trading liabilities.

NOTE 1 – MARGIN ANALYSIS ON LOANS AND ADVANCES TO CUSTOMERS

	June 2019 IFRS 9		June 2018 IAS 39	
R million	**Average balance**	**Average margin %**	Average balance	Average margin %
Average prime rate (RSA)		**10.15**		10.20
ADVANCES				
Retail – secured	**339 068**	**2.44**	317 817	2.67
Residential mortgages	**210 206**	**1.79**	198 226	1.95
VAF	**128 862**	**3.49**	119 591	3.86
Retail – unsecured	**84 706**	**11.92**	72 522	12.15
Card	**29 982**	**7.69**	25 705	8.83
Personal loans	**37 535**	**16.34**	31 278	16.05
– FNB	**21 913**	**15.07**	17 024	14.32
– DirectAxis	**15 622**	**18.13**	14 254	18.11
Retail other	**17 189**	**9.64**	15 539	9.79
Corporate and commercial	**328 443**	**2.50**	296 143	2.32
FNB commercial	**96 627**	**3.61**	86 465	3.52
– Mortgages	**24 596**	**2.31**	20 998	2.39
– Overdrafts	**36 623**	**4.95**	32 604	4.59
– Term loans	**35 408**	**3.14**	32 863	3.17
WesBank corporate	**29 425**	**2.31**	30 378	2.18
RMB investment banking*	**149 738**	**2.19**	139 103	1.82
RMB corporate banking	**52 653**	**1.43**	40 197	1.56
Total advances	**752 217**	**3.53**	686 482	3.52

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

Note: 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.

Margin analysis of loans and advances to and deposits from 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 that incorporates liquidity cost and benefits into product pricing, including any regulatory costs for all significant business activities on- and off-balance sheet. This aligns liquidity risk-taking incentives of the individual business units with the liquidity risk exposure created for the group as a whole.

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

Net interest income (before impairment of advances) continued

NOTE 2 – MARGIN ANALYSIS ON DEPOSITS DUE TO CUSTOMERS

	June 2019 IFRS 9		June 2018 IAS 39*	
R million	**Average balance**	**Average margin %**	Average balance	Average margin %
Average JIBAR (RSA)		**7.06**		7.11
DEPOSITS				
Retail	**219 786**	**2.31**	196 508	2.48
Current and savings	**63 196**	**5.85**	58 897	6.08
Call	**77 180**	**0.96**	62 695	1.06
Term	**79 410**	**0.82**	74 916	0.85
Commercial	**228 950**	**2.68**	206 607	2.71
Current and savings	**84 906**	**5.58**	75 295	5.71
Call	**75 405**	**1.45**	73 300	1.44
Term	**68 639**	**0.44**	58 012	0.44
Corporate and investment banking	**148 219**	**0.96**	130 333	0.93
Current and savings	**60 828**	**1.42**	59 651	1.40
Call	**55 196**	**0.79**	50 437	0.55
Term	**32 195**	**0.38**	20 245	0.50
Total deposits	**596 955**	**2.12**	533 448	2.19

* *Restatements are due to refinements in FNB's and RMB's processes.*

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

Credit highlights

CREDIT HIGHLIGHTS AT A GLANCE

R million	Notes	As at 30 June **2019 IFRS 9**	As at 1 July 2018 IFRS 9	% change
Total gross advances*	1 on p. A74	**921 846**	860 961	7
– Stage 1		**829 844**	764 890	8
– Stage 2		**57 797**	70 192	(18)
– Stage 3/NPLs*,**	2 on p. A78	**34 205**	25 879	32
Stage 3/NPLs as a % of advances	2 on p. A78	**3.71**	3.01	
Impairment charge	3 on p. A84	**8 460**	6 659#	27
Credit loss ratio (%)	3 on p. A84	**0.95**	0.80#	
Total impairments	4 on p. A90	**27 303**	23 078	18
Portfolio impairments	4 on p. A86	**11 622**	11 793	(1)
– Stage 1		**5 959**	5 260	13
– Stage 2		**5 663**	6 533	(13)
Stage 3 impairments†		**15 681**	11 285	39
Specific coverage ratio (%)‡	4 on p. A88	**45.8**	43.6	
Total impairment coverage ratio (%)^	4 on p. A90	**79.8**	89.2	
Performing book (stage 1 and 2) coverage ratio (%)◊	4 on p. A86	**1.31**	1.41	

* *Total gross advances and stage 3/NPLs at 1 July 2018 include an IFRS 9 transitional ISP adjustment of R1 661 million.*

** *A detailed analysis of the growth in stage 3/NPLs is provided on page A55.*

\# *IAS 39 for the year ended 30 June 2018.*

† *Stage 3 impairments at 1 July 2018 include an IFRS 9 transitional ISP adjustment of R1 065 million.*

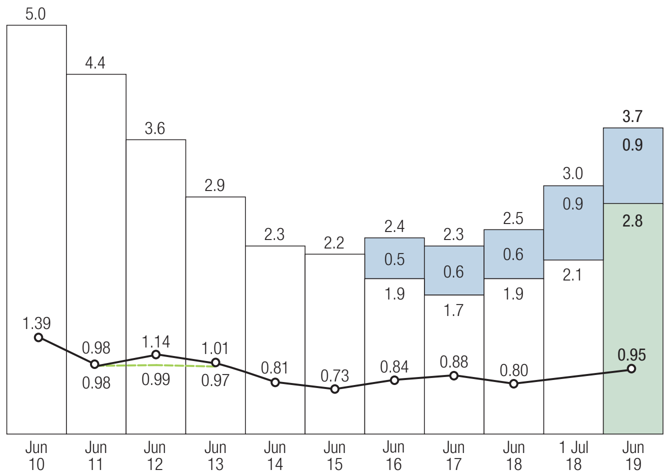
‡ *Specific impairments as % of stage3/NPLs.*

^ *Total impairments as % of stage3/NPLs.*

◊ *Portfolio impairments as % of the performing book.*

NPL AND IMPAIRMENT HISTORY

%



☐🟩 Stage 3/NPLs as a % of advances

🟦 Restructured debt-review accounts and technical cures (performing accounts which are classified as stage 3/NPLs because they have defaulted in the past and do not meet the stringent cure definition of performance for 12 consecutive months) included in stage 3/NPLs as a % of advances. Technical cures became effective with the adoption of IFRS 9.

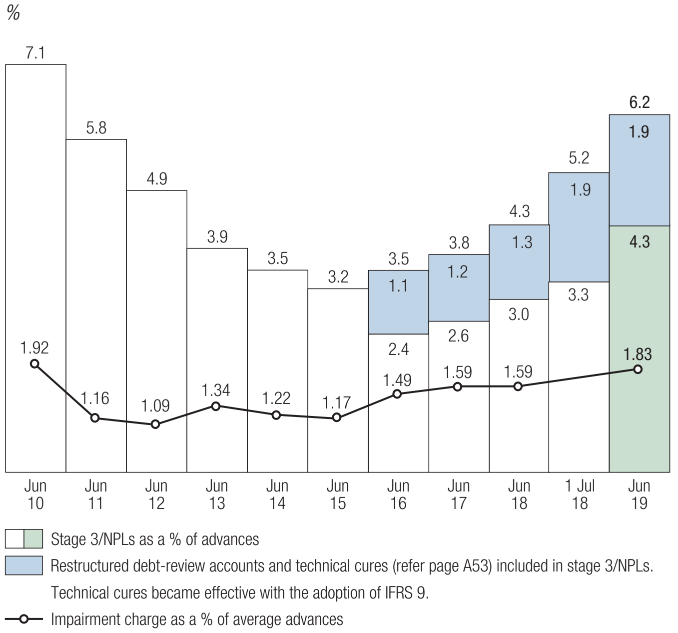
—o— Impairment charge as a % of average advances

- - - - Credit loss ratio % (excluding merchant acquiring event)

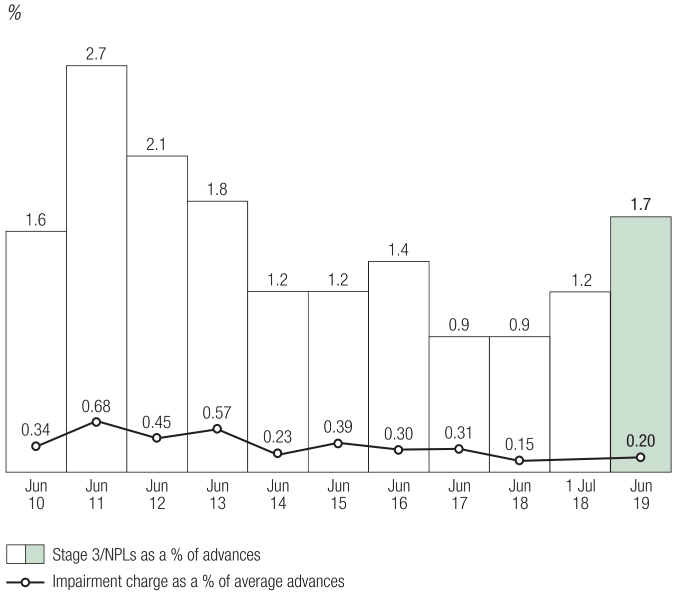
Note: 30 June 2010 to 30 June 2018 figures are presented on an IAS 39 basis. 1 July 2018 figures were restated and therefore 1 July 2018 and 30 June 2019 figures are presented on an IFRS 9 basis.

Credit highlights continued

RETAIL NPLs AND IMPAIRMENTS



CORPORATE AND COMMERCIAL NPLs AND IMPAIRMENTS



Note: 30 June 2010 to 30 June 2018 figures are presented on an IAS 39 basis. 1 July 2018 figures were restated and therefore 1 July 2018 and 30 June 2019 figures are presented on an IFRS 9 basis.

BASIS OF PRESENTATION AND ANALYSIS OF CREDIT INFORMATION

The focus of the credit commentary is on the credit performance between 1 July 2018, restated for IFRS 9, and 30 June 2019, for improved comparability.

HIGH-LEVEL OVERVIEW OF CREDIT PERFORMANCE

NPLs

Bank NPLs increased 32% to 3.71% of advances from the 1 July 2018 ratio of 3.01%.

As indicated in the IFRS 9 transitional report, two key impacts on the bank from adopting IFRS 9 relate to:

- extending the write-off point of unsecured NPLs, with the most pronounced impact in the current financial year, with the write-off point for the unsecured retail lending portfolios changing from six months to 12 months; and
- more conservative curing rules under IFRS 9 (on all retail portfolios – 12 consecutive payments must occur before curing).

These changes had a pronounced impact on the build-up of NPLs in the first part of the financial year, but started to normalise in the second half of the financial year.

The R8 326 million increase in total bank NPLs to R34 205 million is analysed further below.

	R million	**% change**	**Percentage point contribution to overall NPL increase**
Operational NPLs	**4 430**	**24**	**17**
Restructured debt review (D7)	**(184)**	**(5)**	**(1)**
Definition of rehabilitation (technical cures)	**487**	**13**	**2**
Lengthening of write-off period	**3 593**	**–**	**14**
Total NPLs	**8 326**	**32**	**32**

Retail NPLs as a percentage of advances increased 27% to 6.20% from 5.20% on 1 July 2018, driven by strong book growth in the unsecured lending portfolios. This resulted in increases in cycle-driven operational NPL balances, as well as the impact of the new cure and write-off definitions under IFRS 9 (extending both the write-off point and cure points), which accounted for 20% of the 27% increase.

Corporate and commercial NPLs increased 55% to 1.72% from 1.20% on 1 July 2018, reflecting the ongoing impact of the drought in the agric portfolio, and the deteriorating macro environment in South Africa and the resultant increase in large corporate stress events.

A detailed analysis of the product-level NPL drivers for specific retail products and the bank in total, is provided on pages A56 to A65.

Coverage

Bank portfolio impairments (stage 1 and stage 2 impairments) decreased 1% from 1 July 2018. Stage 1 impairments increased 13%, in part reflecting book growth, as well as the impact of stage migration of advances (primarily from stage 2 to stage 1).

Stage 2 balance sheet impairments decreased 13%, impacted by stage migration of counters to stage 1 (notable in the corporate portfolio), which reflected improved performance and refinement in the significant increase in credit risk (SICR) trigger, and the migration of stage 2 counters into NPL status.

Credit highlights continued

As a result, the bank's consolidated performing book (stage 1 and 2) coverage ratio decreased from 141 bps at 1 July 2018 to 131 bps.

The total balance sheet impairment coverage ratio decreased to 79.8 bps (1 July 2018: 89.2 bps), reflecting:

- the impact of a high proportion of paying debt-review and technically cured customers (customers who may be less than three payments in arrears, but do not meet the bank's stringent curing definitions of 12 consecutive payments), which carry lower coverage ratios, specifically in the retail unsecured and VAF advances books;
- an increase in highly collateralised NPLs in commercial, e.g. agric;
- the write-off and restructure of certain highly collateralised corporate exposures during the year; and
- strong growth in reverse repo transactions, which carry no coverage as they are fully cash collateralised.

DETAILED PRODUCT ANALYSIS OF CREDIT PERFORMANCE

PRODUCT	ADVANCES	
SA retail (excluding Discovery card)	→ SA retail advances growth was 7%, in line with the 5% growth of the prior year. SA retail secured advances growth was muted at 4%, impacted by negative growth in VAF. This was offset by strong growth in SA retail unsecured of 21%. → 13% of the growth is due to the extension of the write-off period, which results in R3 593 million NPL formation in gross advances.	
Residential mortgages	→ Total residential mortgages increased 6% year-on-year, marginally above nominal house price inflation of 4%. → FNB HomeLoans advances remained flat year-on-year, reflecting lower demand. → Growth in affordable housing slowed to 5% on the back of lower client demand. → Private bank mortgage lending showed resilient growth of 10%, benefiting from new client acquisition.	

Income statement impairment charge

The bank's income statement credit impairment charge increased 27% year-on-year, resulting in a credit loss ratio of 95 bps, compared to 80 bps at June 2018 (on an IAS 39 basis).

Retail impairments reflected an increase of 21% to 183 bps (June 2018: 159 bps). The corporate and commercial impairment charge increased 43% to 20 bps (June 2018: 15 bps).

Post write-off recoveries at R2 416 million (June 2018: R2 289 million) remained resilient in spite of the change to a later write-off point for retail unsecured NPLs in terms of IFRS 9, driven by the unsecured retail lending portfolios and retail SA VAF, and reflecting continued focus on collections processes.

STAGE 3/NPLS AND COVERAGE

A further analysis of the R5 545 million increase in SA retail (excluding Discovery card) NPLs is provided below.

	R million	% change	Percentage point contribution to overall NPL increase
Operational	**1 656**	13	8
Restructured debt review (D7)	**(202)**	(5)	(1)
Technical cures/curing rules	**498**	13	3
Change in write-off point	**3 593**	–	18
Total NPLs	**5 545**	28	28

The R3 593 million increase in NPLs due to a change in write-off point is further analysed below:

	R million
Card (excluding Discovery card)	**745**
FNB loans	**1 660**
DirectAxis loans	**494**
FNB retail other	**694**
Total write-offs	**3 593**

→ Residential mortgage NPLs reflect an increase of 9% since 1 July 2018, benefiting from strong collections and targeted origination. NPLs in the affordable housing book increased 18%, reflecting ongoing resilient book growth and a normalisation of the credit cycle.

IMPAIRMENT CHARGE

→ The SA retail impairment charge increased to 181 bps, driven by card and personal loans.

→ Modest increase in impairment charge to 11 bps, reflecting a normalisation of the credit cycle, but remaining below TTC levels.

Credit highlights continued

PRODUCT	ADVANCES
Card (excluding Discovery card)	→ Underpinned by targeted client acquisition, client migration as well as increased limits and utilisation in the premium segment, resulting in advances growth of 23%. Growth in the consumer segment was marginally negative, given reduced risk appetite.
FNB personal loans	→ Strong growth of 36% driven by the premium segment (+49%), due to client-scoring process enhancements and the activation of new digital channels to existing customers. Consumer segment personal loans advances showed robust growth of 17% following declines in the prior financial years. This was driven by measured loan extension to main-banked clients, in line with risk appetite. → The lengthening of the write-off point contributed 10% of the 36% growth in advances.
DirectAxis loans	→ Advances growth moderated with a focus on lower-risk segments and repeat business.
Retail other	→ Driven by increases in transactional banking accounts (primarily overdrafts).
FNB Commercial	→ 11% growth driven by targeted new client acquisition in the business segment, resulting in growth of 7% in agric, 17% in commercial property finance, 5% in specialised finance and 13% in asset-based finance.

STAGE 3/NPLS AND COVERAGE

IMPAIRMENT CHARGE

- The increase in operational NPLs reflects expected new business strain given the seasoning of the book following strong advances growth over previous years. Debt-review and technical cure NPLs comprise 10% of NPLs.
- The increase in the card NPLs since 1 July 2018 is analysed below:

	Card (excluding Discovery card)		
	R million	**% change**	**Percentage point contribution to overall NPL increase**
Operational – new business strain	**626**	**93**	**62**
Debt review (D7)	**(68)**	**(24)**	**(7)**
Technical cures/curing rules	**(50)**	**(76)**	**(5)**
Write-off point extension	**745**	**–**	**73**
Total NPLs	**1 253**	**>100**	**123**

- Card reported a charge of 3.68% (June 2018: 2.83%), reflecting an increase in operational NPLs on the back of strong book growth, as well as the impact of the extension of write-off point (as NPLs age, they carry a higher coverage), although partially benefiting from improved curing in the second half of the year. The charge remains within TTC appetite.
- Further risk cuts have been implemented in the second half of the financial year to mitigate increasing arrears and elevated vintages.

- The increase in operational NPLs reflects expected new business strain given the seasoning of the book following strong advances growth over previous years. Debt-review and technical cure NPLs comprise 20% of NPLs.
- The increase in FNB loans NPLs since 1 July 2018 is analysed below:

	FNB loans		
	R million	**% change**	**Percentage point contribution to overall NPL increase**
Operational – new business strain	**264**	**33**	**17**
Debt review (D7)	**(84)**	**(15)**	**(5)**
Technical cures/curing rules	**50**	**28**	**3**
Write-off point extension	**1 660**	**–**	**108**
Total NPLs	**1 890**	**>100**	**123**

- FNB loans reflected an impairment charge of 6.39% (June 2018: 5.03%) partly reflective of operational process impacts, but remaining within TTC appetite.

- DirectAxis NPLs increased 29% since 1 July 2018, compared to the 34% increase recorded in the financial year to June 2018. The increase was impacted by:

	DirectAxis loans		
	R million	**% change**	**Percentage point contribution to overall NPL increase**
Operational – new business strain	**(16)**	**(2)**	**(1)**
Debt review (D7)	**56**	**7**	**3**
Technical cures/curing rules	**14**	**19**	**1**
Write-off point extension	**494**	**–**	**26**
Total NPLs	**548**	**29**	**29**

- The DirectAxis credit loss ratio of 8.93% (June 2018: 7.93%) reflects the seasoning of the book and ongoing advances growth.

- NPLs grew 36% due to increases in highly collateralised NPLs in agric and increases in commercial property and specialised finance.

- FNB commercial's income statement impairment change deteriorated 12% in line with book growth and conservative provisioning, resulting in a credit loss ratio of 75 bps.

Credit highlights continued

PRODUCT	ADVANCES
RMB CIB*	→ Growth from the SA core advances book was satisfactory, despite competitive pressures, and was underpinned by 14% growth in SA corporate bank advances, due to increased working capital utilisation by clients. Cross-border advances grew 18% in dollar terms, reflecting targeted new credit extension. In rand terms, the cross-border book increased 20%.
WesBank VAF (SA)	→ New business production in overall retail SA VAF contracted 6%, impacted by the run-off of business now written on associates' balance sheets, further risk cuts in origination, increased competitive pressures, the impact of the curtailment of a JV relationship during the year and the general macroeconomic environment. In addition, the lengthening in vehicle replacement cycles increased the average life of the book. → Corporate new business volumes contracted >13%, also reflecting the difficult macro environment, risk cuts in high-risk categories and industries and also the fact that a portion of business now originates in FNB (own-banked clients).
MotoNovo VAF (UK)	→ New business volumes in MotoNovo contracted 5% in pound terms (6% in rand), impacted by weak first-half origination, driven by rising funding costs which led to competitive pressures and a softening of demand for new and used cars in the UK. Advances contracted 5% in pound terms year-on-year (6% in rand). → MotoNovo continued to constrain its appetite for higher-risk origination throughout the year.

* *Core advances.*

STAGE 3/NPLS AND COVERAGE	IMPAIRMENT CHARGE
→ RMB CIB NPLs increased >100% since July 2018, reflecting the migration of certain counters in distressed industries.	→ The RMB investment banking portfolio incurred a 1 bps charge, a modest increase from the 5 bps release for the year to June 2018, in part reflecting the impact of the increased constrained macro environment and resultant corporate stress in South Africa, whilst maintaining a resilient core performing book (stage 1 and 2 advances, excluding repos) impairment coverage ratio in excess of 72 bps.
→ WesBank retail VAF NPLs increased modestly at 3%, impacted by increasing levels of technical cures, as well as the negative impact of a protracted recovery period as clients are increasingly opting for legal court orders rather than voluntary terminations. NPL growth is further impacted by a lower number of NPL accounts with higher values. These negative impacts were partially offset by higher write-offs and a modest increase of 4% in operational NPLs stabilising following scorecard updates and risk cutbacks, which is also reflected in the improved credit loss ratio.	→ The retail VAF portfolio reflected a modest improvement of 1% to 194 bps (June 2018: 196 bps), benefiting from tightening appetite in high-risk origination.
→ The MotoNovo VAF NPLs increased 3% in pound terms (2% in rand) since 1 July 2018, reflecting the benefit of risk cutbacks in origination in 2017 and 2018 and an improved collections process.	→ The MotoNovo VAF advances book was impacted by the securitisation of the higher-quality advances, resulting in an increased credit loss ratio of 230 bps (June 2018: 171 bps).

Credit highlights continued

The table below provides an overview of the restructured debt-review and operational stage 3/NPL balances, technical cures and the impact of write-offs.

R million	**Operational stage 3/NPLs***	**Technical cures**	**Write-offs****	**Paying restructured debt-review stage 3/NPLs**
30 June 2019 IFRS 9				
Residential mortgages	**5 611**	**2 477**	**–**	**550**
Card (excluding Discovery)	**1 297**	**16**	**745**	**214**
Personal loans	**1 074**	**229**	**1 660**	**458**
DirectAxis loans#	**959**	**87**	**494**	**882**
Retail other	**952**	**53**	**694**	**283**
FNB retail NPLs	**9 893**	**2 862**	**3 593**	**2 387**
WesBank VAF (SA)	**4 308**	**1 331**		**1 235**
Discovery card	**86**	**3**		**48**
Total NPLs	**22 746**	**4 196**	**3 593**	**3 670**

R million	Operational stage 3/NPLs*	Technical cures	Write-offs**	Paying restructured debt-review stage 3/NPLs
1 July 2018 IFRS 9				
Residential mortgages	5 195	2 198		541
Card (excluding Discovery)	671	66		282
Personal loans	810	179		542
DirectAxis loans#	975	73		826
Retail other	769	12		267
FNB retail NPLs	8 420	2 528		2 458
WesBank VAF (SA)	4 125	1 167		1 366
Discovery card	97	14		30
Total NPLs	18 316	3 709		3 854

* *Operational stage 3/NPLs include older debt-review accounts that migrated into stage3/NPLs prior to May 2016, as well as other types of restructured exposures and special arrangements that are non-performing, undertaken by the bank.*

** *Effective prospectively with the adoption of IFRS 9.*

\# *Formerly called WesBank loans.*

Total stage 3/NPLs	Total stage 3/NPLs % increase since 1 July 2018	Operational stage3/NPLs % change since 1 July 2018	Technical cures as a % of stage 3/NPLs	Write-offs as a % of stage 3/NPLs**	Paying restructured debt-review stage 3/NPLs as a % of total stage 3/NPLs
8 638	**9**	**8**	**29**	**–**	**6**
2 272	**>100**	**93**	**1**	**33**	**9**
3 421	**>100**	**33**	**7**	**49**	**13**
2 422	**29**	**(2)**	**4**	**20**	**36**
1 982	**89**	**24**	**3**	**35**	**14**
18 735	**40**	**17**	**15**	**19**	**13**
6 874	**3**	**4**	**19**	**–**	**18**
137	**(3)**	**(11)**	**2**	**–**	**35**
34 205	**32**	**24**	**12**	**11**	**11**

Total stage 3/NPLs	Total stage 3/ NPLs % increase (on adoption of IFRS 9)	Operational stage 3/ NPLs % change (on adoption of IFRS 9)	Technical cures as a % of stage 3/NPLs	Write-offs as a % of stage 3/NPLs**	Paying restructured debt-review stage 3/NPLs as a % of total stage 3/NPLs
7 934	56	14	28		7
1 019	7	–	6		28
1 531	15	10	12		35
1 874	4	38	4		44
1 048	6	(1)	1		25
13 406	32	13	19		18
6 658	1	1	18		21
141	8	(3)	10		21
25 879	22	15	14		15

Credit highlights continued

R million	Operational stage 3/NPLs*	Technical cures	Write-offs**	Paying restructured debt-review stage 3/NPLs
30 June 2018 IAS 39				
Residential mortgages	4 560			515
Card (excluding Discovery)	670			282
Personal loans	739			598
DirectAxis loans#	706			1 094
Retail other	778			214
FNB retail NPLs	7 453			2 703
WesBank VAF (SA)	4 097			2 475
Discovery card	100			30
Total NPLs	15 975			5 208

* *Operational stage 3/NPLs include older debt-review accounts that migrated into stage 3/NPLs prior to May 2016 as well as other types of restructured exposures and special arrangements that are non-performing, undertaken by the bank.*

** *Effective prospectively with the adoption of IFRS 9.*

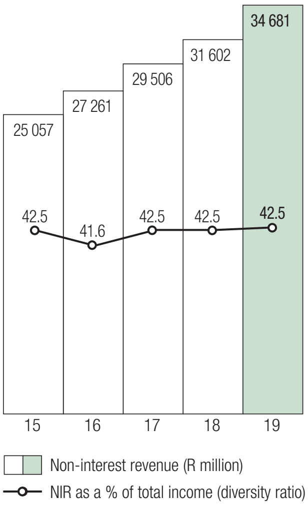
\# *Formerly called WesBank loans.*

Total stage 3/NPLs	Total stage 3/NPLs % increase (year-on-year)	Operational stage 3/NPLs % change since 1 July 2018	Technical cures as a % of stage 3/NPLs	Write-offs as a % of stage 3/NPLs**	Paying restructured debt-review stage 3/ NPLs as a % of total stage 3/NPLs
5 075	11	11			10
952	17	16			30
1 337	9	(7)			45
1 800	34	>100			61
992	16	15			22
10 156	15	15			27
6 572	16	22			38
130	16	(11)			23
21 183	14	15			25

Non-interest revenue – up 10%

NON-INTEREST REVENUE AND DIVERSITY RATIO

NIR CAGR 8%



Note: June 2015 to June 2018 figures are presented on an IAS 39 basis, whilst June 2019 figures are presented on an IFRS 9 basis.

ANALYSIS OF NON-INTEREST REVENUE

R million	Notes	2019 IFRS 9	2018 IAS 39	% change
Fee, commission and insurance income		**26 516**	24 263	9
– Fee and commission income	1	**25 956**	23 554	10
– Insurance commission income	2	**560**	709	(21)
Markets, client and other fair value income	3	**3 917**	3 210	22
Investment income		**105**	485	(78)
Other non-interest revenue	4	**4 143**	3 644	14
Non-interest revenue		**34 681**	31 602	10

The notes referred to in the table above are detailed in the pages that follow.

The NIR performance was underpinned by robust fee and commission income growth, driven by strong electronic transaction volumes and ongoing customer acquisition. Fee, commission and insurance income represents 76% (June 2018: 77%) of NIR.

The structural shift in the bank's diversity ratio, despite ongoing growth in NIR, results from the positive cumulative endowment impact and a number of specific strategic actions outlined below.

NII

- Focus on growing retail and commercial deposit businesses.
- Targeted origination strategies to main-banked customers resulted in sustained advances growth and change in mix.
- Repricing strategies.

NIR

- Incremental loss of NIR due to lower fees charged on digital transactions, offset by sustained customer acquisition, resulting in increased transaction volumes and fees.
- Incrementally increasing contribution from new initiatives such as FML.

NOTE 1 – FEE AND COMMISSION INCOME – UP 10%

R million	2019 IFRS 9	2018 IAS 39	% change
Bank commissions and fee income	**27 862**	25 023	11
– Card commissions	**4 432**	3 960	12
– Cash deposit fees	**1 702**	1 649	3
– Commission on bills, drafts and cheques	**2 571**	2 369	9
– Bank charges	**19 157**	17 045	12
– Commitment fees	**1 364**	1 397	(2)
– Other bank charges*	**17 793**	15 648	14
Knowledge-based fees	**1 167**	1 384	(16)
Management and fiduciary fees**	**1 177**	1 070	10
Other non-bank commissions	**754**	745	1
Gross fee and commission income	**30 960**	28 222	10
Fee and commission expenditure	**(5 004)**	(4 668)	7
Total fee and commission income	**25 956**	23 554	10

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

** *Prior year includes a reallocation of R279 million to management and fiduciary fees from insurance income.*

KEY DRIVERS

- FNB delivered 13% growth in NIR despite customer transactional volumes migrating to cheaper electronic channels. This was driven by growth in main-banked clients, increased cross-sell and up-sell and transaction volume growth.
- Transactional volumes increased 9%. Electronic volumes increased 10%, whilst manual volumes were flat year-on-year. Branch and cash centre transactional volumes decreased 21% and 7%, respectively.

%	Increase in transactional volumes
ATM/ADT	**1**
Internet banking	**(4)**
Banking app	**45**
Mobile (excluding prepaid)	**(4)**
Point-of-sale merchants	**17**
Card swipes	**11**

- Knowledge-based fees remained satisfactory considering the tough macro environment, and reflects lower structuring and arranging fees as a result of lower corporate activity and lower deal volumes. This led to a reduction in advisory fees and a muted performance from capital markets and underwriting activities.
- The bank's management and fiduciary fee income growth of 10% reflects increased management fees from the group's associates and joint ventures.

Non-interest revenue continued

NOTE 2 – INSURANCE COMMISSION INCOME – DOWN 21%

R million	2019 IFRS 9	2018 IAS 39	% change
Insurance commission*	**278**	415	(33)
Insurance brokerage	**282**	294	(4)
Total insurance commission income	**560**	709	(21)

* *Prior year insurance commission of R279 million was reallocated to management and fiduciary fees in fee and commission income.*

KEY DRIVERS

- Decreased insurance commission is due to regulatory constraints impacting MotoNovo's ability to market insurance products to its clients.

NOTE 3 – MARKETS, CLIENT AND OTHER FAIR VALUE INCOME – UP 22%

R million	2019 IFRS 9	2018 IAS 39	% change
Client	**1 720**	1 835	(6)
Markets	**1 585**	982	61
Other	**612**	393	56
Total markets, client and other fair value income	**3 917**	3 210	22

KEY DRIVERS

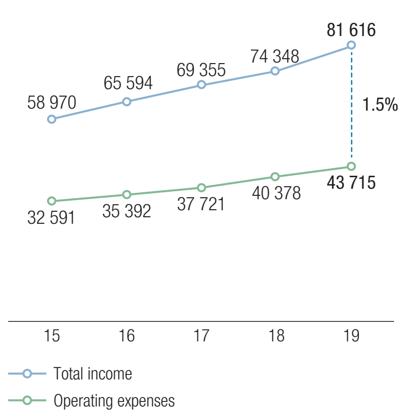
- Despite a difficult start in the first half, reflecting the ongoing uncertain SA macro environment, as well as the impact of the heightened global trade war tensions, the overall markets and client businesses' performances for the year were strong, benefiting from heightened volatility and increased volumes in the last quarter of the financial year.
- Client revenues were under pressure during the year, as the challenging macroeconomic environment contributed to reduced activity from large clients.
- Flow trading and residual risk activities benefited from a strong performance by the FX business, driven by higher levels of volatility in emerging markets and a weakening rand. After a difficult first half of the financial year, the fixed income business benefited in the second half from improved real yield curves, and a good performance from market making. The performance reflects a recovery in the hard commodities business benefiting from increased deal flow, the non-repeat of an isolated operational loss event and a strong performance from the credit trading portfolio driven by increased client activity.
- The increase in other fair value income was due to positive mark-to-market movements on external and intercompany economic FX hedges, which will pull to par over the duration of the instruments and eliminate at a group level. The net TRS fair value income was flat year-on-year.

NOTE 4 – OTHER NON-INTEREST REVENUE – UP 14%

KEY DRIVERS

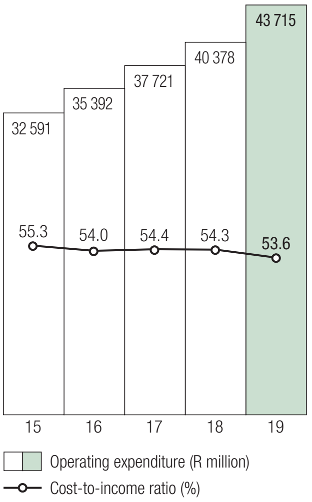
- The most significant other non-interest revenue item relates to various intercompany charges to other FirstRand group companies for the provision of services. These eliminate at a group level.
- The remaining significant other non-interest revenue item relates to various rental income streams. Rental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

Operating expenses – up 8%



OPERATING JAWS

R million



OPERATING EFFICIENCY

Note: Figures for 2015 to 2018 are presented on an IAS 39 basis, the 2019 figure is presented on an IFRS 9 basis.

OPERATING EXPENSES

R million	2019 IFRS 9	2018 IAS 39	% change
Staff expenditure	**25 669**	23 400	10
– Direct staff expenditure	**17 103**	15 397	11
– Other staff-related expenditure	**8 566**	8 003	7
Depreciation of property and equipment	**2 499**	2 366	6
Amortisation of intangible assets	**135**	94	44
Advertising and marketing	**1 513**	1 364	11
Insurance	**251**	235	7
Lease charges	**1 284**	1 260	2
Professional fees	**1 697**	1 601	6
Audit fees	**348**	284	23
Computer expenses	**2 363**	2 029	16
Repairs and maintenance	**1 246**	1 076	16
Telecommunications	**349**	355	(2)
Cooperation agreements and joint ventures	**638**	694	(8)
Property	**822**	823	–
Business travel	**401**	355	13
Assets costing less than R7 000	**332**	278	19
Stationery and printing	**154**	175	(12)
Donations	**259**	243	7
Other expenditure	**3 755**	3 746	–
Total operating expenses	**43 715**	40 378	8

KEY DRIVERS

- Cost growth of 8% reflects the impact of continuing investment spend on new initiatives, technology and platforms.
- Staff costs, which comprise 59% of the bank's operating expenses, increased 10%.

	% CHANGE	REASONS
Direct staff expenditure	11	Impacted by unionised increases in South Africa at an average of 7.8% in August 2018 and a 5% increase in staff complement across the bank. The recruitment of 1 500 people as part of the FirstJob work experience programme contributed to the growth.
Other staff-related expenditure	7	The increase in variable costs reflects the growth in earnings and NIACC in the current period. Normalised share-based payment expenses grew marginally, given the increase in the group's share price, resulting in higher grant values.

- The 6% increase in depreciation was impacted by strong growth in WesBank's FML book. FNB's investment in infrastructure (e.g. ATMs/ADTs), electronic platforms and new premises over the previous three financial years is stabilising.
- The 44% increase in amortisation of intangible assets is due to software capitalisation across the operating businesses.
- The increase of 6% in professional fees follows on increased technology-related projects, which also drive the increase in computer expenses.
- The 23% increase in audit fees was driven by the cost associated with the adoption of IFRS 9.
- Computer expenses growth of 16% reflects increased licence fees and the continued spend on projects related to various electronic platforms, cybersecurity and credit-related reporting upgrades, domestically and in the UK.
- Repairs and maintenance increased 16% following green energy-related property and other hardware upgrades relating to data centres, main frames and cabling.
- Cooperation agreements and joint venture costs decreased 8%, impacted by the Discovery transaction, whereby 100% of the profit in the Discovery card book is now being paid to Discovery, offset by weaker performance in WesBank's underlying alliances.
- Business travel increased 13% due to increased travel requirements associated with the UK and Africa businesses and the transport of personal banking and night staff.
- Other expenses include various items, such as entertainment, bank charges, subscriptions and memberships and intercompany charges, which eliminate at a group level. The most significant growth was in bank charges due to increased regulatory fees.

03

balance sheet analysis and financial resource management

Economic view of the balance sheet

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

When assessing the underlying risk in the balance sheet, the bank's asset profile is dominated by a balanced advances portfolio, which constitutes 72% of total assets. The composition of the gross advances portfolio consists mostly of SA retail secured (34%), SA retail unsecured (10%), SA corporate and commercial (47%), UK retail and commercial secured (5%), and other (4%). At 30 June 2019, total NPLs were R34 205 million (3.71% as a percentage of advances) with a credit loss ratio of 95 bps.

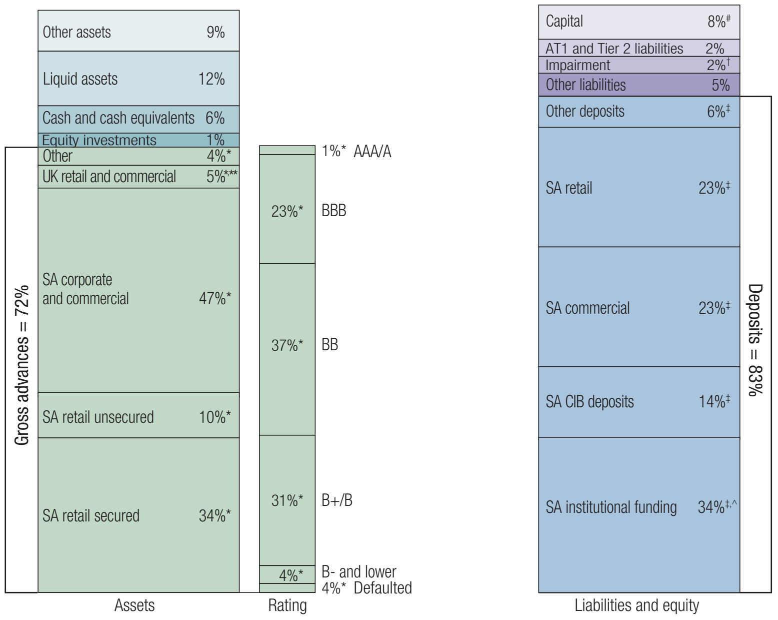
Cash and cash equivalents, and liquid assets represent 6% and 12%, respectively, of total assets. Only a small portion of assets relate to the investment and markets businesses. Market risk arising from trading activities has remained low.

FRB's funding profile continues to reflect the structural funding issues associated with the South African banking sector. The bank has, however, continued to improve its risk-adjusted funding profile through targeting a lower proportion of institutional funding relative to peers. The weighted average remaining term of the bank's institutional funding was 36 months at 30 June 2019 (30 June 2018: 34 months).

The bank's capital ratios exceeded stated targets with the CET1 ratio 13.4%, Tier 1 ratio 14.0% and total capital adequacy ratio 16.8%. Gearing increased to 14.0 times (June 2018: 13.3 times) primarily driven by the implementation of IFRS 9.

ECONOMIC VIEW OF THE BALANCE SHEET

%



* *As a proportion of net advances.*

** *Based on advances originated in London branch (including MotoNovo back book).*

[#] *Ordinary equity.*

[†] *Includes impairment (IFRS 9 provisions) of advances and investment securities.*

[‡] *As a proportion of deposits.*

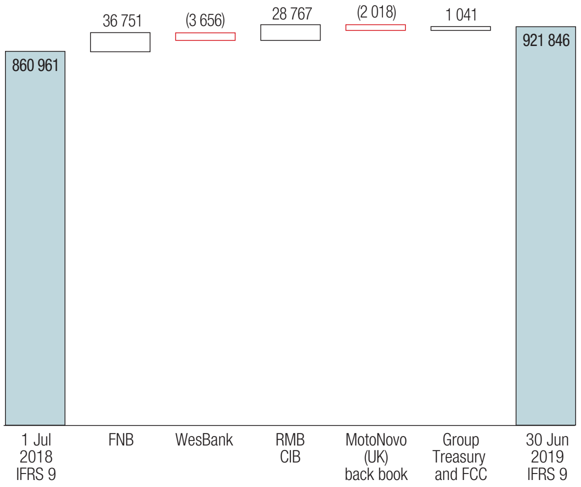
^ *Includes CIB institutional funding.*

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

Gross advances – up 7%

GROSS ADVANCES GROWTH BY BUSINESS

R million



ADVANCES

R million	As at 30 June 2019 IFRS 9	As at 1 July 2018 IFRS 9	% change
Gross advances	**921 846**	860 961	7
Impairment of advances	**(27 303)**	(23 078)	18
Net advances	**894 543**	837 883	7

Gross advances increased 7%, which exceeds nominal GDP growth, and have been positively impacted by repo advances in RMB CIB increasing 77% year-on-year. Excluding repo advances, advances grew 6%. Growth in advances was further impacted by the extended write-off period following the adoption of IFRS 9 on 1 July 2018. In addition, IFRS 9 resulted in reclassifications between fair value through profit or loss (FVTPL) and amortised cost (AC), and significantly impacted impairment of advances. Net advances have grown 7% since 1 July 2018.

Growth rates in retail SA VAF and FNB consumer were subdued, reflecting a combination of tightening credit appetite, especially in higher-risk origination buckets (the impact of which is reflected in the improved NPL and credit loss ratios), and a constrained macro environment, as well as increased competitive pressures.

RMB continued to exercise discipline in an environment characterised by low corporate activity in South Africa as well as competitive pressures. Growth was, however, resilient in the cross-border and corporate banking books.

Credit

NOTE 1: ANALYSIS OF ADVANCES

SEGMENTAL ANALYSIS OF ADVANCES

	Advances		
	As at 30 June	As at 1 July	
R million	**2019 IFRS 9**	2018 IFRS 9	% change
Retail	**425 130**	400 450	6
Retail – secured	**334 832**	324 294	3
Residential mortgages	**217 164**	205 630	6
VAF	**117 668**	118 664	(1)
– WesBank (SA)	**94 751**	94 188	1
– MotoNovo (UK)*	**22 917**	24 476	(6)
Retail – unsecured	**90 298**	76 156	19
Card	**32 443**	27 155	19
– FNB	**28 115**	22 805	23
– Discovery	**4 328**	4 350	(1)
Personal loans	**39 947**	33 097	21
– FNB	**23 357**	17 200	36
– DirectAxis loans**	**16 012**	14 860	8
– MotoNovo (UK)	**578**	1 037	(44)
Retail other	**17 908**	15 904	13
Corporate and commercial	**457 964**	422 822	8
FNB commercial	**105 128**	94 534	11
WesBank corporate	**27 945**	32 164	(13)
RMB investment banking#	**249 804**	230 854	8
RMB corporate banking#	**57 932**	46 636	24
HQLA corporate advances†	**17 155**	18 634	(8)
FNB rest of Africa	**–**	–	–
FCC (including Group Treasury)	**38 752**	37 689	3
Securitisation notes	**27 854**	23 674	18
Other	**10 898**	14 015	(22)
Total advances‡,^,◊	**921 846**	860 961	7
Of which:			
Accrual book	**844 850**	809 572	4
Fair value book‡	**76 996**	51 389	50

* *MotoNovo VAF (UK) book = £1.27 billion (1 July 2018: £1.35 billion, down 5%).*

** *Formerly called WesBank loans.*

Includes activities in India and represents the in-country balance sheet.

† *Managed by the Group Treasurer.*

‡ *IAS 39 includes advances classified as available-for-sale.*

^ *Total advances at 1 July 2018 include R1 661 million ISP recognised on IFRS 9 transition.*

◊ *Included in advances is repo advances of R44.3 billion (1 July 2018: R32.2 billion).*

Advances							
As at 30 June 2019			As at 1 July 2018			% composition 2019	As at 30 June 2018 IAS 39
IFRS 9			IFRS 9				
Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3		
371 849	**26 931**	**26 350**	351 511	28 122	20 817	**47**	399 666
297 804	**20 917**	**16 111**	286 481	22 631	15 182	**37**	323 619
198 373	**10 153**	**8 638**	186 280	11 416	7 934	**25**	204 969
99 431	**10 764**	**7 473**	100 201	11 215	7 248	**12**	118 650
78 556	**9 321**	**6 874**	77 807	9 723	6 658	**10**	94 171
20 875	**1 443**	**599**	22 394	1 492	590	**2**	24 479
74 045	**6 014**	**10 239**	65 030	5 491	5 635	**10**	76 047
28 347	**1 687**	**2 409**	24 668	1 327	1 160	**3**	27 140
24 321	**1 522**	**2 272**	20 611	1 175	1 019	**3**	22 792
4 026	**165**	**137**	4 057	152	141	**–**	4 348
30 795	**3 304**	**5 848**	26 654	3 016	3 427	**5**	33 055
18 036	**1 900**	**3 421**	13 980	1 689	1 531	**3**	17 161
12 208	**1 382**	**2 422**	11 726	1 260	1 874	**2**	14 859
551	**22**	**5**	948	67	22	**–**	1 035
14 903	**1 023**	**1 982**	13 708	1 148	1 048	**2**	15 852
419 287	**30 822**	**7 855**	375 690	42 070	5 062	**49**	421 813
92 089	**8 483**	**4 556**	83 924	7 260	3 350	**11**	93 962
25 875	**1 546**	**524**	29 637	2 133	394	**3**	32 149
233 411	**13 959**	**2 434**	198 937	30 772	1 145	**27**	230 481
50 757	**6 834**	**341**	44 558	1 905	173	**6**	46 592
17 155	**–**	**–**	18 634	–	–	**2**	18 629
–	**–**	**–**	–	–	–	**–**	–
38 708	**44**	**–**	37 689	–	–	**4**	37 756
27 854	**–**	**–**	23 674	–	–	**3**	23 674
10 854	**44**	**–**	14 015	–	–	**1**	14 082
829 844	**57 797**	**34 205**	764 890	70 192	25 879	**100**	859 235
753 825	**56 998**	**34 027**	715 414	68 397	25 761	**92**	663 725
76 019	**799**	**178**	49 476	1 795	118	**8**	195 510

Credit continued

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

	Advances				
	As at 30 June	As at 1 July			As at 30 June
R million	**2019 IFRS 9**	2018 IFRS 9	% change	**% composition 2019**	2018 IAS 39**
Corporate and investment banking advances*	**324 891**	296 124	10	**100**	295 702
Less: assets under agreement to resell	**(41 117)**	(23 233)	77	**(13)**	(23 233)
RMB advances net of assets under agreement to resell	**283 774**	272 891	4	**87**	272 469

* *Include HQLA advances.*

** *Restated to include HQLA.*

STRATEGY VIEW OF CORPORATE AND INVESTMENT BANKING ADVANCES

	Advances				
	As at 30 June	As at 1 July			As at 30 June
R million	**2019 IFRS 9**	2018 IFRS 9	% change	**% composition 2019**	2018 IAS 39
RMB investment banking	**249 804**	230 854	8	**88**	230 481
Less: assets under agreement to resell	**(40 464)**	(22 778)	78	**(14)**	(22 778)
RMB investment banking core advances	**209 340**	208 076	1	**74**	207 703
– South Africa	**180 059**	180 225	–	**64**	179 852
– Cross-border (rest of Africa)	**29 281**	27 851	5	**10**	27 851
RMB corporate banking	**57 932**	46 636	24	**20**	46 592
Less: assets under agreement to resell	**(653)**	(455)	44	**–**	(455)
RMB corporate banking core advances	**57 279**	46 181	24	**20**	46 137
– South Africa	**43 357**	38 175	14	**15**	38 131
– Cross-border (rest of Africa)	**13 922**	8 006	74	**5**	8 006
HQLA corporate advances*	**17 155**	18 634	(8)	**6**	18 629
CIB total core advances	**283 774**	272 891	4	**100**	272 469
CIB core advances – South Africa**	**240 571**	237 034	1	**85**	236 612
CIB core advances – rest of Africa[#]	**43 203**	35 857	20	**15**	35 857
CIB total core advances	**283 774**	272 891	4	**100**	272 469

* *Managed by the Group Treasurer.*

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

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

SECTOR AND GEOGRAPHICAL ANALYSIS OF ADVANCES

	Advances				
	As at 30 June				As at 1 July
R million	**2019 IFRS 9**	2018 IAS 39	% change	**% composition 2019**	2018 IFRS 9*
Gross advances	**921 846**	860 734	7	**100**	860 961
Less: interest in suspense	**–**	(1 499)	(100)	**–**	–
Advances net of interest in suspense	**921 846**	859 235	7	**100**	860 961
Sector analysis					
Agriculture	**39 002**	32 859	19	**4**	
Banks	**20 068**	20 867	(4)	**2**	
Financial Institutions	**161 302**	137 937	17	**17**	
Building and property development	**50 028**	48 961	2	**5**	
Government, Land Bank and public authorities	**23 438**	22 471	4	**3**	
Individuals	**409 307**	384 235	7	**46**	
Manufacturing and commerce	**107 274**	100 870	6	**12**	
Mining	**10 611**	11 297	(6)	**1**	
Transport and communication	**22 778**	18 737	22	**2**	
Other services	**78 038**	81 001	(4)	**8**	
Total advances	**921 846**	859 235	7	**100**	
Geographic analysis					
South Africa	**837 764**	770 540	9	**91**	
Rest of Africa	**30 476**	33 611	(9)	**3**	
UK	**28 338**	35 973	(21)	**3**	
Other Europe	**13 974**	12 129	15	**2**	
North America	**1 945**	2 021	(4)	**–**	
South America	**178**	260	(32)	**–**	
Australasia	**2**	2	–	**–**	
Asia	**9 169**	4 699	95	**1**	
Total advances	**921 846**	859 235	7	**100**	

* *IFRS 9 comparatives were not required for 1 July 2018 as this was not required in terms of IFRS 9 transition requirements.*

Credit continued

NOTE 2: ANALYSIS OF STAGE 3/NPLs

SEGMENTAL ANALYSIS OF STAGE 3/NPLs

	Stage 3/NPLs		
	As at 30 June	As at 1 July	
R million	**2019 IFRS 9**	2018 IFRS 9	% change
Retail	**26 350**	20 817	27
Retail – secured	**16 111**	15 182	6
Residential mortgages	**8 638**	7 934	9
VAF	**7 473**	7 248	3
– WesBank (SA)	**6 874**	6 658	3
– MotoNovo (UK)*	**599**	590	2
Retail – unsecured	**10 239**	5 635	82
Card	**2 409**	1 160	>100
– FNB	**2 272**	1 019	>100
– Discovery	**137**	141	(3)
Personal loans	**5 848**	3 427	71
– FNB	**3 421**	1 531	>100
– DirectAxis loans**	**2 422**	1 874	29
– MotoNovo (UK)	**5**	22	(77)
Retail other	**1 982**	1 048	89
Corporate and commercial	**7 855**	5 062	55
FNB commercial	**4 556**	3 350	36
WesBank corporate	**524**	394	33
RMB investment banking[#]	**2 434**	1 145	>100
RMB corporate banking[#]	**341**	173	97
HQLA corporate advances[†]	**–**	–	–
FNB rest of Africa	**–**	–	–
FCC (including Group Treasury)	**–**	–	–
Securitisation notes	**–**	–	–
Other	**–**	–	–
Total stage 3/NPLs[‡]	**34 205**	25 879	32
Of which:			
Accrual book	**34 027**	25 761	32
Fair value book	**178**	118	51

* *MotoNovo VAF (UK) NPLs of £33 million (1 July 2018: £32 million, up 3%).*

** *Formerly called WesBank loans.*

[#] *Includes activities in India and represents the in-country balance sheet.*

[†] *Managed by the Group Treasurer.*

[‡] *Total stage 3/NPLs at 1 July 2018 include R1 661 million ISP recognised on IFRS 9 transition.*

Stage 3/NPLs		Stage 3/NPLs as a % of advances		
	As at 30 June	As at 30 June	As at 1 July	As at 30 June
% composition 2019	2018 IAS 39	2019 IFRS 9	2018 IFRS 9	2018 IAS 39
77	17 198	**6.20**	5.20	4.30
47	11 965	**4.81**	4.68	3.70
25	5 075	**3.98**	3.86	2.48
22	6 890	**6.35**	6.11	5.81
20	6 572	**7.25**	7.07	6.98
2	318	**2.61**	2.41	1.30
30	5 233	**11.34**	7.40	6.88
7	1 082	**7.43**	4.27	3.99
7	952	**8.08**	4.47	4.18
–	130	**3.17**	3.24	2.99
17	3 159	**14.64**	10.35	9.56
10	1 337	**14.65**	8.90	7.79
7	1 800	**15.13**	12.61	12.11
–	22	**0.87**	2.12	2.13
6	992	**11.07**	6.59	6.26
23	3 985	**1.72**	1.20	0.94
13	2 714	**4.33**	3.54	2.89
2	244	**1.88**	1.22	0.76
7	898	**0.97**	0.50	0.39
1	129	**0.59**	0.37	0.28
–	–	**–**	–	–
–	–	**–**	–	–
–	–	**–**	–	–
–	–	**–**	–	–
–	–	**–**	–	–
100	21 183	**3.71**	3.01	2.47
99	20 566	**4.03**	3.18	3.10
1	617	**0.23**	0.23	0.32

Credit continued

SECTOR AND GEOGRAPHIC ANALYSIS OF STAGE 3/NPLs

	Stage 3/NPLs			
	As at 30 June			
R million	**2019 IFRS 9**	2018 IAS 39	% change	**% composition 2019**
Sector analysis				
Agriculture	**1 781**	908	96	**5**
Financial Institutions	**224**	79	>100	**1**
Building and property development	**1 154**	672	72	**3**
Government, Land Bank and public authorities	**79**	313	(75)	**–**
Individuals	**25 162**	16 307	54	**74**
Manufacturing and commerce	**2 779**	1 134	>100	**8**
Mining	**660**	521	27	**2**
Transport and communication	**337**	191	76	**1**
Other services	**2 029**	1 058	92	**6**
Total stage 3/NPLs	**34 205**	21 183	61	**100**
Geographic analysis				
South Africa	**32 702**	20 246	62	**95**
Rest of Africa	**268**	166	61	**1**
UK	**604**	340	78	**2**
Other Europe	**–**	27	(100)	**–**
North America	**566**	404	40	**2**
Asia	**65**	–	100	**–**
Total stage 3/NPLs	**34 205**	21 183	61	**100**

* *IFRS 9 comparatives were not prepared for 1 July 2018 as this was not required in terms of IFRS 9 transition requirements.*

	Stage 3/NPLs as a % of advances	
As at 1 July	As at 30 June	
2018 IFRS 9*	**2019 IFRS 9**	2018 IAS 39
	4.57	2.76
	0.14	0.06
	2.31	1.37
	0.34	1.39
	6.15	4.24
	2.59	1.12
	6.22	4.61
	1.48	1.02
	2.60	1.31
	3.71	2.47
	3.90	2.63
	0.88	0.49
	2.13	0.95
	–	0.22
	29.10	19.99
	0.71	–
	3.71	2.47

Credit continued

SECURITY AND RECOVERABLE AMOUNTS BY PORTFOLIO

	As at 30 June 2019		
	IFRS 9		
R million	Stage3/NPLs	Security held and expected recoveries	Specific impairment
Retail	26 350	14 261	12 089
Retail – secured	16 111	11 862	4 249
Residential mortgages	8 638	6 967	1 671
VAF	7 473	4 895	2 578
– WesBank (SA)	6 874	4 531	2 343
– MotoNovo (UK)	599	364	235
Retail – unsecured	10 239	2 399	7 840
Card	2 409	540	1 869
– FNB	2 272	524	1 748
– Discovery	137	16	121
Personal loans	5 848	1 414	4 434
– FNB	3 421	710	2 711
– DirectAxis*	2 422	704	1 718
– MotoNovo (UK)	5	–	5
Retail other	1 982	445	1 537
Corporate and commercial	7 855	4 263	3 592
FNB commercial	4 556	2 253	2 303
WesBank corporate	524	345	179
RMB investment banking**	2 434	1 417	1 017
RMB corporate banking**	341	248	93
HQLA corporate advances#	–	–	–
FNB rest of Africa	–	–	–
FCC (including Group Treasury)	–	–	–
Securitisation notes	–	–	–
Other	–	–	–
Total	34 205	18 524	15 681

* *Formerly called WesBank loans.*

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

\# *Managed by the Group Treasurer.*

As at 1 July 2018			As at 30 June 2018		
IFRS 9			IAS 39		
Stage 3/NPLs	Security held and expected recoveries	Specific impairment	Stage3/NPLs	Security held and expected recoveries	Specific impairment
20 817	12 430	8 387	17 198	11 221	5 977
15 182	11 079	4 103	11 965	8 915	3 050
7 934	6 219	1 715	5 075	4 170	905
7 248	4 860	2 388	6 890	4 745	2 145
6 658	4 519	2 139	6 572	4 611	1 961
590	341	249	318	134	184
5 635	1 351	4 284	5 233	2 306	2 927
1 160	164	996	1 082	358	724
1 019	149	870	952	314	638
141	15	126	130	44	86
3 427	979	2 448	3 159	1 674	1 485
1 531	480	1 051	1 337	537	800
1 874	509	1 365	1 800	1 135	665
22	(10)	32	22	2	20
1 048	208	840	992	274	718
5 062	2 164	2 898	3 985	2 294	1 691
3 350	1 452	1 898	2 714	1 699	1 015
394	245	149	244	128	116
1 145	353	792	898	352	546
173	114	59	129	115	14
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
25 879	14 594	11 285	21 183	13 515	7 668

Credit continued

NOTE 3: ANALYSIS OF INCOME STATEMENT CREDIT IMPAIRMENTS

	Total impairment charge		
	Year ended 30 June		
R million	2019 IFRS 9	2018 IAS 39	% change
Retail	**7 574**	6 275	21
Retail – secured	**2 610**	2 467	6
Residential mortgages	**232**	149	56
VAF	**2 378**	2 318	3
– WesBank (SA)	**1 834**	1 856	(1)
– MotoNovo (UK)*	**544**	462	18
Retail – unsecured	**4 964**	3 808	30
Card	**1 027**	670	53
– FNB	**937**	599	56
– Discovery	**90**	71	27
Personal loans	**2 652**	1 967	35
– FNB	**1 296**	793	63
– DirectAxis loans**	**1 379**	1 125	23
– MotoNovo (UK)	**(23)**	49	(>100)
Retail other	**1 285**	1 171	10
Corporate and commercial	**883**	616	43
FNB commercial	**750**	670	12
WesBank corporate	**82**	48	71
RMB investment banking[#]	**26**	(105)	(>100)
RMB corporate banking[#]	**25**	3	>100
HQLA corporate advances[†]	**–**	–	–
FNB rest of Africa	**–**	(2)	(100)
FCC (including Group Treasury)	**3**	(230)	(>100)
Securitisation notes	**(3)**	–	–
Other	**6**	(230)	(>100)
Total impairment charge	**8 460**	6 659	27
Portfolio impairments charge	**1 764**	96	>100
Specific impairments charge	**6 696**	6 563	2

* *MotoNovo VAF (UK) impairment charge of £30 million (June 2018: £27 million up 11%).*

** *Formerly called WesBank loans.*

[#] *Includes activities in India and represents the in-country balance sheet.*

[†] *Managed by the Group Treasurer.*

As a % of average advances	
Year ended 30 June	
2019 IFRS 9	2018 IAS 39
1.83	1.59
0.79	0.77
0.11	0.07
2.01	1.90
1.94	1.96
2.30	1.71
5.96	5.32
3.45	2.63
3.68	2.83
2.07	1.66
7.26	6.40
6.39	5.03
8.93	7.93
(2.85)	6.41
7.60	7.62
0.20	0.15
0.75	0.75
0.27	0.15
0.01	(0.05)
0.05	0.01
–	–
–	(1.47)
0.01	(0.03)
(0.01)	–
0.05	(0.03)
0.95	0.80
0.20	0.01
0.75	0.79

Credit continued

NOTE 4: ANALYSIS OF BALANCE SHEET IMPAIRMENTS (STAGE 1 AND 2)

	Total portfolio impairments				
	As at 30 June	As at 1 July		As at 30 June 2019	
				IFRS 9	
R million	**2019 IFRS 9**	2018 IFRS 9	% change	**Stage 1**	**Stage 2**
Portfolio impairments					
Retail	7 658	7 048	9	3 919	3 739
Retail – secured	3 037	2 816	8	1 124	1 913
Residential mortgages	870	647	34	360	510
VAF	2 167	2 169	–	764	1 403
– WesBank (SA)	1 838	1 812	1	592	1 246
– MotoNovo (UK)*	329	357	(8)	172	157
Retail – unsecured	4 621	4 232	9	2 795	1 826
Card	1 014	809	25	631	383
– FNB	902	699	29	555	347
– Discovery	112	110	2	76	36
Personal loans	2 419	2 240	8	1 440	979
– FNB	1 367	1 289	6	857	510
– DirectAxis loans**	1 019	849	20	558	461
– MotoNovo (UK)	33	102	(68)	25	8
Retail other	1 188	1 183	–	724	464
Corporate and commercial	3 763	4 546	(17)	1 841	1 922
FNB commercial	1 509	1 559	(3)	733	776
WesBank corporate	159	184	(14)	92	67
RMB investment banking#	1 500	1 917	(22)	785	715
RMB corporate banking#	595	886	(33)	231	364
HQLA corporate advances†	–	–	–	–	–
FNB rest of Africa	–	–	–	–	–
FCC (including Group Treasury)	201	199	1	199	2
Securitisation notes	22	25	(12)	22	–
Other	179	174	3	177	2
Total portfolio impairments	11 622	11 793	(1)	5 959	5 663

* *MotoNovo VAF (UK) of £18 million (1 July 2018: £20 million, down 10%).*

** *Formerly called WesBank loans.*

\# *Includes activities in India and represents the in-country balance sheet.*

† *Managed by the Group Treasurer.*

Total portfolio impairments			Performing book coverage ratio (% of performing advances)				
As at 1 July 2018		As at 30 June	As at 30 June 2019			As at 1 July	As at 30 June
IFRS 9			IFRS 9				
Stage 1	Stage 2	2018 IAS 39	**Total Portfolio**	**Stage 1**	**Stage 2**	2018 IFRS 9	2018 IAS 39
3 505	3 543	3 760	**1.92**	**1.05**	**13.88**	1.86	0.98
1 110	1 706	1 595	**0.95**	**0.38**	**9.15**	0.91	0.51
269	378	566	**0.42**	**0.18**	**5.02**	0.33	0.28
841	1 328	1 029	**1.97**	**0.77**	**13.03**	1.95	0.92
626	1 186	855	**2.09**	**0.75**	**13.37**	2.07	0.98
215	142	174	**1.47**	**0.82**	**10.88**	1.49	0.72
2 395	1 837	2 165	**5.77**	**3.77**	**30.36**	6.00	3.06
535	274	407	**3.38**	**2.23**	**22.70**	3.11	1.56
458	241	354	**3.49**	**2.28**	**22.80**	3.21	1.62
77	33	53	**2.67**	**1.89**	**21.82**	2.61	1.26
1 223	1 017	1 265	**7.09**	**4.68**	**29.63**	7.55	4.23
676	613	751	**6.86**	**4.75**	**26.84**	8.23	4.75
501	348	492	**7.50**	**4.57**	**33.36**	6.54	3.77
46	56	22	**5.76**	**4.54**	**36.36**	10.05	2.17
637	546	493	**7.46**	**4.86**	**45.36**	7.96	3.32
1 556	2 990	3 827	**0.84**	**0.44**	**6.24**	1.09	0.92
680	879	537	**1.50**	**0.80**	**9.15**	1.71	0.59
93	91	197	**0.58**	**0.36**	**4.33**	0.58	0.62
620	1 297	2 211	**0.61**	**0.34**	**5.12**	0.83	0.96
163	723	882	**1.03**	**0.46**	**5.33**	1.91	1.90
–	–	–	**–**	**–**	**–**	–	–
–	–	–	**–**	**–**	**–**	–	–
199	–	174	**0.52**	**0.51**	**4.55**	0.53	0.46
25	–	–	**0.08**	**0.08**	**–**	0.11	–
174	–	174	**1.64**	**1.63**	**4.55**	1.24	1.24
5 260	6 533	7 761	**1.31**	**0.72**	**9.80**	1.41	0.93

Credit continued

NOTE 4: ANALYSIS OF BALANCE SHEET STAGE 3/SPECIFIC IMPAIRMENTS AND COVERAGE RATIOS

	Stage 3/specific impairments			
	As at 30 June	As at 1 July		As at 30 June
R million	**2019 IFRS 9**	2018 IFRS 9	% change	2018 IAS 39
Specific impairments				
Retail	**12 089**	8 387	44	5 977
Retail – secured	**4 249**	4 103	4	3 050
Residential mortgages	**1 671**	1 715	(3)	905
VAF	**2 578**	2 388	8	2 145
– WesBank (SA)	**2 343**	2 139	10	1 961
– MotoNovo (UK)*	**235**	249	(6)	184
Retail – unsecured	**7 840**	4 284	83	2 927
Card	**1 869**	996	88	724
– FNB	**1 748**	870	>100	638
– Discovery	**121**	126	(4)	86
Personal loans	**4 434**	2 448	81	1 485
– FNB	**2 711**	1 051	>100	800
– DirectAxis loans**	**1 718**	1 365	26	665
– MotoNovo (UK)	**5**	32	(84)	20
Retail other	**1 537**	840	83	718
Corporate and commercial	**3 592**	2 898	24	1 691
FNB commercial	**2 303**	1 898	21	1 015
WesBank corporate	**179**	149	20	116
RMB investment banking[#]	**1 017**	792	28	546
RMB corporate banking[#]	**93**	59	58	14
HQLA corporate advances[†]	**–**	–	–	–
FNB rest of Africa	**–**	–	–	–
FCC (including Group Treasury)	**–**	–	–	–
Securitisation notes	**–**	–	–	–
Other	**–**	–	–	–
Total stage 3/specific impairments/implied loss given default[‡]	**15 681**	11 285	39	7 668

* *MotoNovo VAF (UK) of £13 million (1 July 2018: £14 million, down 7%).*

** *Formerly called WesBank loans.*

[#] *Includes activities in India and represents the in-country balance sheet.*

[†] *Managed by the Group Treasurer.*

[‡] *Stage 3 impairments at 1 July 2018 include R1 065 million ISP recognised on IFRS 9 transition.*

Coverage ratios (% of stage3/NPLs)		
As at 30 June	As at 1 July	As at 30 June
2019 IFRS 9	2018 IFRS 9	2018 IAS 39
45.9	40.3	34.8
26.4	27.0	25.5
19.3	21.6	17.8
34.5	32.9	31.1
34.1	32.1	29.8
39.2	42.2	57.9
76.6	76.0	55.9
77.6	85.9	66.9
76.9	85.4	67.0
88.3	89.4	66.2
75.8	71.4	47.0
79.2	68.6	59.8
70.9	72.8	36.9
100.0	145.5	90.9
77.5	80.2	72.4
45.7	57.3	42.4
50.5	56.7	37.4
34.2	37.8	47.5
41.8	69.2	60.8
27.3	34.1	10.9
–	–	–
–	–	–
–	–	–
–	–	–
–	–	–
45.8	43.6	36.2

Credit continued

NOTE 4: ANALYSIS OF BALANCE SHEET TOTAL IMPAIRMENTS AND COVERAGE RATIOS

	Balance sheet impairments					
	As at 30 June	As at 1 July		As at 30 June 2019		
				IFRS 9		
R million	**2019 IFRS 9**	2018 IFRS 9	% change	**Stage 1**	**Stage 2**	**Stage 3**
Total impairments						
Retail	**19 747**	15 435	28	**3 919**	**3 739**	**12 089**
Retail – secured	**7 286**	6 919	5	**1 124**	**1 913**	**4 249**
Residential mortgages	**2 541**	2 362	8	**360**	**510**	**1 671**
VAF	**4 745**	4 557	4	**764**	**1 403**	**2 578**
– WesBank (SA)	**4 181**	3 951	6	**592**	**1 246**	**2 343**
– MotoNovo (UK)*	**564**	606	(7)	**172**	**157**	**235**
Retail – unsecured	**12 461**	8 516	46	**2 795**	**1 826**	**7 840**
Card	**2 883**	1 805	60	**631**	**383**	**1 869**
– FNB	**2 650**	1 569	69	**555**	**347**	**1 748**
– Discovery	**233**	236	(1)	**76**	**36**	**121**
Personal loans	**6 853**	4 688	46	**1 440**	**979**	**4 434**
– FNB	**4 078**	2 340	74	**857**	**510**	**2 711**
– DirectAxis loans**	**2 737**	2 214	24	**558**	**461**	**1 718**
– MotoNovo (UK)	**38**	134	(72)	**25**	**8**	**5**
Retail other	**2 725**	2 023	35	**724**	**464**	**1 537**
Corporate and commercial	**7 355**	7 444	(1)	**1 841**	**1 922**	**3 592**
FNB commercial	**3 812**	3 457	10	**733**	**776**	**2 303**
WesBank corporate	**338**	333	2	**92**	**67**	**179**
RMB investment banking#	**2 517**	2 709	(7)	**785**	**715**	**1 017**
RMB corporate banking#	**688**	945	(27)	**231**	**364**	**93**
HQLA corporate advances†	**–**	–	–	**–**	**–**	**–**
FNB rest of Africa	**–**	–	–	**–**	**–**	**–**
FCC (including Group Treasury)	**201**	199	1	**199**	**2**	**–**
Securitisation notes	**22**	25	(12)	**22**	**–**	**–**
Other	**179**	174	3	**177**	**2**	**–**
Total impairments/total impairment coverage ratio‡	**27 303**	23 078	18	**5 959**	**5 663**	**15 681**

* *MotoNovo VAF (UK) of £31 million (1 July 2018: £33 million down 6%).*

** *Formerly called WesBank loans.*

\# *Includes activities in India and represents the in-country balance sheet.*

† *Managed by the Group Treasurer.*

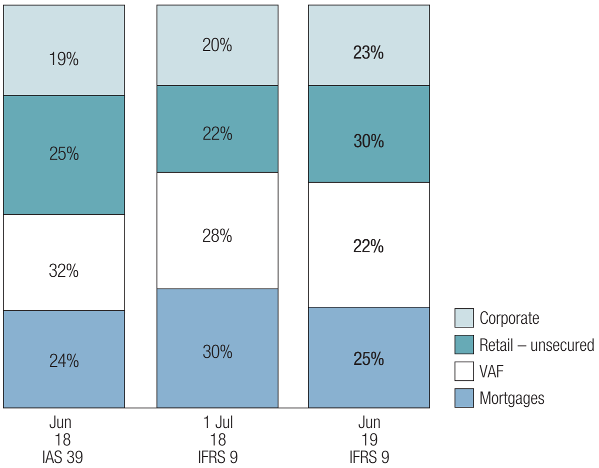
‡ *Stage 3 impairments at 1 July 2018 include R1 065 million ISP recognised on IFRS 9 transition.*

Balance sheet impairments				Coverage ratios (% of stage3/NPLs)		
As at 1 July 2018			As at 30 June	As at 30 June	As at 1 July	As at 30 June
IFRS 9			2018 IAS 39	**2019 IFRS 9**	2018 IFRS 9	2018 IAS 39
Stage 1	Stage 2	Stage 3				
3 505	3 543	8 387	9 737	**74.9**	74.1	56.6
1 110	1 706	4 103	4 645	**45.2**	45.6	38.8
269	378	1 715	1 471	**29.4**	29.8	29.0
841	1 328	2 388	3 174	**63.5**	62.9	46.1
626	1 186	2 139	2 816	**60.8**	59.3	42.8
215	142	249	358	**94.2**	102.7	112.6
2 395	1 837	4 284	5 092	**121.7**	151.1	97.3
535	274	996	1 131	**119.7**	155.6	104.5
458	241	870	992	**116.6**	154.0	104.2
77	33	126	139	**170.1**	167.4	106.9
1 223	1 017	2 448	2 750	**117.2**	136.8	87.1
676	613	1 051	1 551	**119.2**	152.8	116.0
501	348	1 365	1 157	**113.0**	118.1	64.3
46	56	32	42	**760.0**	609.1	190.9
637	546	840	1 211	**137.5**	193.0	122.1
1 556	2 990	2 898	5 518	**93.6**	147.1	138.5
680	879	1 898	1 552	**83.7**	103.2	57.2
93	91	149	313	**64.5**	84.5	128.3
620	1 297	792	2 757	**103.4**	236.6	307.0
163	723	59	896	**201.8**	546.2	694.6
–	–	–	–	**–**	–	–
–	–	–	–	**–**	–	–
199	–	–	174	**–**	–	–
25	–	–	–	**–**	–	–
174	–	–	174	**–**	–	–
5 260	6 533	11 285	15 429	**79.8**	89.2	72.8

Credit continued

The graph below provides the NPL distribution over the last two financial years across all portfolios.

NPL DISTRIBUTION



RECONCILIATION OF IMPAIRMENTS

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

BALANCE SHEET AMORTISED COST IMPAIRMENTS AND CREDIT FAIR VALUE ADJUSTMENTS

	Amortised cost book			Fair value book			Total book		
	As at 30 June			As at 30 June			As at 30 June		
R million	**2019 IFRS 9**	2018* IFRS 9	2018 IAS 39	**2019 IFRS 9**	2018* IFRS 9	2018 IAS 39	**2019 IFRS 9**	2018* IFRS 9	2018 IAS 39
Non-performing book	**15 681**	11 285	7 469	**–**	–	199	**15 681**	11 285	7 668
Performing book	**11 307**	11 513	6 459	**315**	280	1 302	**11 622**	11 793	7 761
Total impairments	**26 988**	22 798	13 928	**315**	280	1 501	**27 303**	23 078	15 429

* *1 July.*

TOTAL BALANCE SHEET IMPAIRMENTS

The following table provides an analysis of the balance sheet impairments.

	As at 30 June	
R million	**2019 IFRS 9**	2018 IAS 39
Opening balance	**15 429**	14 859
IFRS 9 adjustments	**7 649**	–
Restated opening balance	**23 078**	14 859
(Disposals)/acquisitions	**(168)**	16
Exchange rate difference	**13**	61
Unwinding and discounted present value on NPLs (IAS 39)	**–**	(105)
Bad debts written off	**(7 386)**	(8 350)
Net new impairments created	**10 251**	8 948
Net interest recognised on stage 3 advances	**1 515**	–
Closing balance	**27 303**	15 429

INCOME STATEMENT IMPAIRMENTS

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

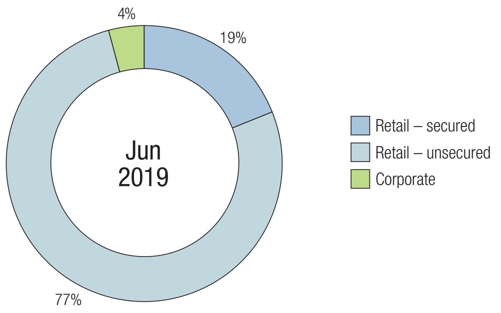
	Year ended 30 June		
R million	**2019 IFRS 9**	2018 IAS 39*	% change
Specific impairment charge	**8 515**	8 852	(4)
Specific impairment charge – amortised cost	**8 515**	8 840	(4)
Credit fair value adjustments – non-performing book	**–**	12	(100)
Portfolio impairment charge	**1 736**	96	>100
Portfolio impairment charge – amortised cost	**1 701**	893	90
Credit fair value adjustments – performing book*	**35**	(797)	(>100)
Total impairments before recoveries and modifications	**10 251**	8 948	15
Modification losses	**625**	–	–
Recoveries of bad debts written-off	**(2 416)**	(2 289)	6
Total impairments	**8 460**	6 659	27

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

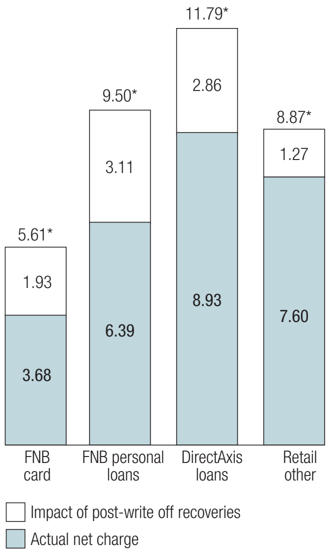
IMPACT OF POST WRITE-OFF RECOVERIES

Post-write off recoveries amounted to R2 416 million (June 2018: R2 289 million), primarily emanating from the unsecured retail lending portfolios, specifically FNB loans, DirectAxis loans and FNB card.

POST WRITE-OFF RECOVERIES



RETAIL UNSECURED CREDIT LOSS RATIOS AND RECOVERIES
%



* *Gross of recoveries (%).*

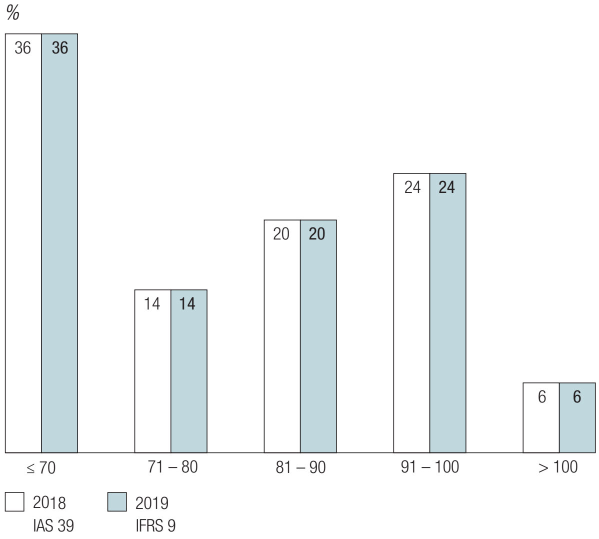
Credit continued

RISK ANALYSIS

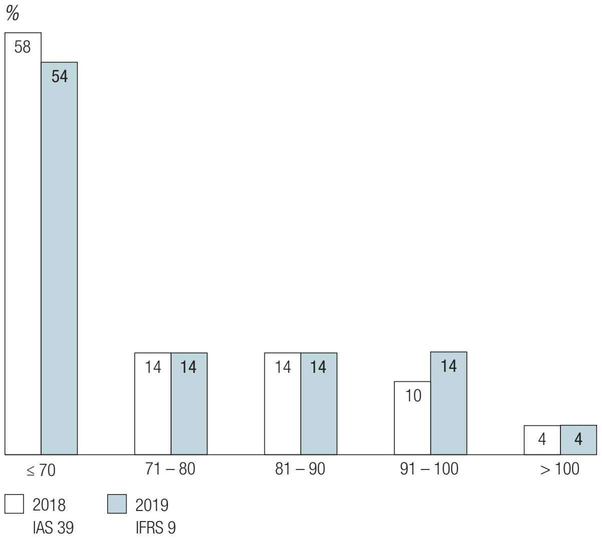
The graphs below provide loan balance-to-value ratios and age distributions of residential mortgages.

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

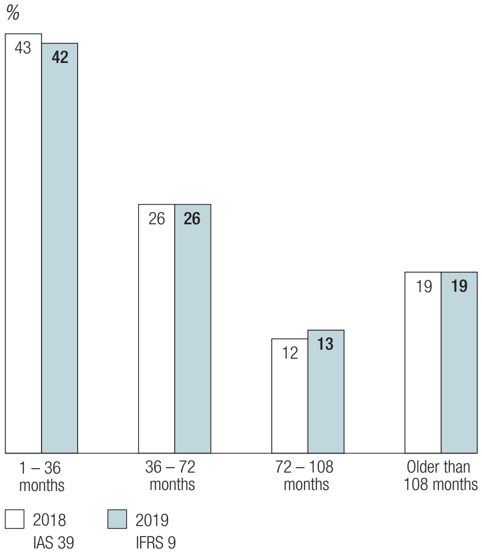
FNB RESIDENTIAL MORTGAGES BALANCE-TO-ORIGINAL VALUE



FNB RESIDENTIAL MORTGAGES BALANCE-TO-MARKET VALUE

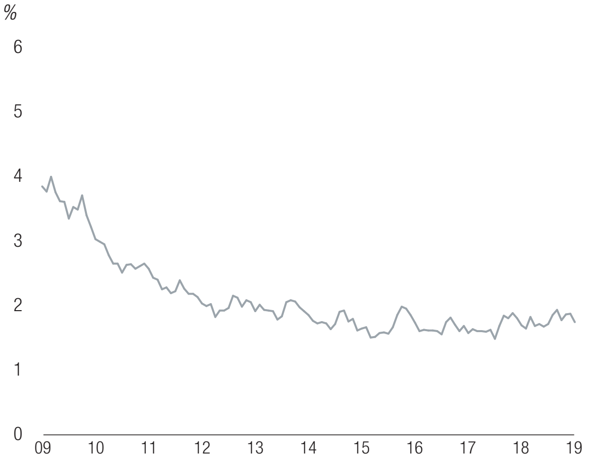


FNB RESIDENTIAL MORTGAGES AGE DISTRIBUTION



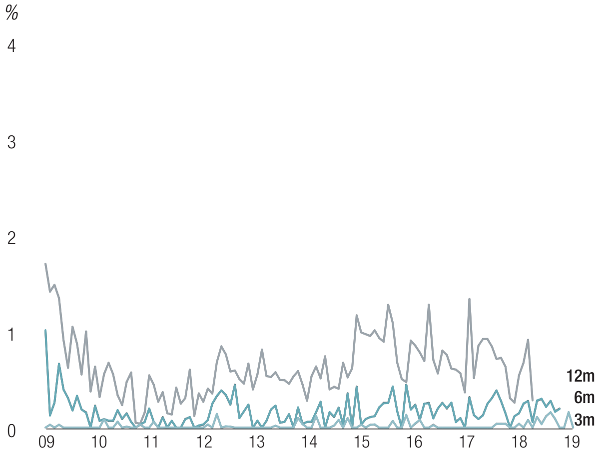
The following graph shows arrears in the FNB HomeLoans portfolio. It includes accounts where more than one full payment is in arrears, expressed as a percentage of total advances. Collections performance has been strong in the portfolio.

FNB HOMELOANS ARREARS



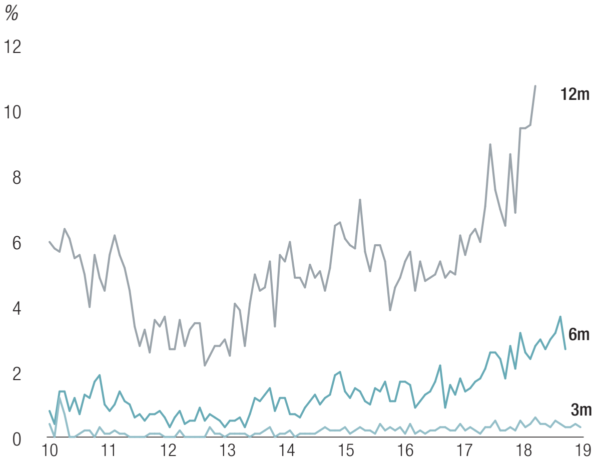
Vintages in FNB HomeLoans has remained stable as collections were stronger. Lower new business volumes constrained book growth.

FNB HOMELOANS VINTAGE ANALYSIS



FNB card growth has differed across consumer and premium segments over the year. The growth in premium has stemmed from continued customer migration and a focused strategy, while consumer declined. The performance of both segments has been under pressure recently evidenced in the six- and 12-month vintages. The portfolio experienced a more challenging collections environment and together with an overall increase in customer financial strain has exerted external pressure on recent business. Risk cuts and other mitigating actions have been implemented to ensure a steady recovery in book performance.

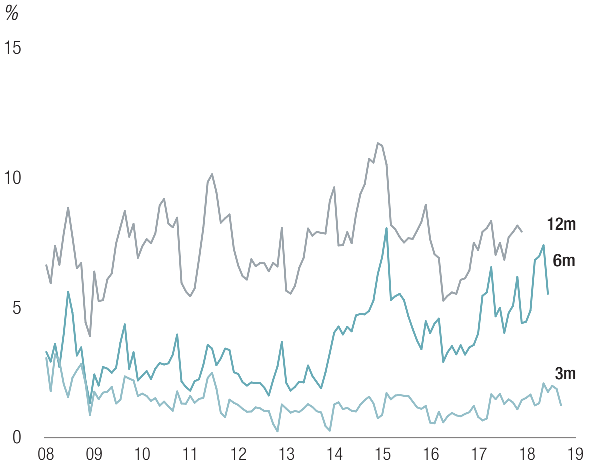
FNB CARD VINTAGE ANALYSIS



Note: The above vintage has been restated to reflect a retail card analysis. Discovery and commercial have been excluded from the data above.

FNB personal loans growth continued to be driven by increased penetration into the main-banked base. The 12-month vintage remains stable. The risk profile of cohorts since mid-2017 has remained stable. The six-month vintage increased towards year end primarily due to seasonality and some changes to credit underwriting strategies. However, this performance is within internal thresholds and the increase was expected due to origination strategy changes implemented during late 2018.

FNB PERSONAL LOANS VINTAGE ANALYSIS



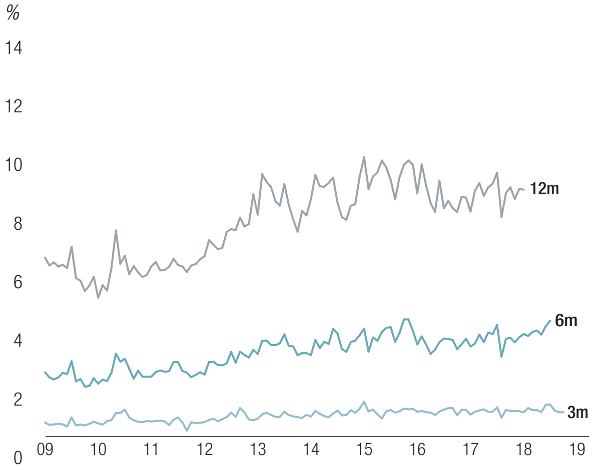
Note: Personal loans vintage has been restated to normalise for "take a break" (in January customers do not need to make a payment). The vintage points were therefore restated to accommodate fewer payments due when the period includes a "take a break" month.

Credit continued

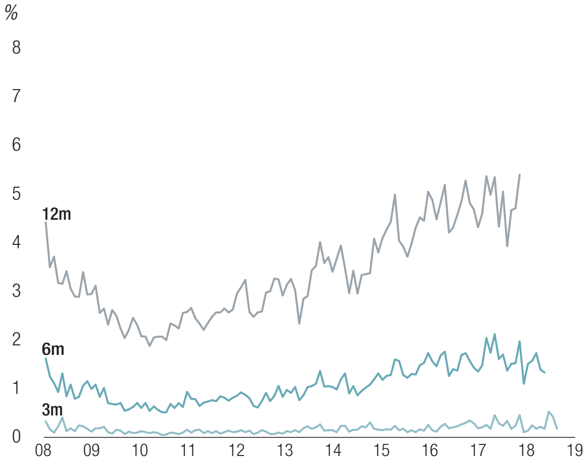
DirectAxis loans' vintages have remained stable on a TTC basis since December 2013 while the business continued to see positive growth in disbursements. This is due to active credit origination management within the portfolio.

The retail SA VAF six-month vintages have been showing signs of improvement since the beginning of 2018 due to risk appetite tightening to mitigate challenging and uncertain macroeconomic conditions. The increasing trend in the 12-month vintages has stabilised and is expected to follow the reduction experienced in the six-month vintages.

DIRECTAXIS LOANS VINTAGE ANALYSIS

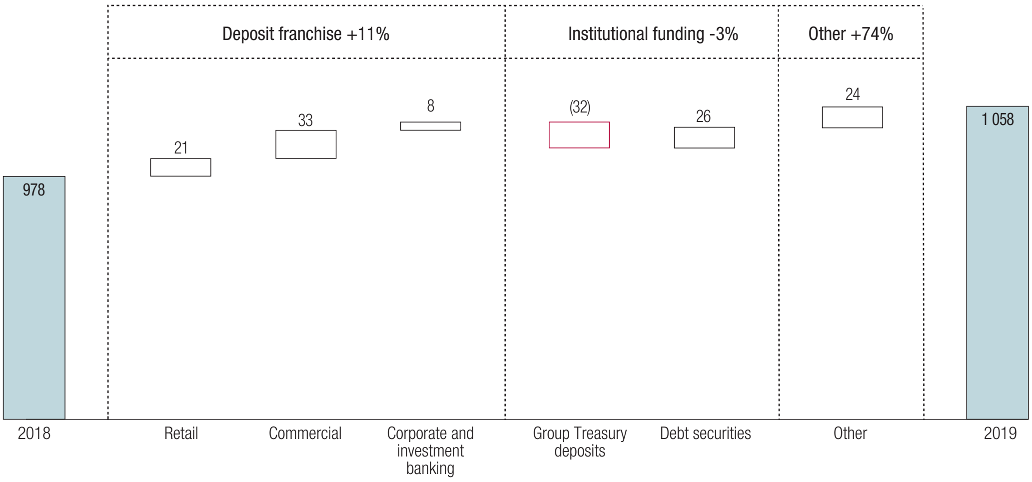


WESBANK RETAIL VAF VINTAGE ANALYSIS



Deposits – up 8%

FUNDING PORTFOLIO GROWTH BY SEGMENT
R billion



KEY DRIVERS

- FNB's deposits increased 13%:
  - retail deposit growth of 9% was underpinned by proactive money management engagements with customers to simplify savings, as well as ongoing digitisation and growth in flagship savings products;
  - commercial deposit growth of 16% was driven by innovative products, proactive new client acquisition and digitisation; and
  - FNB remained the number one household deposit franchise by market share in South Africa.
- RMB CIB grew deposits 16% year-on-year. The increase was achieved through growth in term deposits driven by an increase in the existing client base, and product development based on client needs and behaviour, as well as increased repo activity.
- Group Treasury institutional funding reduced 24% whilst debt securities increased 12%. This was the result of:
  - an increase in debt securities, attributable to taps of existing senior bonds and issuances of new bonds, additional negotiable certificates of deposit (NCDs) and floating rate notes (FRNs) underpinning the group's prudential liquidity requirements, a reduction in the demand for fixed deposits from institutional investors, and an increase in the interbank position;
  - the absolute amount of structured issuances in the domestic market and growth in foreign currency funding being impacted by rand depreciation over the reporting period; and
  - the redirection of dollar funding from the bank to RMB's Mauritius platform in FRI.
- Overall growth in other deposits, which resulted from increased client demand for repurchase agreements, partly offset by a decrease in cash collateral received.

Funding and liquidity

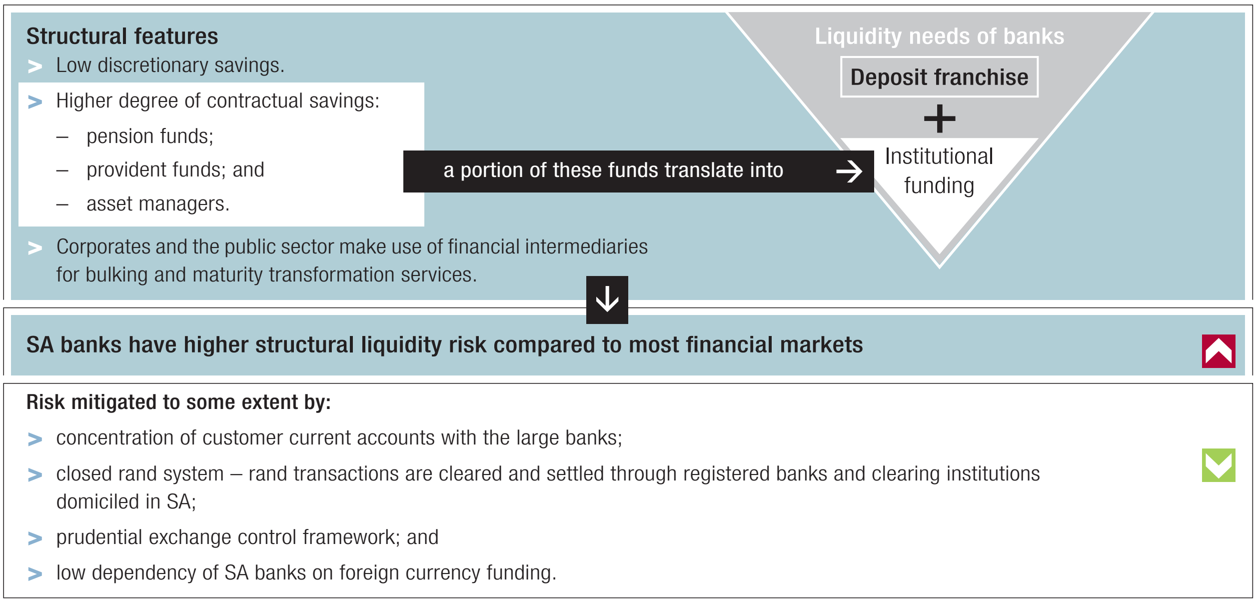
INTRODUCTION AND OBJECTIVES

The group aims to fund its activities in an efficient and flexible manner, from diverse and sustainable funding pools, whilst operating within prudential limits. The group's objective is to maintain and enhance its deposit market share by appropriately pricing and rewarding depositors, thus creating a natural liquidity buffer. As a consequence of the liquidity risk introduced by its business activities across various currencies and geographies, the group's objective is to optimise its funding profile within structural and regulatory constraints to enable businesses to operate in an efficient and sustainable manner.

Compliance with the Basel III liquidity ratios influences the group's funding strategy, particularly as it seeks to price appropriately for liquidity on a risk-adjusted basis. The group continues to offer innovative and competitive products to further grow its deposit franchise whilst also optimising its institutional funding profile. These initiatives continue to improve the funding and liquidity profile of the group.

FUNDING MANAGEMENT

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



Structural features

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

SA banks have higher structural liquidity risk compared to most financial markets

Risk mitigated to some extent by:

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

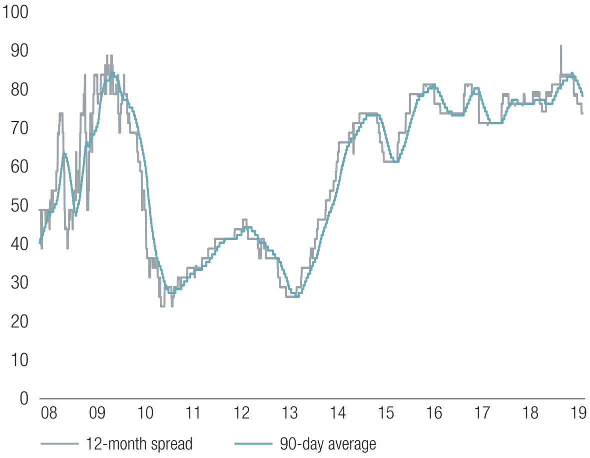
Considering the structural features of the South African market described above, the group's focus remains on achieving an improved risk-adjusted and diversified funding profile, which also enables it to meet Basel III liquidity requirements. Consequently, the group aims to fund the balance sheet in an efficient manner, as set out in its liquidity risk management framework, and within regulatory and rating agency requirements.

In line with the South African banking industry, the bank raises a large amount of funding from the institutional market. To maximise efficiency and flexibility in accessing institutional funding opportunities, both domestic and international debt programmes have been established. The bank's strategy for domestic vanilla public issuances is to offer benchmark tenor bonds to meet investor requirements and facilitate secondary market liquidity. This strategy enables the bank to identify cost-effective funding opportunities whilst maintaining an understanding of available market liquidity.

The following graph is indicative of the market cost of institutional funding, measured as the spread paid on the bank's 12-month funding instruments. Short-dated funding costs continue to remain elevated, but have moderated over the past six months.

12-MONTH MID-MARKET FUNDING SPREAD

bps

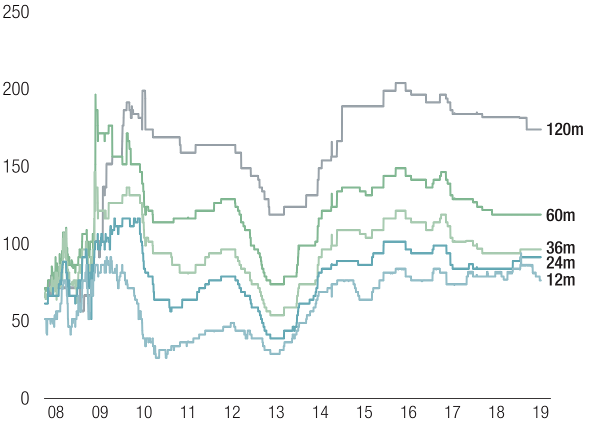


Sources: Bloomberg (RMBP screen) and Reuters.

The following graph illustrates that longer-dated funding spreads remain elevated from a historical perspective, however, since 2016 funding spreads for maturities greater than five years have moderated somewhat.

LONG-TERM FUNDING SPREADS

bps



Sources: Bloomberg (RMBP screen) and Reuters.

The additional liquidity required by banks due to money supply constraints introduced by the LCR, and the central bank's open market operations without a commensurate increase in savings flows, have ultimately resulted in higher funding costs.

Funding measurement and activity

FirstRand Bank, FirstRand's wholly-owned subsidiary and the primary debt-issuing entity in the group, generates a greater proportion of its funding from deposits in comparison to the South African aggregate, but its funding profile also reflects the structural features described previously.

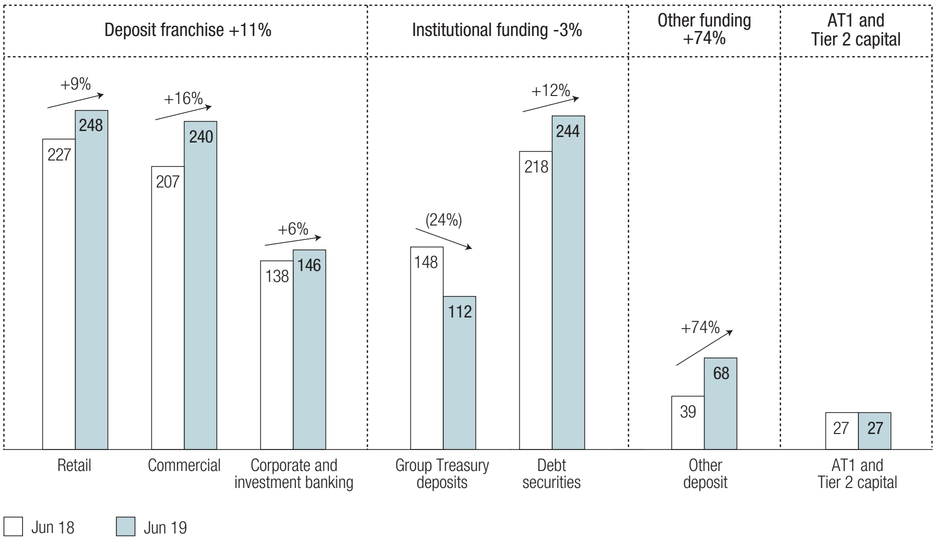
The group manages its funding profile by source, counterparty type, market, product and currency. The deposit franchise is the most efficient and stable source of funding, representing 59% of total bank funding liabilities at 30 June 2019 (June 2018: 57%).

The bank's primary focus remains on growing its deposit franchise across all segments, with continued emphasis on savings and investment products. The bank continues to develop and refine its product offering to attract a greater proportion of available liquidity with improved risk-adjusted pricing for source and behaviour. In addition to client deposits, the bank accesses the domestic money markets daily and, from time to time, the capital markets, to fund its operations. The bank issues various capital and funding instruments in the capital markets on an auction and reverse-enquiry basis, with strong support from domestic and international investors.

Funding and liquidity continued

The following graph provides a segmental analysis of the bank's funding base.

FUNDING PORTFOLIO GROWTH
R billion

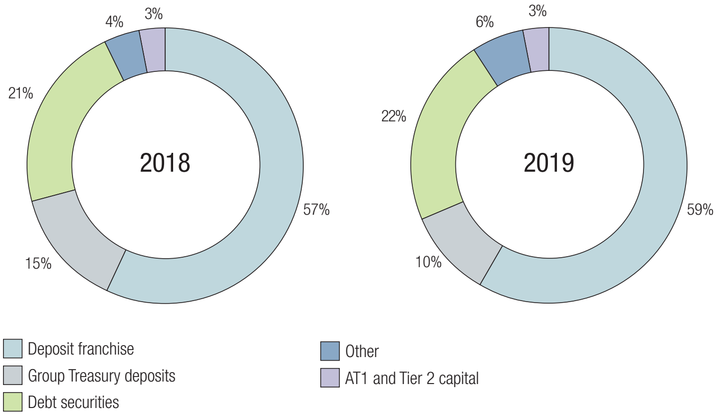


Note 1: Percentage change is based on actual, not rounded, numbers shown in the bar graphs above.

Note 2: The above graph is completed using the bank segmental reporting split based on funding product type. The segment breakdown above differs from the risk counterparty view on page A97, which is segment and product neutral. These views primarily highlight the bank's strength in raising deposits across segments, as well as the diversification of funding from a counterparty perspective.

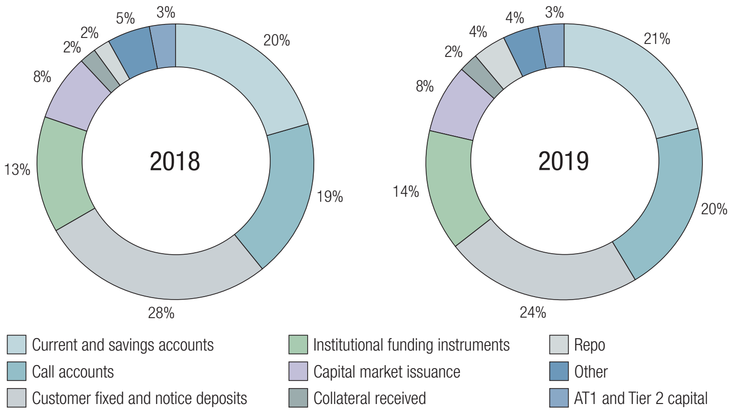
The graphs below show that the bank's funding mix has remained relatively stable over the last year.

FUNDING MIX



The following graph illustrates the bank's funding instruments by type.

FUNDING ANALYSIS BY INSTRUMENT TYPE



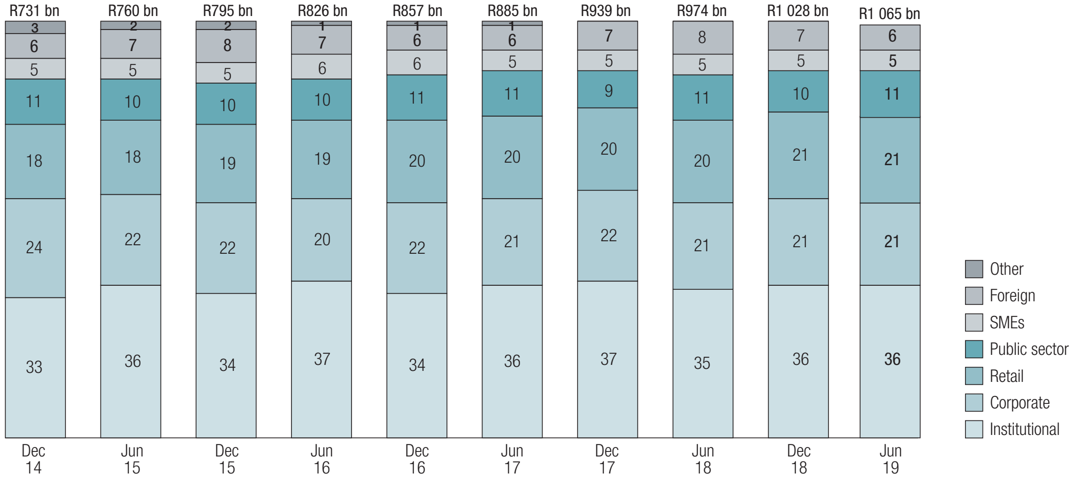
The bank's strategy to grow its deposit and transactional banking franchise results in a significant proportion of contractually short-dated funding. As these deposits are anchored to clients' cyclical transactional and savings requirements and, given the balance granularity created by individual customers' independent client activity, the resultant liquidity risk profile is improved.

The table below provides an analysis of the bank's (excluding foreign branches) funding sources by counterparty type.

	As at 30 June				
	2019 IFRS 9				2018 IAS 39
% of funding liabilities	**Total**	**Short-term**	**Medium-term**	**Long-term**	Total
Institutional funding	**36.1**	**10.7**	**3.4**	**22.0**	35.0
Deposit franchise	**63.9**	**50.3**	**8.0**	**5.6**	65.0
Corporate	**20.3**	**17.2**	**2.3**	**0.8**	20.6
Retail	**20.8**	**16.2**	**3.2**	**1.4**	20.3
SMEs	**5.3**	**4.4**	**0.6**	**0.3**	5.3
Governments and parastatals	**11.1**	**9.3**	**1.3**	**0.5**	11.0
Foreign	**6.3**	**3.2**	**0.6**	**2.5**	7.8
Other	**0.1**	**–**	**–**	**0.1**	–
Total	**100.0**	**61.0**	**11.4**	**27.6**	100.0

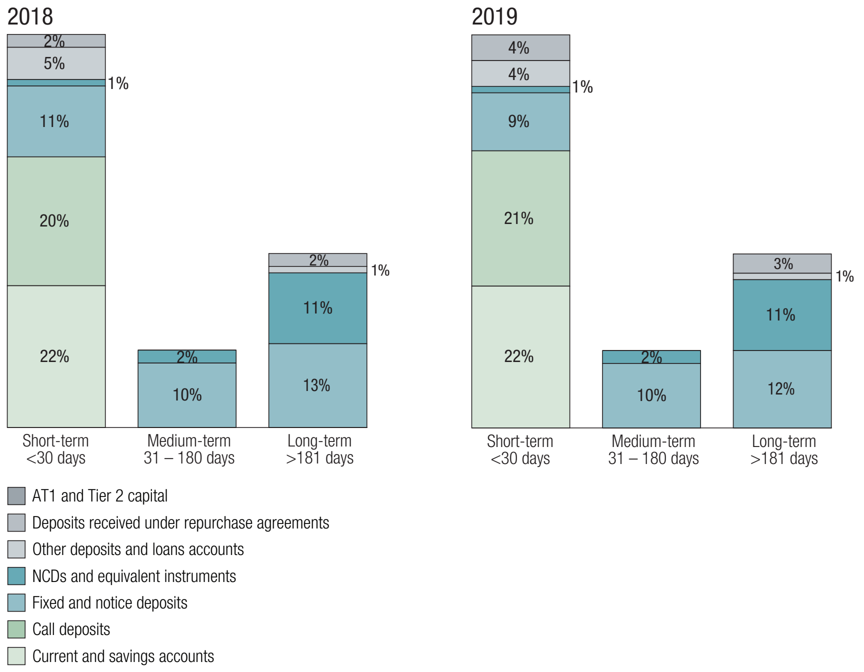
Funding and liquidity continued

FUNDING ANALYSIS FOR FIRSTRAND BANK BY SOURCE*



* *Excludes foreign branches.*

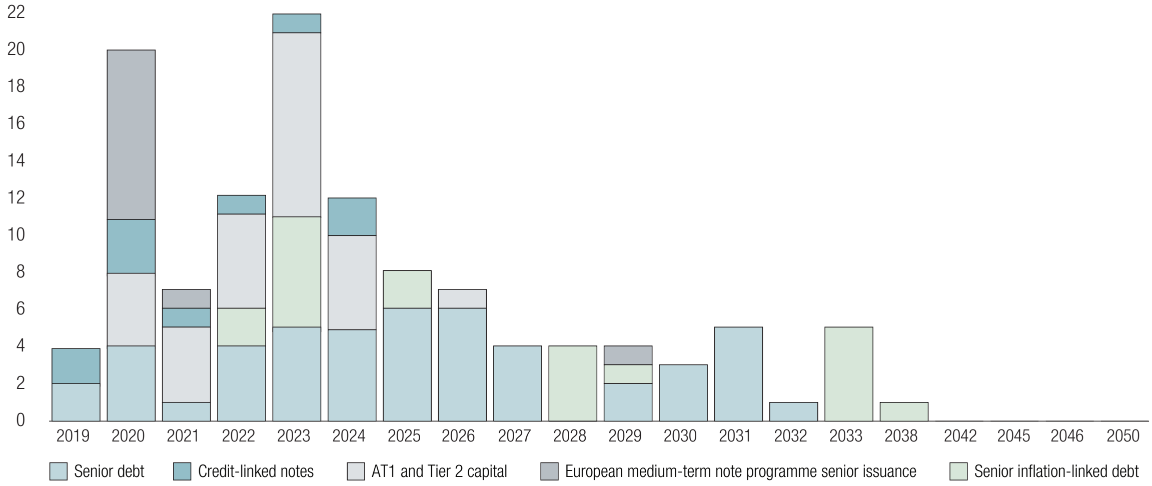
FUNDING LIABILITIES BY INSTRUMENT TYPE AND TERM



The maturity profile of the bank's capital market instruments is depicted in the following chart. The bank does not have significant instrument-specific concentration risk in any one year and seeks to efficiently issue across the maturity spectrum, taking investor demand into account.

MATURITY PROFILE OF CAPITAL MARKET INSTRUMENTS OF FIRSTRAND BANK*

R billion



* *Includes 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. Where fixed-rate commitments are undertaken (fixed-rate loans or fixed-rate deposits), transfer pricing will also include the fixed interest rate transfer. Businesses are effectively incentivised to:

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

The active management of foreign currency liquidity risk remains a strategic focus given the group's foreign currency asset strategy.

FOREIGN CURRENCY BALANCE SHEET

MotoNovo

The acquisition of Aldermore alleviates some pressure on the group's foreign currency funding capacity. Now that MotoNovo has been integrated with Aldermore, it is supported by Aldermore's funding platform. All new business will be funded via a combination of on-balance sheet deposits, wholesale and structured funding. MotoNovo's back book (originated prior to May 2019) forms part of the bank's London branch and remains funded through existing funding mechanisms. It will, over time, be run down. Consequently, the funding capacity currently allocated to MotoNovo can ultimately be redeployed into other growth strategies.

Funding and liquidity continued

Risk management approach

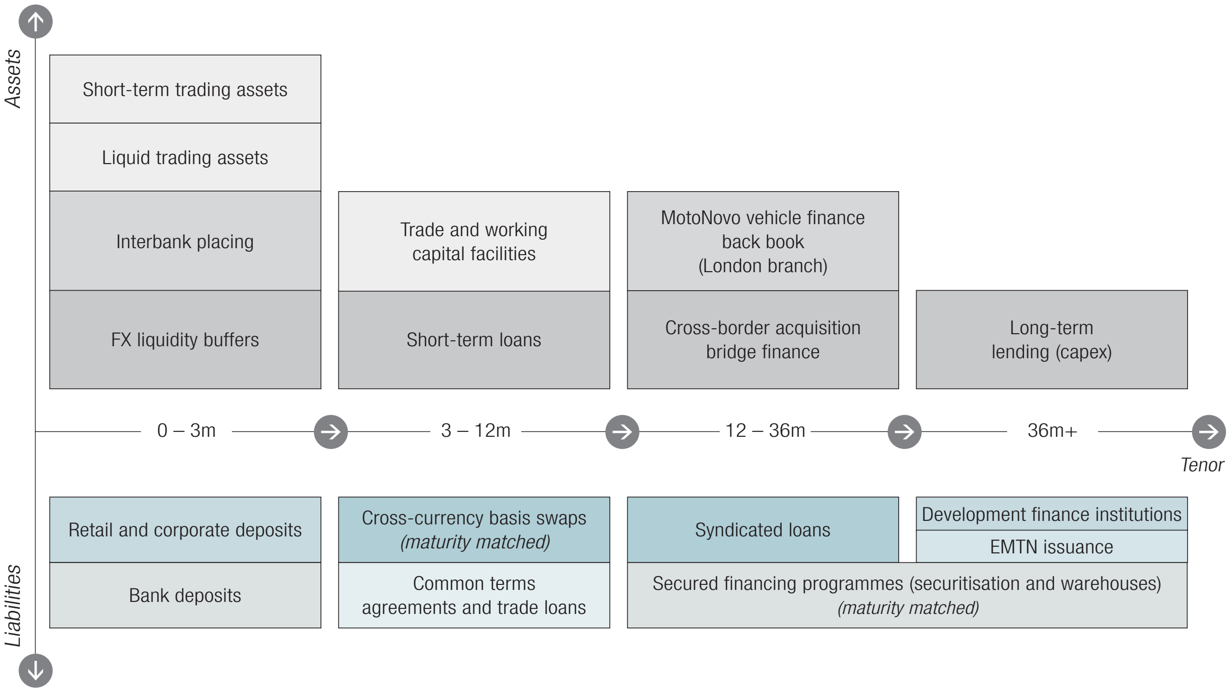
The group seeks to avoid undue liquidity risk exposure and thus maintains liquidity risk within the risk appetite approved by the board and risk committee. As an authorised dealer, the bank is subject to foreign currency macro-prudential limits as set out in the *Exchange Control Circular 6/2010*, issued by the SARB. From a risk management perspective, the group utilises its own foreign currency balance sheet measures based on its economic risk assessment and has set internal limits below those allowed by the macro-prudential limits framework. This limit applies to the group's exposure to branches, foreign currency assets and guarantees.

FirstRand's foreign currency activities, specifically lending and trade finance, have steadily increased over the past few 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.

Philosophy on foreign currency external debt

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

GRAPHICAL REPRESENTATION OF THE BANK'S FOREIGN CURRENCY BALANCE SHEET



LIQUIDITY RISK POSITION

The following table provides details on the bank's available sources of liquidity.

COMPOSITION OF LIQUID ASSETS

	As at 30 June	
R billion	**2019 IFRS 9**	2018 IAS 39
Cash and deposits with central banks	**32**	30
Government bonds and bills	**139**	109
Other liquid assets	**55**	43
Total liquid assets	**226**	182

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

The bank has continued to build its liquid asset holdings in accordance with asset growth, risk appetite and regulatory requirements.

Liquidity ratios for the bank at 30 June 2019 are summarised below.

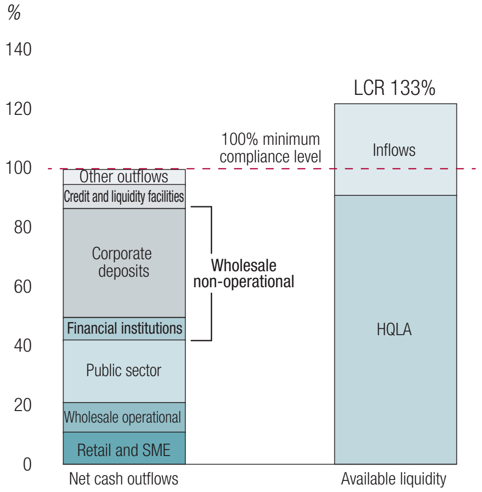
	LCR*	**NSFR**
Regulatory minimum	100%	100%
Actual**	133%	117%

* *LCR is calculated as a simple average of 91 calendar days' LCR observations over the preceding quarter.*

** *The bank's LCR and NSFR reflects its operations in South Africa only.*

The following graph illustrates the bank's LCR position at 30 June 2019.

FRB LCR (excluding foreign branches)



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

Capital

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

- Prudential requirements, including any prescribed buffer.
- Rating agencies' considerations.
- Investor expectations.
- Peer comparison.
- Strategic and organic growth plans.

- Economic and regulatory capital requirements.
- Proposed regulatory, tax and accounting changes.
- Macro environment and stress test impacts.
- Issuance of capital instruments.

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

The bank is subject to the PA's end-state minimum capital requirements, which include 100% of the capital conservation, countercyclical (CCyB) and domestic systemically important bank (D-SIB) buffer add-ons. The PA has not implemented any CCyB requirement for South African exposures, however, the bank is required to calculate the CCyB requirement on private sector exposures in foreign jurisdictions where these buffers are applicable. Effective 28 November 2018, the Prudential Regulation Authority's CCyB requirement for UK exposures stepped up to 1.0% from 0.5%. The CCyB requirement for the bank at 30 June 2019 was 5 bps, and mainly relates to the bank's UK exposures.

The PA issued Directive 5/2017, *Regulatory treatment of accounting provisions – interim approach and transitional arrangements including disclosure and auditing aspects*, which allows banks to apply a transitional phase-in of the IFRS 9 Day 1 impact for regulatory capital purposes. The Day 1 implementation on 1 July 2018 reduced the bank's CET1 ratio by 44 bps, and will be fully phased in by 1 July 2021. The bank accounted for ≈11 bps at 30 June 2019.

The bank continues to focus on economic capital (EC) to ensure it remains solvent at a specified confidence level of 99.93% and deliver on its commitment to stakeholders within a one-year time horizon. EC is defined as an internal measure of risk which estimates the amount of capital required to cover unexpected losses. For the year under review, the bank remained appropriately capitalised to meet its EC requirements.

The Basel III leverage ratio is a supplementary measure to the risk-based capital ratios, and is a function of the Tier 1 capital measure, and total on- and off-balance sheet exposures.

YEAR UNDER REVIEW

The capital and leverage ratios at 30 June 2019 exceeded the internal targets and are summarised in the following table.

CAPITAL ADEQUACY AND LEVERAGE POSITIONS

	Capital			Leverage
%	CET1	Tier 1	Total	Total
Regulatory minimum*	7.6	9.3	11.6	4.0
Internal target	10.0 – 11.0	>12.0	>14.0	>5.5
Actual**				
FRB including foreign branches	**13.4**	**14.0**	**16.8**	**7.2**
FRB excluding foreign branches	**13.2**	**13.8**	**16.8**	**6.8**

* *Excludes the bank-specific capital requirements, but includes the CCyB requirement.*

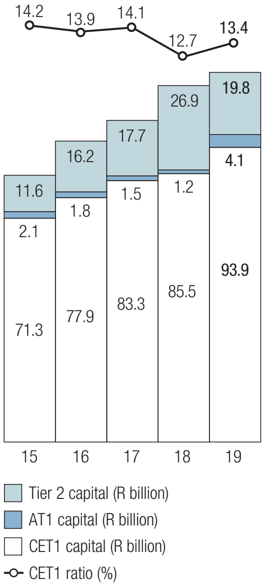
** *Includes the transitional Day 1 impact of IFRS 9, and unappropriated profits of R8.5 billion for FRB (including foreign branches). Refer to the Pillar 3 standardised disclosure templates for ratios excluding unappropriated profits (www.firstrand.co.za/investors/basel-pillar-3-disclosure/).*

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

Capital

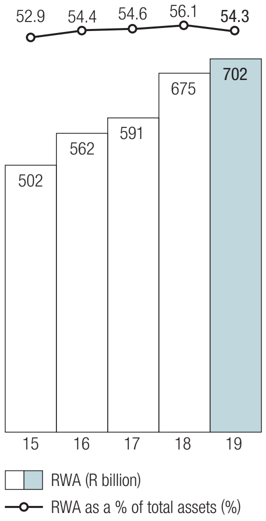
The graphs below show the historical overview of capital adequacy and RWA.

CAPITAL ADEQUACY*



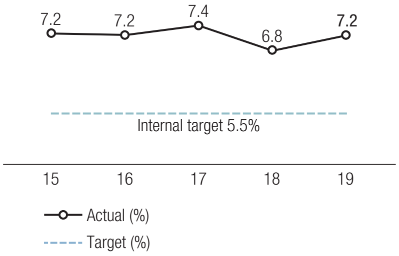
* *Includes unappropriated profits.*

RWA HISTORY



Leverage

LEVERAGE*



* *Includes unappropriated profits.*

Note: June 2015 to June 2018 is based on IAS 39 and June 2019 on IFRS 9.

Capital continued

Supply of capital

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

COMPOSITION OF CAPITAL ANALYSIS*

R million	As at 30 June **2019** **IFRS 9**	 2018 IAS 39
CET1 capital	**93 886**	85 474
Tier 1 capital	**98 006**	86 674
Total qualifying capital	**117 836**	113 637

* *Includes unappropriated profits of R8.5 billion.*

KEY DRIVERS: 2019 vs 2018

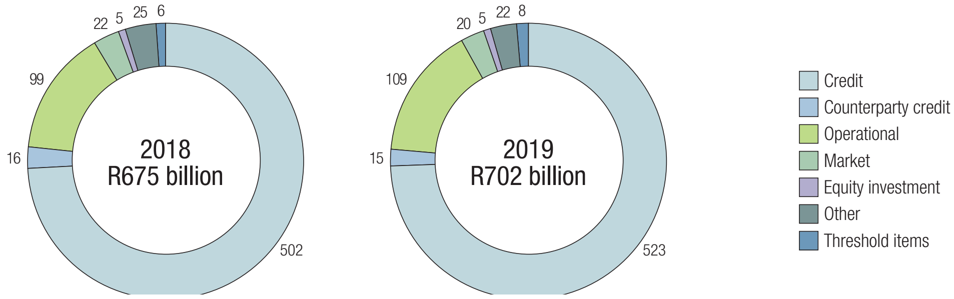
CET1	▲	→ Ongoing internal capital generation through earnings. → One-off realisation relating to Discovery transaction (±R1.5 billion) partly reduced by the Day 1 transitional impact of IFRS 9.
AT1	▲	→ AT1 issuance (R5.0 billion) during the year.
Tier 2	▼	→ Redemption of remaining old-style Tier 2 instruments (R3.2 billion) during December 2018. → Redemption of the $172.5 million Tier 2 instrument held by the International Finance Corporation in April 2019, and a R1.7 billion inaugural Basel III instrument during June 2019. → Issuance of FRB26 and FRB27 (R2.6 billion) to manage rollover of the instruments redeemed in June 2019.

Demand for capital

The charts and table below summarise the year-on-year movements.

RWA ANALYSIS

R billion



KEY DRIVERS: 2019 vs 2018		
Credit	▲	→ Organic growth, risk migration, rating changes and exchange rate movements. → Transfer of dollar exposures from the bank to RMB's Mauritius platform (in FRI).
Counterparty credit	▼	→ Decrease in volumes and mark-to-market movements.
Operational	▲	→ Recalibration of risk scenarios subject to the advanced measurement approach. → Increase in gross income for entities on standardised approach.
Market	▼	→ Decrease in volumes and mark-to-market movements.
Other assets	▼	→ Movements in accounts receivable and property, plant and equipment.
Threshold items	▲	→ Movement in deferred tax assets and investments in financial and banking entities (subject to 250% risk weighting).

Capital continued

Capital adequacy position for the bank and its foreign branches

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

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

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

RWA AND CAPITAL ADEQUACY POSITIONS OF FRB AND ITS FOREIGN BRANCHES

	As at 30 June			
	2019 IFRS 9			2018 IAS 39
	RWA R million	**Tier 1 %**	**Total capital adequacy %**	Total capital adequacy %
Basel III (PA regulations)				
FirstRand Bank*,**	**701 648**	**14.0**	**16.8**	16.8
FirstRand Bank South Africa*	**653 180**	**13.8**	**16.8**	16.7
FirstRand Bank London	**46 414**	**11.2**	**12.2**	14.8
FirstRand Bank India	**2 322**	**29.5**	**29.8**	39.9
FirstRand Bank Guernsey#	**219**	**16.7**	**16.7**	15.3

* *Includes unappropriated profits.*

** *Includes foreign branches.*

\# *Trading as FNB Channel Islands.*

Standardised disclosures

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

- Capital:
  - composition of regulatory capital;
  - reconciliation of regulatory capital to balance sheet; and
  - main features of regulatory capital instruments.
- Leverage:
  - summary comparison of accounting assets vs leverage ratio exposure measure; and
  - leverage ratio common disclosure template.
- Liquidity:
  - LCR; and
  - NSFR.

Refer to www.firstrand.co.za/investors/basel-pillar-3-disclosure/.

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

Regulatory update

BASEL III REFORMS	The Basel Committee on Banking Supervision (BCBS) finalised the Basel III reforms in December 2017, with a specific focus on reducing the variability of RWA. The BCBS has agreed on a five-year transitional period, beginning 1 January 2022. The 2017 reforms aim to address weaknesses identified during the global financial crisis, i.e. credibility of the risk-based capital framework, and introducing constraints on the estimates banks used within internal models for regulatory capital purposes. The PA further issued *Guidance Note 6 of 2018, Proposed implementation dates in respect of specified regulatory reforms*, which includes the proposed implementation dates of the outstanding Basel III regulatory reforms. The impact on the bank capital position depends on the final implementation by the PA given a level of national discretion. The bank continues to participate in the BCBS quantitative impact studies to assess and understand the impact of such reforms. The following reforms are effective 1 October 2019: → Standardised approach for counterparty credit risk (SA-CCR). → Capital requirement for banks' exposures to central counterparties. → Capital requirements for equity investment in funds. The proposed implementation dates for the revised securitisation framework and large exposures framework is April 2020.
LCR	From 2019, South African banks are required to meet an LCR requirement of 100%. To fully comply with the LCR requirement, the bank holds a diversified pool of available HQLA, which is constrained by the limited availability of these assets in the South African market. To assist the industry to comply with the LCR, the PA introduced the committed liquidity facility (CLF). For 2019, the PA has continued to provide a CLF for the industry. The PA's approach to the CLF and other related conditions for the period from 1 December 2018 to 30 November 2019 is detailed in *Guidance Note 4 of 2018*, *Continued provision of a committed liquidity facility by the South African Reserve Bank to banks (Guidance Note 4). Guidance Note 5 of 2019*, *Continued provision of a committed liquidity facility by South African Reserve Bank to banks (Guidance Note 5)*, was released on 27 August 2019, and provides revised guidelines and conditions relating to the continued provision of the CLF, specifically covering the period from 1 December 2019 to 30 November 2020. The guidance note also reiterates the SARB's intention to phase out the CLF by 1 December 2021. The CLF available to banks will begin reducing from 1 December 2019 and will be withdrawn after 1 December 2021. The PA will, in consultation with banks, investigate possible alternatives to the CLF. There can be no certainty that an alternative liquidity facility will be agreed upon or instituted.
NSFR	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 (ASF) relative to the amount of required stable funding (RSF), and came into effect from 1 January 2018. *Directive 8 of 2017, Matters related to the net stable funding ratio* (which replaced *Directive 4 of 2016*), set out the elements of national discretion exercised by the PA in relation to the calibration of the NSFR framework for South Africa. The PA, after due consideration and noting that rand funding is contained in the financial system, concluded it appropriate to apply a 35% ASF factor to deposits from financial institutions with a residual maturity of less than six months. In line with several other international regulators, the PA also provided clarity on the alignment of the LCR and NSFR, applying a 5% RSF factor to the assets net of its haircut eligible for CLF purposes. These changes are anchored in the assessment of the true liquidity risk and greatly assist the South African banking sector in meeting the NSFR requirements. The above-mentioned directives continue to remain in effect.

RESOLUTION FRAMEWORK	The draft FSLAB was published for comment by National Treasury in October 2018. In order to support the pending resolution framework, the bill proposes the necessary amendments to various acts, including the Insolvency Act, the South African Reserve Bank Act, the Banks Act, the Mutual Banks Act, the Competition Act, the Financial Markets Act and the Insurance Act, with a view to strengthening the ability of the SARB to manage the orderly resolution or winding down of a failing financial institution with minimum disruption to the broader economy. One of the key amendments included in the bill is the establishment of the Corporation of Deposit Insurance designed to protect depositors' funds and enhance financial stability. The bill is awaiting promulgation by parliament before it is enacted, but in the interim the relevant regulators are continuously engaging with industry to continue working on the design and finalisation of the outstanding elements of the resolution framework. The SARB released a discussion paper on South Africa's intended approach to bank resolution on 23 July 2019. The closing date for public comment is 31 August 2019. The discussion paper outlines the objectives of the resolution framework, and planning and conducting a resolution with an emphasis on open-bank resolution. This is applicable to systemically important institutions. The intended bank resolution provides more clarity on the regulator's approach to further enhance financial stability in the country. The discussion paper is a first draft and likely to be revised and expanded in future. Comments received on the discussion paper will assist the SARB in drafting the regulatory standards for resolution once the FSLAB is promulgated.
FINANCIAL CONGLOMERATES	The Financial Sector Regulation Act further empowers the PA to designate a group of companies as a financial conglomerate and also regulate and supervise such designated financial conglomerates. Draft standards provide an early signal to the industry and affected stakeholders on the approach to the classification, regulation and supervision of designated financial conglomerates. The expected implementation date for the standards is 2019/2020.

Credit ratings

The ratings of South Africa-based banks are constrained by the country's sovereign rating. This is due to the direct and indirect impact of sovereign distress on domestic banks' operations. The following tables summarise the credit ratings of the South African sovereign and FirstRand Bank Limited at 4 September 2019.

SOUTH AFRICAN SOVEREIGN LONG-TERM RATINGS

	Outlook	Foreign currency rating	Local currency rating
S&P	Stable	BB	BB+
Moody's	Stable	Baa3	Baa3

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

FIRSTRAND BANK LIMITED RATINGS

		Counterparty rating*		National scale rating		Standalone credit rating**
	Outlook	Long-term	Short-term	Long-term	Short-term	
S&P	Stable	BB	B	zaAA+	zaA-1+	bbb-
Moody's	Stable	Baa3	P-3	Aaa.za	P-1.za	baa3

* *Relates to the issuer credit rating for S&P, and long-term bank deposit ratings for Moody's.*

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

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

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

04

presentation and reconciliations

Presentation

NORMALISED RESULTS

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

All normalised entries, as included and described in the analysis of financial results for the year ended 30 June 2018, remain unchanged following the adoption of IFRS 9, except for the reclassification of an impairment on a restructured advance. Before the adoption of IFRS 9, gross advances and impairment of advances included an amount in respect of a wholesale advance that was restructured to an equity investment. The restructure resulted in the bank obtaining significant influence over the counterparty and an investment in associate was recognised. However, for normalised reporting, the amount was classified as an advance rather than an investment in an associate. Given that sufficient time has elapsed since the restructure, credit risk is now considered insignificant. The exposure is therefore deemed an equity investment rather than an advance and therefore, on adoption of IFRS 9, the amount is no longer adjusted for normalised reporting.

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

DESCRIPTION OF DIFFERENCE BETWEEN NORMALISED AND IFRS RESULTS

Margin-related items included in fair value income

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

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

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

IAS 19 Remeasurement of plan assets

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

Cash-settled share-based payments and the economic hedge

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

In terms of IFRS 9 the TRS is accounted for as a derivative instrument at fair value with the full fair value change recognised in NIR.

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

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

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

Headline earnings adjustments

All adjustments required by *Circular 04/2018 Headline Earnings* in calculating headline earnings are included in normalised earnings on a line-by-line basis based on the nature of the adjustment.

The description and the amount of these adjustments are provided in the reconciliation between headline earnings and IFRS profit on page A117.

Statement of headline earnings – IFRS

for the year ended 30 June

R million	**2019 IFRS 9**	2018 IAS 39	% change
Profit for the year (refer to page C83)	**23 069**	20 517	12
Other equity instruments	**(425)**	(234)	82
Earnings attributable to ordinary equityholders	**22 644**	20 283	12
Adjusted for	**(1 475)**	(207)	>100
Gain on investment activities of a capital nature*	**(1 928)**	(29)	
Gain on disposal of available-for-sale assets	**–**	(144)	
Gain on the disposal of property and equipment	**(53)**	(9)	
Impairment of intangible assets	**63**	–	
Impairment of assets in terms of IAS 36	**19**	–	
Other	**–**	(31)	
Tax effects of adjustments	**424**	6	
Headline earnings	**21 169**	20 076	5

* *Includes the impact of the gain on the Discovery transaction of c.R1.9 billion (c.R1.5 billion after tax).*

Reconciliation from headline to normalised earnings

for the year ended 30 June

R million	**2019 IFRS 9**	2018 IAS 39	% change
Headline earnings	**21 169**	20 076	5
Adjusted for	**(17)**	94	(>100)
TRS and IFRS 2 liability remeasurement*	**80**	(56)	(>100)
Private equity-related realisations	**–**	259	(100)
IAS 19 adjustment	**(97)**	(109)	(11)
Normalised earnings	**21 152**	20 170	5

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

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

In the current year, FirstRand's share price increased R4.66 in the current year and R16.74 in the prior year.

This resulted in a mark-to-market fair value volatility year-on-year being included in the bank's IFRS attributable earnings. The normalised results reflect the adjustment to normalise this year-on-year IFRS fair value volatility from the TRS, as described in more detail on page A116.

Reconciliation of normalised to IFRS summary income statement

for the year ended 30 June 2019 IFRS 9

R million	**Normalised**	Margin-related items included in fair value income	IAS 19 adjustment	Headline earnings	TRS adjustment	**IFRS**
Net interest income before impairment of advances	**46 935**	454	–	–	81	**47 470**
Impairment charge	**(8 460)**	–	–	–	–	**(8 460)**
Net interest income after impairment of advances	**38 475**	454	–	–	81	**39 010**
Non-interest revenue	**34 681**	(454)	–	1 981	(156)	**36 052**
Income from operations	**73 156**	–	–	1 981	(75)	**75 062**
Operating expenses	**(43 715)**	–	135	(82)	(37)	**(43 699)**
Income before indirect tax	**29 441**	–	135	1 899	(112)	**31 363**
Indirect tax	**(829)**	–	–	–	–	**(829)**
Profit before income tax	**28 612**	–	135	1 899	(112)	**30 534**
Income tax expense	**(7 035)**	–	(38)	(424)	32	**(7 465)**
Profit for the year	**21 577**	–	97	1 475	(80)	**23 069**
Attributable to						
Other equity instrument holders	**(425)**	–	–	–	–	**(425)**
Ordinary equityholders	**21 152**	–	97	1 475	(80)	**22 644**
Headline and normalised earnings adjustments	**–**	–	(97)	(1 475)	80	**(1 492)**
Normalised earnings attributable to ordinary equityholders of the bank	**21 152**	–	–	–	–	**21 152**

Reconciliation of normalised to IFRS summary income statement

for the year ended 30 June 2018 IAS 39

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

B

summary risk and capital management report

summary risk and capital management report

B

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

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

Risk reporting

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

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

The group has made significant commitment to and investment in the implementation of *The principles for effective risk data aggregation and risk report* (BCBS 239), and remains committed to ensure implementation of the principles in line with the scope and timelines agreed with the PA.

Risk governance

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

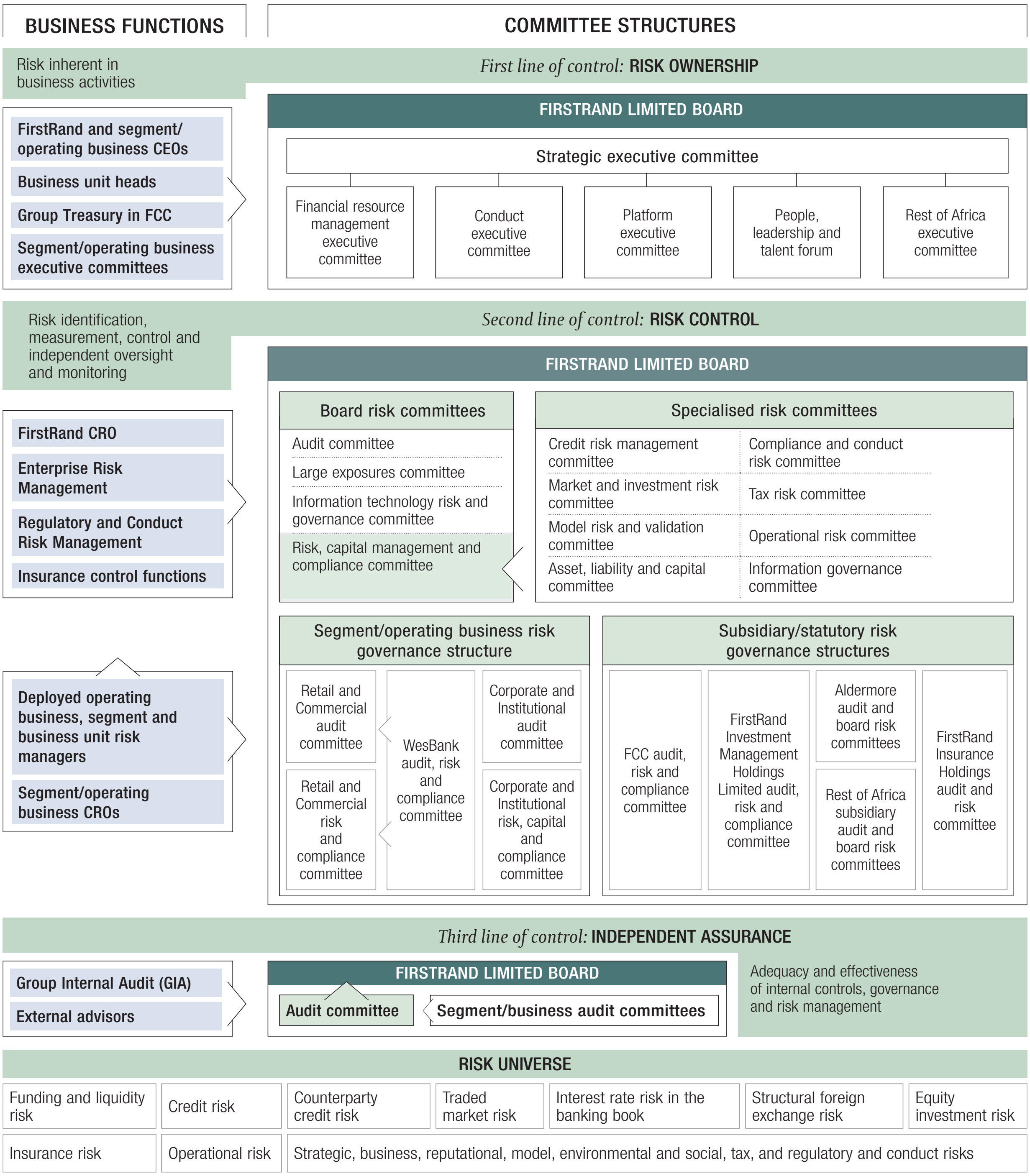
The group's business performance and risk management framework (BPRMF) describes the group's risk management structure and approach to risk management. Effective risk management requires multiple points of control or safeguards that should consistently be applied at various levels throughout the organisation.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

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

Other board committees also exist, with clearly defined responsibilities. The group board committees comprise members of business advisory boards, and audit and risk committees to ensure a common understanding of the challenges businesses face and how these are addressed across the group. The segment audit, risk and compliance committees support the board risk committees and RCC subcommittees in the third line of control across the group.

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

BUSINESS PERFORMANCE AND RISK MANAGEMENT FRAMEWORK

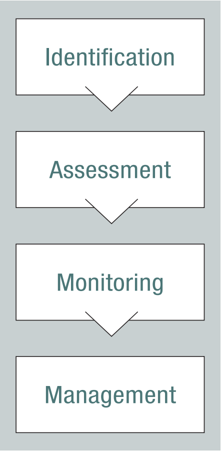


Risk management approach

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

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

CORE RISK COMPETENCIES



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

Risk taking is an essential part of the group's business and FirstRand explicitly recognises core risk competencies as necessary and important differentiators in the competitive environment in which it operates. These core risk competencies include identifying, assessing, monitoring and managing risk, and are integrated in all management functions and business areas across the group.

The risk management process provides the checks and balances necessary to ensure sustainability and performance, create opportunity, achieve desired objectives, and avoid adverse outcomes and reputational damage.

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

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

Risk appetite

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

RETURN AND RISK APPETITE STATEMENT

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

The risk/return framework ensures the group maintains an appropriate balance between risk and reward. Return targets and risk appetite limits are set to ensure the group achieves its overall strategic objectives, namely to:

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

The group's strategic objectives and financial targets frame its risk appetite in the context of risk, reward and growth, and contextualise the level of reward the group expects to deliver to its stakeholders under normal and stressed conditions for the direct and consequential risks it assumes in the normal course of business.

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

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

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

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

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

The group cascades overall appetite into targets and limits at risk type, business and activity level, and these represent the constraints the group imposes to ensure its commitments are attainable. Risk management roles and responsibilities are outlined in the BPRMF.

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

RISK/RETURN FRAMEWORK

QUANTITATIVE MEASURES

Normal cycle

Performance targets

Returns	ROE **18% – 22%**
Earnings growth	Normalised earnings growth **Nominal GDP plus >0% – 3%**

Resource objectives and constraints

Solvency	CET1 capital **10% – 11%**	Leverage **>5.5%**
Liquidity	To exceed minimum regulatory requirements with appropriate buffers	

Credit rating*:
Equal to highest in SA banking industry

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

Normal downturn and stressed downturn

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

RISK LIMITS

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

QUALITATIVE PRINCIPLES

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

Financial resource management

The management of the group's financial resources, which it defines as capital, funding and liquidity, and risk capacity, is a critical enabler of the achievement of FirstRand's stated growth and return targets, and is driven by the group's overall risk appetite.

Forecast growth in earnings and balance sheet RWA is based on the group's macroeconomic outlook and evaluated against available financial resources, considering the requirements of capital providers, regulators and rating agencies. The expected outcomes and constraints are then stress tested, and the group sets targets for different business cycles and scenarios to enable FirstRand to deliver on its commitments to stakeholders at a defined confidence level.

The management of the group's financial resources is executed through Group Treasury and is independent of the operating businesses. This ensures the required level of discipline is applied in the allocation and pricing of financial resources. This also ensures that Group Treasury's mandate is aligned with the portfolio's growth, return and volatility targets to deliver shareholder value. The group continues to monitor and proactively manage a fast-changing regulatory environment, competitive landscape 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 self-imposed structural borrowing and liquidity risk limits, which are more onerous than required in terms of regulations. The group's philosophy is that, in the longer term, foreign currency assets should be supported by foreign currency liabilities, primarily in the same jurisdiction. It aligns with one of the group's strategic priorities to increase diversification by jurisdiction, which is evidenced by the integration of the MotoNovo business with Aldermore Group in the UK, as well as the utilisation of the RMB International Mauritius platform for the group's rest of Africa dollar exposures.

Despite increasing competition, the group believes that its disciplined and dynamic approach to financial resource management provides it with the ability to further enhance the value proposition to customers and optimally utilise platforms across the group to deliver on commitments to stakeholders.

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

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

Business activities and resultant risks

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

	FNB	RMB	WesBank	Aldermore	ASHBURTON INVESTMENTS	FCC
Key activities	**Retail and commercial banking, insurance, and wealth and investment management**	**Corporate and investment banking**	**Instalment finance and short-term insurance (VAPS*)**	**Asset and invoice finance, commercial and residential mortgages, vehicle asset finance and deposit taking**	**Asset management**	**Group-wide functions**
Market segments	→ Consumer → Small business → Agricultural → Medium corporate → Public sector	→ Financial institutions → Large corporates → Public sector	→ Retail, commercial and corporate	→ Retail and commercial	→ Retail and institutional	→ Institutional (and internal/ intragroup)
Products and services	→ Transactional → Deposit taking → Mortgage and personal loans → Credit and debit cards → Investment products → Insurance products (funeral, risk, credit life) → Card acquiring → Credit facilities → Connect (MVNO**) → Wealth and investment management	→ Advisory → Structured finance → Markets and structuring → Transactional banking → Deposit taking → Principal investing solutions and private equity	→ Asset-based finance → Full maintenance leasing → Personal loans → VAPS (short-term insurance)	→ Asset finance → Invoice finance → Commercial, buy-to-let and residential mortgages → Vehicle asset finance (MotoNovo) → Deposits	→ Traditional and alternative investment solutions	→ Group asset/ liability management → Funding and liquidity management → Funding instruments → Capital management → Capital issuance → Foreign exchange management → Tax risk management
Risks#	Retail and commercial credit risk Insurance risk	Corporate and counterparty credit risk Traded market risk	Retail, commercial and corporate credit risk	Retail and commercial credit risk Interest rate risk in the banking book Funding and liquidity risk		Interest rate risk in the banking book Funding and liquidity risk Structural foreign exchange risk
	Equity investment risk					
	Operational risk					
Other risks	Strategic, business, reputational, model, environmental and social, tax, regulatory and conduct risks					

* *Value-added products and services.*
** *Mobile virtual network operator.*
# *For risk definitions refer to pages B14 to B16.*

Risk profile

GROWTH AND RETURNS

At 30 June 2019, the bank increased normalised earnings 5% to R21 152 million (2018: R20 170 million) and achieved an ROE of 23.7% (2018: 23.4%). Refer to section A for a detailed overview of the bank's financial performance.

	YEAR ENDED 30 JUNE 2019	RETURN AND RISK APPETITE QUANTITATIVE MEASURES	YEAR UNDER REVIEW
SOLVENCY	**Capital adequacy** 16.8% 2018: 16.8%	**Capital adequacy** Target >**14%**	The Common Equity Tier 1 (CET1) ratio strengthened to 13.4% at 30 June 2019 and exceeded the bank's internal targets. The bank continues to actively manage its capital stack, and to this end issued R5 billion of Additional Tier 1 (AT1) instruments and R2.6 billion of Tier 2 instruments in the domestic market. This resulted in an efficient capital structure, which is closely aligned with the bank's internal targets. The Basel III leverage ratio is a supplementary measure to the risk-based capital ratios, and is a function of the Tier 1 capital measure, and total on- and off-balance sheet exposures. The bank's leverage ratio exceeded its internal targets.
	Tier 1 14.0% 2018: 12.8%	**Tier 1** Target >**12%**	
	CET1 13.4% 2018: 12.7%	**CET1** Target **10% – 11%**	
	Leverage 7.2% 2018: 6.8%	**Leverage** Target >**5.5%**	

Note: Capital and leverage ratios include unappropriated profits and the Day 1 transitional impact of IFRS 9.

LIQUIDITY	**LCR** 133% 2018: 118%	**LCR** Minimum regulatory requirement: **100%** 2018: 90%	The bank continued to actively manage liquidity buffers through high-quality, highly liquid assets that are available as protection against unexpected liquidity stress events or market disruptions. As of 1 January 2019, the liquidity coverage ratio (LCR) requirement stepped up to the end-state minimum requirement of 100% from 90%. The bank exceeded the minimum LCR with an average LCR of 133% over the quarter ended 30 June 2019. At 30 June 2019, bank's average available high-quality liquid assets (HQLA) holdings amounted to R226 billion.
	NSFR 117% 2018: 111%	**NSFR** Minimum regulatory requirement: **100%**	The bank exceeded the 100% minimum requirement with a net stable funding ratio (NSFR) of 117% at 30 June 2019.

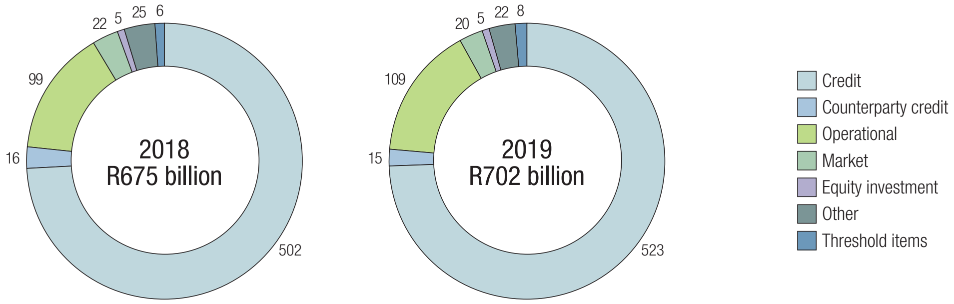
	YEAR ENDED 30 JUNE 2019	RETURN AND RISK APPETITE QUANTITATIVE MEASURES	YEAR UNDER REVIEW
EXPOSURES PER RISK TYPE	**Credit risk**	**NPLs** **3.71%** 2018 (IAS 39): 2.47% 1 July 2018 (IFRS 9): 3.01% **Credit loss ratio** **95 bps** 2018: 80 bps* Long-run average **100 – 110 bps**	IFRS 9 contributed a material increase in NPLs mainly due to: → the lengthening of the write-off period from six to 12 months, particularly in unsecured; and → a more stringent definition for customer rehabilitation (technical cures). These IFRS 9-related changes, particularly the lengthening of the write-off period, accounted for more than half of the growth in NPLs. The underlying credit performance is captured under the operational NPLs definition. Taking into account the above context, total NPLs have increased 32% or R8 326 million since 1 July 2018, with operational NPLs increasing 24%. The increase in operational NPLs reflects strong book growth in certain unsecured portfolios, as well as macro pressures in some sectors affecting WesBank corporate, and drought-related impacts in FNB commercial's agric portfolio whilst RMB corporate and investment banking (CIB) was impacted by the migration of certain counters in distressed industries (up >100%). The increase in operational NPLs is within expectations and trend rate, given growth in underlying advances. The bank's credit loss ratio of 95 bps increased 27% and remains below the bank's through-the-cycle (TTC) range of 100 – 110 bps. Most of the bank's lending books are trending in line with expectations.
	Market risk	**10-day expected tail loss** **R582 million** 2018: R338 million	The interest rate risk asset class represents the most significant traded market risk exposure at 30 June 2019. The bank's market risk profile remained within risk appetite.
	Interest rate risk in the banking book	**Net interest income sensitivity** **Down 200 bps** **-R3.7 billion** 2018: -R3.0 billion **Up 200 bps** **R3.1 billion** 2018: R2.6 billion	Assuming no change in the balance sheet nor any management action in response to interest rate movements, an instantaneous, sustained parallel 200 bps decrease in interest rates would result in a reduction in projected 12-month NII of R3.7 billion. A similar increase in interest rates would result in an increase in projected 12-month NII of R3.1 billion. The bank's average endowment book was R230 billion for the year.

* *IAS 39 basis.*

The bank's RWA distribution shows that credit risk remains the most significant contributor to the bank's overall risk profile, and is depicted in the charts below.

RWA ANALYSIS

R billion



Current and emerging challenges and opportunities

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

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

FINANCIAL RISKS

CURRENT AND EMERGING CHALLENGES	OPPORTUNITIES AND RISK MANAGEMENT FOCUS AREAS
Funding, liquidity and capital	
→ The current environment of increasing cost and scarcity of financial resources, and potential for global financial market volatility, poses risks for FirstRand's funding, liquidity and capital profile. → The PA regulatory minimum capital requirements, which include buffer add-ons for the D-SIB, the CCyB and the capital conservation requirements, are incorporated in the targets set for the group. Regulatory reforms, including proposed Basel III reforms, may pose further risks for required capital levels.	→ The bank continues to focus on growing its deposit franchise through innovative products, as well as to focus on improving the risk profile of its institutional funding. → The bank continued to exceed internal capital targets with ongoing focus on optimising the capital stack and RWA. → The impact of the proposed regulatory reforms continues to be assessed and incorporated into the bank's capital planning.
Credit and counterparty credit risk	
→ Credit risk remains high due to a macroeconomic environment characterised by low economic growth, structural constraints, high structural unemployment, and rising income and wealth disparities. → Credit and counterparty credit risks are impacted by the sovereign rating, policy uncertainty and financial distress of several large SOEs. → Consumers are expected to experience increased strain due to prolonged periods of muted economic growth. → The impact of climate risk on the bank's lending book and pressure on the agricultural sector increase default risk for climate-sensitive areas. → Client risk due to breakdowns in clients' governance processes and fraud are difficult to detect and manage through the credit process.	→ Despite challenging economic conditions, the bank is benefiting from prudent risk mitigation measures in place. → Developments in the corporate and public sector are closely monitored and managed. → The group reviews risk appetite and credit origination strategies on an ongoing basis. → Sovereign rating actions are also monitored, together with the ratings of associated entities, with proactive revisions, where required. → Continued focus on validation and refinement of IFRS 9 models (which came into effect on 1 July 2018). → The group is finalising the implementation of regulatory requirements with regards to the standardised approach for counterparty credit risk (SA-CCR).
Traded market risk	
→ The market risk environment continues to be affected by economic conditions and the political environment, which impact exchange rates, interest rates, and equity and commodity prices. → The group's overall diversified levels of market risk increased over the year, although they still remain within limits. There were no significant concentrations in the portfolio. → Impending changes to the regulatory environment outlined in the BCBS document, *Fundamental review of the trading book,* will impact banks' operating platforms.	→ The group is reviewing and adapting the current operating platform for market risk activities, including platform capabilities across both front office and risk management areas, and aligning market risk processes, analyses and reporting in line with changes in regulatory requirements. → The BCBS document, *Fundamental review of the trading book,* remains a priority and the group continues to work with both regulators and the banking industry to understand, draft and implement these regulations.
Interest rate risk in the banking book and structural foreign exchange risk	
→ The SARB increased interest rates by 25 bps in November 2018, followed by a 25 bps decrease in July 2019. → Inflation remains at relatively low levels and continues to be actively monitored.	→ The group is addressing the new BCBS requirements for interest rate risk in the banking book. → The endowment portfolio is actively managed. → The bank monitors its net open foreign currency position against limits, assesses and reviews foreign exchange exposures and continues to focus on enhancing the quality and frequency of reporting.

NON-FINANCIAL RISKS

CURRENT AND EMERGING CHALLENGES	OPPORTUNITIES AND RISK MANAGEMENT FOCUS AREAS
Operational, IT and information governance risk	
→ Operational risk is driven by the complex IT environment; the growing sophistication of cybercrime; the interplay between cyber-risk, fraud and the effect on reputational risk; operational challenges in meeting various new regulatory requirements across multiple jurisdictions; the risk of process breakdowns in manually intensive process environments; industry-wide payments risk and organisational change. → The impact of external factors on business operations, such as disruptive protest actions and the threat of electricity supply interruptions, pose a risk to operations and require management to continuously review contingency plans to ensure minimal business disruption. → Increased business digitisation (including robotics, artificial intelligence and cloud computing) introduces additional risks due to the demand and speed of digital technology adoption, which the group must be in a position to speedily identify and mitigate. → Global demand for critical IT resources across industries poses a challenge to attracting and retaining the best IT skills. → Key vendor dependency and possible undesirable conduct of vendors may increase reputational risk and require management to monitor vendor interaction more rigorously.	→ Continue to address possible control weaknesses, ongoing improvements in system security, IT risk processes and operational business resilience capability. → Efforts to improve staff and customer awareness of cybercrime and information security are ongoing. → Develop an integrated group cybercrime strategy and cyber incident response planning and testing. → Continue to improve risk data management, aggregation and reporting. → Align IT risk management practices with changing business models and technological landscape. → Enhance vendor risk management processes throughout the vendor life cycle. → Improve information management capabilities and the control environment, and roll out awareness programmes on records management, data quality and data privacy management.
Regulatory and conduct risk	
→ Regulatory and conduct risk management is impacted by the changing regulatory landscape and the ongoing introduction of new and/or amended legislation and related regulatory instruments, which places pressure on resources which could impact profitability over the medium to long term. → Heightened scrutiny and monitoring by regulators and other stakeholders on regulatory compliance and ethical conduct.	→ Continue to make significant investments in people, systems and processes to manage risks emanating from the large number of new and amended local and international regulatory requirements, market conduct reforms, data privacy and financial crime legislation. → Focus on monitoring the risk culture with clear prevention and remediation frameworks. → Develop conduct risk programmes that are focused on defining key business metrics and materiality thresholds which are sufficiently noteworthy for board-level reporting. Undertake review exercises to evaluate internal practices against best practice recommendations in the Australian Royal Commission report. Undertake product and pricing and remuneration model reviews.

Disclosure of key risks

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

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

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

FINANCIAL RISKS

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

FINANCIAL RISKS continued

RISK TYPE	RISK DEFINITION	DISCLOSURE REQUIREMENT	REPORT REFERENCES
Non-traded market risk		→ IFRS 7 quantitative information	FRB annual financial statements
→ Interest rate risk in the banking book → Structural foreign exchange risk	The sensitivity of a bank's financial position and earnings to unexpected, adverse movements in interest rates. The risk of an adverse impact on the bank's financial position and earnings or other key ratios as a result of movements in foreign exchange rates impacting balance sheet exposures.	→ Governance, assessment and management → NII sensitivity → Banking book net asset value (NAV) sensitivity → Net structural foreign exposures	Group Pillar 3 disclosure
Equity investment risk	The risk of an adverse change in the fair value of an investment in a company, fund or listed, unlisted or bespoke financial instruments.	→ IFRS 7 quantitative information	FRB annual financial statements
		→ Governance, assessment and management → Investment risk exposure, sensitivity and capital	Group Pillar 3 disclosure
Tax risk management	Tax risk is defined as the risk of: → financial loss due to the final determination of the tax treatment of a transaction by revenue authorities being different from the implemented tax consequences of such a transaction, combined with the imposition of penalties; → sanction or reputational damage due to non-compliance with the various revenue acts; and/or → the inefficient use of available mechanisms to benefit from tax dispensations. Accordingly, any event, action or inaction in the strategy, operations, financial reporting or compliance that either adversely affects the entity's tax or business position, or results in unanticipated penalties, assessments, additional taxes, harm to reputation, lost opportunities or financial statement exposure is regarded as tax risk.	→ Pillar 3 disclosure requirements	Group Pillar 3 disclosure

NON-FINANCIAL RISKS

RISK TYPE	RISK DEFINITION	DISCLOSURE REQUIREMENT	REPORT REFERENCES
Operational risk	The risk of loss resulting from inadequate or failed internal processes, people, or systems, or from external events. It includes fraud and criminal activity (internal and external), project risk, legal risk, business continuity, information and IT risk, process and human resources risk. Strategic, business and reputational risks are excluded from the definition.	→ Assessment and management → Pillar 3 disclosure requirements	Group Pillar 3 disclosure
Regulatory risk	The risk of statutory or regulatory sanction, material financial loss or reputational damage as a result of failure to comply with any applicable laws, regulations or supervisory requirements.	→ Assessment and management → Pillar 3 disclosure requirements	Group Pillar 3 disclosure
Conduct risk	Conduct risk arises when employees and directors behave in a manner that would not be considered fair to other employees, financial market participants, clients or other societal stakeholders.	→ Assessment and management → Pillar 3 disclosure requirements	Group Pillar 3 disclosure
Strategic risk	The risk to current or prospective earnings arising from inappropriate business models, decisions or improper implementation of such decisions.	→ Assessment and management → Pillar 3 disclosure requirements	Group Pillar 3 disclosure
Business risk	The risk to earnings, capital and sustainability from potential changes in the business environment, as well as planned new business and expansion activities.	→ Assessment and management → Pillar 3 disclosure requirements	Group Pillar 3 disclosure
Model risk	The use of models causes model risk, which is the potential for adverse consequences from decisions based on incorrect or misused model outputs and reports. Model risk can lead to financial losses, poor business and strategic decision-making, or damage to the group's reputation.	→ Assessment and management → Pillar 3 disclosure requirements	Group Pillar 3 disclosure
Reputational risk	The risk of reputational damage due to events such as compliance failures, pending litigations, underperformance or negative media coverage.	→ Assessment and management → Pillar 3 disclosure requirements	Group Pillar 3 disclosure
Environmental and social risk	Relates to environmental, social and climate risks, which may impact or result from various other risk types.	→ Governance and assessment	The environmental and social risk report on www.firstrand.co.za/society/firstrand-contract-with-society/.

In terms of Regulation 43 of the *Regulations relating to banks*, the standardised disclosures are published on the group's website at www.firstrand.co.za/investors/basel-pillar-3-disclosure/.

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annual financial statements

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annual financial statements

DIRECTORS’ RESPONSIBILITY STATEMENT AND APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

TO THE SHAREHOLDER OF FIRSTRAND BANK LIMITED

The directors of FirstRand Bank Limited (the bank) are responsible for the preparation and fair presentation of the annual financial statements comprising the statement of financial position, income statement, and statements of comprehensive income, changes in equity and cash flows, and the notes to the annual financial statements as at 30 June 2019. These annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), including interpretations issued by the IFRS Interpretations Committee, the Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, the JSE Listings Requirements, and the requirements of the Companies Act no 71 of 2008.

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

In preparing the annual financial statements, suitable accounting policies in accordance with IFRS have been applied and reasonable judgements and estimates have been made by management. The financial statements incorporate full and responsible disclosure in line with the bank’s philosophy on corporate governance. In the current financial year, the bank adopted IFRS 9 – Financial Instruments and IFRS 15 – Revenue from contracts with customers. Refer to accounting policy 10 for further detail on the impact of these new accounting standards on the bank.

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

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

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

The directors have reviewed the bank's budgets and flow of funds forecasts and considered the bank's ability to continue as a going concern in light of current and anticipated economic conditions. On the basis of this review, and in light of the current financial position and profitable trading history, the directors are satisfied that the bank has adequate resources to continue in business for the foreseeable future. The going concern basis, therefore, continues to apply and has been adopted in the preparation of the annual financial statements. It is the responsibility of the bank's independent external auditors, Deloitte & Touche and PricewaterhouseCoopers Inc, to report on the fair presentation of the financial statements. These financial statements have been audited in terms of section 29(1) of the Companies Act 71 of 2008. Their unmodified report appears on page C9.

The annual financial statements of the bank, which appear on pages C6 to C244, and the summary risk and capital management report, which appear on section B, were approved by the board of directors on 4 September 2019.

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

Sandton

4 September 2019

AUDIT COMMITTEE REPORT

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

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

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

During the year, the committee approved the rotation of the PricewaterhouseCoopers Inc (PwC) lead partner, Johannes Grosskopf, who replaced Francois Prinsloo in terms of Section 92 of the Companies Act, 71 of 2008, which states that the same individual may not serve as the auditor or designated auditor of a company for more than five consecutive financial years. Additional independence assessments of the lead partners, including that of the incoming PwC lead partner were performed.

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

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

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

Signed on behalf of the group audit committee:

GG Gelink
Chairman, audit committee

Sandton

4 September 2019

COMPANY SECRETARY'S CERTIFICATION

Declaration by the company secretary in respect of section 88 (2) (e) of the Companies Act

I declare that, to the best of my knowledge, the company has lodged with the Commissioner of the Companies and Intellectual Property Commission all such returns and notices as are required of a public company in terms of the Companies Act and that all such returns and notices are true, correct and up to date.

C Low
Company secretary

Sandton

4 September 2019

DIRECTORS' REPORT

NATURE OF BUSINESS

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

REVIEW OF OPERATIONS

Profit after tax amounted to R23 069 million (2018: R20 517 million). The operating results and the state of affairs of the company are fully disclosed in the annual financial statements.

DIVIDENDS AND DISTRIBUTIONS ON OTHER EQUITY INSTRUMENTS

Ordinary cash dividends of R12 645 million were paid during the 2019 financial year (2018: R16 508 million).

Distributions of R483 million were made on other equity instruments (2018: R234 million). Current tax of R58 million (2018: nil) relating to the AT1 instruments was recognised directly in equity resulting in an aggregated net equity impact of R425 million (2018: R234 million).

SHARE CAPITAL

Ordinary share capital

Details of FirstRand Bank Limited's share capital are presented in note 23 of the annual financial statements. There were no changes to authorised or issued ordinary share capital during the year.

Preference share capital

During the financial year, the non-cumulative non-redeemable preference shares were converted to non-cumulative redeemable preference shares. After the conversion, all the shares were redeemed at their carrying amount of R3 billion.

SHAREHOLDER ANALYSIS

FirstRand Limited (FSR - JSE share code) holds 100% of FirstRand Bank issued share capital.

DIRECTORATE AND PRESCRIBED OFFICER

Changes to the directorate are listed on section A.

EVENTS DURING 2019

MotoNovo transfer

During April 2019, FirstRand Bank Limited transferred the operations of its MotoNovo business unit to MotoNovo Finance Limited, a subsidiary of Aldermore Group plc, a fellow subsidiary of the bank. Details of the transfer can be found in note 27 of these annual financial statements.

Discovery card

FirstRand received the final consideration for the Discovery card transaction on 21 November 2018, with a resultant after-tax profit of ±R2.3 billion for the FirstRand group, of which approximately R1.5 billion is attributable to the bank. This resulted in attributable earnings increasing 12% for the year. However, given the non-operational nature of the profit, it was excluded from headline and normalised earnings. At 30 June 2019, FCC included Discovery card advances with a gross value of R4.3 billion, which will be transferred at carrying value.

These advances do not meet the requirements to be classified as a disposal group held for sale.

Issue of Additional Tier 1 instruments

During the financial year, FirstRand Bank issued Basel III compliant Additional Tier 1 Capital Notes. Details of the instruments can be found in note 23 of the annual financial statements.

Events after reporting period

There were no significant events that occurred between the end of the reporting period and the issue of the annual financial statements.

INDEPENDENT AUDITORS' REPORT

To the shareholder of FirstRand Bank Limited

Report on the audit of the financial statements

Opinion

We have audited the financial statements of FirstRand Bank Limited set out on pages C17 to C244, which comprise the statement of financial position as at 30 June 2019, and the income statement and the statement of other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of FirstRand Bank Limited (the Company) as at 30 June 2019, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act of South Africa.

Basis for Opinion

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

We are independent of the Company in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (Revised January 2018), parts 1 and 3 of the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (Revised November 2018) (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) respectively. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Key audit matter	How the matter was addressed in the audit
Valuation of complex financial instruments which are subject to judgement The valuation of complex financial instruments in terms of IFRS 13-*Fair value measurement (IFRS 13),* requires significant judgement by management in the application of valuation methodologies as well as the determination of key assumptions relating to inputs other than unadjusted quoted prices in active markets that the Company can access at measurement date. Such assumptions include unobservable inputs (inclusive of projected cash flows) and the consideration of recent market developments in valuation methodologies relating to the impact of counterparty and own credit risk, regulation and funding costs. The financial instruments impacted by these judgemental assumptions include: ● Advances carried at fair value; ● Complex derivative financial instruments (level 2 and 3); and ● Investment securities valued with reference to unobservable inputs. As the impact of these assumptions on the valuation of the related financial instruments significantly affects the measurement of profit and loss and disclosures of financial risks in the financial statements, the valuation of complex financial instruments was considered a matter of most significance to our audit. The related disclosures in the financial statements are included in note 26 – Fair value measurements.	Our audit of the valuation of complex financial instruments which required judgemental areas included, inter alia, the following audit procedures which were performed with the assistance of our valuation experts: ● We tested the design, implementation and operating effectiveness of the relevant financial reporting controls as well as the general and application computer controls relating to valuations; ● We evaluated the technical appropriateness and accuracy of valuation methodologies (including key assumptions made and modelling approaches adopted) applied by management with reference to market practice, practical constraints on the ability to apply the methodologies to the instruments being valued and for consistency with prior periods; ● For a sample of complex financial instruments we independently recalculated the fair values; ● We assessed the appropriateness and sensitivity of unobservable market rates, projected cash flows and valuation adjustments with reference to the best available independent information; and ● We assessed the completeness, accuracy and adequacy of the disclosures against the requirements of IFRS 13. Based on the procedures described above, our audit evidence supported management's assumptions used in the valuation of complex financial instruments which are subject to judgement.
Impairment of advances The Company has adopted *IFRS 9-Financial Instruments* (IFRS 9) for the first time, from 1 July 2018. IFRS 9 requires the recognition of expected credit losses (ECL) on all financial assets within the scope of its impairment model, which includes advances. The impairment of advances was considered to be a	Our audit of the impairment of advances included, inter alia, the following audit procedures performed with the assistance of our credit and actuarial experts: ● Across all significant portfolios we assessed the advances impairment practices applied by management against the requirements of IFRS 9. In addition, we tested the design, implementation and, operating effectiveness of the relevant financial reporting controls

matter of most significance to our current year audit due to the following: ● advances are material to the financial statements, ● the level of subjective judgement applied by management in determining the ECL on advances, and ● the effect that ECL has on the impairment of advances and the Company's credit risk management. This key audit matter relates to the following advances: ● Corporate advances, and ● Retail and commercial advances.	as well as the general and application computer controls relating to the processes used to calculate impairments, including controls relating to data and models; and ● We assessed management's probability-weighted macroeconomic scenario model and evaluated the outlined methodology, scenario views and associated probabilities in terms of the principles of IFRS 9, including the review of the approval of these macro-economic variables through the appropriate governance structures.
Corporate advances* Corporate advances are individually significant and the ECL calculations are inherently judgemental in nature. The specific areas of significant management judgement within the ECL calculations include: ● The assumptions and methodologies applied to estimate the probability of default (PD), exposure at default (EAD) and loss given default (LGD); ● The assessment of whether there has been a Significant Increase in Credit Risk (SICR) since origination date of the exposure to the reporting date (i.e. a trigger event that will cause a deterioration in credit risk and result in migration of the loan from Stage 1 to Stage 2); _* This applies to corporate advances apparent in RMB corporate banking, RMB investment banking, Rest of Africa and Group Treasury_ ● The incorporation of forward looking information and macro-economic inputs into SICR; and ● The assumptions used for estimating the recoverable amounts (including collateral) and timing of future cash flows, particularly for stage 3 loans.	_Corporate advances_ We performed the following procedures on the ECL for corporate advances with the assistance of our credit and actuarial expertise: ● Inputs which are subject to significant judgement, including the timing and quantum of expected future cash flows, were identified and assessed for reasonableness for individually significant advances. We assessed the appropriateness of assumptions made by management in determining the level of impairment, including the PD and valuation of collateral and the incorporation of the macro-economic variables against actual experience and industry practice, ● We tested the performance and sensitivity of the forward-looking economic model in order to evaluate whether the chosen macro-economic factors and model fit provide a reasonable representation of the impact of macro-economic changes on the ECL results; ● We independently recalculated a reasonable range of significant ECL and compared the level raised by management to the recalculated range; ● We inspected a sample of legal agreements and supporting documentation to assess the legal right to and existence of collateral; and ● We selected a sample of advances with no indicators of SICR and determined if this was reasonable by forming an independent view on whether there was a significant increase in credit risk. Based on the procedures described above, our audit evidence supported the inputs in the ECL on corporate advances which were found to be within an acceptable

	range in the context of IFRS 9.
*Retail and commercial advances*** Retail and commercial advances are higher volume, lower value and therefore a significant portion of the impairment is calculated on a portfolio basis. This requires the use of statistical models incorporating data and assumptions which are not always necessarily observable. Management applies professional judgement in developing the models, analysing data and determining the most appropriate assumptions and estimates. The inputs into the modelling process requiring significant management judgement, include: ● The input assumptions and methodologies applied to estimate the PD, EAD and LGD; ● Determining whether the evidence exists that there has been a SICR since initial recognition; ● The incorporation of forward looking information and macro-economic inputs into SICR; and ● The determination of the write-off point and curing. *** This applies to retail and commercial advances apparent in FNB Commercial, WesBank corporate, Aldermore and Rest of Africa.*	*Retail and Commercial advances* We performed the following procedures on the ECL for retail and commercial advances with the assistance of our credit and actuarial expertise: ● We obtained an understanding of the methodologies and assumptions used by management in the various ECL model components (PD, EAD, LGD) and how these were calibrated to use historical information to estimate future cash flows; ● We tested the design, implementation and, where appropriate, operating effectiveness of relevant controls over the models used to calculate impairments, including controls relating to data and models; ● Where appropriate we reperformed the ECL calculation; ● Through applying the assumptions and data included in management's model, including the performance of rehabilitated accounts, we recalculated the impact of SICR; ● We tested the SICR thresholds applied and the resultant transfer rate into stage 2 for SICR. This included benchmarking of the volume of up to date accounts transferred to stage 2 based on historical evidence; ● We evaluated management's supporting documentation for the performance of behavioural scores, granting scores and the correlation of these to default rates; ● We considered the assumptions used in the forward looking economic model the macro-economic variables considered as well as the macro-economic outlook. We compared these to our own actuarial statistics and independent market data; ● We tested the performance and sensitivity of the forward looking model in order to evaluate whether the chosen macro-economic factors and model fit provide a reasonable representation of the impact of macro-economic changes on the ECL results; ● For the term lending portfolio, we evaluated management's assessment of historical post write-off recoveries, to determine the point at which there was no reasonable expectation of further recovery; and ● Through recalculation, we tested the application of the write off policy, including the exclusion of post write-off recoveries from the Loss Given Default (LGD). Based on the procedures described above, our audit

Overlays Across all portfolios, management apply judgement to recognise additional ECL (in the form of overlays) where there is uncertainty in respect of the models' ability to address specific trends or conditions due to inherent limitations of modelling based on past performance, the maturity of the models, the timing of model updates and macro-economic events which could impact corporate, retail and commercial consumers. Related disclosures in the financial statements: ● Accounting policies note 9 - Critical accounting estimates, assumptions and judgements; and ● Note 30 – Financial risk - Credit risk.	evidence supported the inputs in the ECL on retail and commercial advances which were found to be within an acceptable range in the context of IFRS 9. *Overlays* We considered the potential for ECL to be affected by events not captured by the model assumptions due to timing or other inherent limitations (such as changes in economic conditions). We assessed the reasonableness of event driven overlays raised by management, based on our understanding of the industry, emerging risks and regulatory changes. We considered the need for any other overlays not considered by management through independent research. Based on the procedures described above, our audit evidence supported the overlays which were found to be within an acceptable range in the context of IFRS 9.

[redacted]

Other Information

The directors are responsible for the other information. The other information comprises the information included in the document titled "*FirstRand Bank Annual Report for the year ended 30 June 2019*", which includes the Directors' Report, the Audit Committee Report and the Company Secretary's Certification as required by the Companies Act of South Africa. The other information does not include the financial statements and our auditors' report thereon.

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

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

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

Responsibilities of the Directors for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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

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

Report on other legal and regulatory requirements

In terms of the Independent Regulatory Board for Auditors (IRBA) Rule, published in Government Gazette Number 39475 dated 4 December 2015, we report that Deloitte & Touche and PricewaterhouseCoopers Inc. have been the joint auditors of FirstRand Bank Limited in its current form for 21 years. In addition, prior to the formation of FirstRand Bank Limited, Deloitte & Touche were one of the joint auditors of First National Bank of Southern Africa Limited for 10 years.

Deloitte & Touche	PricewaterhouseCoopers Inc.
Deloitte & Touche Registered auditor Per Partner: Darren Shipp CA (SA)	PricewaterhouseCoopers Inc Registered auditor Director: Johannes Grosskopf
Woodlands Office Park Johannesburg 4 September 2019	4 Lisbon Lane Johannesburg 4 September 2019

ACCOUNTING POLICIES

1 INTRODUCTION AND BASIS OF PREPARATION

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

These financial statements comprise the statement of financial position (also referred to as the balance sheet) as at 30 June 2019, and the statement of other comprehensive income, income statement, statement of changes in equity and statement of cash flows for the year ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory notes.

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

Use of judgements and estimates

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the bank's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are outlined in policy 9.

The bank adopts the following significant accounting policies in preparing its financial statements. To avoid duplication, subsections which have not changed because of the implementation of IFRS 9, have been excluded from the IAS 39 category below. These subsections have been denoted with an *. Except for policies related to IFRS 9 and IFRS 15, these policies have been consistently applied to all years presented.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2	**Investments in other entities**	Subsidiaries and associates (section 2.1)	Related party transactions (section 2.2)	
3	**Income, expenses and taxation**	Income and expenses (section 3.1)	Taxation (section 3.2)	
4	**Financial instruments IFRS 9**	Classification and Measurement (section 4.1)	Impairment (section 4.2)	Derivatives and hedge accounting (section 4.5)
		Transfers, modifications and de-recognition (section 4.3)*	Offset and collateral (section 4.4)*	
5	**Financial instruments IAS 39**	Classification (section 5.1)	Impairment (section 5.3)	
		Measurement (section 5.2)	Derivatives and hedge accounting (section 5.4)	
6	**Other assets and liabilities**	Property and equipment (section 6.1)	Intangible assets (section 6.1)	Commodities (section 6.1)
		Provisions (section 6.1)	Leases (section 6.2)	
7	**Capital and reserves**	Share capital and treasury shares	Dividends and non-cash distributions	Other reserves
8	**Transactions with employees**	Employee liabilities (section 8.1)	Share-based payment transactions (section 8.2)	

9	**Critical judgements**	Introduction (section 9.1) Subsidiaries, associates and joint arrangements (section 9.2) Taxation (section 9.3) Impairment of financial assets (IFRS 9) (section 9.4) Impairment of financial assets (IAS 39) (section 9.4) Provisions (section 9.5) Transactions with employees (section 9.6)
10	**Impact of adopting revised accounting standards**	Key impact of revised standards adoption (section 10.1) Transition impact on SOFP (section 10.2) Transition impact on SOCE (section 10.3) Summary of differences between IAS 39 and IFRS 9 (section 10.4) Reclassification of financial instruments (section 10.5) Treatment and measurement of ISP (section 10.6) Reconciliation of impairment loss (section 10.7)

The following new standards were adopted in the current year:

New / revised IFRS	Description of change	Impact on FirstRand bank
IFRS 9	The bank adopted IFRS 9 in the current year. The following resulted from the implementation: ➢ the classification of financial assets under IFRS 9 is based on both the business model for holding the instruments as well as the contractual characteristics of the instruments; ➢ impairments in terms of IFRS 9 are determined based on an expected loss model that considers the significant changes to the assets' credit risk and the expected loss that will arise in the event of default; ➢ the requirements for the classification of liabilities remained unchanged; ➢ the general accounting requirements under IFRS 9 are more closely aligned to how entities undertake risk management activities when hedging financial and non-financial risk exposures; and ➢ IFRS 7 has been amended to include additional disclosures as a result of IFRS 9.	The main impacts on the bank's financial statements from the adoption of IFRS 9 were the following: ➢ certain items have been reclassified based on the new classification rules. The details of these reclassifications are provided in note 10 of the accounting policies; ➢ the loss allowance on financial assets has increased because of the change from an incurred loss to an expected credit loss model. For details refer to note 10 of the accounting policies; ➢ the amended disclosure requirements of IFRS 7 will be prospectively applied by the bank. Therefore, all comparative disclosures relating to financial instruments are based on the classification and measurement requirements of IAS 39 and disclosure requirements of IFRS 7 before the IFRS 9 amendments.
IFRS 15	IFRS 15 contains a single model that is applied when accounting for contracts with customers. It replaces substantially all of the current revenue recognition guidance, except for contracts that are out of scope – e.g. leases and insurance. IFRS 15 requires that goods and services are split out into their separate performance obligations and that the revenue from each performance obligation is recognised at a point in time or over time, depending on the IFRS 15 criteria for revenue recognition.	The transition to IFRS 15 did not have an impact on the bank as the principles for revenue recognition under IAS 18 – Revenue as applied in previous periods was in line with the principles applied under IFRS 15 for the same revenue streams, therefore no adjustment is reflected in retained earnings as at 1 July 2018.

New / revised IFRS	Description of change	Impact on FirstRand bank
	The model specifies that revenue is recognised as and when control of goods or services are transferred to a customer and that revenue is recognised at the amount that an entity expects to receive. Depending on certain criteria revenue is recognised at a point in time or over time. IFRS 15 includes new quantitative and qualitative disclosure requirements to enable users of financial statements to understand the nature, amount and timing of revenue from contract with customers.	
IFRS 2 amendments	**Classification and measurement of share-based payment transactions** As a result of work performed by the IFRS Interpretations Committee, several amendments have been made to IFRS 2 to clarify how to account for certain share-based payment transactions. The amendments to IFRS 2 relate to the following areas: • Accounting for the effects of vesting and non-vesting conditions on the measurement of the liability of cash-settled share-based payment transactions; • The classification of share-based payment transactions with net settlement features for withholding tax obligations; and • Accounting for a modification to the terms and conditions of a share-based payment that changes the transaction from cash-settled to equity-settled.	The bank currently has cash-settled share-based payment schemes. The bank is currently in line with the first two amendments as the bank is accounting for these items in line with the clarifications. The third amendment will be considered when such transactions take place and will be applied prospectively to any modifications. No such transactions have taken place in the current financial year.
IFRIC 22	**Foreign currency transaction and advance consideration** IFRIC 22 clarifies the date of the transaction for the purpose of	IFRIC 22 will be considered when such transactions take place. No such transactions have taken place in the current financial year.

New / revised IFRS	Description of change	Impact on FirstRand bank
	determining the exchange rate to use on initial recognition of the related asset, expense or income when an entity has received or paid advance consideration in a foreign currency.	
Annual improvements 2014-2016 cycle	These annual improvements include amendments to IFRS 12 and IAS 28: ➢ IFRS 12 – the amendments clarify the scope of the standard, i.e. IFRS 12 applies to entities classified as held for sale, held for distribution or discontinued operations in terms of IFRS 5. ➢ IAS 28 – the amendments clarify the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation or other qualifying entity, and is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.	The clarified requirements of IFRS 12 will be applied by the bank when applicable. Not applicable in the current financial year. The amendments to IAS 28 are not applicable to the bank.

Presentation of financial statements, functional and foreign currency

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

Presentation	The bank presents its statement of financial position in order of liquidity. Where permitted or required under IFRS, the bank offsets assets and liabilities or income and expenses and presents the net amount in the statement of financial position or in the statement of other comprehensive income.
Materiality	IFRS disclosure is only applicable to material items. Management applies judgement and considers both qualitative and quantitative factors in determining materiality.
Functional and presentation currency of the bank	South African Rand (R)
Level of rounding	All amounts are presented in millions of Rands. The bank has a policy of rounding in increments of R500 000. Amounts less than R500 000 will therefore round down to Rnil and are presented as a dash.
Foreign operations with a different functional currency from the bank presentation currency	The financial position and results of the bank's foreign operations are translated at the closing or average exchange rate as required per IAS 21. Upon translation into the bank's presentation currency, exchange differences that arise are recognised as a separate component of other comprehensive income (the foreign currency translation reserve) and are reclassified to profit or loss on disposal or partial disposal of the foreign operation. The net investment in a foreign operation includes any monetary items for which settlement is neither planned nor likely in the foreseeable future.
Foreign currency transactions of the bank	Translated into the functional currency using the exchange rates prevailing at the date of the transactions.
Translation and treatment of foreign denominated balances	Translated at the relevant exchange rates, depending on whether they are monetary items (in which case the closing spot rate is applied) or non-monetary items. For non-monetary items measured at cost the rate applied is the rate on transaction date. For non-monetary items measured at fair value the rate at the date the fair value is determined (reporting date) is applied. Foreign exchange gains or losses are recognised in profit or loss. To the extent that foreign exchange gains or losses relate to financial assets held at (FVOCI) (2018: Available-for-sale) the following applies: ➢ Equity instruments are recognised in other comprehensive income as part of the fair value movement. ➢ Debt instruments are allocated between profit or loss (those that relate to changes in amortised cost) and other comprehensive income (those that relate to changes in fair value).

2 INVESTMENTS IN OTHER ENTITIES

2.1 Subsidiaries, structured entities and associates

<table>
<tr><th></th><th>Subsidiaries and other structured entities</th><th>Associates</th></tr>
<tr><td>Typical shareholding in the assessment of entities that are not structured entities</td><td>Greater than 50%</td><td>Between 20% and 50%</td></tr>
<tr><td colspan="3">When an entity is a structured entity and control of an entity is not evidenced through shareholding, the bank considers the substance of the arrangement and the bank’s involvement with it to determine whether the bank has control or significant influence over the significant decisions that impact its relevant activities.</td></tr>
<tr><td>Nature of the relationship between the bank and the investee</td><td>Entities over which the bank has control as defined in IFRS 10.
From time to time, the bank also sponsors the formation of structured entities primarily for the purpose of allowing clients to hold investments, for asset securitisation transactions and for buying and selling credit protection. Where the sponsorship does not result in control, the sponsorship is disclosed in terms of IFRS 12.</td><td>Entities over which the bank has significant influence as defined in IAS 28.</td></tr>
<tr><th colspan="3">Investments in subsidiaries, other structured entities and associates</th></tr>
<tr><td colspan="3">The bank measures investments in these entities at cost less impairment (in terms of IAS 36), with the exception of investments acquired and held exclusively with the view to disposing of them in the near future (within 12 months), and which are measured at fair value less cost to sell in terms of IFRS 5.</td></tr>
<tr><th colspan="3">Interests in unconsolidated structured entities</th></tr>
<tr><td colspan="3">Interests in unconsolidated structured entities may expose the bank to variability in returns from the structured entity. However, because of a lack of power over the structured entity, it is not consolidated. Normal customer/supplier relationships, where the bank transacts with the structured entity on the same terms as other third parties, are not considered to be interests in the entity.
From time to time the bank also sponsors the formation of structured entities, primarily for asset securitisation transactions and for buying and selling credit protection.
Where the interest or sponsorship does not result in control, and does not represent a normal customer or supplier relationship, disclosures of these interests or sponsorships are made in the notes in terms of IFRS 12.</td></tr>
<tr><th colspan="3">Common control transactions</th></tr>
<tr><td colspan="3">There is currently no guidance under IFRS for the accounting treatment of business combinations under common control. In terms of IAS 8, the bank has developed an accounting policy that requires that purchases of businesses acquired under common control use the predecessor values of the acquiree without the restatement of comparatives. Therefore, any difference between the net asset value recorded at the highest level of aggregation and the amount paid (i.e. the purchase consideration) is recorded directly in the reserve in equity.</td></tr>
</table>

2.2 Related party transactions

Related parties of the bank, as defined, include:

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

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

3 INCOME, EXPENSES AND TAXATION

3.1 Income and expenses

Net interest income recognised in profit or loss

Interest income includes:

- Interest on financial instruments measured at amortised cost and debt instruments measured at fair value through other comprehensive income, including the effect of qualifying hedges for interest rate risk.
- Interest income is calculated using the effective interest rate which includes fees and transaction costs that form an integral part of generating an involvement with the resulting financial instrument. The original effective interest rate is applied to:
    - the gross carrying amount of financial assets which are not credit-impaired; and
    - the amortised cost of financial assets which represents the net carrying amount from the month after the assets become credit-impaired (refer to section 4.2 on the impairment of financial assets).
- Modified advances (derecognition not achieved) - the unamortised portion of origination fees and capitalised transaction costs on financial assets are included as part of interest income. The interest income on the modified financial asset (refer to policy 4.3) is calculated by applying the original effective interest rate to the asset's modified gross carrying amount.
- Modified advances (derecognition is achieved) - the unamortised portion of origination fees and capitalised transaction costs on financial assets are included as part of interest income. New fees or costs charged on the new advance which are integral to the new asset recognised are capitalised to the new loan.
- Interest on financial asset debt instruments measured at fair value through profit or loss that are held by and managed as part of the bank's funding operations.

Interest expense includes:

- interest on debt instruments measured at amortised cost;
- interest on debt instruments measured at fair value through profit or loss that are held by and managed as part of the bank's funding operations; and
- the difference between the purchase and resale price in repurchase and reverse repurchase agreements where the related advances or deposit is measured at amortised cost, because the amount is in substance interest.

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

Non-interest and financial instrument revenue recognised in profit or loss

Non-interest revenue from contracts with customers

IFRS 15 replaced all existing revenue recognition criteria under IFRS and was applied for all contracts with clients, unless the contracts are in the scope of the standard on leases, insurance contracts and financial instruments. The bank has applied IFRS 15 retrospectively. The application of the revised requirements had no impact on the bank's results.

Under IFRS 15, where a five-step analysis is required to determine the amount and timing of revenue recognition, the bank assesses contracts and determines whether the fees identified in the contract relate to revenue as defined in IFRS 15. The revenue is recognised only if the bank can identify the contract; and the performance obligation (i.e. the different services) and can determine the transaction price which is allocated to the identifiable performance obligations. The revenue is then recognised as and when the performance obligation is satisfied, which may be over time or at a point in time.

Fee and commission income

Fees and commissions that form an integral part of the effective interest rate are excluded from fees and commissions from customers and are recognised in net interest revenue.

Fee and commission income is earned by the bank by providing customers with a range of services and products, and consists of the following main categories:

- Banking fee and commission income.
- Knowledge-based fee and commission income.
- Management, trust and fiduciary fees.
- Fee and commission income from service providers.
- Other non-banking fee and commission income.

Fee and commission income is earned on the execution of a significant performance obligation, which may be over time as the performance obligation is fulfilled (over time) or when the significant performance obligation has been performed (point in time).

Fees earned on the execution of a significant act typically include transactional banking fees, such as bank charges, interchange fees, point-of-sale fees, exchange commissions, cash deposit fees and knowledge-based fee and commission income.

Where the performance obligation is satisfied over a period of time, the fees are recognised as follows:

- fees for services rendered are recognised on an accrual basis as the service is rendered and the bank’s performance obligation is satisfied, e.g. annual card fees and asset management and related fees; and
- commission income on bills and promissory notes endorsed is credited to profit or loss over the life of the relevant instrument on a time apportionment basis

Commitment fees for unutilised funds made available to customers in the past, are recognised as revenue at the end of the contract period. Commitment fees paid upfront for a future facility, where it is not probable that a specific lending arrangement will be entered into by the bank, are recognised as revenue on a straight-line basis over the period for which the funds are promised to be kept available.

Other non-banking fee and commission income relates to fees and commissions earned for rendering services to customers other than those related to the banking, insurance and asset management operations. This includes fee and commission income earned from providing services on behalf of third-party service providers, in effect acting as an agent, this includes commission earned at the point when sale has been executed from the sale of prepaid airtime, data vouchers, electricity and traffic fines paid through FNB channels as well as insurance commission.

The bank operates a customer loyalty programme, eBucks, in terms of which it undertakes to provide reward credits to qualifying customers to buy goods and services. The bank recognises a contract liability referred to as customer loyalty programme liability, which represents the deferred amount of revenue as a result of

	providing these reward credits to customers. The amount deferred is equal to the maximum cash flow that could be required in order to settle the liability with the customer, as the supplier of goods and services could be either the bank itself or independent third parties. The deferred revenue in respect of which the eBucks liability is raised is recognised as revenue in the period in which the customer utilises their reward credits.
Fee and commission expenses	Fee and commission expenses are expenses that are incremental and directly attributable to the generation of fee and commission income and are recognised as part of fee and commission income. These include transaction and service fees, which are expensed as the services are received. The bank operates a customer loyalty programme, eBucks, in terms of which it undertakes to provide reward credits to certain customers to buy goods and services. Expenses relating to the provision of the reward credits are recognised as fee and commission expenses as incurred. The suppliers of the goods or services to be acquired by customers can either be FNB or an external third party.
Other non-interest revenue	The bank sells value-added products and services to customers, like telecommunication products and services which consist of smart devices, data and airtime contracts and bundled products. The related revenue, net of any finance components of revenue, is recognised as soon as the goods are delivered to the customer.

Fair value gains or losses

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

- fair value adjustments and interest on financial instruments at fair value through profit or loss including derivative instruments that do not qualify for hedge accounting;
- fair value adjustments that are not related to credit risk on advances designated at fair value through profit or loss;
- a component of interest expense that relates to interest paid on liabilities which fund the bank's fair value operations. Interest expense is reduced by the amount that is included in fair value income;
- fair value adjustment on financial instruments designated at fair value through profit or loss in order to eliminate an accounting mismatch, except for such instruments relating to the bank's funding operations for which the interest component is recognised in interest income. The change in the fair value of a financial liability designated at fair value through profit or loss attributable to changes in its credit risk are presented in other comprehensive income unless this would cause or enlarge an accounting mismatch in profit or loss. The total fair value adjustment on non-recourse liabilities (including movements due to changes in credit risk) is included in profit or loss, since the fair value movement on liabilities are directly linked to fair value movements on the underlying assets;
- ordinary and preference dividends on equity instruments at fair value through profit or loss;
- any difference between the carrying amount of the liability and the consideration paid, when the bank repurchases debt instruments that it has issued; and

Gains less losses from investing activities

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

- any gains or losses on disposals of investments in subsidiaries, associates and joint ventures;
- any gains or losses on the sale of financial assets measured at amortised cost;
- impairments and reversal of impairments of investment securities measured at amortised cost and debt instruments measured at fair value through other comprehensive income;

- any amounts recycled from other comprehensive income in respect of debt instruments measured at fair value through other comprehensive income;
- dividend income on any equity instruments that are considered long-term investments of the bank, including non-trading equity instruments measured at fair value through other comprehensive income. In the separate financial statements, this includes dividends from subsidiaries, associates and joint ventures; and
- fair value gains or losses on investment property held at fair value through profit or loss.

Dividend income

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

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

Expenses

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

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

3.2 Income tax expenses

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

Current income tax

The current income tax expense is calculated by adjusting the net profit for the year for items that are non-taxable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted at the reporting date, in each particular jurisdiction within which the bank operates.

Deferred income tax

Recognition	On temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the financial statements.
Typical temporary differences for which deferred tax is provided	➢ Provision for loan impairment. ➢ Instalment credit assets. ➢ Revaluation (including ECL movements) of certain financial assets and liabilities, including derivative contracts. ➢ Provisions and provision for pensions and other post-retirement benefits. ➢ Cash flow hedges. ➢ Share-based payment liabilities.
Measurement	The liability method under IAS 12 is used. This means applying tax rates and laws that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Presentation	In profit or loss unless it relates to items recognised directly in equity or other comprehensive income. Items directly recognised in equity or other comprehensive income relate to: ➢ the issue or buy-back of share capital; ➢ fair value remeasurement of financial assets measured at fair value through other comprehensive income; ➢ derivatives designated as hedging instruments in effective cash flow hedges; ➢ remeasurements of defined benefits post-employment plans. Tax in respect of these transactions is recognised directly in other comprehensive income and subsequently reclassified to profit or loss (where applicable) at the same time as the related gain or loss.
Deferred tax assets	The bank recognises deferred income tax assets only if it is probable that future taxable income will be available against which the unused tax losses can be utilised, based on management's review of the bank's budget and forecast information. The bank reviews the carrying amount of deferred income tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

4 FINANCIAL INSTRUMENTS IFRS 9

4.1 Classification and measurement

4.1.1 Initial measurement

All financial instruments are initially measured at fair value including transaction costs, except for those classified as fair value through profit or loss, in which case the transaction costs are expensed upfront in profit or loss, usually as part of operating expenses. Any upfront income earned on financial instruments is recognised as is detailed under policy 3.1, depending on the underlying nature of the income.

Immediately after initial recognition, an expected credit loss allowance is recognised for newly originated financial assets measured at amortised cost or fair value through other comprehensive income debt instruments.

4.1.2 Classification and subsequent measurement of financial assets

Classification and subsequent measurement of financial assets

Management determines the classification of its financial assets at initial recognition, based on:

- the bank's business model for managing the financial assets; and
- the contractual cash flow characteristics of the financial asset.

Business model

The bank distinguishes three main business models for managing financial assets:

- holding financial assets to collect contractual cash flows;
- managing financial assets and liabilities on a fair value basis or selling financial assets; and
- a mixed business model of collecting contractual cash flows and selling financial assets.

The business model assessment is not performed on an instrument-by-instrument basis, but at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment is done for each legal reporting entity at least at a franchise level, although franchises will perform the assessment on a portfolio or sub portfolio level, depending on the manner in which groups of financial assets are managed in each franchise.

The main consideration in determining the different business models across the bank is whether the objectives of the business model are met primarily through holding the financial assets to collect contractual cash flows, through the sale of these financial assets, by managing assets and liabilities on a fair value basis, or through a combination of these activities.

In considering whether the business objective of holding a group of financial assets is achieved primarily through collecting contractual cash flows, among other considerations, management monitors the frequency and significance of sales of financial assets out of these portfolios for purposes other than managing credit risk. For the purposes of performing the business model assessment, the bank only considers a transaction a sale if the asset is derecognised for accounting purposes. For example, a repo transaction where a financial asset is sold with the commitment to buy back the asset at a fixed price at a future date is not considered a sale transaction, because substantially all the risks and rewards relating to the ownership of the asset have not been transferred and the asset is not derecognised from an accounting perspective.

If sales of financial assets are infrequent, the significance of these sales are considered by comparing the carrying amount of assets sold during the period and cumulatively to the total carrying amount of assets held in the business model. If sales are either infrequent or insignificant, these sales will not impact the conclusion that the business model for holding financial assets is to collect contractual cash flows.

Determining whether sales are significant or frequent requires management to use its judgement. The significance and frequency of sales are assessed on a case-by-case basis at the business model level. The frequency is assessed on an annual basis and sales of assets that take place once or less per annum is considered to be infrequent. If sales take place more than once per annum it doesn’t mean that the business models are not to collect contractual cash flows, but rather that the reasons for the sales need to be more carefully considered. Management will consider both the volume and amount of sales relative to the total assets in the business model to determine whether it is significant.

A change in business model of the bank only occurs on the rare occasion when the bank changes the way in which it manages financial assets. Any changes in business models would result in a reclassification of the relevant financial assets from the start of the next reporting period.

Cash flow characteristics

In order for a debt instrument to be measured at amortised cost or fair value through other comprehensive income, the cash flows on the asset have to be solely payments of principal and interest (SPPI), i.e. consistent with those of a basic lending agreement.

The SPPI test is applied on a portfolio basis for retail advances, as the cash flow characteristics of these assets are standardised. This includes the consideration of any prepayment penalties that are limited by consumer credit regulation. They can therefore be considered reasonable compensation, which would not cause these assets to fail the SPPI test.

For wholesale advances, the SPPI test is applied to individual advances at initial recognition, based on the cash flow characteristics of the asset. Wholesale advances that do not pass the SPPI test and that have to be measured at fair value through profit or loss include advances with equity participation features, convertible bonds and payments linked to commodity or other prices. If the contract contains prepayment penalties, the amount of the prepayment penalty is compared to the present value of the margin that will be earned if the loan is not prepaid. If the amount of the prepayment penalty is lower than or equal to the margin lost due to prepayment, this is considered reasonable compensation and the loan passes the SPPI test.

Amortised cost

Financial assets are measured at amortised cost using the effective interest method when they are held to collect contractual cash flows which are solely payments of principle and interest, and sales of such assets are not significant or frequent. These include the majority of the retail, corporate and commercial advances of the bank, as well as certain investment securities utilised for liquidity risk management of the bank. For purchased or originated credit-impaired financial assets, the bank applies the credit-adjusted effective interest rate. This interest rate is determined based on the amortised cost and not the gross carrying amount of the financial asset, and incorporates the impact of expected credit losses in the estimated future cash flows of the financial asset.

Cash and cash equivalents

Cash and cash equivalents comprises coins and bank notes, money at call and short notice and balances within central banks. All balances included in cash and cash equivalents have a maturity date of less than three months from the date of acquisition. Money at call and short notice constitutes amounts withdrawable in thirty-two days or less. Cash and cash equivalents are measured at amortised cost.

<table>
<tr><th colspan="3">Retail advances</th></tr>
<tr><td></td><td>Business model</td><td>Cash flow characteristics</td></tr>
<tr><td>Retail advances</td><td>The FNB and WesBank businesses hold retail advances to collect contractual cash flows. Their business models focus on growing these advances within acceptable credit appetite limits and maintaining strong collection practices.
The products included under these business models include:
➢ residential mortgages;
➢ vehicle and asset finance;
➢ personal loans, credit card:
➢ and other retail products such as overdrafts.
The key risk in these business models is credit risk.</td><td>The cash flows on retail advances are solely payments of principal and interest. Interest charged to customers compensates the bank for the time value of money, credit risk and administrative costs (including a profit margin). Penalties on the prepayment of advances are limited to reasonable compensation for early termination of the contract.</td></tr>
<tr><th colspan="3">Corporate and commercial advances</th></tr>
<tr><td>Corporate and commercial advances</td><td>The business models of FNB Commercial, WesBank Corporate and RMB Corporate are also focused on collecting contractual cash flows on advances and growing these advances within acceptable credit appetite limits.
The products included under these business models include:
➢ trade and working capital finance;
➢ specialised finance;
➢ commercial property finance; and
➢ asset-backed finance.
These advances are held primarily to realise the related contractual cash flows over the life of the instruments and earn a lending margin in return. Although the intention is to collect cash flows, not all of the instruments are held to maturity as some financial assets are sold under securitisation transactions. These sales are, however, insignificant in value in relation to the value of advances held to collect cash flows, and are usually also infrequent, and therefore the held to collect business model is still appropriate.</td><td>The cash flows on corporate and commercial advances are solely payments of principal and interest. Interest charged to customers compensates the bank for the time value of money, credit risk and administrative costs (including a profit margin). Penalties on the prepayment of advances are limited to reasonable compensation for early termination of the contract.</td></tr>
<tr><td></td><td>Within the RMB’s Investment Banking Division</td><td>The cash flows on these advances are</td></tr>
</table>

	(IBD), debt for large corporates and institutions are structured. These advances are held primarily to realise the related contractual cash flows over the life of the instruments and earn a lending margin in return. Although the intention is to collect cash flows, not all of the instruments are held to maturity as some financial assets are sold in the secondary market to facilitate funding. These sales are, however, insignificant in value in relation to the value of IBD advances held to collect cash flows and therefore the held-to-collect business model is still appropriate. In other portfolios, RMB IBD originates corporate and commercial advances with the intention to distribute. These advances are included under a different business model and are measured at fair value through profit or loss (as is set out further below).	considered to be solely payments of principal and interest if the loan contract does not contain equity upside features, conversion options, payments linked to equity or commodity prices or prepayment penalties that exceed reasonable compensation for early termination of the contract. Any advances that do contain such features are mandatorily measured at fair value through profit or loss.
	Advances include marketable advances representing certain debt investment securities qualifying as high quality liquid assets that are under the control of the bank treasurer and corporate bonds held by RMB investment bank. These assets are primarily held to collect the contractual cash flows over the life of the asset.	The cash flows on these advances are solely payments of principal and interest.
Investment securities	Bank Treasury holds investment securities with lower credit risk (typically government bonds and treasury bills). These investments securities are held in a business model with the objective of collecting contractual cash flows.	The cash flows on these investment securities are solely payments of principal and interest.
Cash and cash equivalents	Cash and cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash. These assets are held to collect contractual cash flows.	The cash flows on these assets are solely payments of principal and interest.
Accounts receivable	Financial accounts receivable are short-term financial assets that are held to collect contractual cash flows.	The cash flows on these assets are solely payments of principal and interest.

<table>
<tr><th colspan="3">Mandatory at fair value through profit or loss</th></tr>
<tr><td colspan="3">Financial assets of the bank are mandatorily measured at fair value through profit or loss when they are held for trading, managed on a fair value basis, held to sell/distribute, or are held to collect contractual cash flows which are not solely payments of principal and interest.</td></tr>
<tr><td>Corporate and commercial advances</td><td>In certain instances, IBD originates advances with the mandate of distributing an identified portion of the total advances in the secondary market within an approved time frame. The reason for originating these advances is not to collect the contractual cash flows, but rather to realise the cash flows through the sale of the assets.</td><td>Advances which are originated to distribute or managed on a fair value basis; or are held to collect contractual cash flows but include cash flows related to equity upside features, conversion options, payments linked to equity or commodity prices or prepayment penalties that exceed reasonable compensation for early termination of the contract, will be included in this category.</td></tr>
<tr><td>Marketable advances</td><td>RMB occasionally invests in notes issued by conduits, with the intention of selling these notes to external parties. These include notes issued by conduits to which it sells a portion of corporate and commercial advances that it originates to distribute (detailed above). The collection of contractual cash flows on these notes is merely incidental.</td><td>Advances which are acquired to distribute are included in this category.</td></tr>
<tr><td rowspan="2">Investment securities</td><td colspan="2">RMB Global Markets holds portfolios of investment securities (including corporate and government bonds) to hedge risks or for short-term profit realisation. These securities are managed on a fair value basis.</td></tr>
<tr><td colspan="2">All equity investments of the bank are managed on a fair value basis, either through FVTPL or designated at fair value through other comprehensive income.</td></tr>
<tr><td>Derivative assets</td><td colspan="2">Derivatives are either held for trading or to hedge risk. These instruments are managed on a fair value basis.</td></tr>
<tr><th colspan="3">Designated at fair value through profit or loss</th></tr>
<tr><td colspan="3">The group has exercised the option to designate financial assets at fair value through profit or loss, as doing so eliminates or significantly reduces a measurement of recognition inconsistency that would otherwise arise from measuring these assets on a different basis.

The assets that the group is designating at fair value through profit or loss are the following:
- Advances.
- Investment securities.</td></tr>
<tr><td>Advances</td><td colspan="2">Certain advances in RMB with fixed interest rates have been designated at fair value through profit or loss in order to eliminate an accounting mismatch that would otherwise result from measuring these assets on a different basis. The cash flows, on these advances are considered to be solely payments of principal and interest.</td></tr>
<tr><td>Investment securities</td><td colspan="2">Bank treasury hold investment securities (typically treasury bills) for liquidity purposes. The portfolio is managed on a fair value basis.</td></tr>
</table>

Debt instruments at fair value through other comprehensive income		
Investment securities	Certain treasury divisions of the bank hold investment securities for liquidity management purposes. The local regulator requires that the branch prove liquidity of their assets by way of periodic outright sales. Therefore the business model for these investment securities is both collecting contractual cash flows and selling these financial assets.	The cash flows on these investment securities are solely payments of principal and interest.
Equity investments at fair value through other comprehensive income		
Investment securities	The bank has elected to designate certain equity investments not held for trading to be measured at fair value through other comprehensive income.	Not applicable

4.1.3 Classification and subsequent measurement of financial liabilities and compound instruments

Financial liabilities and compound financial instruments
The bank classifies a financial instrument that it issues as a financial liability or an equity instrument in accordance with the substance of the contractual agreement. Tier 2 instruments which have write-down or conversion features are classified based on the nature of the instrument and the definitions. Tier 2 and other funding liabilities are presented in separate lines on the statement of financial position of the bank. Compound instruments are those financial instruments that have components of both financial liabilities and equity, such as issued convertible bonds. At initial recognition the instrument and the related transaction costs are split into their separate components and accounted for as a financial liability or equity in terms of the definitions and criteria of IAS 32.
Financial liabilities measured at amortised cost
The following liabilities are measured at amortised cost using the effective interest rate method, unless they have been designated as measured at fair value through profit or loss: ➢ deposits; ➢ creditors; ➢ Tier 2 liabilities; and ➢ other funding liabilities.
Financial liabilities measured mandatory at fair value through profit or loss
The following held for trading liabilities are measured at fair value through profit or loss: ➢ derivative liabilities; and ➢ short trading positions. These liabilities are measured at fair value at reporting date as determined under IFRS 13, with fair value gains or losses recognised in profit or loss.
Financial liabilities designated at fair value through profit or loss
A financial liability other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if: ➢ such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance evaluated on a fair value basis, in accordance with the bank's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire hybrid (combined) contract to be designated as at FVTPL.

The liabilities that bank is designating at fair value through profit or loss are the following:

- deposits; and
- other funding liabilities.

Both types of liabilities satisfied the above-mentioned conditions detailed of IFRS 9 for such designation.
These financial liabilities are measured at fair value at reporting date as determined under IFRS 13, with any gains/losses arising on remeasurement recognised in profit or loss to the extent that they are not part of a designated hedging relationship. However, for non-derivative financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in OCI, unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognised in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognised in OCI are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

4.2 Impairment of financial assets and off-balance sheet exposures subject to impairment

This policy applies to:

- financial assets measured at amortised cost, including financial accounts receivable and cash;
- debt instruments measured at fair value through other comprehensive income;
- loan commitments;
- financial guarantees; and
- finance lease debtors where bank is the lessor.

Refer to accounting policy note 9.4 where all risk parameters, scenarios and sources of estimation are detailed more extensively.

<table>
<tr><th colspan="4">Expected credit losses</th></tr>
<tr><th colspan="4">Loss allowance on financial assets</th></tr>
<tr><th>Credit risk has not increased significantly since initial recognition
(stage 1)</th><th>Credit risk has increased significantly since initial recognition, but asset is not credit-impaired
(stage 2)</th><th>Asset has become credit-impaired since initial recognition
(stage 3)</th><th>Purchased or originated credit impaired</th></tr>
<tr><td>12-month expected credit losses</td><td>Lifetime expected credit losses (LECL)</td><td>LECL</td><td>Movement in LECL since initial recognition</td></tr>
</table>

Advances	
Significant increase in credit risk since initial recognition (SICR)	In order to determine whether an advance has experienced a significant increase in credit risk, the probability of default (PD) of the asset calculated at the origination date is compared to that calculated at the reporting date. The origination date is defined as the most recent date at which the bank has repriced an advance/facility. A change in terms result in derecognition of the original advance/facility and recognition of a new advance/facility. SICR test thresholds are reassessed and, if necessary, updated, on at least an annual basis. 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, and will be disclosed within stage 2 at a minimum. 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. No minimum period for transition from stage 2 back to stage 1 is applied, with the exception of cured distressed restructured exposures that are required to remain in stage 2 for a minimum period of six months before re-entering stage 1, as per the requirements of SARB Directive 7 of 2015.
Low credit risk	The bank does not use the low credit risk assumption.
Credit-impaired financial assets	Advances are considered credit impaired if they meet the definition of default. The bank'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, as well as those applied in operational management of credit and for internal risk management purposes. Exposures are considered to be in default when they are more than 90 days past due or, in the case of amortising products, have more than three unpaid instalments. In addition, an exposure is considered to have defaulted when there are qualitative indicators that the borrower is unlikely to pay their credit obligations in full without any recourse by the bank to actions such as the realisation of security. Indicators of unlikeliness to pay are determined based on the requirements of Regulation 67 of the Banks Act. Examples include application for bankruptcy or obligor insolvency. Any distressed restructures of accounts which have experienced a significant increase in credit risk since initial recognition are defined as default events. Retail accounts are considered to no longer be in default if they meet the stringent cure definition, which has been determined at portfolio level based on analysis of re-default rates. Curing from default within Wholesale business is determined judgementally through a committee process.
Purchased or originated credit-impaired	Financial assets that meet the abovementioned definition of credit-impaired at initial recognition.
Write-offs	Write-off must occur when it is not economical to pursue further recoveries, i.e. there is no reasonable expectation of recovering the carrying amount of the asset (gross amount less specific impairments raised): ➢ By implication, in both retail and wholesale, for secured as well as unsecured exposures, write-offs cannot occur if there is evidence of recent payment behaviour. Each credit portfolio has articulated a write-off policy that aligns with the principles of IFRS 9 while taking the business context of that portfolio into account; ➢ Within retail portfolios, write-off definitions have been determined with reference to analysis of the materiality of post write-off recoveries. The result of this is that retail unsecured loans are written off after 12 to 15 cumulative missed instalments and retail secured loans are written off on perfection of collateral; and ➢ Within wholesale portfolios, a judgemental approach to write-off is followed, based on case-by-case assessment by a credit committee. Partial write-offs are not performed within credit portfolios. Where required, additional provisions against irrecoverable assets will be raised until such a time as final write-off can occur.
Collection and enforcement activities post write-off	For unsecured advances, post write off collection strategies includes outsourcing of the account to external debt collections (EDCs). In addition, settlement campaigns are run to encourage clients to settle their outstanding debt. For secured advances, any residual balance post the realisation of collateral and post write off is outsourced to EDCs.

Other financial assets	
Cash and cash equivalents	All physical cash is classified as stage 1. Other exposures are classified as stage 1 unless specific evidence of impairment exists, in which case, due to the nature of these assets, they are classified immediately as stage 3. ECL for physical cash is zero. ECL for cash equivalents is calculated using the loss rate approach.
Accounts receivable	ECL for accounts receivables are calculated using the simplified approach. This results is a lifetime ECL being recognised.
Investment securities	Impairment parameters for investment securities (PDs, LGDs and EADs) are determined using appropriate models, with the models to be applied determined with reference to the issuer of the security and the nature of the debt instrument. The tests for a significant increase in credit risk and default definitions are then applied and the ECL calculated in the same way as for advances. The significant increase in credit risk thresholds applied for investment securities are the same as those applied within the wholesale credit portfolio to ensure consistency in the way that a significant increase in credit risk is identified for a particular counterparty and for similar exposures. The bank does not use the low credit risk assumption for investment securities, including government bonds.
Intercompany balances	Expected credit losses are calculated using PD, LGD and EAD parameters that are determined through application of expert credit judgement and approved through appropriate governance structures. A SICR event warrants the balance to move to stage 2. Where there is evidence of default, the balance is moved to stage 3.

4.3 Transfers, modifications and derecognition (IAS 39 and IFRS 9)

The guidance in IAS 39 and IFRS 9 are identical. The accounting policy noted below is therefore relevant to both IAS 39 and IFRS 9.

Financial instruments are derecognised when:
- the contractual rights or obligations expire or are extinguished, discharged or cancelled, for example an outright sale or settlement;
- they are transferred and the derecognition criteria of IFRS 9 are met; or
- the contractual terms of the instrument are substantially modified and the derecognition criteria of IFRS 9 are met

Financial assets are derecognised when the bank has either transferred the contractual right to receive cash flows from the asset or it has assumed an obligation to pay over all the cash flows from the asset to another entity (i.e. pass-through arrangement).

If the contractual cash flows of a financial asset measured at amortised cost are modified (changed or restructured, including distressed restructures), the bank determines whether this is a substantial modification, which could result in the derecognition of the existing asset and the recognition of a new asset. If the change is simply a non-substantial modification of the existing terms it could not result in derecognition.

A modification of a financial asset is substantial, and will thus result in derecognition of the original financial asset, where the modified contractual terms are priced to reflect current conditions on the date of modification and are not merely an attempt to recover outstanding amounts. Where the modification does not result in an accounting derecognition the original asset continues to be recognised.

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

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

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

	structured entity but retains substantially all the risks and rewards of ownership related to the transferred advances.	
Transfers with derecognition		
Traditional securities where the bank purchases its own debt	The debt is derecognised from the statement of financial position and any difference between the carrying amount of the liability and the consideration paid is included in fair value gains or losses within non-interest revenue.	
Transfers with derecognition		
Traditional securitisations and other structured transactions	Specific advances or investment securities are transferred to the structured entity, which then issues liabilities to third party investors, for example variable rate notes or investment grade commercial paper. The bank assumes an obligation to pay over all the cash flows it collects from the securitised assets to the structured entity. The bank may acquire other financial assets or liabilities that continue to expose it to the returns of the transferred securitised assets. For example, the bank may take up some of the notes issued by the structured entity that it is unable to issue into the market, enter into an interest rate swap with the structured entity or continue to be exposed through a clean-up call in terms of which it has an option to repurchase the remaining securitised assets once their value falls below a certain level.	The securitisation results in full derecognition of the securitised financial assets by the bank: ➢ if the bank does not have the power to control the structured entity, and the bank did not retain substantially all the risks and rewards; or ➢ in situations where the bank neither transfers nor retains substantially all the risks and rewards, but the bank has relinquished control of the assets. Where the bank has continuing involvement in the derecognised assets it makes disclosures around the risks it is exposed to and the other financial assets and liabilities it has recognised.
Modification without derecognition		
Modification of contractual cash flows	Debt restructuring are accounts where the new terms of the contract (such as a lower interest rate) are mandated by law and do not have the same commercial terms as a new product that the bank would be willing to offer a customer with a similar risk profile.	Existing asset is not derecognised. The gross carrying amount of the financial asset is recalculated as the present value of the estimated future cash receipts through the expected life of the renegotiated or modified financial asset, discounted at the financial asset's original effective interest rate. Distressed modifications are included in ECL.
Modifications with derecognition (i.e. substantial modifications)		
Retail advances	The process for modifying an advance (which is not part of a debt restructuring) is substantially the same as	Existing asset is derecognised and a new asset is recognised at

	the process for raising a new advance, including reassessing the customer's credit risk, repricing the asset and entering into a new legal agreement.	fair value based on the modified contractual terms.
Neither transferred nor derecognised		
Synthetic securitisation transactions	Credit risk related to specific advances is transferred to a structured entity through credit derivatives. The group consolidates these securitisation vehicles as structured entities, in terms of IFRS 10.	The bank continues to recognise the advances and recognises associated credit derivatives which are measured at fair value through profit or loss.

4.4 Offsetting of financial instruments and collateral (IAS 39 and IFRS 9)

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

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

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

It is the group's policy that all items of collateral are valued at the inception of a transaction and at various points throughout the life of a transaction, either through physical inspection or indexation methods, as appropriate. For wholesale and commercial portfolios, the value of collateral is reviewed as part of the annual facility review. For mortgage portfolios, collateral valuations are updated on an ongoing basis through statistical indexation models.

However, in the event of default, more detailed reviews and valuations of collateral are performed, which yields a more accurate financial effect. For asset finance, the total security reflected represents only the realisation value estimates of the vehicles repossessed at the date of repossession. Where the repossession has not yet occurred, the realisation value of the vehicle is estimated using internal models and is included as part of total recoveries.

4.5 Derivative financial instruments and hedge accounting

Derivatives are financial instruments that derive their value from the price of underlying items such as equities, interest rates or other indices. Derivatives are recognised initially and are subsequently measured at fair value through profit or loss with movements in fair value recognised in fair value gains or losses within non-interest revenue in the income statement. Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative.

Derivative instruments are classified as held either for trading or formally designated as hedging instruments. The bank elected to adopt IFRS 9 for cash flow and fair value hedges where IAS 39 will continue to be applied to portfolio hedges, which the bank refers to as macro hedges. From 1 July 2018, the bank's risk management strategies and hedge documentation were aligned with the requirements of IFRS 9 and selected hedges in place at 30 June 2018 were treated as continuing hedges from 1 July 2018.

Hedge accounting

Derivatives held for risk management purposes are classified either as fair value hedges or cash flow hedges depending on the nature of the risk being hedged, where the hedges meet the required documentation criteria under IFRS 9 and are calculated to be effective.

Fair value hedge

Fair value hedge accounting does not change the recording of gains or losses on derivatives but does result in recognising changes in the fair value of the hedged item attributable to the hedged risk that would otherwise not be recognised in the income statement. The change in the fair value of the hedged item is taken to non-interest revenue under fair value gains or losses. If a hedge relationship no longer meets the criteria for hedge accounting, hedge accounting is discontinued. The cumulative adjustment to the carrying amount of the hedged item is amortised to the income statement based on a recalculated effective interest rate, unless the hedged item has been derecognised, in which case it is recognised in the income statement immediately.

Cash flow hedge

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

The accumulated gains and losses recognised in other comprehensive income are reclassified to the income statement in the same periods in which the hedged item affects profit or loss. When a hedge relationship is discontinued, or partially discontinued, any cumulative gain or loss recognised in other comprehensive income remains in equity until the hedge item affects the income statement. Where the hedged item or hedging instrument are cancelled, any gain or loss is taken to the income statement immediately.

The bank hedges with interest rate swaps extensively which will be impacted by the Financial Stability Board's undertaking to fundamentally review and reform major interest rate benchmarks used globally and locally by financial market participants. This review seeks to replace existing interbank offered rates (IBORs) and potentially local interbank offered rates with alternative risk-free rates (ARRs) to improve market efficiency and mitigate systemic risk across financial markets. The bank is monitoring developments in the market and the impact on accounting by undertaking a project to evaluate the impact of these IBOR reforms.

5 FINANCIAL INSTRUMENTS IAS 39

5.1 Classification

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

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

Financial liabilities and compound financial instruments
The bank classifies a financial instrument that it issues as a financial liability or an equity instrument in accordance with the substance of the contractual agreement. Additional Tier 1 and Tier 2 instruments which have write down or conversion features are classified based on the nature of the instrument and the definitions of debt and equity. Compound instruments are those financial instruments that have components of both financial liabilities and equity such as issued convertible bonds. At initial recognition, the instrument and the related transaction costs are split into their separate components in terms of the definitions and criteria of IAS 32 and are subsequently accounted for as a financial liability or equity.
Short trading positions
Short-trading positions are classified as held for trading and measured at fair value through profit or loss. These positions are presented in a separate line on the statement of financial position of the bank.
Deposits, Tier 2 liabilities and other funding liabilities
Liabilities are generally measured at amortised cost but may be measured at fair value through profit or loss if they are managed on a fair value basis or the fair value designation reduces or eliminates an accounting mismatch. Tier 2 and other funding liabilities are presented in separate lines on the statement of financial position of the bank.

5.2 Measurement

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

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

5.3 Impairment of financial assets

General

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

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

	banked on the basis of similar credit risk characteristics; i.e. on the basis of the bank's grading process that considers asset type, industry, geographical location, collateral type, past due status and other relevant factors. Those characteristics are relevant to the estimation of future cash flows for groups of such financial assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the financial assets being evaluated.
Recognition of impairment loss	If there is objective evidence of impairment, an impairment loss is recognised in a separate line in profit or loss. The amount of the loss is measured as the difference between the financial assets' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. For available-for-sale financial assets which are impaired the cumulative loss is reclassified from other comprehensive income to profit or loss.
Reversal of impairment loss	If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating): ➢ the previously recognised impairment loss is reversed by adjusting the allowance account (where applicable) and the amount of the reversal is recognised in profit or loss; and ➢ impairment losses recognised on available-for-sale equity instruments are not subsequently reversed through profit or loss, but are recognised directly in other comprehensive income.

Impairment of advances

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

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

<table>
<tr><th></th><th>Type of advance</th><th>Bank policy on past due/impaired</th></tr>
<tr><td rowspan="2">Non-performing loans</td><td>Retail loans</td><td>Individually impaired if three or more instalments are due or unpaid or if there is evidence before this that the customer is unlikely to repay the obligations in full. Debt review accounts are not reclassified, and remains in non-performing loans until fully cured.</td></tr>
<tr><td>Commercial and wholesale loans</td><td>Analysed on a case-by-case basis taking into account breaches of key loan conditions, excesses and similar risk indicators.</td></tr>
<tr><th colspan="3">Impairments</th></tr>
<tr><td>Specific</td><td colspan="2">Created for non-performing loans where there is objective evidence that an incurred loss event will have an adverse impact on the estimated future cash flows from the advance.
Potential recoveries from guarantees and collateral are incorporated in the calculation of impairment figures.</td></tr>
<tr><td>Portfolio</td><td colspan="2">Created with reference to performing advances. The impairment provision on the performing portfolio is split into two parts:
➢ an incurred but not reported (IBNR) provision, i.e. the portion of the performing portfolio where an incurred impairment event is inherent in a portfolio of performing advances but has not specifically been identified; and
➢ the portfolio-specific impairment (PSI) which reflects the decrease in estimated future cash flows for the sub segment of the performing portfolio where there is objective evidence of impairment.</td></tr>
<tr><th colspan="3">Write-offs</th></tr>
<tr><td colspan="3">When an advance is uncollectible, it is written off against the related allowance account. Such advances are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the impairment of advances in profit or loss.</td></tr>
</table>

5.4 Derivative financial instruments and hedge accounting

Derivatives are financial instruments that derive their value from the price of underlying items such as equities, interest rates or other indices. Derivatives are recognised initially and are subsequently measured at fair value through profit or loss with movements in fair value recognised in fair value gains or losses in the income statement. Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative.

Derivative instruments are classified as held either for trading or formally designated as hedging instruments. The bank elected to adopt IFRS 9 for cash flow and fair value hedges where IAS 39 will continue to be applied to macro hedges. From 1 July 2018, the group's risk management strategies and hedge documentation were aligned with the requirements of IFRS 9 and the hedges in place at 30 June 2018 were treated as continuing hedges from 1 July 2018

Hedge accounting

Derivatives held for risk management purposes are classified either as fair value hedges or cash flow hedges depending on the nature of the risk being hedged and where the hedges meet the required documentation criteria under IFRS 9 and are calculated to be effective.

Fair value hedge

Fair value hedge accounting does not change the recording of gains or losses on derivatives but does result in recognising changes in the fair value of the hedged item attributable to the hedged risk that would otherwise not be recognised in the income statement. The change in the fair value of the hedged item is taken to non-interest revenue under fair value gains or losses. If a hedge relationship no longer meets the criteria for hedge accounting, hedge accounting is discontinued. The cumulative adjustment to the carrying amount of the hedged item is amortised to the income statement on a recalculated effective interest rate, unless the hedged item has been derecognised, in which case it is recognised in the income statement immediately.

Cash flow hedge

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

The accumulated gains and losses recognised in other comprehensive income are reclassified to the income statement in the same periods in which the hedged item affects profit or loss. When a hedge relationship is discontinued, or partially discontinued, any cumulative gain or loss recognised in other comprehensive income remains in equity until the transaction is recognised in the income statement.

6 OTHER ASSETS AND LIABILITIES

6.1 Classification and measurement

Classification	Measurement
Property and equipment	
Information regarding land and buildings is kept at the bank’s registered office and is open for inspection in terms of section 26 of the Companies Act.	
Property and equipment of the bank include. ➢ assets utilised by the bank in the normal course of operations to provide services, including freehold property and leasehold premises and leasehold improvements (owner-occupied properties); ➢ assets which are owned by the bank and leased to third parties under operating leases as part of the bank's revenue generating operations; ➢ capitalised leased assets; and ➢ other assets utilised in the normal course of operations, including computer and office equipment, motor vehicles and furniture and fittings.	Historical cost less accumulated depreciation and impairment losses, except for land which is not depreciated. Depreciation is on a straight-line basis over the useful life of the asset, except for assets capitalised under finance leases where the bank is the lessee, in which case it is depreciated over the life of the lease (refer to policy 6.2). Leasehold premises. Shorter of estimated life or period of lease. Freehold property and property held under finance lease: - Building and structures 50 years - Mechanical and electrical 20 years - Components 20 years - Sundries 3 – 5 years - Computer equipment 3 – 5 years - Other equipment Various between 3 – 10 years

Classification	Measurement
Intangible assets	
Intangible assets of the bank include: ➢ Internally generated intangible assets (including computer software and other assets such as trademarks or patents) are capitalised when the requirements of IAS 38 relating to the recognition of internally generated assets have been met. ➢ External computer software development costs are capitalised when they can be clearly associated with a strategic and unique system which will result in a benefit for the bank exceeding the costs incurred for more than one financial period. ➢ Material acquired trademarks, patents and similar rights are capitalised when the bank will receive a benefit from these intangible assets for more than one financial period. All other costs related to intangible assets are expensed in the financial period incurred.	Cost less accumulated amortisation and any impairment losses. Amortisation is on a straight-line basis over the useful life of the asset. The useful life of each asset is assessed individually. The benchmarks used when assessing the useful life of the individual assets are: Software development costs 3 years Trademarks 10 – 20 years Other 3 – 10 years
Commodities	
Commodities acquired for short-term trading purposes include the following: ➢ Commodities acquired with the intention of resale in the short term or which form part of the trading operations of the bank; and ➢ Certain commodities subject to option agreements whereby the counterparty may acquire the commodity at a future date, yet the risks and rewards of ownership are deemed to have transferred to the bank in terms of IFRS 15.	Fair value less costs to sell with changes in fair value being recognised in non-interest revenue as fair value gains or losses within non-interest revenue. The price risk in commodities subject to option agreements is fully hedged through a short position, and if the party exercises the option the net profit earned on the transaction will be an interest margin recognised as interest revenue.
Forward contracts to purchase or sell commodities where net settlement occurs, or where physical delivery occurs and the commodities are held to settle a further derivative contract, are recognised as derivative instruments.	Fair value through profit or loss.
Provisions	
The bank will only recognise a provision measured in terms of IAS 37 when there is uncertainty around the amount or timing of payment. Where there is no uncertainty the bank will recognise the amount as an accrual. The bank usually recognises provisions related to litigation and claims. The bank recognises a provision when a reliable estimate of the outflow required can be made and the outflow is more probable than not.	

Other assets that are subject to depreciation, and intangible assets, are reviewed for impairment whenever objective evidence of impairment exists. Impairment losses are recognised in profit or loss as part of operating expenses. The assets are impaired if the carrying amount is more than the recoverable amount, which is the higher of the assets' value in use and fair value less costs to sell. The impairment loss is calculated as the difference between the assets' carrying amounts and their recoverable amounts.

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

6.2 Leases

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

	Bank is the lessee	**Bank is the lessor**
Finance leases		
Inception	Capitalised as assets and a corresponding lease liability for future lease payments is recognised.	Recognise assets sold under a finance lease as advances and impair the advances, as required, in line with policy 4.2.
Over life of lease	The asset is depreciated – refer to policy 6.1.	Unearned finance income is recognised as interest income over the term of the lease using the effective interest method.
	Bank is the lessee	**Bank is the lessor**
Operating leases	Recognised as an operating expense in profit or loss on a straight-line basis over the period of the lease. Any difference between the actual lease amount payable and the straight-lined amount calculated is recognised as a liability of the bank in creditors and accruals.	Assets held under operating leases are included in and depreciated – refer to policy 6.1. Rental income is recognised as other non-interest revenue on a straight-line basis over the lease term.
Instalment credit sale agreements where the bank is the lessor	The bank regards instalment credit sale agreements as financing transactions and includes the total rentals and instalments receivable, less unearned finance charges, in advances. The bank calculates finance charges using the effective interest rates, as detailed in the contracts and credits finance charges to interest revenue in proportion to capital balances outstanding.	

7 CAPITAL AND RESERVES

Transaction	Liability	Equity
Shares issued and issue costs	Preference shares, where the bank does not have the unilateral ability to avoid repayments, are classified as liabilities. Preference shares which qualify as Tier 2 capital have been included in Tier 2 liabilities. Other preference share liabilities have been included in other liabilities as appropriate.	Ordinary shares and any preference shares which meet the definition of equity, including additional tier 1 notes and non-cumulative non-redeemable (NCNR) preference shares issued by the bank, are recognised as equity. NCNR preference shares and additional tier 1 notes are classified as other equity instruments in the financial statements. These instruments do not obligate the bank to make payments to investors. Any incremental costs directly related to the issue of new shares or options, net of any related tax benefit, are deducted from the issue price.
Dividends paid/declared	Recognised as interest expense on the underlying liabilities.	Dividends on equity instruments are recognised against equity. A corresponding liability is recognised when the dividends have been approved by the company's shareholders and distribution is no longer at the discretion of the entity.
Distribution of non-cash assets to owners	The liability to distribute non-cash assets is recognised as a dividend to owners at the fair value of the asset to be distributed. The difference between the carrying amount of the assets distributed and the fair value of the assets on the date of distribution is recognised as non-interest revenue in profit or loss for the period.	The carrying amount of the dividend payable is remeasured at the end of each reporting period and on settlement date. The initial carrying amount and any subsequent changes are recognised in equity.

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

8 TRANSACTIONS WITH EMPLOYEES

8.1 Employee benefits

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

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

Defined benefit plans	
Defined benefit obligation liability	**Recognition** The liabilities and assets of these funds are reflected as a net asset or liability in the statement of financial position, i.e. the present value of the defined benefit obligation at the reporting date less the fair value of plan assets. Where the value is a net asset, the amount recognised is limited to the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.
	Measurement The present value of the defined benefit obligation is calculated annually by independent actuaries using the projected credit unit method. The discount rate used is the rate of high-quality government bonds that are denominated in the currency in which the benefits will be paid and have terms to maturity approximating the terms of the related pension liability.
Plan assets	The plan assets are carried at fair value. Where the plan assets include qualifying insurance policies that exactly match the amount and timing of some or all of the benefits under the plan, the fair value is deemed to be the present value of the related

	obligation. If the qualifying insurance policy has a limit of indemnity, the fair value of the insurance policy is limited to that amount.
Post-employment benefits	
Profit or loss	Included as part of staff costs: ➢ current and past service costs calculated using the projected unit credit method; ➢ gains or losses on curtailments and settlements that took place in the current period; ➢ net interest income calculated by applying the discount rate at the beginning of the period to the net asset or liability; and ➢ actuarial gains or losses on long-term employee benefits.
Other comprehensive income	All other remeasurements in respect of the obligation and plan assets are included in other comprehensive income and never reclassified to profit or loss.
Termination benefits	
The bank recognises termination benefits as a liability in the statement of financial position and as an expense, included in staff costs, in profit or loss when it has a present obligation relating to termination. The bank has a present obligation at the earlier of the following two occurrences: when the bank can no longer withdraw the offer of the termination benefit or when the bank recognises any related restructuring costs.	
Liability for short-term employee benefits	
Leave pay	The bank recognises a liability for the employees' rights to annual leave in respect of past service. The amount recognised by the bank is based on the current salary of employees and the contractual terms between the employee and the bank. The expense is included in staff costs.
Bonuses	The bank recognises a liability and an expense for management and staff bonuses when it is probable that the economic benefits will be paid and the amount can be reliably measured. The expense is included in staff costs.

8.2 Share-based payment transactions

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

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

9 CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

9.1 Introduction

In preparing the financial statements, management makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Unless stated otherwise the judgements applied by management in applying the accounting policies are consistent with the prior year. Included below are all the critical accounting estimates, assumptions and judgements made by the bank, except those related to fair value measurement, which are included in note 26.

9.2 Subsidiaries, structured entities and associates

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

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

9.3 Taxation

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

9.4 Impairment of financial assets (IFRS 9)

Impairment of advances In determining whether an impairment loss should be recognised, the group makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans.
The objective of the measurement of an impairment loss is to produce a quantitative measure of the group's credit risk exposure. The group adopted the probability of default (PD)/loss given default (LGD) approach for the calculation of ECL for advances. The ECL is based on an average of three macroeconomic scenarios incorporating a base scenario, upside scenario and downside scenario, weighted by the probability of occurrence. Regression modelling techniques are used to determine which borrower and transaction characteristics are predictive of certain behaviours, based on relationships observed in historical data related to the group of accounts to which the model will be applied. This results in the production of models that are used to predict impairment parameters (PD, LGD, and EAD) based on the predictive characteristics identified through the regression process. Forward-looking macro-economic information has been incorporated into expected loss estimates through the application of quantitative modelling and expert-judgement-based adjustments. Quantitative techniques applied estimate the impact of forecasted macro-economic factors on expected credit losses using regression techniques.

The macroeconomic scenarios are defined by taking global and domestic macroeconomic considerations into account, and forecasts are developed for baseline, downside, upside and stress scenarios. The baseline, downside and upside scenarios are used in the ECL calculations. These scenarios are overseen by the FirstRand macro forum, which is independent from credit and modelling functions.

To arrive at the macroeconomic forecasts, a bottom-up and top down process is followed. The bottom-up process is conducted by teams of economists both locally and within the various subsidiaries. These economists assess micro and macroeconomic developments to formulate (bottom-up) and adjust (top-down) the macroeconomic forecasts. A number of internal and external economists are then requested to assign a probability to each scenario. The rationale for probabilities assigned by each respondent are noted and explained.

ECL results are calculated as probability-weighted average results across multiple macroeconomic scenarios. The creation of macroeconomic scenarios and the determination of associated probabilities are subjective, with final ECL results dependent on assumptions applied during the process.

The following scenarios were applied at 30 June 2019

Baseline regime	Assumes that global growth slows below trend, developed market (DM) inflation remains benign and interest rates turn more accommodative while domestic policy uncertainty reduces relative to 2018 and meaningful economic reform remains absent.
Upside regime	Assumes that the global economy expands at a solid pace whilst DM inflation and interest rates lift gradually, and domestic policy certainty improves substantially, opening the door for positive economic reforms to drive growth higher.
Downside regime	Assumes that the global economy slows down whilst DM inflation and interest rates lift. Increased policy uncertainty, a collapse in corporate governance at state-owned enterprises (SOEs), increased populism and fiscal recklessness drive South Africa's growth lower.

The macro forum currently assigns a 59% probability to the baseline macroeconomic regime. The probability of the downside regime has diminished marginally while the probability of the upside regime has remained flat.

South Africa

Global growth is slowing and will provide less support to the South African and rest of Sub-Sahara African economies over the next year or two. As growth slows, concerns over a possible global recession has also increased. The upshot of a slowdown in global growth is, however, that global inflation pressures will remain subdued, allowing the Fed room to slow the pace of monetary policy tightening. This will provide scope for the rest of the world's Central Banks to refrain from aggressive monetary policy tightening in the near term. We expect growth to remain subdued in South Africa as low consumer and business confidence continue to restrain consumer spending and private sector investment. High government debt renders the government unable to lift public sector investment and spending while financial and operational risks at state owned enterprises (particularly Eskom) are fuelling expectations for further sovereign ratings downgrades. The consequence of weak domestic growth is that employment growth remains low, credit extension is weak and core inflation pressures subdued. This, combined with a slowdown in Fed policy normalisation, suggest the SARB can postpone its hiking cycle. The group is monitoring President Ramaphosa's plans to lift South Africa's trend growth rate closely. We are encouraged by the governance reforms being implemented at SOEs and other institutions such as the National Prosecuting Authority and the South African Revenue Service. What remains to be seen is whether these governance reforms can or will translate into economic reforms that can lift GDP growth meaningfully.

UK

In the UK, the Brexit outcome remains extremely difficult to predict. Although this uncertainty will keep UK economic activity subdued over the near term, the economy is well positioned to rebound if a soft Brexit deal is eventually reached (our baseline expectation). Once it becomes more apparent that a soft Brexit outcome is on the cards, we expect companies will increase their investment spending and households will increase consumption as the labour market continues to strengthen, nominal wage growth is lifting, and inflation is falling.

Significant macroeconomic factors

The table below sets out the most significant macroeconomic factors used to estimate the FLI on the ECL provisions.

South Africa	**Upside scenario**	**Baseline expectation**	**Downside scenario**
Real GDP growth (%)	**2.83**	**1.05**	**0.31**
CPI inflation (%)	**3.99**	**4.89**	**6.89**
Policy interest rate (%)	**6.19**	**6.75**	**8.19**
Foreign exchange rate (USD/ZAR)	**12.60**	**14.50**	**16.45**

The following table reflects the impact on the IFRS 9 impairment provisions on advances, if the probability weighting assigned to each of the scenarios were increased to 100%.

	R' million	**% change on total IFRS 9 provision**
IFRS 9 impairment provision at 30 June 2019	**26 987**	
Scenarios		
Baseline	**26 757**	**(1)**
Upside	**25 838**	**(4)**
Downside	**30 142**	**12**

In addition to forward-looking macroeconomic information, other types of forward-looking information, such as specific event risk, is taken into account in ECL estimates when required. Furthermore, where there is uncertainty in respect of the respective model's ability to address specific trends or conditions due to inherent limitations of modelling based on past performance, the timing of model updates and macro-economic events, additional provisions via post model adjustments are made.

<table>
<tr><th>Judgement</th><th>Retail and retail SME</th><th>Wholesale and commercial SME</th></tr>
<tr><td rowspan="2">Measurement of the 12-month and lifetime ECL</td><td>Parameters are determined on a pooled basis, with exposures pooled on a portfolio level at a minimum. Where appropriate, more granular pooling is applied. The inputs used to determine parameter values include historically observed behaviour, as well as behavioural and demographic information related to individual exposures currently on book. PD parameters are determined through assessment of the influence that various risk drivers have had on historical default rates.
EAD parameter estimates are based on product characteristics and historical draw-down and payment behaviour.
LGDs are determined by estimating expected future cash flows. These cash flows include direct costs and proceeds from the sale of collateral. Collateral recovery rates are based on historically observed outcomes.
The statistical models applied implicitly assume that risk drivers that influence default risk, payment behaviour and recovery expectations within the historical data will continue to be relevant in the future.</td><td>Parameters are determined based on the application of statistical models that produce estimates based on counterparty-specific financial information and transaction characteristics. These characteristics include the nature of available collateral. Due to the specialised nature of these exposures, parameters produced by models are taken through a robust review and challenge process before being applied to calculate expected credit losses, and are required to be signed off by a committee of wholesale and commercial credit experts who can motivate adjustments to modelled parameters.</td></tr>
<tr><td colspan="2">Parameters are calibrated for the calculation of 12-month and lifetime ECL using term structures that consider borrower risk, account age, historical behaviour, transaction characteristics and correlations between parameters.
Term structures have been developed over the entire remaining contractual lifetime of an instrument. The remaining lifetime is limited to the contractual term of instruments in the portfolio, except for instruments with an undrawn commitment such as credit cards, where there is not a contractual expiry date. In such instances the remaining term is determined with reference to the change in client requirements that would trigger a review of the contractual terms, for example an increase in limit.
Expected credit losses on open accounts are discounted from the expected date of default to the reporting date using the asset's original effective interest rate or a reasonable approximation thereof.</td></tr>
<tr><td>Determination of whether the credit risk of financial instruments have increased significantly since</td><td>In accordance with IFRS 9, all exposures are assessed to determine whether there has been a significant increase in credit risk (SICR) at each reporting date (monthly), in which case the expected credit loss is calculated on a lifetime basis.</td><td>In accordance with IFRS 9, all exposures are assessed to determine whether there has been a significant increase in credit risk at each reporting date (monthly), in which case the expected credit loss is calculated on a lifetime basis.</td></tr>
</table>

<table>
<tr><th>Judgement</th><th>Retail and retail SME</th><th>Wholesale and commercial SME</th></tr>
<tr><td>initial recognition</td><td>SICR triggers are client behavioural based, and are derived from client behavioural scores as well as judgemental factors. These triggers are portfolio specific and are calibrated over time to determine what level of deterioration is reflective of a significant increase in credit risk with reference to historic default on that portfolio.
The bank uses a relative movement in probability of default between reporting date and origination date to determine if there was a significant increase in credit risk. These levels are monitored and validated on a continuous basis. Management also considers other judgemental triggers, for example behaviour on other products and anticipated changes in legislation.</td><td>SICR triggers are client behavioural based, and are derived from a client FR rating or risk score, as well as judgemental factors which may result in the client being added to the watch list through the bank's ongoing risk management process. These triggers are tested at a deal and client level and the former is calibrated over time to determine what level of deterioration is reflective of a significant increase in credit risk.
The bank uses a relative movement in probability of default between reporting date and origination date to determine if there was a significant increase in credit risk, and the client's watch list status at a point in time. These levels are monitored and validated on a continuous basis.</td></tr>
<tr><td>Determination of whether a financial asset is credit impaired</td><td colspan="2">Exposures are classified as stage 3 if there are qualitative indicators that the obligor is unlikely to pay his/her/its credit obligations in full without any recourse by the group to action such as the realisation of security.
Distressed restructures of accounts in stage 2 are also considered to be default events.
For a retail account to cure from stage 3 to either stage 2 or stage 1, the account needs to meet a stringent cure definition. Cure definitions are determined on a portfolio level with reference to suitable analysis and are set such that the probability of a previously cured account re-defaulting is equivalent to the probability of default for an account that has not defaulted in the past.
For wholesale exposures, cures are assessed on a case-by-case basis, subsequent to an analysis by the relevant debt restructuring credit committee.
A default event is a separate default event only if an account has met the portfolio-specific cure definition prior to the second or subsequent default. Default events that are not separate are treated as a single default event when developing LGD models and the associated term structures.</td></tr>
<tr><th colspan="3">Fair value movement due the credit risk of financial liabilities</th></tr>
<tr><td colspan="3">The fair value movement on financial liabilities designated at fair value through profit or loss that is attributable to changes in the credit risk of the liability is considered and where applicable is accounted for in other comprehensive income. If this fair value movement is due to changes in credit risk, which is offset by a corresponding movement in the fair value of a linked asset measured at fair value, this movement is included in profit or loss rather than other comprehensive income.</td></tr>
</table>

9.4 Impairment of financial assets (IAS 39)

Impairment of financial assets

In determining whether an impairment loss should be recognised, the bank makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans.

General

Collective impairment assessments of groups of financial assets	Within data-rich portfolios, impairment parameters are estimated using statistical analysis performed on homogeneous groups of accounts. Accounts are grouped at a portfolio level at a minimum, but more granular groupings are applied where specific sub segments of the portfolio are expected to behave differently and where sufficient data is available for more granular modelling to be performed. Regression modelling techniques are used to determine which borrower and transaction characteristics are predictive of certain behaviours, based on relationships observed in historical data related to the group of accounts to which the model will be applied. This results in the production of models that are used to predict impairment parameters (PD, LGD and EAD) based on the predictive characteristics identified through the regression process. When impairments are calculated, each exposure is assigned unique impairment parameters (a PD, LGD or EAD parameter) based on that exposure’s individual characteristics. These account-level impairment parameters are then used to calculate account-level expected credit losses.
Impairment assessment of collateralised financial assets	The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure, less costs for obtaining and selling the collateral, whether the bank elects to foreclose or not.

Advances

The bank continuously assesses its credit portfolios for impairment. Significant advances are monitored by the credit committee and impaired according to the group's impairment policy.

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

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

Performing loans

The assessment of whether objective evidence of impairment exists requires judgement and depends on the class of the financial asset. In the retail portfolios the account status, namely arrears versus non-arrears status, is taken as a primary indicator of an impairment event. In the commercial portfolios other indicators, such as the existence of high-risk accounts, based on internally assigned risk ratings and management judgements, are used, while the wholesale portfolio assessment (which includes RMB investment banking and RMB corporate banking) includes a judgemental review of individual industries for objective signs of distress.

Where impairment is required to be determined for the performing book, the following estimates are required:

- the IBNR provision is calculated on this sub segment of the portfolio, based on historical analysis of loss ratios, roll rates from performing status into non-performing status and similar risk indicators over an estimated loss emergence period. Estimates of roll rates, loss ratios and similar risk indicators are based on analysis of internal and, where appropriate, external data. Estimates of the loss emergence period are made in the context of the nature and frequency of credit assessments performed, availability and frequency of updated data regarding customer creditworthiness and similar factors. Loss emergence periods differ from portfolio to portfolio, but typically range from one to twelve months; and
- the PSI is the decrease in future cash flows primarily estimated based on analysis of historical loss and recovery rates for comparable sub segments of the portfolio.

The sensitivity of modelled provisions to key assumptions has been assessed for each portfolio. This assessment was performed by calculating the impact on modelled provisions of adjusting model inputs to reflect conservative assumptions. The impact of increasing conservatism was tested by varying assumptions individually and simultaneously.

The sensitivity of modelled provisions for performing loans was assessed by adjusting loss emergence period assumptions and arrears definitions. The arrears definition was adjusted so that early and/or partial arrears are considered to be objective evidence of impairment and the loss emergence period was increased by one month.

Based on the results of the sensitivity analysis performed, management is satisfied that the current total provisions held for performing accounts is appropriate.

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

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

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

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

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

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

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

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

Non-performing loans

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

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

Impairment of financial assets

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

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

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

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

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

Available-for-sale equity instruments

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

9.5 Provisions

Provisions for litigations

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

9.6 Transactions with employees

Employee benefits - defined benefit plans	
Determination of required funding levels	Funding levels are monitored on an annual basis and the current agreed contribution rate in respect of the defined benefit pension fund is 21% of pensionable salaries (in excess of the minimum recommended contribution rate set by the fund actuary). The bank considers the recommended contribution rate as advised by the fund actuary with each actuarial valuation. In addition, the trustees of the fund target a funding position on the pensioner liabilities that exceeds the value of the best estimate actuarial liability. The funding position is also considered in relation to a solvency reserve basis, which makes allowance for the discontinuance cost of outsourcing the pensions. As at the last statutory actuarial valuation of the pension fund (during June 2018), all categories of liabilities were at least 100% funded. If the member chooses to buy into the fund, the fair value of plan assets and the value of the plan liabilities on the defined benefit plan are increased by the amount of the initial contribution on the date of the purchase.
Determination of present value of defined benefit plan obligations	The cost of the benefits and the present value of the defined benefit pension funds and post-employment medical obligations depend on a number of factors that are determined annually on an actuarial basis, by independent actuaries, using the projected unit credit method which incorporates a number of assumptions. The key assumptions used in determining the charge to profit or loss arising from these obligations include the expected long-term rate of return on the relevant plan assets, discount rate and expected salary and pension increase rates. Any changes in these assumptions will impact the charge to profit or loss and may affect planned funding of the pension plans.

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

10 IMPACT OF ADOPTING REVISED ACCOUNTING STANDARDS

The bank adopted IFRS 9 and IFRS 15 during the current period. As set out in accounting policy note 1, comparative information has not been restated, but the retained earnings, as at the date of initial adoption (DIA) of 1 July 2018, has been restated.

10.1 Key impact of revised standards' adoption

Note	Requirement	Description of change	Impact on FirstRand bank
1 and 2	**Classification and measurement**	IFRS 9 introduced a principle-based approach for classifying financial assets, based on the entity's business model (for example how an entity manages its financial assets to generate cash flows) and the nature of its cash flows. Financial assets held to collect contractual cash flows, which relate solely to payments of principal and interest (SPPI), are classified at amortised cost. Financial assets held in a mixed business model (for example, held to collect contractual cash flows which meet the SPPI test and held for sale) are classified at fair value through other comprehensive income (FVOCI). All other financial assets held under a different business model or cash flows that do not meet the SPPI test are classified at fair value through profit or loss (FVTPL). The classification of financial liabilities remains relatively unchanged, with the exception of financial liabilities designated at fair value. Any changes in the fair value of the liability due to the entity's own credit risk will now be recognised in other comprehensive income. IFRS 9 also allows for the once-off reclassification of financial liabilities.	The bank's approach was to first reclassify the items, and then to remeasure the item. Based on the business model assessments performed, the following were the significant reclassifications and remeasurements: ➢ R143 007 million of advances (net of IAS 39 impairments) in the RMB investment banking division and a minor portfolio within FNB commercial were reclassified from FVTPL to amortised cost. These advances are held with the objective of collecting the cash flows that meet the SPPI test, resulting in a measurement adjustment of R238 million. ➢ Advances to empowerment development funds were reclassified from amortised cost to FVTPL as they do not meet the SPPI test and the off-market impact of R65 million was reclassified to investment in associates. ➢ R63 828 million investment securities held in the bank's liquid asset portfolio were reclassified from available-for-sale to amortised cost because they are held to collect contractual cash flows that meet the SPPI test. R1 364 million was reclassified to FVOCI as it is held in a mixed business model, resulting in a R1 707 million (pretax) release of available-for-sale reserve. ➢ R41 million net interest in post-retirement employee liability first

			party cell captives was reclassified from accounts receivable to investment securities classified as FVTPL because it does not meet the SPPI test, with no change in measurement. ➢ R173 million of investment securities classified as available-for-sale were reclassified to advances at amortised cost with no change in measurement. This reclassification reflects the nature of the instruments. ➢ Deposits worth R59 237 million were reclassified from FVTPL to amortised cost to ensure that the measurement of liabilities matches the measurement of the assets which they fund, resulting in a R796 million remeasurement.
3	**ECL impairment**	IFRS 9 introduced an expected credit loss (ECL) model which includes the incorporation of forward-looking information (FLI) for the recognition of impairments on financial assets. It is no longer required that a credit event occurs before credit losses are recognised. This applies to financial assets classified at amortised cost and FVOCI, lease receivables and trade receivables. It also applies to loan commitments, unutilised facilities and financial guarantee contracts not designated at FVTPL, referred to collectively as off-balance sheet exposures. The level of ECL to be recognised is determined with reference to the credit risk of the asset at reporting date in relation to its credit risk at origination. Where the credit risk has not increased significantly since origination, impairment is calculated based on a 12-month ECL. If there has been a significant increase in credit risk (SICR), impairment is	➢ The revised impairment requirements increased impairments by R6 865 million, excluding ISP, due to earlier recognition of ECL, incorporating FLI, the inclusion of off-balance sheet exposures, and the extension of the measurement period.

		based on LECL.	
3.1	Other ECL	Investment securities and non-advances and amounts due by the holding company and fellow subsidiaries.	Debt investment securities comprising government and corporate bonds were classified as available-for-sale under IAS 39. These securities are short dated and held under a business model to collect contractual cash flows until maturity. These contractual cash flows are SPPI and these debt investment securities have therefore been classified at amortised cost under IFRS 9. Accordingly, an ECL provision of R50 million has been raised against these securities, referenced to the sovereign credit rating where these relate to government bonds. As a result of the reclassification, the available-for-sale reserve of R1 707 million (net of tax R1 224 million) was released, resulting in an adjustment to the carrying amount of the investment securities and the non-distributable reserves. An ECL provision of R27 million has been raised on non-advances with credit risk, such as accounts receivable, which were not previously provided for under IAS 39. An ECL provision of R83 million was raised on amounts due by holding company and fellow subsidiaries.
4	Hedge accounting	IFRS 9 more closely aligns hedge accounting with the entity's risk management policies and permits the use of internally produced risk management information as a basis for hedge accounting, thereby widening the range of items that can be hedge accounted.	The revised hedge accounting requirements were applied by the bank prospectively, as required by IFRS 9, to its existing hedge accounting relationships and as such did not have an impact on the amounts recognised on DIA. However, hedge documentation was updated to comply with the requirements of IFRS 9.
5	ISP	In terms of IAS 39 ISP was not capitalised to advances and interest suspended was tracked and managed separately off-balance	ISP is recognised against the ECL allowance, reflecting the fact that it is unrecoverable and therefore impaired. To the extent that the impairment

		sheet. Under IFRS 9, interest revenue is calculated by applying the effective interest rate to the amortised cost of financial assets classified in stage 3. The difference between the contractual interest and the interest recognised in line with IFRS 9 is therefore suspended. This suspended interest is capitalised to the advance and immediately impaired.	coverage ratio under IAS 39 is identical to that under IFRS 9, the impact of ISP on transition to IFRS 9 is a gross-up of the advance and loss allowance by the amount of the suspended interest, with no impact on retained earnings. Where the coverage ratios under the two standards differ, the difference is reflected in retained earnings. The amount of ISP recognised under IFRS 9 was also impacted by the reclassification of RMBIB and certain FNB commercial advances from FVTPL to amortised cost. ISP is not calculated on advances at FVTPL. The amount of ISP under IAS 39 was R1 499 million and the ISP on the reclassified book amounted to R162 million. The impact of these amounts resulted in a gross-up of advances amounting to R1 661 million. The change in ISP due to the difference in coverage ratio was R596 million, with a deferred tax impact of R166 million. ISP under IFRS 9 is R1 065 million and is recognised against the credit loss allowance.
6	IFRS 15	IFRS 15 contains a single model that is applied when accounting for contracts with customers. It replaces substantially all the current revenue recognition guidance, except for contracts that are out of scope, e.g. leases and insurance. The model specifies that revenue is recognised as and when control of goods or services are transferred to a customer, and that revenue is recognised at the amount that an entity expects to receive. Depending on certain criteria, revenue is recognised at a point in time or over time.	IFRS 15 requires that goods and services are split into their separate performance obligations and that the revenue from each performance obligation is recognised at a point in time or over time depending on the specific criteria for revenue recognition. The application of the revised requirements had no impact on the bank's results.

10.2 TRANSITION IMPACT ON FINANCIAL POSITION-IFRS

as at DIA

R million	**Notes**	**IFRS 9**	**Reclassi-fication**	**Remeasure-ment**
ASSETS				
Investment securities	**3.1**	**158 875**	(132)	**1 819**
Advances		**837 883**	108	**238**
Accounts receivable	**3.1**	**6 007**	(41)	**-**
Current tax asset		**562**	2	**(8)**
Amounts due by holding company and fellow subsidiaries	**3.1**	**52 336**	-	**-**
Investments in associates	**1 and 2**	**65**	65	**-**
Deferred income tax asset		**3 079**	(2)	**(382)**
Other financial assets		**112 897**	-	**-**
Non-financial assets		**29 186**	-	**-**
Total assets		**1 200 890**	-	**1 667**
EQUITY AND LIABILITIES				
Liabilities				
Creditors, accruals and provisions		**14 194**	-	**-**
Current tax liability		**86**	-	**-**
Deposits		**978 054**	-	**796**
Other liabilities		**4 381**	-	**-**
Amounts due to holding company and fellow subsidiary companies		**19 993**	-	**-**
Other financial liabilities		**76 906**	-	**-**
Non-financial liabilities		**20 159**	-	**-**
Total liabilities		**1 113 773**	-	**796**
Equity				
Ordinary shares		**4**	-	**-**
Share premium		**16 804**	-	**-**
Reserves		**67 309**	-	**871**
Capital and reserves attributable to ordinary		**84 117**	-	**871**
NCNR preference shares		**3 000**	-	**-**
Total equity		**87 117**	-	**871**
Total equities and liabilities		**1 200 890**	-	**1 667**

**Net of ISP of R1 661 million. Refer to accounting policies note 10 for more information.*

ECL impairment	ISP due to change in coverage ratio	Total adjustments	IAS 39
(50)	-	**1 637**	**157 238**
(6 865) *	596	**(5 923)**	**843 806**
(27)	-	**(68)**	**6 075**
474	-	**468**	**94**
(83)	-	**(83)**	**52 419**
-	-	**65**	**-**
1 467	(166)	**917**	**2 162**
-	-	**-**	**112 897**
-	-	**-**	**29 186**
(5 084)	430	**(2 987)**	**1 203 877**
-	-	**-**	**14 194**
-	-	**-**	**86**
-	-	**796**	**977 258**
-	-	**-**	**4 381**
-	-	**-**	**19 993**
-	-	**-**	**76 906**
-	-	**-**	**20 159**
-	-	**796**	**1 112 977**
-	-	**-**	**4**
-	-	**-**	**16 804**
(5 084)	430	**(3 783)**	**71 092**
(5 084)	430	**(3 783)**	**87 900**
-	-	**-**	**3 000**
(5 084)	430	**(3 783)**	**90 900**
(5 084)	430	**(2 987)**	**1 203 877**

10.3 TRANSITION IMPACT ON STATEMENT OF CHANGES IN EQUITY–IFRS

As at DIA

R million	**Notes**	**Share capital and share premium**	Defined benefit post-employment reserve	Cash flow hedge reserve	Available-for-sale reserve
Balance as at 30 June 2018		**16 808**	(714)	343	(1 224)
Opening retained earnings adjustment for IFRS 9		**-**	-	-	1 224
Reclassification		**-**	-	-	1 224
Investment securities	**3.1**	**-**	-	-	1 707
Deferred tax		**-**	-	-	(483)
Remeasurement		**-**	-	-	-
Advances		**-**	-	-	-
Investment securities		**-**	-	-	-
Deposits		**-**	-	-	-
Current tax		**-**	-	-	-
Deferred tax		**-**	-	-	-
ECL impairment		**-**	-	-	-
Advances		**-**	-	-	-
Non-advances		**-**	-	-	-
Current tax		**-**	-	-	-
Deferred tax		**-**	-	-	-
ISP		**-**	-	-	-
Advances		**-**	-	-	-
Deferred tax		**-**	-	-	-
Balance as at 1 July 2018		**16 808**	(714)	343	-

** Other reserves include the FVOCI reserve.*
 # NCNR forms part of Other equity instruments in the annual report

Refer to accounting policies note 10 for an explanation of the note.

Ordinary share capital and ordinary equityholders' funds					
Foreign currency translation reserve	Other reserves*	Retained earnings	**Reserves attributable to ordinary equityholders**	**NCNR preference shares#**	**Total equity**
731	1 345	70 611	**71 092**	**3 000**	**90 900**
-	60	(5 067)	**(3 783)**	**-**	**(3 783)**
-	60	(1 284)	**-**	**-**	**-**
-	79	(1 786)	**-**	**-**	**-**
-	(19)	502	**-**	**-**	**-**
-	-	871	**871**	**-**	**871**
-	-	238	**238**	**-**	**238**
-	-	1 819	**1 819**	**-**	**1 819**
-	-	(796)	**(796)**	**-**	**(796)**
-	-	(8)	**(8)**	**-**	**(8)**
-	-	(382)	**(382)**	**-**	**(382)**
-	-	(5 084)	**(5 084)**	**-**	**(5 084)**
-	-	(6 948)	**(6 948)**	**-**	**(6 948)**
-	-	(77)	**(77)**	**-**	**(77)**
-	-	474	**474**	**-**	**474**
-	-	1 467	**1 467**	**-**	**1 467**
-	-	430	**430**	**-**	**430**
-	-	596	**596**	**-**	**596**
-	-	(166)	**(166)**	**-**	**(166)**
731	1 405	65 544	**67 309**	**3 000**	**87 117**

10.4 SUMMARY OF DIFFERENCES BETWEEN IAS 39 AND IFRS 9

The table below represents a reconciliation of the statement of financial position under IAS 39 to IFRS 9 and sets out the impact of both the revised classification and measurement requirements of IFRS 9.

R million	New classification under IFRS 9	Original classification under IAS 39
ASSETS		
Investment securities		
	Mandatory FVTPL	Held for trading
	Mandatory FVTPL	Designated at FVTPL
	Amortised cost	Loans and receivables/held to maturity
	Amortised cost	Available for sale
	FVOCI	Fair value OCI
Advances		
	Amortised cost	Loans and receivables/held to maturity
	Mandatory FVTPL	
	Amortised cost	Designated at FVTPL
	Mandatory FVTPL	Available for sale
Accounts receivable	Amortised cost	Loans and receivables
Current tax asset		
Amounts due by holding company and fellow subsidiaries		
Investments in associates		
Deferred income tax asset		
Other financial assets		
Non-financial assets		
Total assets		
LIABILITIES		
Creditors, accruals and provisions		
Current tax liability		
Deposits		
	Amortised cost	Amortised cost
	Designated at FVTPL	Designated at FVTPL
	Mandatory FVTPL	
Other liabilities	Amortised cost	Amortised cost
Amounts due to holding company and fellow subsidiary companies		
Other financial liabilities		
Non-financial liabilities		
Total liabilities		
Equity adjustment as at 1 July		

Refer to accounting policies note 10 for an explanation of the notes.

	Notes*	**IFRS 9 carrying amount**	Reclassification	Remeasurement	ECL impairment	ISP due to change in coverage ratio	**IAS 39 carrying amount**
		158 875	(132)	1 819	(50)	-	**157 238**
		50 846	5 604	-	-	-	**45 242**
		8 377	(8 565)	-	-	-	**16 942**
	1 and 3.1	**98 288**	65 293	1 819	(50)	-	**31 226**
		-	(63 828)	-	-	-	**63 828**
		1 364	1 364	-	-	-	**-**
		837 883	108	238	(6 865)	596	**843 806**
	1	**786 772**	143 007	238	(6 865)	596	**649 796**
		42 353	42 353	-	-	-	**-**
		8 758	(161 578)	-	-	-	**170 336**
		-	(23 674)	-	-	-	**23 674**
	3.1	**6 007**	(41)	-	(27)	-	**6 075**
	1 and 2	**562**	2	(8)	474	-	**94**
		52 336	-	-	(83)	-	**52 419**
		65	65	-	-	-	**-**
		3 079	(2)	(382)	1 467	(166)	**2 162**
		112 897	-	-	-	-	**112 897**
		29 186	-	-	-	-	**29 186**
		1 200 890	**-**	**1 667**	**(5 084)**	**430**	**1 203 877**
		14 194	-	-	-	-	**14 194**
		86	-	-	-	-	**86**
		978 054	-	796	-	-	**977 258**
	1	**942 586**	59 237	796	-	-	**882 553**
		8 918	(85 787)	-	-	-	**94 705**
		26 550	26 550	-	-	-	**-**
		4 381	-	-	-	-	**4 381**
		19 993	-	-	-	-	**19 993**
		76 906	-	-	-	-	**76 906**
		20 159	-	-	-	-	**20 159**
		1 113 773	**-**	**796**	**-**	**-**	**1 112 977**
		87 117	**-**	**871**	**(5 084)**	**430**	**90 900**

10.5 Reclassification of financial instruments

The table below provides further analysis of the reclassifications, specifically the categories from which the reclassifications took place.

			Reclassification			
R million	**Notes**	**Total**	**From available-for-sale**	**From designated at FVTPL**	**To advances amortised cost**	**From accounts receivable**
Investment securities classified into						
Mandatory FVTPL		**5 604**	-	5 563	-	41
Mandatory FVTPL		**(8 565)**	-	(8 565)	-	-
Amortised cost	1 and 2	**65 293**	63 828	1 638	(173)	-
Amortised cost	1 and 2	**(63 828)**	(63 828)	-	-	-
FVOCI		**1 364**	-	1 364	-	-
Total investment securities	1 and 2	**(132)**	-	-	(173)	41
Accounts receivable		**(41)**	-	-	-	(41)

			Reclassification			
R million	**Notes**	**Total**	**From available-for-sale**	**From designated at FVTPL**	**From available-for-sale investment securities**	**To investment in associates**
Advances classified into						
Amortised cost	1 and 2	**143 007**	-	142 899	173	(65)
Mandatory FVTPL		**42 353**	23 674	18 679	-	-
Designated FVTPL		**(161 578)**	-	(161 578)	-	-
Mandatory FVTPL		**(23 674)**	(23 674)	-	-	-
Total advances		**108**	-	-	173	(65)
Investment in associates		**65**	-	-	-	65

10.6 Treatment and measurement of ISP

The table below provides an overview of the treatment and measurement of ISP under IAS 39 and IFRS 9.

R million	**IAS 39 ISP 30 June 2018**	**ISP on the reclassified book**	**IFRS 9 adjustment to advances**	**IFRS 9 ISP adjustment due to change in coverage ratio**	**Tax on IFRS 9 ISP adjustment due to change in coverage ratio**	**ISP adjustment to provisions (stage 3)**	**Net ISP movement**
	Note 6	Note 7		Note 8		Note 9	
Reconciliation of ISP							
FirstRand Bank	**1 499**	162	**1 661**	(596)	-	**1 065**	**(434)**
FNB	**1 299**	39	**1 338**	(596)	-	**742**	**(557)**
RMB	**168**	123	**291**	-	-	**291**	**123**
WesBank	**32**	-	**32**	-	-	**32**	**-**
ISP impact on retained earnings							
FirstRand Bank	**-**	-	**-**	596	(166)	**-**	**430**
FNB	**-**	-	**-**	596	(166)	**-**	**430**

Notes:

6. The amount of ISP recognised under IAS 39.

7. Relates to the ISP on the book that was reclassified from FVTPL to amortised cost, where ISP was not separately determined and disclosed on the FVTPL advance under IAS 39.

8. The adjustment required to ensure that the ISP amount is aligned to the coverage ratio.

9 Total amount of ISP recognised under IFRS 9 in stage 3.

10.7 Reclassification of financial instruments to amortised cost

The table below sets out information about financial instruments that has been reclassified from available-for-sale and fair value through profit or loss to amortised cost upon the adoption of IFRS 9. The table sets out information about the financial instruments' fair value and fair value gains and losses that would have been recognised in OCI or profit or loss if the reclassification had not taken place.

R million	FV as at 30 June 2019	FV gain or loss that would have been recognised in other comprehensive income
ASSETS		
Classified from available-for-sale under IAS 39		
Advances	**15 895**	**1**
Investment securities	**42 831**	**879**
Classified as FVTPL under IAS 39		
Advances - designated at FVTPL	**75 234**	**6 741**
Investment securities - designated at FVTPL	**9 581**	**(392)**
Investment securities - held for trading	**-**	**-**
LIABILITIES		
Classified as FVTPL under IAS 39		
Deposits	**34 192**	**106**
Other liabilities	**1 849**	**(119)**

Reconciliation of impairment loss allowance

The bank has changed its accounting policies in respect of the classification of financial instruments under IFRS 9. The application of these changes resulted in changes in the impairment loss allowance balances for IFRS 9 adoption when compared to the IAS 39 impairment loss allowance balances. In addition, the application of the ECL impairment model under IFRS 9 has also resulted in an increase in the impairment loss allowance recognised.

	Effective interest rate at initial application (%) -low	Effective interest rate at initial application (%) -high	Interest revenue / expense recognised for the year ended 30 June 2019
	-	-	-
	-	-	-
	4	15	6 295
	6	26	157
	-	-	-
	6	11	(1 560)
	7	7	(119)

The table below reconciles the impairment allowance measured in line with IAS 39 to the IFRS 9 loss allowance recognised at 1 July 2018:

R million	**Loss allowance under IAS 39**	**Increase as a result of IFRS 9**	**Loss allowance under IFRS 9**
ASSETS			
Cash and cash equivalents	-	-	-
Accounts receivable	-	27	27
Amount due by holding company and fellow subsidiaries	**-**	83	83
Advances	**15 148**	**7 930**	**23 078**
- Residential mortgages	1 471	891	2 362
- Vehicle and asset finance	3 174	1 383	4 557
- Credit card	1 131	674	1 805
- Personal loans	2 750	1 938	4 688
- Other retail	1 211	812	2 023
- FNB commercial	1 552	1 905	3 457
- WesBank corporate	313	21	334
- RMB corporate banking	896	48	944
- RMB investment banking	2 476	233	2 709
- Group Treasury and other	174	25	199
Investment securities	-	50	50
Total	**15 148**	**8 090**	**23 238**

INCOME STATEMENT

for the year ended 30 June

R million	Notes	**2019** **IFRS 9**	2018 IAS 39*
Interest income calculated using effective interest rate		**100 943**	79 442
Interest on other financial instruments and similar income		**498**	-
Interest and similar income	1.1	**101 441**	79 442
Interest expense and similar charges	1.2	**(53 971)**	(38 279)
Net interest income before impairment of advances		**47 470**	41 163
Impairment and fair value of credit of advances		**(8 460)**	(6 659)
- Impairment on amortised cost advances	11	**(8 425)**	(7 445)
- Fair value of credit on advances	11	**(35)**	786
Net interest income after impairment of advances		**39 010**	34 504
Non-interest revenue	2	**36 052**	33 687
- Net fee and commission income	2.1	**25 956**	23 554
- Fee and commission income		**30 960**	28 222
- Fee and commission expense		**(5 004)**	(4 668)
Insurance income	2.2	**560**	709
Fair value gains or losses	2.3	**3 214**	5 364
- Fair value gains or losses		**7 965**	18 635
- Interest expense on fair value activities reallocated		**(4 751)**	(13 271)
Gains less losses from investing activities	2.4	**2 033**	399
Other non-interest revenue	2.5	**4 289**	3 661
Income from operations		**75 062**	68 191
Operating expenses	3	**(43 699)**	(40 697)
Income before indirect tax		**31 363**	27 494
Indirect tax	4.1	**(829)**	(805)
Profit before income tax		**30 534**	26 689
Income tax expense	4.2	**(7 465)**	(6 172)
Profit for the year		**23 069**	20 517
Attributable to			
Ordinary equityholders		**22 644**	20 283
Other equity instruments		**425**	234
Profit for the year		**23 069**	20 517

** The bank has not elected to restate comparatives as permitted by IFRS 9. Certain amounts will therefore not be comparable, as the amounts for 30 June 2019 have been prepared on an IFRS 9 basis and the amounts for 30 June 2018 on an IAS 39 basis. Refer to note 10 of the accounting policies for more details on the changes in classification and presentation of certain amounts.*

Non interest revenue on the face of the income statement has been expanded to show more granular information to align to industry practice. The following line items, previously included in the notes to the annual financial statements, are now included on the face of the income statement: fee and commission income and fee and commission expense, insurance income, fair value gains or losses and the related interest expense on fair value activities, gains less losses from investing activities and other non-interest revenue. The additional information is also presented for the comparative year. Management believe the additional information provides more relevant information given the different nature of the line items.

STATEMENT OF OTHER COMPREHENSIVE INCOME

for the year ended 30 June

R million	2019 IFRS 9	2018 IAS 39
Profit for the year	**23 069**	20 517
Items that may subsequently be reclassified to profit or loss		
Cash flow hedges	**498**	185
Gains arising during the year	**943**	325
Reclassification adjustments for amounts included in profit or loss	**(251)**	(68)
Deferred income tax	**(194)**	(72)
FVOCI debt reserve / available-for-sale assets	**7**	(731)
Gains/(losses) arising during the year	**11**	(848)
Reclassification adjustments for amounts included in profit or loss	**(1)**	(144)
Deferred income tax	**(3)**	261
Exchange differences on translating foreign operations	**42**	285
Gains arising during the year	**58**	285
Deferred income tax	**(16)**	-
Items that may not subsequently be reclassified to profit or loss		
Remeasurements on defined benefit post-employment plans	**(201)**	13
- (Losses)/gains arising during the year	**(279)**	18
- Deferred income tax	**78**	(5)
Equity investments designated at fair value through other comprehensive income	**1**	-
- Gains arising during the year	**1**	-
- Deferred income tax	**-**	-
Other comprehensive income/(loss) for the year	**347**	(248)
Total comprehensive income for the year	**23 416**	20 269
Attributable to		
Ordinary equityholders	**22 991**	20 035
Other equity instruments	**425**	234
Total comprehensive income for the year	**23 416**	20 269

STATEMENT OF FINANCIAL POSITION

as at 30 June

R million	Notes	**2019** **IFRS 9**	2018 IAS 39
ASSETS			
Cash and cash equivalents	6	**77 887**	71 511
Derivative financial instruments	7	**43 181**	41 386
Commodities	8	**21 176**	13 424
Investment securities	9	**176 942**	157 238
Advances	10	**894 543**	843 806
- Advances to customers		**831 097**	787 441
- Marketable advances		**63 446**	56 365
Accounts receivable	12	**4 963**	6 075
Current tax asset		**-**	94
Amounts due by holding company and fellow subsidiaries	13	**53 027**	52 419
Investments in associates		**66**	-
Property and equipment	14	**15 352**	15 379
Intangible assets	15	**636**	383
Deferred income tax asset	16	**3 631**	2 162
Total assets		**1 291 404**	1 203 877
EQUITY AND LIABILITIES			
Liabilities			
Short trading positions	17	**5 355**	9 981
Derivative financial instruments	7	**48 053**	50 238
Creditors, accruals and provisions	18	**16 035**	14 194
Current tax liability		**1 043**	86
Deposits	19	**1 058 439**	977 258
Employee liabilities	20	**11 517**	10 178
Other liabilities	21	**3 322**	4 381
Amounts due to holding company and fellow subsidiaries	13	**25 784**	19 993
Tier 2 liabilities	22	**22 428**	26 668
Total liabilities		**1 191 976**	1 112 977
Equity			
Ordinary shares	23.1	**4**	4
Share premium	23.1	**16 804**	16 804
Reserves		**77 655**	71 092
Capital and reserves attributable to ordinary equityholders		**94 463**	87 900
Other equity instruments	23.3	**4 965**	3 000
Total equity		**99 428**	90 900
Total equity and liabilities		**1 291 404**	1 203 877

STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June

	Ordinary share capital and ordinary equityholders' funds				
R million	Share capital	Share premium	**Share capital and share premium**	Defined benefit post-employment reserve	Cash flow hedge reserve
Balance as at 1 July 2017	4	16 804	**16 808**	(727)	158
Ordinary dividends	-	-	**-**	-	-
Distributions on other equity instruments	-	-	**-**	-	-
Movement in other reserves	-	-	**-**	-	-
Total comprehensive income for the year	-	-	**-**	13	185
Balance as at 30 June 2018	4	16 804	**16 808**	(714)	343
Adjustment for adoption of IFRS 9*	-	-	**-**	-	-
Restated balance as at 1 July 2018	4	16 804	**16 808**	(714)	343
Ordinary dividends	-	-	**-**	-	-
Distributions on other equity instruments	-	-	**-**	-	-
Movement in other reserves	-	-	**-**	-	-
Total comprehensive income for the year	-	-	**-**	(201)	498
Preference shares redeemed during the year	-	-	**-**	-	-
AT1 instruments issued	-	-	**-**	-	-
Balance as at 30 June 2019	4	16 804	**16 808**	(915)	841

* *Refer to accounting policy 10.*

** *Other reserves includes FVOCI.*

^ *Other equity instruments at 30 June 2019 include R4 965 million AT1 instruments and Rnil NCNR preference shares. NCNR preferences shares were reflected separately at 30 June 2018.*

Ordinary share capital and ordinary equityholders' funds						
Available-for-sale reserve	Foreign currency translation reserve	Other reserves**	Retained earnings	**Reserves attributable to ordinary equity-holders**	**Other equity instruments^**	**Total equity**
(493)	446	1 345	66 836	**67 565**	**3 000**	**87 373**
-	-	-	(16 508)	**(16 508)**	**-**	**(16 508)**
-	-	-	-	**-**	**(234)**	**(234)**
-	-	-	-	**-**	**-**	**-**
(731)	285	-	20 283	**20 035**	**234**	**20 269**
(1 224)	731	1 345	70 611	**71 092**	**3 000**	**90 900**
1 224	-	60	(5 067)	**(3 783)**	**-**	**(3 783)**
-	731	1 405	65 544	**67 309**	**3 000**	**87 117**
-	-	-	(12 645)	**(12 645)**	**-**	**(12 645)**
-	-	-	-	**-**	**(425)**	**(425)**
-	-	-	-	**-**	**-**	**-**
-	42	8	22 644	**22 991**	**425**	**23 416**
-	-	-	-	**-**	**(3 000)**	**(3 000)**
-	-	-	-	**-**	**4 965**	**4 965**
-	773	1 413	75 543	**77 655**	**4 965**	**99 428**

STATEMENT OF CASH FLOWS

for the year ended 30 June

R million	Note	2019 IFRS 9	2018 IAS 39*
Cash flows from operating activities			
Interest, fee and commission receipts		**128 628**	102 413
Trading and other income		**4 302**	3 681
Interest payments		**(52 649)**	(37 104)
Other operating expenses		**(35 322)**	(31 571)
Dividends received		**640**	3 368
Dividends paid		**(13 070)**	(16 742)
Taxation paid		**(8 018)**	(7 244)
Cash generated from operating activities		**24 511**	16 801
Movements in operating assets and liabilities		**(13 240)**	(3 201)
- Liquid assets and trading securities		**(16 183)**	(28 339)
- Advances		**(64 534)**	(47 181)
- Deposits		**79 911**	98 888
- Movement in accounts receivable and creditors		**2 676**	(153)
- Employee liabilities		**(4 962)**	(4 595)
- Other operating liabilities**		**(10 148)**	(21 821)
Net cash generated from operating activities		**11 271**	13 600
Cash flows from investing activities			
Acquisition of property and equipment		**(3 271)**	(3 208)
Proceeds on disposal of property and equipment		**840**	416
Acquisition of intangible assets		**(447)**	(241)
Net cash outflow from investing activities		**(2 878)**	(3 033)
Cash flows from financing activities			
Proceeds on the issue of other liabilities		**936**	439
Redemption of other liabilities		**(73)**	(413)
Proceeds from issue of Tier 2 liabilities		**2 625**	8 815
Capital repaid on Tier 2 liabilities		**(7 488)**	(1 857)
Proceeds from issue of other equity instruments		**1 965**	-
Net cash (outflow)/inflow from financing activities		**(2 035)**	6 984
Net increase in cash and cash equivalents		**6 358**	17 551
Cash and cash equivalents at the beginning of the year		**71 511**	53 924
Effect of exchange rate changes on cash and cash equivalents		**18**	36
Cash and cash equivalents at the end of the year	6	**77 887**	71 511

* *Interest payments relating to Tier 2 liabilities (R165 million) and other liabilities (R393 million) have been reclassified from financing activities and included in interest payments under cash generated from operating activities to align with how the bank is classifying interest payments in the cash flow statement.*

** *Includes the proceeds on the sale of the MotoNovo business per note 27.2.*

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 30 June

1 ANALYSIS OF INTEREST INCOME AND INTEREST EXPENSE

1.1 Interest and similar income

R million	**2019 IFRS 9**	2018 IAS 39
Instruments at fair value*	**498**	6 319
Instruments at amortised cost	**99 902**	72 363
Debt instruments at fair value through other comprehensive income	**39**	-
Hedging instruments	**1 002**	760
Interest and similar income	**101 441**	79 442
Advances	**83 954**	68 641
- Overdrafts and cash management accounts	**7 911**	7 713
- Term loans	**3 649**	3 174
- Card loans	**4 791**	4 398
- Instalment sales and hire purchase agreements	**14 312**	15 203
- Lease payments receivable	**330**	364
- Property finance	**22 677**	21 206
- Personal loans	**10 526**	8 745
- Preference share agreements	**37**	30
- Assets held under resale	**582**	271
- Investment bank term loans	**11 788**	3 209
- Other advances	**2 466**	2 447
- Marketable advances	**4 885**	1 881
Cash and cash equivalents	**1 977**	896
Investment securities	**7 795**	6 364
Unwinding of discounted present value on NPLs (IAS 39)	**-**	105
Amounts due by holding company and fellow subsidiaries**	**1 992**	1 555
Preference dividends received	**3 098**	548
Other	**2 625**	1 333
Interest and similar income	**101 441**	79 442

* *The 2018 amount includes interest earned on available-for-sale and fair value financial assets under IAS 39.*

** *Including preference funding dividends of R1 114 million (2018: R897 million).*

1 ANALYSIS OF INTEREST INCOME AND INTEREST EXPENSE continued

1.2 Interest expense and similar charges

R million	2019 IFRS 9	2018 IAS 39
Analysis of interest expense and similar charges		
Instruments at fair value through profit or loss	**(59)**	(221)
Instruments at amortised cost	**(53 058)**	(37 366)
Hedging instruments	**(751)**	(692)
Non-financial instruments	**(103)**	-
Interest expense and similar charges	**(53 971)**	(38 279)
Deposits from customers	**(34 076)**	(30 544)
- Current accounts	**(5 101)**	(4 806)
- Savings deposits	**(595)**	(377)
- Call deposits	**(12 011)**	(10 633)
- Fixed and notice deposits	**(16 369)**	(14 728)
Debt securities	**(17 984)**	(15 167)
- Negotiable certificates of deposit	**(4 659)**	(4 428)
- Fixed and floating rate notes	**(13 325)**	(10 739)
Other	**(1 709)**	(1 786)
- Repurchase agreements	**(974)**	(1 010)
- Securities lending	**(217)**	(276)
- Cash collateral and credit linked notes	**(518)**	(500)
Tier 2 liabilities	**(2 210)**	(2 013)
Amounts due to holding company and fellow subsidiaries	**(904)**	(797)
Other	**(1 839)**	(1 243)
Gross interest expense and similar charges	**(58 722)**	(51 550)
Less: interest expense on fair value activities reallocated	**4 751**	13 271
Interest expense and similar charges	**(53 971)**	(38 279)

2 NON-INTEREST REVENUE

R million	Notes	2019 IFRS 9	2018 IAS 39
Fee and commission income		**30 960**	28 222
Instruments at amortised cost		**26 037**	23 440
Instruments at fair value through profit or loss		**39**	156
Non-financial instruments		**4 884**	4 626
Fee and commission expenses		**(5 004)**	(4 668)
Net fee and commission income	2.1	**25 956**	23 554
Non-financial instruments		560	709
Insurance commission income	2.2	**560**	709
Instruments at fair value through profit or loss		**4 584**	5 686
- Mandatory (Held for trading)		**4 392**	991
- Designated		**192**	4 695
Other		**(1 370)**	(322)
Fair value gains or losses	2.3	**3 214**	5 364
Instruments at amortised cost		**94**	-
Instruments at fair value through other comprehensive income/(available-for-sale)		**1 936**	369
Other		**3**	30
Gains less losses from investing activities	2.4	**2 033**	399
Other non-interest revenue	2.5	**4 289**	3 661
Total non-interest revenue		**36 052**	33 687

2 NON-INTEREST REVENUE continued

2.1 Net fee and commission income

R million	**2019** **IFRS 9**	2018 IAS 39
Banking fee and commission income	**27 862**	25 023
- Card commissions	**4 432**	3 960
- Cash deposit fees	**1 702**	1 649
- Commitment fees	**1 364**	1 397
- Commissions: bills, drafts and cheques	**730**	676
- Exchange commissions	**1 841**	1 693
- Brokerage income	**149**	140
- Bank charges	**17 644**	15 508
- Transaction and service fees	**5 620**	5 126
- Documentation and administration fees	**8 522**	7 484
- Cash handling fees	**2 760**	2 244
- Other	**742**	654
Knowledge-based fee and commission income	**1 167**	1 384
Management, trust and fiduciary fees*	**1 177**	1 070
Fee and commission from service providers	**539**	518
Other non-banking fee and commission income	**215**	227
Fee and commission income	**30 960**	28 222
Transaction processing fees	**(1 141)**	(1 142)
Commission paid	**(236)**	(236)
Customer loyalty programmes	**(1 652)**	(1 586)
Cash sorting, handling and transportation charges	**(860)**	(745)
Card and cheque book related	**(477)**	(410)
ATM commissions paid	**(56)**	(51)
Other	**(582)**	(498)
Fee and commission expenses	**(5 004)**	(4 668)
Net fee and commission income	**25 956**	23 554

** The 2018 amount has been changed to reflect a reclassification of R279 million from insurance commissions to management, trust and fiduciary fees*

2.2 Insurance commission income

R million	**2019** **IFRS 9**	2018 IAS 39
Insurance commissions*	**278**	415
Insurance brokerage	**282**	294
Total insurance commission income	**560**	709

** The 2018 amount has been changed to reflect a reclassification of R279 million from insurance commissions to management, trust and fiduciary fees*

2 NON-INTEREST REVENUE continued

2.3 Fair value gains or losses

R million	2019 IFRS 9	2018 IAS 39
Dividend income on preference shares held	**588**	3 143
Other fair value gains or losses	**2 626**	2 221
Total fair value gains or losses*	**3 214**	5 364

** Includes Interest expense on fair value activities reallocated to interest expense*

2.4 Gains less losses from investing activities

R million	2019 IFRS 9	2018 IAS 39
Gain on disposal of investment securities	**2 015**	29
- Gains on disposal of debt instruments at amortised cost	**87**	-
- Gains on investment activities of a capital nature*	**1 928**	29
Impairment of debt investment securities at amortised cost	**7**	-
Reclassification from other comprehensive income on the derecognition/sale of debt instruments at FVOCI (available-for-sale)	**1**	144
Dividends on equity instruments at FVOCI	**7**	-
- On investments held at the end of the reporting period	**7**	-
Preference share dividends	**-**	21
Other dividends received	**1**	203
Preference dividends from insurance profit share arrangements	**2**	2
Total gains less losses from investing activities	**2 033**	399

** The impact of the gain on the Discovery transaction, gross of tax of R448 million.*

2.5 Other non-interest revenue

R million	2019 IFRS 9	2018 IAS 39
Gains on disposal of property and equipment	**53**	9
Recoveries from holding company and fellow subsidiaries	**1 807**	1 532
Rental income	**1 505**	1 399
Income related to direct sale and other operating lease transactions	**461**	243
- Sales	**1 499**	1 378
- Cost of sales	**(1 184)**	(1 262)
- Other operating lease transactions	**146**	127
Other income	**463**	478
Total other non-interest revenue	**4 289**	3 661

3 OPERATING EXPENSES

R million	Notes	2019	2018
Auditors' remuneration		**(348)**	(284)
- Audit fees		**(308)**	(259)
- Fees for other services		**(36)**	(23)
- Prior year under accrual		**(4)**	(2)
Operating lease charges		**(1 284)**	(1 260)
Staff costs		**(25 571)**	(23 719)
- Salaries, wages and allowances		**(17 103)**	(15 397)
- Contributions to employee benefit funds		**(1 609)**	(1 455)
- Defined contribution schemes		**(1 461)**	(1 334)
- Defined benefit schemes	20.1	**(148)**	(121)
- Social security levies		**(356)**	(334)
- Share-based payments	24	**(1 602)**	(1 902)
- Movement in short-term employee benefits liability		**(4 387)**	(4 038)
- Other staff costs		**(514)**	(593)
Other operating costs		**(16 496)**	(15 434)
- Amortisation of intangible assets	15	**(135)**	(94)
- Depreciation of property and equipment	14	**(2 499)**	(2 366)
- Impairments incurred		**(168)**	(175)
- Insurance		**(251)**	(235)
- Advertising and marketing		**(1 513)**	(1 364)
- Maintenance		**(1 246)**	(1 076)
- Property		**(822)**	(823)
- Computer		**(2 363)**	(2 029)
- Stationery, storage and delivery		**(311)**	(320)
- Telecommunications		**(349)**	(355)
- Professional fees		**(1 697)**	(1 601)
- Expenses paid to holding company and fellow subsidiaries	28	**(1 154)**	(1 206)
- Donations		**(259)**	(243)
- Assets costing less than R7 000		**(332)**	(278)
- Business travel		**(401)**	(355)
- Profit share expenses		**(638)**	(694)
- Bank charges		**(252)**	(162)
- Legal fees expenses		**(392)**	(324)
- Entertainment		**(219)**	(177)
- Subscriptions and memberships		**(165)**	(113)
- Training expenses		**(326)**	(240)
- Other operating expenditure		**(1 004)**	(1 204)
Total operating expenses		**(43 699)**	(40 697)

3 OPERATING EXPENSES continued

IMPAIRMENT INCURRED DURING 2019

Intangible assets

FNB impaired software with a carrying amount of R56 million to a value in use of Rnil as management determined that it would no longer meet their future needs.

Non-advance financial assets

Included within impairments is an amount of R52 million relating to ECL raised on non-advances.

3 OPERATING EXPENSES continued

DIRECTORS' AND PRESCRIBED OFFICERS' EMOLUMENTS

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

Non-executive directors' remuneration

	2019			2018		
	Services as directors			Services as directors		
R thousand	**FirstRand**	**Group**	**Total**	FirstRand	Group	Total
Independent non-executive directors paid in ZAR						
G Gelink	**2 424**	**1 729**	**4 153**	2 117	1 092	3 209
PM Goss (retired 30 April 2018)	**-**	**-**	**-**	774	79	853
NN Gwagwa	**1 108**	**-**	**1 108**	1 125	34	1 159
WR Jardine (chairman, appointed 1 April 2018)	**6 326**	**252**	**6 578**	2 751	97	2 848
RM Loubser	**2 611**	**2 183**	**4 794**	2 559	2 169	4 728
EG Matenge-Sebesho	**1 075**	**628**	**1 703**	1 031	623	1 654
AT Nzimande	**1 285**	**-**	**1 285**	1 109	-	1 109
BJ van der Ross (retired 30 November 2017)	**-**	**-**	**-**	459	241	700
L Von Zeuner (appointed 1 February 2019)	**539**	**-**	**539**	-	-	-
Non-executive directors paid in ZAR						
MS Bomela	**1 075**	**-**	**1 075**	983	34	1 017
HL Bosman (appointed 3 April 2017)	**943**	**125**	**1 068**	659	115	774
JP Burger (appointed 1 September 2018)	**1 431**	**725**	**2 156**	-	-	-
LL Dippenaar (chairman) (retired 31 March 2018)	**-**	**-**	**-**	3 718	215	3 933
JJ Durand	**394**	**-**	**394**	884	-	884
PK Harris (retired 30 April 2018)	**-**	**-**	**-**	444	-	444
F Knoetze	**1 291**	**1 199**	**2 490**	1 274	965	2 239
PJ Makosholo	**1 291**	**509**	**1 800**	1 243	488	1 731
TS Mashego	**954**	**126**	**1 080**	687	119	806
T Winterboer (appointed 20 April 2018)	**1 451**	**-**	**1 451**	314	-	314
Total non-executive directors paid in ZAR	**24 198**	**7 476**	**31 674**	22 131	6 271	28 402
Foreign domiciled independent non-executive directors paid in USD						
USD thousand						
JH van Greuning (retired 30 November 2017)	**-**	**-**	**-**	176	63	239

3 OPERATING EXPENSES continued

Directors' and prescribed officers' emoluments

Single figure

Cash package, retirement contributions and other allowances reflect what was paid to the prescribed officers during the year ended 30 June 2019 with the FirstRand annual remuneration cycle running from 1 August to 31 July.

Long-term incentive awards are made annually under the CIP and vesting is dependent on certain corporate targets being met on a cumulative basis over three years.

The following analysis provides two amounts per individual to accommodate the King IV alternative single figure view. King IV requires a specific single figure reporting, which is different to prior years' disclosure. This difference in reporting relates only to the disclosure of the long-term incentive award (CIP). Previous reporting reflected the CIP allocated in the financial year at original award value. For King IV single figure reporting, the value presented is the CIP settled in the financial year at original award value. As part of the reporting transition, both views have been provided.

The explanation of the basis of preparation of the remuneration tables is disclosed in the FirstRand annual integrated report.

3 OPERATING EXPENSES continued

R thousand	**2019**	2018	2017	2016	2015
JP Burger[1,2]					
Cash package paid during the year	**1 645**	9 836	9 328	8 461	7 040
Retirement contributions paid during the year	**28**	166	158	978	1 056
Other allowances	**39**	228	254	178	119
Guaranteed package	**1 712**	10 230	9 740	9 617	8 215
Performance related STI:					
Cash	**-**	14 674	13 900	13 165	11 770
- Within 6 months[3]	**-**	9 999	9 483	8 993	8 013
- Within 1 year	**-**	4 675	4 417	4 172	3 757
Share linked- deferred 2 and 3 years (BCIP)[4]	**-**	12 674	11 900	11 165	10 270
Variable pay	**-**	27 348	25 800	24 330	22 040
Total guaranteed and variable pay	**1 712**	37 578	35 540	33 947	30 255
Value of CIP awards allocated during the financial year[5]					
Conditional share plan/conditional incentive plan	**-**	19 500	18 350	15 630	11 800
Total reward including CIP	**1 712**	57 078	53 890	49 577	42 055
New single figure reporting					
Total guaranteed and variable pay	**1 712**	37 578	35 540	33 947	30 255
Value of CIP awards settled during the financial year[6]					
Conditional share plan/conditional incentive plan	**15 630**	11 800	10 800	9 630	9 000
Total reward including CIP (Single figure)	**17 342**	49 378	46 340	43 577	39 255
AP Pullinger[1,7]					
Cash package paid during the year	**8 493**	7 050	6 718	5 433	2 322
Retirement contributions paid during the year	**167**	139	132	1 075	464
Other allowances	**205**	164	150	154	133
Guaranteed package	**8 865**	7 353	7 000	6 662	2 919
Performance related STI:					
Cash	**12 200**	12 200	11 600	11 000	11 750
- Within 6 months[3]	**8 350**	8 350	7 950	7 550	8 000
- Within 1 year	**3 850**	3 850	3 650	3 450	3 750
Share linked- deferred 2 and 3 years (BCIP)[4]	**10 200**	10 200	9 600	9 000	10 250
Variable pay	**22 400**	22 400	21 200	20 000	22 000
Total guaranteed and variable pay	**31 265**	29 753	28 200	26 662	24 919
Value of CIP awards allocated during the financial year[5]					
Conditional share plan/conditional incentive plan	**18 500**	15 550	14 630	10 000	9 250
Total reward including CIP	**49 765**	45 303	42 830	36 662	34 169
New single figure reporting					
Total guaranteed and variable pay	**31 265**	29 753	28 200	26 662	24 919
Value of CIP awards settled during the financial year[6]					
Conditional share plan/conditional incentive plan	**10 000**	9 250	7 500	7 500	7 000
Total reward including CIP (Single figure)	**41 265**	39 003	35 700	34 162	31 919

3 OPERATING EXPENSES continued

R thousand	**2019**	2018	2017	2016	2015
M Vilakazi[1, 8]					
Cash package paid during the year	**6 468**	-	-	-	-
Retirement contributions paid during the year	**125**	-	-	-	-
Other allowances	**157**	-	-	-	-
Guaranteed package	**6 750**	-	-	-	-
Performance related STI:					
Cash	**5 875**	-	-	-	-
- Within 6 months[3]	**4 133**	-	-	-	-
- Within 1 year	**1 742**	-	-	-	-
Share linked- deferred 2 and 3 years (BCIP)[4]	**3 875**	-	-	-	-
Variable pay	**9 750**	-	-	-	-
Total guaranteed and variable pay	**16 500**	-	-	-	-
Value of CIP awards allocated during the financial year[5]					
Conditional share plan/conditional incentive plan	**8 500**	-	-	-	-
Total reward including CIP	**25 000**	-	-	-	-
Appointment award					
Sign-on cash bonus	**7 500**	-	-	-	-
Sign-on CIP allocation	**14 000**	-	-	-	-
Total appointment award	**21 500**	-	-	-	-
New single figure reporting					
Total guaranteed and variable pay	**16 500**	-	-	-	-
Sign-on cash bonus	**7 500**	-	-	-	-
Value of CIP awards settled during the financial year[6]					
Conditional share plan/conditional incentive plan	**-**	-	-	-	-
Total reward including CIP (Single figure)	**24 000**	-	-	-	-

3 OPERATING EXPENSES continued

R thousand	**2019**	2018	2017	2016	2015
HS Kellan[1]					
Cash package paid during the year	**7 175**	6 727	5 830	4 938	4 493
Retirement contributions paid during the year	**54**	51	40	405	402
Other allowances	**156**	143	130	118	108
Guaranteed package	**7 385**	6 921	6 000	5 461	5 003
Performance related STI:					
Cash	**6 167**	6 000	5 250	4 938	4 500
- Within 6 months[3]	**4 328**	4 217	3 717	3 509	3 167
- Within 1 year	**1 839**	1 783	1 533	1 429	1 333
Share linked- deferred 2 and 3 years (BCIP)[4]	**4 167**	4 000	3 250	2 938	3 000
Variable pay	**10 334**	10 000	8 500	7 876	7 500
Total guaranteed and variable pay	**17 719**	16 921	14 500	13 337	12 503
Value of CIP awards allocated during the financial year[5]					
Conditional share plan/conditional incentive plan	**12 000**	9 500	8 600	7 000	5 500
Total reward including CIP	**29 719**	26 421	23 100	20 337	18 003
New single figure reporting					
Total guaranteed and variable pay	**17 719**	16 921	14 500	13 336	12 503
Value of CIP awards settled during the financial year[6]					
Conditional share plan/conditional incentive plan	**7 000**	5 500	5 000	3 800	3 400
Total reward including CIP (Single figure)	**24 719**	22 421	19 500	17 136	15 903
J Formby (CEO RMB)[1, 9]					
Cash package paid during the year	**3 607**	3 174	3 013	2 630	-
Retirement contributions paid during the year	**60**	55	52	236	-
Other allowances	**194**	189	176	178	-
Guaranteed package	**3 861**	3 418	3 241	3 044	-
Performance related STI:					
Cash	**13 000**	13 000	12 250	10 625	-
- Within 6 months[3]	**8 883**	8 883	8 383	7 300	-
- Within 1 year	**4 117**	4 117	3 867	3 325	-
Share linked- deferred 2 and 3 years (BCIP)[4]	**11 000**	11 000	10 250	8 625	-
Variable pay	**24 000**	24 000	22 500	19 250	-
Total guaranteed and variable pay	**27 861**	27 418	25 741	22 294	-
Value of CIP awards allocated during the financial year[5]					
Conditional share plan/conditional incentive plan	**8 300**	7 900	7 500	5 000	-
Total reward including CIP	**36 161**	35 318	33 241	27 294	-
New single figure reporting					
Total guaranteed and variable pay	**27 861**	27 418	25 741	22 294	-
Value of CIP awards settled during the financial year[6]					
Conditional share plan/conditional incentive plan	**5 000**	2 900	2 865	3 300	-
Total reward including CIP (Single figure)	**32 861**	30 318	28 606	25 594	-

3 OPERATING EXPENSES continued

R thousand	**2019**	2018	2017	2016	2015
J Celliers (CEO FNB)[1]					
Cash package paid during the year	**7 364**	6 830	6 505	5 867	5 513
Retirement contributions paid during the year	**131**	122	116	582	551
Other allowances	**156**	143	130	118	108
Guaranteed package	**7 651**	7 095	6 751	6 567	6 172
Performance related STI:					
Cash	**8 287**	8 000	7 000	6 625	5 950
- Within 6 months[3]	**5 741**	5 550	4 883	4 633	4 133
- Within 1 year	**2 546**	2 450	2 117	1 992	1 817
Share linked- deferred 2 and 3 years (BCIP)[4]	**6 287**	6 000	5 000	4 625	4 450
Variable pay	**14 574**	14 000	12 000	11 250	10 400
Total guaranteed and variable pay	**22 225**	21 095	18 751	17 817	16 572
Value of CIP awards allocated during the financial year[5]					
Conditional share plan/conditional incentive plan	**14 500**	12 850	11 943	10 000	8 200
Total reward including CIP	**36 725**	33 945	30 694	27 817	24 772
New single figure reporting					
Total guaranteed and variable pay	**22 225**	21 095	18 751	17 817	16 572
Value of CIP awards settled during the financial year[6]					
Conditional share plan/conditional incentive plan	**10 000**	8 200	7 000	4 000	1 600
Total reward including CIP (Single figure)	**32 225**	29 295	25 751	21 817	18 172
C de Kock (CEO WesBank)[1]					
Cash package paid during the year	**5 046**	4 764	4 532	3 972	3 098
Retirement contributions paid during the year	**39**	39	35	347	291
Other allowances	**190**	175	136	98	69
Guaranteed package	**5 275**	4 978	4 703	4 417	3 458
Performance related STI:					
Cash	**4 750**	4 750	5 250	5 000	4 250
- Within 6 months[3]	**3 383**	3 383	3 717	3 550	3 000
- Within 1 year	**1 367**	1 367	1 533	1 450	1 250
Share linked- deferred 2 and 3 years (BCIP)[4]	**2 750**	2 750	3 250	3 000	2 750
Variable pay	**7 500**	7 500	8 500	8 000	7 000
Total guaranteed and variable pay	**12 775**	12 478	13 203	12 417	10 458
Value of CIP awards allocated during the financial year[5]					
Conditional share plan/conditional incentive plan	**9 844**	9 844	9 200	7 500	7 000
Total reward including CIP	**22 619**	22 322	22 403	19 917	17 458
New single figure reporting					
Total guaranteed and variable pay	**12 775**	12 478	13 203	12 417	10 458
Value of CIP awards settled during the financial year[6]					
Conditional share plan/conditional incentive plan	**7 500**	7 000	6 500	3 750	3 600
Total reward including CIP (Single figure)	**20 275**	19 478	19 703	16 167	14 058

3 OPERATING EXPENSES continued

GBP thousand	**2019**	2018	2017	2016	2015
P Monks[1][10]					
Cash package paid during the year	**754**	-	-	-	-
Retirement contributions paid during the year	**43**	-	-	-	-
Other allowances	**18**	-	-	-	-
Guaranteed package	**815**	-	-	-	-
Performance related STI:					
Cash	**382**	-	-	-	-
- Within 6 months[11]	**382**	-	-	-	-
- Within 1 year	**-**	-	-	-	-
Share linked- deferred over 3 years[12]	**188**	-	-	-	-
Variable pay	**570**	-	-	-	-
Total guaranteed and variable pay	**1 385**	-	-	-	-
Value of CIP awards during the year[5]	**-**	-	-	-	-
Conditional share plan/conditional incentive plan	**-**	-	-	-	-
Value of CIP allocated during the year[14]	**633**	-	-	-	-
Total reward including CIP	**2 018**	-	-	-	-
New single figure reporting					
Total guaranteed and variable pay	**1 385**	-	-	-	-
Value of CIP awards settled during the financial year[13]	**-**	-	-	-	-
Conditional share plan/conditional incentive plan	**-**	-	-	-	-
Value of CIP settled during the year	**296**	-	-	-	-
Total reward including CIP (Single figure)	**1 681**	-	-	-	-

3 OPERATING EXPENSES continued

1. *FirstRand defines its prescribed officers as the group CEO, group COO, financial director and the CEOs of the group's operating franchises (FNB, RMB, WesBank and Aldermore) that contribute materially to group performance. All of these officers are members of the group strategic executive committee and attend board meetings.*
2. *JP Burger was an executive director for two months in the financial year, and became a non-executive director effective 1 September 2018*
3. *Variable compensation paid in cash in respect of the year ended June, is paid (with an interest factor) in three tranches, during the following year ending on 30 June. i.e. August, December and June.*
4. *Variable compensation for performance in the current year deferred as share-linked awards, which vest over two periods, 50% after two years and 50% after three years from grant date, based on continued employment and good standing. Referred to as BCIP (bonus conditional incentive plan). Extended vesting was introduced in 2019, in prior years full BCIP vesting occurred after two years.*
5. *Long-term incentive awards are made annually under the CIP and vesting is dependent on certain corporate targets being met on a cumulative basis over three years. The value presented in the table is the CIP allocated in the financial year and is reflected at award value at grant date. Refer to note 24.*
6. *Long-term incentive awards are made annually under the CIP and vesting is dependent on certain corporate targets being met on a cumulative basis over three years. For King IV single figure reporting, the value presented in the table is the CIP settled in the financial year at original award value.*
7. *Prescribed officer (AP Pullinger) appointed effective 30 September 2015. Emoluments include earnings in prior role from 1 July 2015 to 30 September 2015*
8. *Prescribed officer (M Vilakazi) appointed effective 1 July 2018.*
9. *Prescribed officer (J Formby) appointed effective 30 September 2015. Emoluments include earnings in prior role from 1 July 2015 to 30 September 2015.*
10. *Prescribed officer (P Monks) appointed effective 1 July 2018.*
11. *The Aldermore performance related STI cash component is paid in full in August 2019*
12. *The Aldermore performance related STI share linked component is released in equal annual tranches over three years from grant date.*
13. *When FirstRand acquired Aldermore the long-term incentives under the Aldermore performance share plan (PSP) vested early but only on a pro rata basis. FirstRand therefore provided for the remainder of the award (to be paid on the original vesting date). As such, Phillip received an PSP Award in March 2016 which would have vested in March 2019. Due to the acquisition he received 2/3 of the vesting in March 18 (timed to the takeover) with the remainder vesting in March 2019 (amount reflected in table above).*
14. *Aldermore LTIP allocated amount is the on- target value assumed at 67% of maximum.*

3 OPERATING EXPENSES continued

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

Ownership of FirstRand Bank Limited

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

Co-investment scheme

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

R thousand	**2019**	2018
JR Formby	**2 873**	6 943
AP Pullinger	**1 774**	3 363

3 OPERATING EXPENSES continued

Long-term executive management retention scheme

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

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

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

Prescribed officers' outstanding incentives

The outstanding incentive disclosure has been prepared in the format required by King IV. King IV reporting requires the number of units of outstanding incentive schemes, the value of outstanding incentive schemes and value on settlement. The explanation of the basis of preparation of the remuneration tables is disclosed in the FirstRand annual integrated report.

3 OPERATING EXPENSES continued

	Issue date	Value at grant date R thousand	Settlement date
Conditional incentive plan			
AP Pullinger			
2016 BCIP	Sep-16	9 000	Sep-18
2017 BCIP	Sep-17	9 600	Sep-19
2018 BCIP	Sep-18	10 200	Sep-20
2019 BCIP (2 year deferral)	Sep-19	5 100	Sep-21
2019 BCIP (3 year deferral)	Sep-19	5 100	Sep-22
Balance BCIP		**39 000**	
2015 CIP	Sep-15	10 000	Sep-18
2016 CIP	Sep-16	14 630	Sep-19
2017 CIP	Sep-17	15 550	Sep-20
2018 CIP	Sep-18	18 500	Sep-21
Balance CIP		**58 680**	
Total outstanding incentives			
M Vilakazi			
2019 BCIP (2 year deferral)	Sep-19	1 937	Sep-21
2019 BCIP (3 year deferral)	Sep-19	1 938	Sep-22
Balance BCIP		**3 875**	
2018 CIP (appointment award)	Sep-18	14 000	Sep-21
2018 CIP (annual allocation)	Sep-18	8 500	Sep-21
Balance CIP		**22 500**	
Total outstanding incentives			

	Units					
	Opening balance	Awards made during year ^{3}	Number of awards settled in year	Number of awards forfeited in year	Closing number of awards^2 30-Jun-19	Value on settlement in 2019^1 R thousand
	190 258	-	(190 258)	-	-	13 980
	178 671	-	-	-	178 671	-
	153 103	-	-	-	153 103	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	522 032	-	(190 258)	-	331 774	13 980
	189 236	-	(189 236)	-	-	12 607
	309 274	-	-	-	309 274	-
	289 410	-	-	-	289 410	-
	-	277 688	-	-	277 688	-
	787 920	277 688	(189 236)	-	876 372	12 607
	1 309 952	277 688	(379 494)	-	1 208 146	26 587
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	210 142	-	-	210 142	-
	-	127 586	-	-	127 586	-
	-	337 728	-	-	337 728	-
	-	337 728	-	-	337 728	-

3 OPERATING EXPENSES continued

	Issue date	Value at grant date R thousand	Settlement date
Conditional incentive plan			
HS Kellan			
2016 BCIP	Sep-16	2 938	Sep-18
2017 BCIP	Sep-17	3 250	Sep-19
2018 BCIP	Sep-18	4 000	Sep-20
2019 BCIP (2 year deferral)	Sep-19	2 083	Sep-21
2019 BCIP (3 year deferral)	Sep-19	2 084	Sep-22
Balance BCIP		**14 355**	
2015 CIP	Sep-15	7 000	Sep-18
2016 CIP	Sep-16	8 600	Sep-19
2017 CIP	Sep-17	9 500	Sep-20
2018 CIP	Sep-18	12 000	Sep-21
Balance CIP		**37 100**	
Total outstanding incentives			
J Celliers			
2016 BCIP	Sep-16	4 625	Sep-18
2017 BCIP	Sep-17	5 000	Sep-19
2018 BCIP	Sep-18	6 000	Sep-20
2019 BCIP (2 year deferral)	Sep-19	3 143	Sep-21
2019 BCIP (3 year deferral)	Sep-19	3 144	Sep-22
Balance BCIP		**21 912**	
2015 CIP	Sep-15	10 000	Sep-18
2016 CIP	Sep-16	11 943	Sep-19
2017 CIP	Sep-17	12 850	Sep-20
2018 CIP	Sep-18	14 500	Sep-21
Balance CIP		**49 293**	
Total outstanding incentives			

	Units					
	Opening balance	Awards made during year [3]	Number of awards settled in year	Number of awards forfeited in year	Closing number of awards [2] 30-Jun-19	Value on settlement in 2019[1] R thousand
	62 098	-	(62 098)	-	-	4 563
	60 487	-	-	-	60 487	-
	60 041	-	-	-	60 041	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	182 626	-	(62 098)	-	120 528	4 563
	132 465	-	(132 465)	-	-	8 825
	181 802	-	-	-	181 802	-
	176 809	-	-	-	176 809	-
	-	180 122	-	-	180 122	-
	491 076	180 122	(132 465)	-	538 733	8 825
	673 702	180 122	(194 563)	-	659 261	13 388
	97 772	-	(97 772)	-	-	7 184
	93 057	-	-	-	93 057	-
	90 061	-	-	-	90 061	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	280 890	-	(97 772)	-	183 118	7 184
	189 236	-	(189 236)	-	-	12 607
	252 472	-	-	-	252 472	-
	239 158	-	-	-	239 158	-
	-	217 647	-	-	217 647	-
	680 866	217 647	(189 236)	-	709 277	12 607
	961 756	217 647	(287 008)	-	892 395	19 791

3 OPERATING EXPENSES continued

	Issue date	Value at grant date R thousand	Settlement date
Conditional incentive plan			
J Formby			
2016 BCIP	Sep-16	8 625	Sep-18
2017 BCIP	Sep-17	10 250	Sep-19
2018 BCIP	Sep-18	11 000 [6]	Sep-20
2019 BCIP (2 year deferral)	Sep-19	5 500	Sep-21
2019 BCIP (3 year deferral)	Sep-19	5 500	Sep-22
Balance BCIP		**40 875**	
2015 CIP	Sep-15	5 000	Sep-18
2016 CIP	Sep-16	7 500	Sep-19
2017 CIP	Sep-17	7 900	Sep-20
2018 CIP	Sep-18	8 300	Sep-21
Balance CIP		**28 700**	
Total outstanding incentives			
C De Kock			
2016 BCIP	Sep-16	3 000	Sep-18
2017 BCIP	Sep-17	3 250	Sep-19
2018 BCIP	Sep-18	2 750	Sep-20
2019 BCIP (2 year deferral)	Sep-19	1 375	Sep-21
2019 BCIP (3 year deferral)	Sep-19	1 375	Sep-22
Balance BCIP		**11 750**	
2015 CIP	Sep-15	7 500	Sep-18
2016 CIP	Sep-16	9 200	Sep-19
2017 CIP	Sep-17	9 844	Sep-20
2018 CIP	Sep-18	9 844	Sep-21
Balance CIP		**36 388**	
Total outstanding incentives			
P Monks (GBP'000)			
2019 BCIP (1 year deferral) [4]	Sep-19	62	Sep-20
2019 BCIP (2 year deferral)	Sep-19	63	Sep-21
2019 BCIP (3 year deferral)	Sep-19	63	Sep-22
Balance BCIP		**188**	
2018 CIP[5]	Sep-18	633	Sep-21
Balance CIP		**633**	
Total outstanding incentives		**821**	

	Units					
	Opening balance	Awards made during year [3]	Number of awards settled in year	Number of awards forfeited in year	Closing number of awards [2] 30-Jun-2019	Value on settlement in 2019[1] R thousand
	182 330	-	(182 330)	-	-	13 397
	190 768	-	-	-	190 768	-
	165 112	-	-	-	165 112	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	538 210	-	(182 330)	-	355 880	13 397
	94 618	-	(94 618)	-	-	6 304
	158 548	-	-	-	158 548	-
	147 031	-	-	-	147 031	-
	-	124 584	-	-	124 584	-
	400 197	124 584	(94 618)	-	430 163	6 304
	938 407	124 584	(276 948)	-	786 043	19 701
	63 420	-	(63 420)	-	-	4 660
	60 487	-	-	-	60 487	-
	41 278	-	-	-	41 278	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	165 185	-	(63 420)	-	101 765	4 660
	141 927	-	(141 927)	-	-	9 455
	194 486	-	-	-	194 486	-
	183 212	-	-	-	183 212	-
	-	147 760	-	-	147 760	-
	519 625	147 760	(141 927)	-	525 458	9 455
	684 810	147 760	(205 347)	-	627 223	14 115
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-

3 OPERATING EXPENSES continued

1. *The values at settlement date include share price growth and interest earned (BCIP) from grant date*
2. *BCIP vesting depends on continued employment over two years, from 2019 vesting occurs over two (50%) and three (50%) years. FirstRand does not apply graded vesting to CIP awards allocated before September 2019, for these incentive schemes, CIP vesting depends on certain corporate targets being met on a cumulative basis over three years. However, for both BCIP and CIP vesting the remuneration committee can apply judgement on vesting. As such a probability of vesting has not been applied to the unvested awards and the assumption is 100% vesting up until final remuneration committee decision. For information purposes, the maximum possible value of the unvested awards at June 2019 is the market value of the total number of shares at R68.55 per share on the last trading day of the financial year (28 June 2019).*
3. *FirstRand share-linked schemes are determined on a monetary value and not on the number of shares. The BCIP allocation is determined after year end, using the average three-day VWAP eight days after results announcement, therefore the number of BCIP units allocated in 2019, cannot be calculated at the time the annual financial statements are issued.*
4. *The Aldermore performance related STI share linked component is released in equal annual tranches over three years from grant date.*
5. *Aldermore long-term incentive awards are not convertible into units.*
6. *Prescribed officer's (J Formby) 2018 BCIP value in the outstanding incentives tables was incorrectly reflected as R4 million in the prior year report, it has been corrected to reflect R11 million.*

4 INDIRECT TAX AND INCOME TAX EXPENSE

	R million	2019	2018
4.1	**Indirect tax**		
	Value-added tax (net)*	**(829)**	(798)
	Securities transfer tax	**-**	(5)
	Other	**-**	(2)
	Total indirect tax	**(829)**	(805)
4.2	**Income tax expense**		
	South African income tax		
	Current	**(8 134)**	(6 455)
	- Current year	**(7 469)**	(6 446)
	- Prior year adjustment	**(665)**	(9)
	Deferred income tax	**786**	328
	- Current year	**98**	480
	- Prior year adjustment	**688**	(152)
	Total South African income tax	**(7 348)**	(6 127)
	Foreign company and withholding tax	**(2)**	(5)
	- Current year	**(2)**	(5)
	Total foreign company and withholding tax	**(2)**	(5)
	Capital gains tax	**(115)**	(26)
	- Deferred capital gains tax	**(115)**	(26)
	Total capital gains tax	**(115)**	(26)
	Customer tax adjustment account	**-**	(1)
	Withholding tax on dividends	**-**	(13)
	Total income tax expense	**(7 465)**	(6 172)

** The South African value added tax rate increased to 15% effective 1 April 2018 in accordance with legislation.*

Tax rate reconciliation

%	2019	2018
Standard rate of income tax	**28.0**	28.0
Total tax has been affected by:		
Dividend income	**(4.1)**	(4.6)
Prior year adjustments	**(0.1)**	0.6
Effect of capital gains tax rate	**0.4**	0.1
Disallowed expenditure	**0.5**	-
Other items	**(0.3)**	(1.0)
Effective rate of tax	**24.4**	23.1

5 ANALYSIS OF ASSETS AND LIABILITIES

5.1 Analysis of assets

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

	2019 (IFRS 9)		
		At fair value through profit or loss	
R million	**Amortised cost**	**Mandatory**	**Designated**
ASSETS			
Cash and cash equivalents	**77 887**	**-**	**-**
Derivative financial instruments	**-**	**38 345**	**-**
Investment securities	**107 712**	**67 758**	**43**
Advances	**817 862**	**67 696**	**8 985**
Accounts receivable	**3 139**	**-**	**-**
Amounts due by holding company and fellow subsidiaries	**50 694**	**2 333**	**-**
Non-financial assets	**-**	**-**	**-**
Total assets	**1 057 294**	**176 132**	**9 028**

	2018 (IAS 39)		
R million	Held for trading	Designated at fair value through profit or loss	Held-to-maturity
Cash and cash equivalents	-	-	-
Derivative financial instruments	38 800	-	-
Investment securities	45 241	16 942	31 226
Advances	-	171 556	6
Accounts receivable	-	-	-
Amounts due by holding company and fellow subsidiaries	603	-	-
Non-financial assets	-	-	-
Total assets	84 644	188 498	31 232

2019 (IFRS 9)							
	At fair value through other comprehensive income		Derivatives designated as hedging instruments	Non-financial instruments	Total carrying value	Current	Non-current
	Debt	Equity					
	-	-	-	-	77 887	77 887	-
	-	-	4 836	-	43 181	39 392	3 789
	624	805	-	-	176 942	86 398	90 544
	-	-	-	-	894 543	316 355	578 188
	-	-	-	1 824	4 963	3 415	1 548
	-	-	-	-	53 027	23 376	29 651
	-	-	-	40 861	40 861	21 176	19 685
	624	805	4 836	42 685	1 291 404	567 999	723 405

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

5 ANALYSIS OF ASSETS AND LIABILITIES CONTINUED

5.2 Analysis of liabilities

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

R million	**2019 (IFRS 9)**			
	Amortised cost	**At fair value through profit or loss**		
		Mandatory	**Designated**	
LIABILITIES				
Short trading positions	**-**	**5 355**	**-**	
Derivative financial instruments	**-**	**45 580**	**-**	
Creditors, accruals and provisions	**9 842**	**-**	**-**	
Deposits	**1 001 372**	**47 480**	**9 587**	
Other liabilities	**2 576**	**-**	**746**	
Amounts due to holding company and fellow subsidiaries	**23 096**	**2 688**	**-**	
Tier 2 liabilities	**22 428**	**-**	**-**	
Non-financial liabilities	**-**	**-**	**-**	
Total liabilities	**1 059 314**	**101 103**	**10 333**	

R million	2018 (IAS 39)			
	Held for trading	Designated at fair value through profit or loss	Financial liabilities at amortised cost	
Short trading positions	9 981	-	-	
Derivative financial instruments	48 832	-	-	
Creditors, accruals and provisions	-	-	7 729	
Deposits	-	94 704	882 554	
Other liabilities	-	3 608	773	
Amounts due to holding company and fellow subsidiaries	336	-	19 657	
Tier 2 liabilities	-	-	26 668	
Non-financial liabilities	-	-	-	
Total liabilities	59 149	98 312	937 381	

2019 (IFRS 9)

	Derivatives designated as hedging instruments	**Non-financial instruments**	**Total carrying value**	**Current**	**Non-current and non-contractual**
	-	**-**	**5 355**	**5 355**	**-**
	2 473	**-**	**48 053**	**46 186**	**1 867**
	-	**6 193**	**16 035**	**11 333**	**4 702**
	-	**-**	**1 058 439**	**887 472**	**170 967**
	-	**-**	**3 322**	**2 944**	**378**
	-	**-**	**25 784**	**25 761**	**23**
	-	**-**	**22 428**	**2 014**	**20 414**
	-	**12 560**	**12 560**	**8 232**	**4 328**
	2 473	**18 753**	**1 191 976**	**989 297**	**202 679**

2018 (IAS 39)

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

6 CASH AND CASH EQUIVALENTS

R million	2019	2018
Coins and bank notes	**7 468**	6 711
Money at call and short notice	**44 719**	41 322
Balances with central banks	**25 700**	23 478
Total cash and cash equivalents	**77 887**	71 511
Mandatory reserve balances included above	**25 559**	23 478

Banks are required to deposit a minimum average balance, calculated monthly, with the central bank, which is available for use by the bank subject to certain restrictions and limitations levelled by the central banks within the countries of operation. These deposits bear little or no interest.

7 DERIVATIVE FINANCIAL INSTRUMENTS

Use of derivatives

The bank transacts in derivatives for two purposes: to create risk management solutions for clients and to manage and hedge the group's own risk. The group's derivative activities give rise to open positions in portfolios of derivatives. These positions are managed constantly to ensure that they remain within acceptable risk levels, with offsetting deals being utilised to achieve this where necessary.

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

Held for trading activities

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

Qualifying for hedging accounting

Where all relevant criteria are met, derivatives are classified as held for hedging and hedge accounting is applied to remove the accounting mismatch between the derivative (hedge instrument) and the underlying instrument (hedged item). All qualifying hedging relationships are designated as either fair value or cash flow hedges. The bank applies hedge accounting in respect of interest rate risk and equity risk.

Interest rate risk and equity risk is managed by Bank's Treasury and ALCO under approved policies. For further details on the bank's approach to managing interest rate risk and market risk, refer to note 30.

7 DERIVATIVE FINANCIAL INSTRUMENTS continued

Derivative financial instruments - assets

	2019 IFRS 9		2018 IAS 39	
R million	**Notional**	**Fair value**	Notional	Fair value
Qualifying for hedge accounting	**290 753**	**4 835**	140 704	2 586
Held for trading	**6 393 607**	**38 346**	7 250 726	38 800
Currency derivatives	**389 645**	**9 991**	332 441	15 962
Interest rate derivatives	**5 922 417**	**26 294**	6 842 941	19 993
Equity derivatives	**28 444**	**1 749**	41 086	1 782
Commodity derivatives	**38 546**	**228**	14 984	537
Energy derivatives	**760**	**30**	1 364	438
Credit derivatives	**13 795**	**54**	17 910	88
Total	**6 684 360**	**43 181**	7 391 430	41 386
Exchange traded	**48 229**	**77**	19 593	250
Over the counter	**6 636 131**	**43 104**	7 371 837	41 136
Total	**6 684 360**	**43 181**	7 391 430	41 386

Derivative financial instruments - liabilities

	2019 IFRS 9		2018 IAS 39	
R million	**Notional**	**Fair value**	Notional	Fair value
Qualifying for hedge accounting	**204 423**	**2 473**	187 789	1 406
Held for trading	**6 616 705**	**45 580**	7 436 925	48 832
Currency derivatives	**385 291**	**15 067**	294 755	23 830
Interest rate derivatives	**6 147 405**	**25 502**	6 939 720	21 730
Equity derivatives	**49 930**	**3 413**	176 495	2 741
Commodity derivatives	**29 321**	**1 470**	21 578	235
Energy derivatives	**647**	**35**	1 322	288
Credit derivatives	**4 111**	**93**	3 055	8
Total	**6 821 128**	**48 053**	7 624 714	50 238
Exchange traded	**20 767**	**26**	43 144	36
Over the counter	**6 800 361**	**48 027**	7 581 570	50 202
Total	**6 821 128**	**48 053**	7 624 714	50 238

Refer to note 28 for information on related party derivatives.

7 DERIVATIVE FINANCIAL INSTRUMENTS continued

Fair value hedges

The bank defines fair value interest rate risk, as the potential adverse impact on NII due to the bank holding a portfolio of fixed rate long-dated term financial liabilities and investment securities, as well as fixed rate advances, which may result from:

- mismatching of re-pricing assets and liabilities and off-balance sheet positions;
- increase or decrease in the absolute levels of interest rates and/or changes in the shape of the term structure of interest rates when applied to the group's balance sheet; and
- uncertainties of occurrences of transactions against expected future transactions, for example increased defaults, prepayments or early deposit withdrawals.

For fair value hedge accounting purposes, the interest rate component is specified as the identifiable portion of each interest rate payment arising within the hedged period, with the credit spread over the benchmark interest rate being excluded from the definition of the hedged item, thereby only the changes in the fair value due to changes in the benchmark interest rate is being hedged.

The following are the identified hedge items subject to fair value interest rate risk hedge accounting:

- Specified identified long-term fixed rate investment securities as well as deposits and debt funding (known as funding liabilities). To manage the interest rate risk associated with such risk exposure, the bank uses a variety of cash collateralised fixed for floating interest rate swaps that match the critical terms and duration of the underlying risk exposure.

- Interest rate exposure on portfolios of fixed rate advances, whereby the bank has entered into interest rate swaps on a monthly basis. The exposure from this portfolio frequently changes due to new advances originated, contractual repayments and early repayments made by customers in each period. As a result, the bank has adopted a dynamic hedging strategy, which the bank refers to as macro hedging, to hedge the exposure profile by closing and entering into new swap agreements at each month-end. The bank uses the portfolio fair value to hedge the interest rate risk the bank is exposed to and recognises the fair value changes related to changes in the interest rate risk in the advances portfolio, and therefore reduces the NII volatility that would otherwise arise from changes in the fair value of the interest rate swaps alone.

The bank uses Regression Analysis for testing hedge effectiveness. One of the parameters used to test effectiveness for IFRS 9 is to evaluate whether the effectiveness ranges between 80% — 125%. The bank currently uses this parameter to determine hedge effectiveness.

In these hedge relationships, the main sources of ineffectiveness are:

- fixed interest rate of the hedged item differs to the fixed interest leg of the interest rate swap; and
- differences in maturities of the interest rate swap and the hedged item.

7 DERIVATIVE FINANCIAL INSTRUMENTS continued

At 30 June 2019, the bank held the following hedging instruments included in fair value hedging relationships. The following information includes the notional and fair value amounts relating to fair value hedges including the macro hedging portfolios.

	2019 IFRS 9		2018 IAS 39	
R million	**Notional amount**	**Fair value**	Notional amount	Fair value
Qualifying for hedge accounting				
Derivative assets				
- Interest rate derivatives	**25 753**	**368**	32 442	406
Total included in derivative assets	**25 753**	**368**	32 442	406
Derivative liabilities				
- Interest rate derivatives	**11 203**	**261**	32 018	322
Total included in derivative liabilities	**11 203**	**261**	32 018	322

The following table sets out the maturity of the hedging instruments included in fair value hedging relationships excluding maturity of the macro hedging portfolios.

R million	**2019 IFRS 9**
Interest rate risk	
Notional amount	
1 — 3 months	**-**
3 — 12 months	**7 463**
1 — 5 years	**8 692**
Over 5 years	**5 990**
Total	**22 145**

The following table sets out information about hedged items in fair value hedging relationships.

	2019 (IFRS 9)		
R million	**Advances***	**Investment securities**	**Funding liabilities**
Interest rate risk-hedged items			
Carrying amount excluding fair value hedge adjustments	**22 534**	**8 232**	**14 347**
Accumulated fair value hedge adjustments for instruments that are actively hedged	**5**	**237**	**293**
Total carrying amount of hedged items	**22 539**	**8 469**	**14 640**
Accumulated fair value hedge adjustments for items that have ceased to be adjusted for fair value hedge gains and losses	**-**	**-**	**(12)**

**All amounts related in advances relate to the macro hedging portfolio to which a dynamic hedging strategy is applied*

7 DERIVATIVE FINANCIAL INSTRUMENTS continued

The following amounts were recognised in non-interest revenue for the year in respect of fair value hedges.

R million	**2019** **IFRS 9**	2018 IAS 39
Interest rate risk		
Gains for the year arising from the change in fair value		
- On hedging instruments	**(196)**	60
- On hedged items attributable to the hedged risk	**178**	(72)
Total gains or losses arising from the change in fair value of fair value hedges	**(18)**	(12)

Cash flow hedges

The bank employs cash flow hedging to mitigate against changes in future cash flows on variable rate financial instruments with the objective of mitigating against changes in future cash flows resulting from changes in market rates. The following are the identified hedged items subject to cash flow hedge accounting:

- variable Jibar-linked advances (cash flow interest rate risk); and
- variable overnight financial liabilities (cash flow interest rate risk);
- the group's share incentive scheme (cash flow equity price risk).

The variable interest rate exposes the bank to basis risk. To manage this basis risk, the bank utilises cash collateralised floating for floating basis interest rate swaps that exhibit the same duration as the underlying risk exposure. Similar to fair value hedge accounting, only the interest component is specified as the identifiable component being hedged, with the credit spread being excluded from the definition of the hedged item.

Equity price risk exists within the group's share incentive schemes that enable key management personnel and employees to benefit from the performance of the group's share price. Refer to note 24 for further details. These share incentive schemes, which are cash-settled share-based payments expose the bank to equity price risk due to the volatility in the share price of FirstRand.

The bank uses the Hypothetical Derivative approach under the Dollar Offset method and Regression Analysis for testing hedge effectiveness. The hedge is considered to be effective if it is within the 80%-125% limits.

In these hedge relationships, the main sources of ineffectiveness are:

- basis differences arising from using Jibar-linked swaps to hedge overnight financial liabilities;
- designation of Jibar-linked advances between Jibar fixing dates; and
- actual number of shares that vest versus the vesting probabilities used in the calculation of the cash-settled share-based payment.

7 DERIVATIVE FINANCIAL INSTRUMENTS continued

At 30 June 2019, the bank held the following hedging instruments included in cash flow hedging relationships.

	2019 IFRS 9		2018 IAS 39	
R million	**Notional**	**Fair value**	Notional	Fair value
Qualifying for hedge accounting				
Derivative assets				
- Interest rate derivatives	**194 799**	**2 674**	105 991	987
- Equity derivatives	**3 108**	**1 793**	2 271	1 193
Total included in derivative assets	**197 907**	**4 467**	108 262	2 180
Derivative liabilities				
- Interest rate derivatives	**266 243**	**2 212**	155 771	1 084
Total included in derivative liabilities	**266 243**	**2 212**	155 771	1 084

The following table sets out the maturity of the hedging instruments included in cash flow hedging relationships:

	2019 (IFRS 9) Notional amount	
R million	**Interest rate risk**	**Equity risk**
1 - 3 months	**20 296**	**1 279**
3 - 12 months	**269 524**	**-**
1 - 5 years	**136 892**	**1 829**
Over 5 years	**34 330**	**-**
Total	**461 042**	**3 108**

The following disclosure is applicable for the cash flow hedge relationships under IAS 39 and relates only to the comparative period. The cash flows (gross of tax) on the underlying hedged items are expected to impact profit or loss as follows:

	2018 (IAS 39)	
R million	Assets	Liabilities
0 - 3 months	21	(113)
4 - 12 months	162	(548)
1 - 5 years	697	(660)
Over 5 years	116	(151)
Total	996	(1 472)

	2018 (IAS 39)	
R million	Assets	Liabilities
0 - 3 months	(135)	40
4 - 12 months	(531)	212
1 - 5 years	(705)	696
Over 5 years	(157)	105
Total	(1 528)	1 053

7 DERIVATIVE FINANCIAL INSTRUMENTS continued

The following amounts were recognised in profit or loss for the year in respect of cash flow hedges.

	2019 (IFRS 9)		
R million	**Interest rate risk**	**Equity risk***	**Total**
Changes in fair value of hedging instruments	**1 229**	**-**	1 229
Changes in fair value of hedged item	**(1 096)**	**-**	(1 096)
Ineffectiveness recognised in net interest income	**133**	**-**	133

** The equity risk is zero due to the bank over hedging the position. For June 2018, the hedge ineffectiveness recognised in profit or loss (net of tax) was R37 million.*

The following amounts relate to hedged items included in cash flow hedges.

	2019 (IFRS 9)		
R million	**Interest rate risk**	**Equity risk**	**Total**
Cash flow hedge reserve – opening balance	**35**	**308**	**343**
Gains or (losses) recognised in reserves in the current year	**638**	**562**	**1 200**
Deferred tax on reserve movement	**(207)**	**13**	**(194)**
Transfers to income statement	**102**	**(610)**	**(508)**
Hedged item affects profit or loss	**33**	**(610)**	**(577)**
Hedged future cash flows no longer expected to occur	**69**	**-**	**69**
Closing balance	**568**	**273**	**841**
Cash flow hedge reserve relating to continuing hedges	**514**	**273**	**787**
Cash flow hedge reserve relating to discontinued hedges	**54**	**-**	**54**
Closing balance	**568**	**273**	**841**

8 COMMODITIES

R million	**2019 IFRS 9**	2018 IAS 39
Agricultural commodities	**2 197**	2 720
Gold	**18 910**	10 343
Platinum-group metals	**69**	361
Total commodities	**21 176**	13 424

9 INVESTMENT SECURITIES

R million	2019 IFRS 9	2018 IAS 39
Negotiable certificates of deposit	**49**	3 047
Treasury bills	**36 316**	19 390
Other government and government guaranteed stock	**112 775**	108 638
Other dated securities	**21 023**	18 377
Other undated securities	**-**	108
Equities	**6 823**	7 615
Other	**-**	63
Total gross carrying amount of investment securities	**176 986**	157 238
Loss allowance on investment securities	**(44)**	-
Total investment securities	**176 942**	157 238
Analysis of investment securities		
Equities – fair value through profit or loss	**6 018**	6 307
Equities – fair value through other comprehensive income	**805**	1 308
Debt	**170 119**	149 623
Amortised cost*	**107 711**	31 226
Fair value through other comprehensive income**	**624**	62 521
Fair value through profit or loss***	**61 784**	55 876
Total investment securities	**176 942**	157 238

* *For 2018 figure which is reported in terms of IAS 39, includes debt instruments classified as held-to-maturity and loans and receivables.*

** *For 2018 figure which is reported in terms of IAS 39, includes debt instruments classified as available for sale financial assets.*

*** *For 2018 figure which is reported in terms of IAS 39, includes debt instruments classified as held for trading and designated at fair value through profit or loss.*

9 INVESTMENT SECURITIES continued

Analysis of the impairment stages of investment securities

	Amortised cost		FVOCI (debt)	
R million	Carrying amount	ECL allowance	Carrying amount	ECL allowance
Stage 1	**106 431**	**19**	**624**	**-**
Stage 2	**1 324**	**25**	**-**	**-**
Stage 3	**-**	**-**	**-**	**-**
Total investment securities	**107 755**	**44**	**624**	**-**

There were no movements between impairment stages during the current financial year. The increase in ECL is due to acquisitions of investment securities measured at amortised cost during the year.

Repurchase agreements

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

	Investment securities and other investments		Associated liabilities recognised in deposits	
R million	**2019 IFRS 9**	2018 IAS 39	**2019 IFRS 9**	2018 IAS 39
Repurchase agreements	**21 918**	13 754	**22 066**	15 030

Both the transferred investments and related deposits under repurchase agreements are either measured at amortised cost or designated at fair value through profit or loss.

The fair value of the investment securities is R21 941 million (2018: R13 719 million) and the associated liabilities is R22 083 million (2018: R14 998 million).

Equity investments designated at fair value through other comprehensive income

The fair value of strategic equity investments of the bank which have been classified as non-trading equity instruments designated on initial recognition as measured at fair value through other comprehensive income (FVOCI) is R804 million. These strategic investments mainly relate to the bank's investments in African Bank and CLS Group Holdings. The FVOCI measurement was deemed more appropriate because these are strategic investments that the bank does not intend on selling.

10 ADVANCES

R million	Notes	2019 IFRS 9	2018 IAS 39
Value of advances		**921 846**	860 453
IAS 39 Contractual interest suspended		**-**	(1 499)
Gross value of advances		**921 846**	858 954
Category analysis			
Overdrafts and cash management accounts		**73 823**	66 226
Term loans		**48 218**	43 407
Card loans		**34 829**	29 154
Instalment sales, hire purchase agreements and lease payments receivable		**144 623**	144 518
Property finance		**240 650**	224 057
Personal loans		**49 470**	41 273
Preference share agreements		**41 808**	42 587
Assets under agreement to resell		**44 263**	32 203
Investment bank term loans		**144 837**	147 388
Long-term loans to group associates and joint ventures		**449**	515
Other		**35 430**	31 261
Total customer advances		**858 400**	802 589
Marketable advances		**63 446**	56 365
Gross value of advances		**921 846**	858 954
Impairment of advances	11	**(27 303)**	(15 148)
Net advances		**894 543**	843 806

10 ADVANCES continued

Analysis of instalment sale, hire purchase and lease payments receivable

	2019 (IFRS 9)			2018 (IAS 39)		
	Instalment sale, hire purchase and lease payments receivable	**Less: unearned finance charges**	**Net**	Instalment sale, hire purchase and lease payments receivable	Less: unearned finance charges	Net
Within 1 year	**45 783**	**(8 582)**	**37 201**	45 873	(8 521)	37 352
Between 1 and 5 years	**122 688**	**(24 815)**	**97 873**	122 295	(23 891)	98 404
More than 5 years	**12 359**	**(2 810)**	**9 549**	11 469	(2 667)	8 802
Subtotal	**180 830**	**(36 207)**	**144 623**	179 637	(35 079)	144 558
Less: interest in suspense			**-**			(40)
Total net instalment sales, hire purchase and lease payments receivable			**144 623**			144 518

Under the terms of the lease agreements, no contingent rentals are payable. The agreements relate to motor vehicles and equipment. The accumulated allowance for uncollectable minimum lease payments receivable included in the allowance for impairments at the reporting date is R35 million (2018: R44 million).

10 ADVANCES continued

Transfers and derecognition of advances in structured transactions

Transfers without derecognition 2019

Advances with the carrying amount of R21 billion have been transferred in terms of a structured transaction. The associated liability is an intercompany liability between the bank and a subsidiary of FirstRand Investment Holdings Limited.

Transfers without derecognition 2018

Structured transactions

Advances with the carrying amount of R8 billion have been transferred in terms of structured transactions. Associated liabilities are Rnil.

Securitisation transactions

The following bankruptcy remote structured entities were created over the course of many years to facilitate traditional securitisation transactions for WesBank retail instalment sale advances (Nitro 5, Nitro 6, Nitro 7 Programme and FAST) and for MotoNovo retail hire purchase advances (Turbo Finance 5, 6, 7, 8, MotoFirst, MotoPark and MotoHouse). These structured entities are consolidated by the FirstRand Group. The table below discloses the carrying amount of advances held by the structured entities at 30 June as well as the financial liabilities incurred to fund the initial acquisitions. Some structured entities' financial assets have early settled and the cash held by the structured entities will be utilised to purchase additional advances post year end.

Name of securitisation	Established	Initial transaction value	Carrying value of assets 2019 IFRS 9	Carrying value of assets 2018 IAS 39	Carrying value of liabilities 2019 IFRS 9	Carrying value of liabilities 2018 IAS 39
Turbo Finance 5	September 2014	£420 million	**-**	5	**-**	4
Nitro 5	June 2015	R2.4 billion	**5**	311	**5**	311
MotoHouse	August 2015	£295 million	**-**	6 182	**-**	6 082
Turbo Finance 6	February 2016	£392 million	**1 256**	3 315	**1 165**	3 216
Fast	July 2016	R6.8 billion	**9 608**	9 734	**9 266**	9 474
Turbo Finance 7	November 2016	£568 million	**2 662**	6 352	**2 507**	6 148
MotoFirst	October 2017	£400 million	**14 436**	12 512	**14 515**	12 574
MotoPark	January 2018	£540 million	**10 893**	11 072	**10 872**	10 939
Nitro 6	April 2018	R2 billion	**1 262**	1 954	**1 214**	1 945
Turbo Finance 8	November 2018	£400 million	**5 696**	-	**5 702**	-
Nitro 7 Programme	May 2019	R2 billion	**2 090**	-	**2 095**	-

10 ADVANCES continued

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

	2019				
Type of continuing involvement	**Carrying amount of continuing involvement recognised in the statement of financial position**		**Fair value of continuing involvement**		**Maximum exposure to loss**
R million	**Assets**	**Liabilities**	**Assets**	**Liabilities**	
Traditional securitisation transactions					
Derivative financial instruments	**133**	**54**	**133**	**54**	**5 260**
Investment securities and other investments	**11 117**	**2 014**	**11 120**	**2 014**	**11 117**
Other structured transactions					
Marketable advances	**633**	**-**	**633**	**-**	**633**
Total	**11 883**	**2 068**	**11 886**	**2 068**	**17 010**

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

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

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

10 ADVANCES continued

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

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

	2019			2018		
	Type of continuing involvement			Type of continuing involvement		
R million	**Traditional securitisation transactions**	**Other structured transactions**	**Total**	Traditional securitisation transactions	Other structured transactions	Total
Gain at date of transfer	**2 635**	**-**	**2 635**	2 267	-	2 267
Income recognised from continuing involvement	**2 667**	**118**	**2 785**	1 221	105	1 326
- for the current period	**677**	**18**	**695**	(92)	21	(71)
- cumulative	**1 990**	**100**	**2 090**	1 313	84	1 397

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

	2019			2018		
	Type of continuing involvement			Type of continuing involvement		
R million	**Traditional securitisation transactions**	**Other structured transactions**	**Total**	Traditional securitisation transactions	Other structured transactions	Total
Total undiscounted cash outflows	**41 361**	**-**	**41 361**	44 253	-	44 253
- Call	**61**	**-**	**61**	31	-	31
- 1 to 3 months	**104**	**-**	**104**	65	-	65
- 4 to 12 months	**1 624**	**-**	**1 624**	982	-	982
- 1 to 5 years	**39 520**	**-**	**39 520**	43 110	-	43 110
- Over 5 years	**52**	**-**	**52**	65	-	65

10 ADVANCES continued

Analysis of advances per class

R million	**Total**	**Amortised cost**	**Fair value through profit or loss**	**Loss allowance**
Residential mortgages	**214 623**	**217 164**	**-**	**(2 541)**
Vehicle asset finance	**112 923**	**117 668**	**-**	**(4 745)**
Total retail secured	**327 546**	**334 832**	**-**	**(7 286)**
Credit card	**29 560**	**32 443**	**-**	**(2 883)**
Personal loans	**33 094**	**39 947**	**-**	**(6 853)**
Other retail	**15 183**	**17 908**	**-**	**(2 725)**
Total retail unsecured	**77 837**	**90 298**	**-**	**(12 461)**
FNB Commercial	**101 316**	**105 054**	**74**	**(3 812)**
WesBank corporate	**27 607**	**27 945**	**-**	**(338)**
RMB corporate banking	**57 244**	**57 827**	**105**	**(688)**
RMB investment banking	**264 442**	**191 258**	**75 701**	**(2 517)**
Total corporate and commercial	**450 609**	**382 084**	**75 880**	**(7 355)**
Group treasury and other	**38 551**	**37 636**	**1 116**	**(201)**
Total advances	**894 543**	**844 850**	**76 996**	**(27 303)**

10 ADVANCES continued

Analysis of total gross advances per impairment stage

R million	Total	Stage 1	Stage 2	Stage 3	Purchased or originated credit-impaired#
Amortised cost	809 572	715 414	68 397	25 761	-
Fair value	51 389	49 476	1 795	118	-
Amount as at 1 July 2018 (IFRS 9)	860 961	764 890	70 192	25 879	-
Transfers between stages*	-	(4 007)	(11 571)	15 578	-
- Stage 1	-	32 479	(31 292)	(1 187)	-
- Stage 2	-	(27 185)	28 519	(1 334)	-
- Stage 3	-	(9 301)	(8 798)	18 099	-
Acquisition/(disposal) of advances^	(14 221)	(14 375)	53	101	-
Exchange rate differences	394	350	26	18	-
Bad debts written off**	(7 386)	-	-	(7 386)	-
Changes due to modifications that did not result in derecognition	(625)	-	(29)	(596)	-
Net changes in exposure***	82 723	82 986	(874)	506	105
Amount as at 30 June 2019 (IFRS 9)	921 846	829 844	57 797	34 100	105
Amortised cost	844 850	753 825	56 998	34 027	-
Fair value	76 996	76 019	799	73	105

* *Transfers between stages reflect opening balances based on the advances stage at the end of the financial year. Exposures can be transferred directly from stage 3 to stage 1 if the curing requirements are satisfied at the end of the financial year. The new exposures originated during the financial year (which are not included in the opening balance) and any other change in the advance balance not addressed in one of the specific reconciliation lines, are included in net new business and changes in exposure based on the stage at the end of the financial year.*

^ *This includes the disposal of VAF advances of R4 533 million as part of the group's securitisation transactions, the disposal of the MotoNovo advances of R1 237 million and RMB loan syndications of R 9 768 million. For loan syndications, the full exposure is recognised in new business and changes in exposure and the sell down to other external parties are recognised as disposals.*

** *Decrease in the advance as a result of write-off is equal to the decrease ECL as exposures are 100% provided for before being written off. The total contractual amount outstanding on financial assets that were written off during the period and are still subject to enforcement activity is R6 164 million.*

*** *Net changes in exposure reflects the net of the following items:*

- *Net settlements and other changes in exposures of advances included in the opening balance, which occurred during the financial year; and*
- *New business originated during the financial year and the transfers between stages of the new origination.*

The total gross carrying amount of undiscounted expected credit losses at initial recognition on purchased or originated credit impaired financial assets recognised during the reporting period is Rnil.

11 IMPAIRMENT OF ADVANCES

	2019		2018	
	IFRS 9		IAS 39	
R million	**Amortised cost**	**Fair value**	Amortised cost	Fair value
Increase in loss allowance (IAS 39 impairment provision)	**(10 216)**	**(35)**	**(9 733)**	785
Recoveries of bad debts	**2 416**	**-**	**2 288**	1
Modification loss	**(625)**	**-**	**-**	-
Impairment of advances recognised during the period	**(8 425)**	**(35)**	**(7 445)**	786

11 IMPAIRMENT OF ADVANCES continued

Reconciliation of the loss allowance on total advances

R million	Total	Stage 1	Stage 2	Stage 3
Amount as at 1 July 2018 (IFRS 9)	23 078	5 260	6 533	11 285
Transfers between stages*	-	1 382	(3 008)	1 626
- Stage 1	-	1 958	(1 721)	(237)
- Stage 2	-	(336)	480	(144)
- Stage 3	-	(240)	(1 767)	2 007
Acquisition/(disposal) of advances	(154)	(191)	2	35
Exchange rate differences	(1)	20	(113)	92
Bad debts written off^	(7 386)	-	-	(7 386)
Current period provision created/(released)**	10 251	(512)	2 249	8 514
Interest on stage 3 advances***	1 515	-	-	1 515
Amount as at 30 June 2019	27 303	5 959	5 663	15 681
Residential mortgages	2 541	360	510	1 671
Vehicle asset finance	4 745	764	1 403	2 578
Total retail secured	7 286	1 124	1 913	4 249
Credit card	2 883	631	383	1 869
Personal loans	6 853	1 440	979	4 434
Other retail	2 725	724	464	1 537
Total retail unsecured	12 461	2 795	1 826	7 840
FNB Commercial	3 812	733	776	2 303
WesBank corporate	338	92	67	179
RMB corporate banking	688	231	364	93
RMB investment banking	2 517	785	715	1 017
Total corporate and commercial	7 355	1 841	1 922	3 592
Group treasury and other	201	199	2	-
Total ECL	27 303	5 959	5 663	15 681
On/Off balance sheet exposure#	27 168	5 891	5 598	15 679
Letters of credit and guarantees	135	68	65	2

* *Transfers between stages reflect opening balances based on the ECL stage at the end of the financial year. Exposures can be transferred directly from stage 3 to stage 1 if the curing requirements are satisfied at the end of the financial year. The ECL recognised on new exposures originated during the financial year (which are not included in the opening balance) are included in current period provision created/(released) based on the stage at the end of the financial year.*

^ *Decrease in the advance as a result of write-off is equal to the decrease in ECL as exposures are 100% provided for before being written off.*

** *Net changes in exposure reflects the net of the following items:*

- *Flow on ECL impact of net settlements and changes in exposures of advances included in the opening balance, including changes in ECL on amended off-balances sheet facilities;*
- *The increase or decrease of the opening balance ECL due to transfers between the stages, for example the release of ECL on transfer from stage 2 to stage 1 or the increase in ECL on transfer from stage 1 to stage 2;*
- *ECL on new business originated during the financial year and the transfers between stages of the new origination; and*
- *Impact of changes in models and risk parameters, including forward looking macroeconomic information.*

*** *Interest on stage 3 advances is recognised based on the net carrying amount. The amount is reflective of the interest not recognised on stage 3 assets.*

Includes committed undrawn facilities as the credit risk of the undrawn component is managed and monitored with the drawn component as a single exposure, referred to as the exposure at default (EAD). The EAD on the entire facility is used to calculate the ECL and is therefore included in the ECL allowance.

11 IMPAIRMENT OF ADVANCES continued

Reconciliation of the loss allowance on amortised cost advances per class

	Retail secured		Retail unsecured		
R million	Residential mortgages	Vehicle asset finance	Credit card	Personal loans	Other retail
Amount as at 1 July 2018 (IFRS 9)	**2 362**	**4 557**	**1 805**	**4 688**	**2 023**
- Stage 1	**269**	**841**	**535**	**1 223**	**637**
- Stage 2	**378**	**1 328**	**274**	**1 017**	**546**
- Stage 3	**1 715**	**2 388**	**996**	**2 448**	**840**
Acquisition/(disposal) of advances	**-**	**38**	**-**	**-**	**-**
Exchange rate differences	**122**	**(20)**	**4**	**4**	**(124)**
Bad debts written off	**(362)**	**(2 741)**	**(611)**	**(1 518)**	**(885)**
Current period provision created/(released)*	**317**	**2 587**	**1 540**	**3 362**	**1 453**
- Stage 1	**(96)**	**(291)**	**16**	**165**	**20**
- Stage 2	**322**	**568**	**326**	**405**	**273**
- Stage 3	**91**	**2 310**	**1 198**	**2 792**	**1 160**
Interest on stage 3 advances	**102**	**324**	**145**	**317**	**258**
Amount as at 30 June 2019	**2 541**	**4 745**	**2 883**	**6 853**	**2 725**
Stage 1	**360**	**764**	**631**	**1 440**	**724**
Stage 2	**510**	**1 403**	**383**	**979**	**464**
Stage 3	**1 671**	**2 578**	**1 869**	**4 434**	**1 537**

* *Current period provision created/(released) reflects the net of the following items:*

- *Flow on ECL impact of net settlements and changes in exposures of advances included in the opening balance, including changes in ECL on amended off-balances sheet facilities;*
- *The increase or decrease of the opening balance ECL due to transfers between the stages, for example the release of ECL on transfer from stage 2 to stage 1 or the increase in ECL on transfer from stage 1 to stage 2;*
- *ECL on new business originated during the financial year and the transfers between stages of the new origination; and*
- *Impact of changes in models and risk parameters, including forward looking macroeconomic information.*

	Corporate and commercial					
	FNB Commercial	WesBank corporate	RMB Corporate banking	RMB investment banking	Group Treasury and other	Total
	3 457	333	945	2 603	25	22 798
	680	93	163	527	25	4 993
	879	91	723	1 284	-	6 520
	1 898	149	59	792	-	11 285
	-	-	-	(193)	-	(155)
	(1)	1	1	19	(3)	3
	(751)	(104)	(322)	(94)	-	(7 388)
	829	99	25	4	-	10 216
	(221)	(36)	(51)	78	-	(416)
	448	4	(77)	(152)	-	2 117
	602	131	153	78	-	8 515
	278	9	39	42	-	1 514
	3 812	338	688	2 381	22	26 988
	733	92	231	696	22	5 693
	776	67	364	668	-	5 614
	2 303	179	93	1 017	-	15 681

11 IMPAIRMENT OF ADVANCES continued

Reconciliation of the loss allowance on fair value advances per class

R million	RMB investment banking	Group Treasury and other	Total
Amount as at 1 July 2018 (IFRS 9)	**106**	**174**	**280**
- Stage 1	**93**	**174**	**267**
- Stage 2	**13**	**-**	**13**
- Stage 3	**-**	**-**	**-**
Current period provision created/(released)	**30**	**5**	**35**
- Stage 1	**(76)**	**(20)**	**(96)**
- Stage 2	**106**	**25**	**131**
- Stage 3	**-**	**-**	**-**
Amount as at 30 June 2019	**136**	**179**	**315**
- Stage 1	**89**	**177**	**266**
- Stage 2	**47**	**2**	**49**
- Stage 3	**-**	**-**	**-**

11 IMPAIRMENT OF ADVANCES continued

At the end of the financial year ended 30 June 2019, loans where collateral held exceeded the carrying amount of the advance (i.e where no coverage was calculated) amounted to R1 528 million.

The change in ECL in the current financial year amounted to R10 251 million, the majority of which relates to growth in the gross carrying amount from the restated opening balance at 1 July 2018 in the following significant classes of advances:

- Residential mortgages – R11 534 million;
- Credit card – R5 288 million driven by client acquisition, upsell and facility utilisation;
- Personal loans – R6 850 million driven by client acquisition and displacement of other credit providers to main banked clients;
- FNB commercial – R10 521 million following strong growth in agric and commercial property finance;
- RMB corporate bank – R11 296 million due to client acquisition and increased working capital utilisation and
- RMB investment bank – R36 105 million, net of the sale to RMB Mauritius (refer to the related party note 28 for more information), driven by strong growth in the cross-border advances book and reverse repurchase advances, which have no ECL.

The ECL charge for the year was also impacted by changes in models and recalibrations and changes to the forward-looking macroeconomic inputs. These increased the impairment provision for the year by R979 million and R216 million respectively. The impact of forward-looking macroeconomic inputs is more negative in the nearer term, with the most significant impact on stage 1 ECL. The longer term outlook improves resulting in a muted impact on stage 2 and 3 ECL.

11 IMPAIRMENT OF ADVANCES continued

	2018 (IAS 39)				
	FNB		RMB		
R million	Retail	Commercial	Investment banking	Corporate banking	
Analysis of movement in impairment of advances per class of advance					
Balance as at 1 July 2017	5 011	1 558	2 795	891	
Amounts written off	(3 904)	(750)	(251)	-	
Acquisition of business	-	-	-	-	
Disposal of advances	-	-	-	-	
Transfers from/(to) other divisions	(2)	2	-	-	
Reclassifications	-	-	-	-	
Exchange rate differences	(1)	1	37	-	
Unwinding of discounted present value on NPLs	(105)	-	-	-	
Net new impairments created/(released)	4 365	741	(105)	5	
Balance at 30 June 2018	5 364	1 552	2 476	896	

	2018 (IAS 39)				
	WesBank	FCC and other	Total impairment	Specific impairment	Portfolio impairment
	3 918	405	14 578	7 148	7 430
	(3 445)	-	(8 350)	(8 350)	-
	16	-	16	16	-
	-	-	-	-	-
	-	-	-	-	-
	-	-	-	72	(72)
	25	(1)	61	35	26
	-	-	(105)	(105)	-
	4 172	(230)	8 948	8 852	96
	4 686	174	15 148	7 668	7 480

11 IMPAIRMENT OF ADVANCES continued

Modified advances measured at amortised cost

The following table provides information on advances that were modified while they had a loss allowance measured at an amount equal to lifetime expected credit losses.

	2019 (IFRS 9)			
	Stage 2 and Stage 3			
R million	**Gross carrying amount before modification**	**Loss allowance before modification**	**Amortised cost before modification**	**Modification gain/(loss)**
Residential mortgages	**569**	**(55)**	**514**	**(24)**
Vehicle asset finance	**846**	**(232)**	**614**	**(132)**
Total retail secured	**1 415**	**(287)**	**1 128**	**(156)**
Credit card	**283**	**(190)**	**93**	**(67)**
Personal loans	**1 057**	**(336)**	**721**	**(363)**
Other retail	**41**	**(29)**	**12**	**(46)**
Total retail unsecured	**1 381**	**(555)**	**826**	**(476)**
FNB Commercial	**202**	**(17)**	**185**	**7**
Total corporate and commercial	**202**	**(17)**	**185**	**7**
Total	**2 998**	**(859)**	**2 139**	**(625)**

12 ACCOUNTS RECEIVABLE

R million	**2019 IFRS 9**	2018 IAS 39
Items in transit	**1 952**	2 581
Interest and commission accrued	**19**	72
Prepayments	**1 300**	1 152
Sundry debtors	**402**	697
Fair value hedge interest rate component*	**-**	147
Other accounts receivable	**1 376**	1 426
Total gross carrying amount of accounts receivable	**5 049**	6 075
- Financial	**3 139**	4 242
- Non-financial	**1 910**	1 833
Loss allowance on financial accounts receivable	**(86)**	-
Stage 2	**(24)**	-
Stage 3	**(62)**	-
Total accounts receivable	**4 963**	6 075

* *In the prior period, fair value hedge interest rate component consisted of the gain or loss attributable to designated hedge items which formed part of the macro hedging portfolios as well as other hedged items. Under IFRS 9, the bank changed its presentation to include the fair value hedge interest rate component with the balance of the hedge item as opposed to a separate line in accounts receivable. Refer to Note 7 for details.*

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

R million	**2019** **IFRS 9**	2018 IAS 39
Amounts due by holding company	**3 145**	2 941
Amounts due by fellow subsidiaries	**49 986**	49 478
Impairment provision on amounts due to fellow subsidiaries	**(104)**	-
Total amounts due by holding company and fellow subsidiaries	**53 027**	52 419
Amounts due to holding company	**(826)**	(524)
Amounts due to fellow subsidiaries	**(24 958)**	(19 469)
Total amounts due to holding company and fellow subsidiaries	**(25 784)**	(19 993)
Net amounts due by holding company and fellow subsidiaries	**27 243**	32 426

Expected credit losses R83 million was recognised on 1 July 2018. As at 30 June 2019 all amounts due from fellow subsidiaries are classified as stage 1 and there have been no transfers between the impairment stages during the year.

These loans have no fixed terms of repayment and carry varying rates of interest. Loans to fellow subsidiaries amounting to R23 million (2018: R23 million) are subject to subordination agreements until such time that their assets, fairly valued, exceed their liabilities.

Included in the above amounts are the following:

	Amounts due by fellow subsidiaries		**Amounts due to fellow subsidiaries**	
R million	**Notional**	**Fair value**	**Notional**	**Fair value**
2019				
Derivative financial instruments	**955 342**	**2 333**	**(847 358)**	**(2 688)**
2018				
Derivative financial instruments	201 471	603	(182 615)	(336)

14 PROPERTY AND EQUIPMENT

R million	Property				
	Freehold property	**Leasehold premises**	**Computer equipment**	**Other equipment**	**Total**
Net book value as at 1 July 2017	6 892	1 846	2 444	3 746	14 928
- Cost	8 281	3 422	6 662	6 646	25 011
- Accumulated depreciation	(1 389)	(1 576)	(4 218)	(2 900)	(10 083)
Movement for the year	146	(110)	63	352	451
- Acquisitions	411	151	1 003	1 643	3 208
- Disposals	(19)	(15)	(7)	(366)	(407)
- Exchange rate difference	-	10	6	-	16
- Depreciation charge for the year	(246)	(256)	(939)	(925)	(2 366)
Net book value as at 30 June 2018	**7 038**	**1 736**	**2 507**	**4 098**	**15 379**
- Cost	**8 631**	**3 470**	**7 405**	**7 259**	**26 765**
- Accumulated depreciation	**(1 593)**	**(1 734)**	**(4 898)**	**(3 161)**	**(11 386)**
Movement for the year	**114**	**(221)**	**61**	**19**	**(27)**
- Acquisitions	**418**	**157**	**1 098**	**1 598**	**3 271**
- Disposals	**(53)**	**(131)**	**(33)**	**(570)**	**(787)**
- Exchange rate difference	**-**	**5**	**2**	**-**	**7**
- Depreciation charge for the year	**(251)**	**(252)**	**(987)**	**(1 009)**	**(2 499)**
- Impairments recognised	**-**	**-**	**(19)**	**-**	**(19)**
Net book value as at 30 June 2019	**7 152**	**1 515**	**2 568**	**4 117**	**15 352**
- Cost	**8 949**	**3 334**	**7 615**	**7 739**	**27 637**
- Accumulated depreciation	**(1 797)**	**(1 819)**	**(5 047)**	**(3 622)**	**(12 285)**

15 INTANGIBLE ASSETS

	Goodwill	Software and develop-ment costs	Trade-marks	Other	Total
Net book value as at 1 July 2017	-	233	-	-	233
Cost	104	1 018	66	94	1 282
Accumulated amortisation and impairment	(104)	(785)	(66)	(94)	(1 049)
Movements for the year	-	150	-	-	150
Acquisitions/capitalisations	-	241	-	-	241
Amortisation for the year	-	(94)	-	-	(94)
Other	-	3	-	-	3
Net book value as at 30 June 2018	**-**	**383**	**-**	**-**	**383**
Cost	**104**	**1 262**	**70**	**28**	**1 464**
Accumulated amortisation and impairment	**(104)**	**(879)**	**(70)**	**(28)**	**(1 081)**
Movements for the year	**-**	**253**	**-**	**-**	**253**
Acquisitions/capitalisations	**-**	**447**	**-**	**-**	**447**
Exchange rate differences	**-**	**4**	**-**	**-**	**4**
Amortisation for the year	**-**	**(135)**	**-**	**-**	**(135)**
Impairments recognised	**-**	**(63)**	**-**	**-**	**(63)**
Net book value as at 30 June 2019	**-**	**636**	**-**	**-**	**636**
Cost	**104**	**1 603**	**-**	**-**	**1 707**
Accumulated amortisation and impairment	**(104)**	**(967)**	**-**	**-**	**(1 071)**

16 DEFERRED INCOME TAX

Movement on the deferred income tax account is shown below.

R million	2019	2018
Deferred income tax asset		
Opening balance	**2 162**	1 676
IFRS 9 adjustments	**917**	-
Recognised in profit or loss	**671**	302
Deferred income tax on amounts charged directly to other comprehensive income	**(119)**	184
Total deferred income tax asset	**3 631**	2 162

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

	As at 30 June		Recognised in income statement	
R million	2019	2018	2019	2018
Deferred income tax asset				
Provision for loan impairment	**2 723**	999	**436**	227
Provision for post-employment benefits	**445**	326	**41**	33
Other provisions	**595**	(295)	**855**	(213)
Cash flow hedges	**(327)**	(133)	**-**	-
Equity instruments designated at FVOCI	**(2)**	-	**-**	-
Instalment credit assets	**(154)**	(132)	**(22)**	(13)
FVOCI debt reserve/available-for-sale securities	**(18)**	486	**-**	-
Capital gains tax	**182**	258	**(115)**	134
Share-based payments	**929**	811	**118**	209
Deferred revenue liability	**(572)**	-	**(572)**	-
Other	**(170)**	(158)	**(70)**	(75)
Total deferred income tax asset	**3 631**	2 162	**671**	302

17 SHORT TRADING POSITIONS

R million	2019 IFRS 9	2018 IAS 39
Government and government guaranteed	**5 246**	9 860
Other dated securities	**109**	121
Total short trading positions	**5 355**	9 981

18 CREDITORS, ACCRUALS AND PROVISIONS

R million	**2019** **IFRS 9**	2018 IAS 39
Net unclaimed balances	**286**	247
Fair value hedge interest rate component*	**5**	139
Other accounts payable	**10 832**	8 760
Withholding tax for employees	**554**	489
Customer loyalty programme liability	**1 820**	1 748
Operating lease liability arising from straight lining of lease payments	**106**	103
Payments received in advance	**413**	397
Accrued expenses	**1 760**	2 032
Audit fees accrued	**138**	136
Provisions (including litigation and claims)	**121**	143
Total creditors, accruals and provisions	**16 035**	14 194

* *In the prior period, the fair value hedge interest rate component included the fair value attributed to designated hedged items, as well as the fair value attributed to the macro hedging portfolio. Under IFRS 9, the bank changed its presentation to present the fair value hedge interest component with the hedged item as opposed to a separate line in creditors, accruals and provisions. The balance reflected in the current year relates only to the fair value hedge interest rate component of the macro hedging portfolio.*

Reconciliation of provisions

R million	**2019**	2018
Opening balance	**143**	131
Exchange rate differences	**-**	1
Charge to profit or loss	**4**	27
- Additional provisions created	**45**	48
- Unused provisions reversed	**(41)**	(21)
Utilised	**(26)**	(16)
Closing balance	**121**	143

19 DEPOSITS

R million	2019 IFRS 9	2018 IAS 39
Category analysis		
Deposits from customers	**752 452**	720 331
- Current accounts	**213 464**	199 505
- Call deposits	**220 734**	185 966
- Savings accounts	**15 876**	12 702
- Fixed and notice deposits	**254 944**	277 211
- Other deposits from customers	**47 434**	44 947
Debt securities	**243 955**	218 133
- Negotiable certificates of deposit	**59 408**	56 990
- Fixed and floating rate notes	**183 169**	159 789
- Exchange traded notes	**1 378**	1 354
Other	**62 032**	38 794
- Repurchase agreement	**40 896**	19 334
- Securities lending	**1 802**	3 509
- Cash collateral and credit linked notes	**19 334**	15 951
Total deposits	**1 058 439**	977 258

20 EMPLOYEE LIABILITIES AND RELATED ASSETS

R million	Notes	2019	2018
Liability for short-term employee benefits		**6 581**	6 087
Share-based payment liability		**3 319**	2 897
Defined benefit post-employment liability	20.1	**1 591**	1 165
Other long-term employee liabilities		**26**	29
Defined contribution post-employment liability	20.2	**-**	-
Total employee liabilities		**11 517**	10 178

20 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

20.1 Defined benefit post-employment liability

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

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

20 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

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

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

20 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

Asset-liability matching strategies

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

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

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

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

Risks associated with the plans

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

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

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

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

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

20 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

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

		2019			2018		
R million	Note	**Pension**	**Medical**	**Total**	Pension	Medical	Total
Post-employment benefit fund liability							
Present value of funded obligation		**8 280**	**3 468**	**11 748**	8 787	3 099	11 886
Fair value of plan assets		**(8 560)**	**(1 877)**	**(10 437)**	(8 947)	(1 934)	(10 881)
- Listed equity instruments		**(2 244)**	**-**	**(2 244)**	(2 009)	-	(2 009)
- Cash and cash equivalents		**(390)**	**-**	**(390)**	(311)	-	(311)
- Debt instruments		**(2 743)**	**-**	**(2 743)**	(3 088)	-	(3 088)
- Derivatives		**(45)**	**-**	**(45)**	(22)	-	(22)
- Qualifying insurance policy		**-**	**(1 877)**	**(1 877)**	-	(1 934)	(1 934)
- Other		**(3 138)**	**-**	**(3 138)**	(3 517)	-	(3 517)
Total employee (asset)/liability		**(280)**	**1 591**	**1 311**	(160)	1 165	1 005
Limitation imposed by IAS 19 asset ceiling		**280**	**-**	**280**	160	-	160
Total net post-employment liability		**-**	**1 591**	**1 591**	-	1 165	1 165
Total amount recognised in the income statement (included in staff costs)	**3**	**(11)**	**159**	**148**	(29)	150	121
Movement in post-employment benefit fund liability							
Present value opening balance		**-**	**1 166**	**1 166**	-	1 067	1 067
Current service cost		**4**	**38**	**42**	4	41	45
Net interest		**(14)**	**121**	**107**	(33)	109	76
Remeasurements recognised in OCI		**14**	**266**	**280**	33	(51)	(18)
Benefits paid		**(2)**	**-**	**(2)**	(2)	-	(2)
Employer contributions		**(1)**	**-**	**(1)**	(1)	-	(1)
Employee contributions		**(1)**	**-**	**(1)**	(1)	-	(1)
Closing balance		**-**	**1 591**	**1 591**	-	1 166	1 166

20 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

	2019			2018		
R million	**Pension**	**Medical***	**Total**	Pension	Medical*	Total
Movement in the fair value of plan assets						
Opening balance	**8 947**	**1 934**	**10 881**	9 311	2 024	11 335
Interest income	**799**	**182**	**981**	843	205	1 048
Remeasurements recognised in OCI	**(485)**	**(59)**	**(544)**	(531)	(127)	(658)
Employer contributions	**1**	**-**	**1**	1	-	1
Employee contributions	**1**	**-**	**1**	1	-	1
Benefits paid and settlements	**(703)**	**(180)**	**(883)**	(678)	(168)	(846)
Closing balance	**8 560**	**1 877**	**10 437**	8 947	1 934	10 881
Reconciliation of limitation imposed by IAS 19 asset ceiling						
Opening balance	**160**	**-**	**160**	352	-	352
Interest income	**15**	**-**	**15**	33	-	33
Change in the asset ceiling, excluding amounts included in interest	**105**	**-**	**105**	(225)	-	(225)
Closing balance	**280**	**-**	**280**	160	-	160
The actual return on plan assets	**10%**	**-**		9%	-	
Included in plan assets were the following						
FirstRand Limited ordinary shares with fair value of	**56**	**-**	**56**	23	-	23
Total exposure to FirstRand	**56**	**-**	**56**	23	-	23

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

20 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

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

	2019		2018	
%	**Pension**	**Medical**	Pension	Medical
The principal actuarial assumptions used for accounting purposes were:				
Expected rates of salary increases %	**7.6**	**-**	7.7	-
Long-term increase in health cost %	**-**	**8.3**	-	7.7
The effects of a 1% movement in the assumed health cost rate (medical) and the expected rates of salary (pension) were:				
Increase of 1%				
- Effect on the aggregate of the current service cost and interest cost (R million)	**0.5**	**51.7**	0.7	48.8
- Effect on the defined benefit obligation (R million)	**3.7**	**456.0**	6.0	405.3
Decrease of 1%				
- Effect on the aggregate of the current service cost and interest cost (R million)	**(0.5)**	**(42.7)**	(0.7)	(40.3)
- Effect on the defined benefit obligation (R million)	**(3.4)**	**(379.6)**	(5.3)	(337.5)
The effects of a change in the average life expectancy of a pensioner retiring at age 65:				
Increase in life expectancy by 1 year				
- Effect on the defined benefit obligation (R million)	**291.9**	**120.5**	315.5	103.8
- Effect on the aggregate of the current service cost and interest cost (R million)	**28.3**	**12.5**	29.3	11.5
Decrease in life expectancy by 1 year				
- Effect on the defined benefit obligation (R million)	**(289.4)**	**(119.4)**	(312.3)	(103.1)
- Effect on the aggregate of the current service cost and interest cost (R million)	**(28.1)**	**(12.4)**	(29.1)	(11.4)
Estimated contributions expected to be paid to the plan in the next annual period (R million)	**3**	**-**	4	-
Net increase in rate used to value pensions, allowing for pension increases (%)	**3.2**	**1.1**	2.7	2.2
The weighted average duration of the defined benefit obligation is (years)	**8.7**	**13.0**	9.2	13.0

20 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

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

R million	Within 1 year	Between 1 and 5 years	More than 5 years	Total
Pension benefits	**770**	**3 161**	**26 147**	**30 078**
Post-employment medical benefits	**190**	**928**	**19 662**	**20 780**
Total as at 30 June 2019	**960**	**4 089**	**45 809**	**50 858**

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

Mortality rates

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

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

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

	2019	2018
Pension		
The number of employees covered by the scheme		
Active members	**19**	30
Pensioners	**5 845**	6 189
Deferred plan participants	**250**	261
Total	**6 114**	6 480
Defined benefit obligation amounts due to		
Benefits vested at the end of the reporting period (R million)	**8 280**	8 787
- Amounts attributable to future salary increases (R million)	**69**	102
- Other benefits (R million)	**8 211**	8 685
Medical		
The number of employees covered by the scheme		
Active members	**3 362**	3 649
Pensioners	**5 181**	5 215
Total employees	**8 543**	8 864
Benefits vested at the end of the reporting period (R million)	**2 360**	2 115
Benefits accrued but not vested at the end of the reporting period (R million)	**1 108**	985
Conditional benefits (R million)	**1 108**	985
Other benefits (R million)	**2 360**	2 115

20 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

20.2 Defined contribution post-employment liability

R million	2019	2018
Post-employment defined contribution plan		
Present value of obligation	**20 022**	19 326
Present value of assets	**(20 022)**	(19 326)
Net defined contribution liability	**-**	-

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

21 OTHER LIABILITIES

R million	2019 IFRS 9	2018 IAS 39
Funding liabilities	**3 322**	4 381
- Preference shares*	**2 898**	4 150
- Other	**424**	231
Total other liabilities	**3 322**	4 381

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

Other liabilities reconciliation

R million	2019	2018*
Opening balance	**4 381**	4 225
Cash flow movements	**516**	(294)
- Proceeds on the issue of other liabilities	**936**	439
- Redemption of other liabilities	**(73)**	(413)
- Interest paid	**(347)**	(320)
Non-cash flow movements	**(1 575)**	450
- Fair value movement	**(1 920)**	117
- Interest accrued	**345**	333
Total other liabilities	**3 322**	4 381

** The allocation of the movements in other liabilities has been updated to align with the disaggregated line items disclosed in the reconciliation for 2019.*

22 TIER 2 LIABILITIES

Subordinated bonds issued on or after 1 January 2013 can, at the discretion of the Registrar, either be written down or converted into the most subordinated form of equity upon the occurrence of a trigger event, being the point at which the issuing bank is considered to be non-viable.

R million	Maturity dates	Interest rate	2019 IFRS 9	2018 IAS 39
Fixed rate bonds			**8 709**	10 279
- ZAR denominated	14 April 2021 to 3 June 2026	10% — 12.35%	**1 359**	3 372
- USD denominated	23 April 2023	6.25%	**7 350**	6 907
Floating rate bonds			**13 719**	16 389
- ZAR denominated	6 March 2020 to 3 June 2024	Three-month JIBAR 239bps — 400 bps	**13 719**	13 973
- USD denominated	9 April 2019	Six-month LIBOR + 415 bps	**-**	2 416
Total Tier 2 liabilities			**22 428**	26 668

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

R million	2019 IFRS 9	2018 IAS 39
With conversion feature	**-**	2 416
With write-off feature	**22 428**	21 076

Tier 2 liabilities reconciliation

R million	2019 IFRS 9	2018 IAS 39
Opening balance	**26 668**	18 370
Cash flow movements	**(4 863)**	7 278
- Proceeds from the issue of Tier 2 liabilities	**2 625**	8 815
- Capital repaid on Tier 2 liabilities*	**(7 488)**	(1 537)
Non-cash flow movements	**623**	1 020
- Foreign exchange	**50**	855
- Interest accrued	**573**	165
Tier 2 liabilities	**22 428**	26 668

** In the prior year this amount included interest accrued which is now separately disclosed.*

23 SHARE CAPITAL AND SHARE PREMIUM

23.1 Share capital and share premium classified as equity

R million	**2019**	2018
Ordinary shares		
Authorised		
2 000 000 shares with a par value of R2 per share	**4**	4
Issued		
1 866 836 (2018: 1 866 836) ordinary shares with a par value of R2 per share.	**4**	4
All issued share capital is fully paid up		
Ordinary share premium	**16 804**	16 804
Total issued ordinary share capital and share premium	**16 808**	16 808

23.2 NCNR preference shares

Authorised		
nil (2018: 100 000 000) NCNR preference shares with a par value of R0.01 per share	**-**	1
Issued		
nil (2018: 3 000 000) NCNR preference shares with par value of R0.01 per share to FirstRand Limited	**-**	-
The NCNR preference shares were issued at varying interest rates which are linked to the prime lending rate as determined by the bank		
NCNR preference share premium	**-**	3 000

During the financial year, the memorandum of incorporation of FirstRand Bank was amended to convert the NCNR to non-cumulative redeemable preference shares. After conversion, all of the shares were redeemed at their carrying amount of R3 billion.

23.3 Additional Tier 1 capital

R million	**Rate**	**2019**	2018
FRB24*	3 month JIBAR plus 445 basis points	**2 265**	-
FRB25	3 month JIBAR plus 440 basis points	**2 700**	-
Total additional Tier 1 capital		**4 965**	-

** It should be noted that FRB24 was incorrectly reflected in Tier 1 and Tier 2 Liabilities in the interim results as at 31 December 2018.*

During November 2018, and March 2019, FirstRand Bank issued Basel III compliant Additional Tier 1 Capital Notes. The notes are perpetual and pay non-cumulative coupons on a quarterly basis. The total coupon paid during the financial year was R255 million. Current tax of R58 million (2018: nil) relating to the AT1 instruments was recognised directly in equity resulting in an aggregated net equity impact of R197 million (2018: Rnil million).

23 SHARE CAPITAL AND SHARE PREMIUM continued

The terms of the notes give FirstRand Bank the option to redeem the notes if they are no longer eligible to qualify as a relevant class of Regulatory Capital. In addition, FirstRand Bank may write off the notes, in whole or in part, with no obligation to pay compensation to the noteholders upon the earlier of:

- SARB giving notice that a write-off is required without which FirstRand would become non-viable; or
- a decision being made to inject public sector capital, or equivalent support, without which FirstRand Bank would become non-viable, as determined by the SARB.

The AT1 notes have been classified as equity as the terms do not contain an obligation to pay cash to the noteholders.

24 REMUNERATION SCHEMES

R million	Note	**2019**	2018
The charge to profit or loss for share-based payments is as follows:			
Conditional incentive plan		**1 602**	1 902
Amount included in profit or loss	**3**	**1 602**	1 902

24 REMUNERATION SCHEMES continued

Description of the scheme and vesting conditions:

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

Corporate performance targets

The FirstRand Limited group remuneration committee sets the CPTs for each award based on the expected macroeconomic conditions and group earnings forecasts over the performance period. These criteria vary from year to year, depending on the expectations for each of the aforementioned variables. For vesting, the criteria must be met or exceeded. However, to avoid a binary outcome of 0% or 100% vesting, the scheme rules allow the remuneration committee the discretion to determine whether the conditional awards will vest, in full or partially in circumstances where the performance conditions were not fulfilled. This applies to the 2016, 2017 and 2018 schemes.

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

24 REMUNERATION SCHEMES continued

The criteria for the expired and currently open schemes are set out below:

Expired schemes

2015 (Vested in 2018) - FirstRand Limited must achieve growth in normalised EPS which equals or exceeds South African nominal GDP plus 1% growth on a cumulative basis over a three-year period, from base year end 30 June 2015 to the financial year end immediately preceding the vesting date. Nominal GDP is advised by the FirstRand Limited Group Treasury, macro Strategy unit. In addition, ROE must be equal to or greater than the cost of equity plus 5% over the three-year performance period. For vesting, the criteria must be met or exceeded.

Currently open

2016 (Vests in 2019) - FirstRand Limited must achieve growth in normalised EPS which equals or exceeds South African nominal GDP growth, on a cumulative basis, over the performance period from the base year-end being 30 June 2016, to the financial year-end immediately preceding the vesting date. and the company delivers ROE of 18%-22% over the performance period. Nominal GDP is advised by the FirstRand Group Treasury, macro strategy unit. For vesting, the criteria must be met or exceeded, however, the scheme rules allow the remuneration committee the discretion to determine that the conditional awards will vest, in full or partially, in circumstances where the performance conditions were not fulfilled.

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

2018 (vests in 2021) - FirstRand Limited must achieve growth in normalised earnings per share which equals or exceeds the South African CPI plus Real Gross Domestic Product (“GDP”) growth, on a cumulative basis, over the performance period from the base year-end, being 30 June 2018, to the year-end immediately preceding the vesting date, and the company delivers ROE of at least 18% over the performance period. If Real Gross Domestic Product is negative, then growth in normalised earnings should equal or exceed CPI over the same period. Real GDP is advised by the FirstRand Limited Group Treasury macro strategy unit. For vesting, the criteria must be met or exceeded, however, the scheme rules allow the remuneration committee the discretion to determine that the conditional awards will vest, in full or partially, in circumstances where the performance conditions were not fulfilled.

24 REMUNERATION SCHEMES continued

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

	Conditional incentive plan	
	2019	2018
Award life (years)	**2 - 3**	2 - 3
Risk-free rate (%)	**7.08 - 7.78**	6.99 - 7.61

	Conditional incentive plan (FSR shares)	
Share awards outstanding	**2019**	2018
Number of awards in force at the beginning of the year (millions)	**81.5**	80.1
Number of awards granted during the year (millions)	**28.7**	33.9
Number of awards transferred (within the group) during the year (millions)	**0.8**	(0.7)
Number of awards exercised/released during the year (millions)	**(24.9)**	(27.0)
- Market value range at date of exercise/release (cents)*	**4 423 - 6 990**	2 968 - 7 541
- Weighted average (cents)	**6 648**	5 451
Number of share cancelled/lapsed during the year (millions)	**(4.0)**	(4.8)
Number of awards in force at the end of the year (millions)	**82.1**	81.5

	Conditional share plan (FSR shares)			
	2019		2018	
Share awards outstanding**	**Weighted average remaining life (years)**	**Out-standing awards (millions)**	Weighted average remaining life (years)	Out-standing awards (millions)
Vesting during 2018			0.31	24.6
Vesting during 2019	**0.32**	**29.8**	1.31	30.9
Vesting during 2020	**1.30**	**29.3**	2.30	26.0
Vesting during 2021	**2.30**	**23.0**		
Total conditional awards	**-**	**82.1**	-	81.5
Number of participants		**4 039**		3 564

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

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

25 CONTINGENCIES AND COMMITMENTS

R million	**2019** **IFRS 9**	2018 IAS 39
Contingencies and commitments		
Guarantees (endorsements and performance guarantees)	**49 443**	34 711
Letters of credit	**8 386**	9 969
Total contingencies	**57 829**	44 680
Irrevocable commitments	**117 028**	111 642
Committed capital expenditure	**3 315**	2 592
Operating lease commitments	**2 119**	2 504
Other	**6**	3
Total contingencies and commitments	**180 297**	161 421
Legal proceedings		
There are a number of legal or potential claims against the bank, the outcome of which cannot at present be foreseen. These claims are not regarded as material either on an individual or a total basis. Contingent liabilities for claims that are expected to materialise.	**71**	125
Commitments		
Commitments in respect of capital expenditure and long-term investments approved by directors	**3 315**	2 592
Guarantees		
Guarantees consist predominantly of endorsements and performance guarantees. Guarantees granted to other FirstRand group companies amount to:	**14 939**	2 016

25.1 Commitments under operating leases where the bank is the lessee

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

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

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

25 CONTINGENCIES AND COMMITMENTS continued

	2019			
R million	**Within 1 year**	**Between 1 and 5 years**	**More than 5 years**	**Total**
Office premises	**748**	**886**	**36**	**1 670**
Equipment and motor vehicles	**262**	**187**	**-**	**449**
Total operating lease commitments	**1 010**	**1 073**	**36**	**2 119**

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

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

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

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

	2019			
R million	**Within 1 year**	**Between 1 and 5 years**	**More than 5 years**	**Total**
Property	**5**	**7**	**-**	**12**
Motor vehicles	**1 137**	**1 551**	**-**	**2 688**
Total receivable under non-cancellable operating leases	**1 142**	**1 558**	**-**	**2 700**

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

26 FAIR VALUE MEASUREMENTS

26.1 Valuation methodology

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

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

Non-recurring fair value measurements

Non-recurring fair value measurements are those triggered by particular circumstances and include:
- the classification of assets and liabilities as non-current assets or disposal groups held for sale under IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (IFRS 5) where the recoverable amount is based on the fair value less costs to sell; and
- IAS 36 Impairment of Assets (IAS 36) where the recoverable amount is based on the fair value less costs to sell.

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

There were no non-recurring fair value measurements during the current and prior years.

Financial instruments

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

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

Financial instruments not measured at fair value

This category includes assets and liabilities not measured at fair value but for which fair value disclosures are required under another IFRS, e.g. financial instruments at amortised cost. Except for the amounts included page C182, for all other financial instruments at amortised cost the carrying value is equal to or a reasonable approximation of the fair value.

26 FAIR VALUE MEASUREMENTS continued

26.2 Fair value hierarchy and measurements

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

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

- as far as possible, market inputs are sourced in line with market prices;
- generally accepted valuation methodologies are consistently used for particular products unless deemed inappropriate by the relevant governance forums;
- an in-house-developed model 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 exists of the weaknesses of the models used, which is appropriately reflected in the valuation output;
- the model is subject to periodic review to determine the accuracy of its performance; and
- valuation adjustments are only made when appropriate, for example, to cover the uncertainty of the model valuation. The bank considers factors such as counterparty and own credit risk when making appropriate valuation adjustments.

26 FAIR VALUE MEASUREMENTS continued

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

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

26 FAIR VALUE MEASUREMENTS continued

Instrument	Valuation technique	Description of valuation technique and main assumptions	Observable inputs
Loans and advances to customers			
Other loans and advances	Discounted cash flows	Future cash flows are discounted using market-related interest rates adjusted for credit inputs over the contractual period. In the event that credit spreads for a counterparty are observable or are an insignificant input, loans and advances are classified as level 2 of the fair value hierarchy.	Market 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 rate.	Market interest rate curves
Unlisted bonds or bonds listed in an inactive market	Discounted cash flows	Unlisted bonds or bonds listed in an inactive market are valued similarly to advances measured at fair value. Future cash flows are discounted using market-related interest rates adjusted for credit inputs over the contractual period. Where the valuation technique incorporates observable inputs for credit risk, level 2 of the fair value hierarchy is deemed appropriate.	Market interest rate curves

26 FAIR VALUE MEASUREMENTS continued

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

26 FAIR VALUE MEASUREMENTS continued

Instrument	Valuation technique	Description of valuation technique and main assumptions	Observable inputs
Deposits			
Call and non-term deposits	None ─ the undiscounted amount is used	The undiscounted amount of the deposit is the fair value due to the short-term nature of the instruments. These deposits are financial liabilities with a demand feature. The fair value is not less than the amount payable on demand, i.e. the undiscounted amount of the deposit.	None – the undiscounted amount approximates fair value and no valuation is performed
Other deposits	Discounted cash flows	The forward curve adjusted is for liquidity premiums and business unit margins. The valuation methodology does not take early withdrawals and other behavioural aspects into account.	Market 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 as level 2.	Market interest rate curve and performance of underlying
Financial assets and liabilities not measured at fair value but for which fair value is disclosed	Discounted cash flows	Future cash flows are discounted using market-related interest rates and curves adjusted for credit inputs.	Market interest rate curves

26 FAIR VALUE MEASUREMENTS continued

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

Instrument	Valuation technique	Description of valuation technique and main assumptions	Significant unobservable inputs
Derivative financial instruments			
Option	Option pricing model	The Black Scholes model is used.	Volatilities
Equity derivatives	Industry standard models	The models calculate fair value based on input parameters such as share prices, dividends, volatilities, interest rates, equity repo curves and, for multi-asset products, correlations. Unobservable model inputs are determined by reference to liquid market instruments and applying extrapolation techniques to match the appropriate risk profile.	Volatilities and unlisted share prices
Loans and advances to customers			
Investment banking book	Discounted cash flows	The bank has elected to designate certain investment banking 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. As such, these advances are classified as level 3 on the fair value hierarchy. Future cash flows are discounted using market-related interest rates. To calculate the fair value of credit the bank uses a valuation methodology based on the credit spread matrix, which considers loss given default, tenor and the internal credit committee rating criteria. The fair value measurement includes the original credit spread and is repriced when there is a change in rating of the counterparty. A decline in credit rating would result in an increase in the spread above the base rate for discounting purposes and, consequently, a reduction of the fair value of the advance. Similarly, an increase in credit rating would result in a decrease in the spread below the base rate and an increase of the fair value of the advance.	Credit inputs

26 FAIR VALUE MEASUREMENTS continued

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

26 FAIR VALUE MEASUREMENTS continued

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

26 FAIR VALUE MEASUREMENTS continued

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

26 FAIR VALUE MEASUREMENTS continued

Non-recurring fair value measurements

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

26.2.1 Fair value hierarchy

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

	2019 IFRS 9			
R million	**Level 1**	**Level 2**	**Level 3**	**Total fair value**
Assets				
Recurring fair value measurements				
Derivative financial instruments	**75**	**42 304**	**802**	**43 181**
Advances	**-**	**44 117**	**32 564**	**76 681**
Investment securities	**34 155**	**33 312**	**1 763**	**69 230**
Commodities	**21 176**	**-**	**-**	**21 176**
Amounts due by holding company and fellow subsidiaries	**-**	**2 333**	**-**	**2 333**
Total assets measured at fair value	**55 406**	**122 066**	**35 129**	**212 601**
Liabilities				
Recurring fair value measurements				
Short trading positions	**5 334**	**21**	**-**	**5 355**
Derivative financial instruments	**27**	**47 184**	**842**	**48 053**
Deposits	**1 378**	**54 637**	**1 052**	**57 067**
Other liabilities	**-**	**424**	**322**	**746**
Amounts due to holding company and fellow subsidiaries	**-**	**2 688**	**-**	**2 688**
Total liabilities measured at fair value	**6 739**	**104 954**	**2 216**	**113 909**

26 FAIR VALUE MEASUREMENTS continued

	2018 IAS 39			
R million	Level 1	Level 2	Level 3	Total fair value
Assets				
Recurring fair value measurements				
Derivative financial instruments	244	40 579	563	41 386
Advances	-	26 958	167 052	194 010
Investment securities	94 672	29 872	1 468	126 012
Commodities	13 424	-	-	13 424
Amounts due by holding company and fellow subsidiaries	-	603	-	603
Total assets measured at fair value	108 340	98 012	169 083	375 435
Liabilities				
Recurring fair value measurements				
Short trading positions	9 981	-	-	9 981
Derivative financial instruments	21	49 587	630	50 238
Deposits	1 354	93 006	344	94 704
Other liabilities	-	2 079	1 529	3 608
Amounts due to holding company and fellow subsidiaries	-	336	-	336
Total liabilities measured at fair value	11 356	145 008	2 503	158 867

26 FAIR VALUE MEASUREMENTS continued

26.2.2 Transfers between fair value hierarchy levels

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

	2019 IFRS 9		
R million	**Transfers in**	**Transfers out**	**Reasons for significant transfer in**
Level 1	**-**	**-**	There were no transfers into level 1.
Level 2	**101**	**(151)**	During the period, the inputs into the yield curves used to fair value derivative trades became observable warranting a transfer from level 3 to level 2 for these instruments.
Level 3	**151**	**(101)**	Derivatives linked to Botswanan Pula in the current period were valued on an internally created curve whose inputs are no longer observable. The change in inputs resulted in a transfer out of level 2 to level 3.
Total transfers	**252**	**(252)**	

	2018 IAS 39		
R million	**Transfers in**	**Transfers out**	**Reasons for significant transfer in**
Level 1	-	-	There were no transfers into level 1.
Level 2	34	(1 070)	Certain over-the-counter equity options have been transferred into level 2 in the current year because the inputs used in the valuation of these positions have become observable as the maturity of these trades are less than twelve months.
Level 3	1 070	(34)	Market volatilities are only available for a limited range of strike prices. The further away over-the-counter equity options are from their trade date, the more likely it becomes that their strike prices are outside the prevailing range of strike prices for which volatilities are available. During the current year, the observability of volatilities used in determining the fair value of certain over-the-counter equity options became unobservable and resulted in the transfer into level 3 of the fair value hierarchy.
Total transfers	1 104	(1 104)	

26 FAIR VALUE MEASUREMENTS continued

26.3 Additional disclosures for level 3 financial instruments

26.3.1 Changes in level 3 instruments with recurring fair value measurements

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

R million	**Derivative financial assets**	**Advances**	**Investment securities**	**Derivative financial liabilities**	**Deposits**	**Other liabilities**
Balance as at 30 June 2017	8	195 376	1 989	233	386	1 519
Gains/(losses) recognised in profit or loss	(17)	15 480	(66)	(109)	9	159
Gains/(losses) recognised in other comprehensive income	-	(2)	(31)	-	-	-
Purchases, sales, issue and settlements	40	(44 079)	(424)	2	(51)	(149)
Transfers into/(out) level 3	532	-	-	504	-	-
Exchange rate differences	-	277	-	-	-	-
Balance as at 30 June 2018	**563**	**167 052**	**1 468**	**630**	**344**	**1 529**
IFRS 9 adjustment	**-**	**(119 066)**	**(132)**	**-**	**-**	**-**
Gains/(losses) recognised in profit or loss	**226**	**2 003**	**179**	**66**	**(13)**	**(1 777)**
Gains/(losses) recognised in other comprehensive income	**-**	**-**	**1**	**-**	**-**	**-**
Purchases, sales, issue and settlements	**(50)**	**(17 483)**	**247**	**159**	**721**	**570**
Transfers into/(out) level 3	**63**	**-**	**-**	**(13)**	**-**	**-**
Exchange rate differences	**-**	**58**	**-**	**-**	**-**	**-**
Balance as at 30 June 2019	**802**	**32 564**	**1 763**	**842**	**1 052**	**322**

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. Decreases in the value of liabilities may be as a result of gains, or settlements.

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

26 FAIR VALUE MEASUREMENTS continued

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

The valuation model for level 3 assets or liabilities typically relies on a number of inputs that are not 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 as level 3 that are still held at reporting date. With the exception of interest on funding instruments, FVOCI debt instruments (IFRS 9) and available-for-sale financial assets (IAS 39), all gains or losses are recognised in non-interest revenue.

	2019		2018	
	IFRS 9		IAS 39	
R million	**Gains/(losses) recognised in the income statement**	**Gains/(losses) recognised in other comprehensive income**	Gains/(losses) recognised in the income statement	Gains/(losses) recognised in other comprehensive income
Assets				
Derivative financial instruments	**162**	**-**	11	-
Advances*	**1 929**	**-**	11 667	-
Investment securities	**54**	**1**	(25)	11
Total	**2 145**	**1**	11 653	11
Liabilities				
Derivative financial instruments	**37**	**-**	(299)	-
Deposits	**(3)**	**-**	11	-
Other liabilities	**136**	**-**	41	-
Total	**170**	**-**	(247)	-

* *Amount is mainly accrued interest on fair value loans and advances and movements in interest rates that have been economically hedged. These loans and advances are classified as level 3 primarily as credit spreads could be a significant input and are not observable for loans and advances in the most of RMB's key markets. Refer to page C185 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.*

26 FAIR VALUE MEASUREMENTS continued

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

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

	IFRS 9		
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	Credit	A range of scenarios are run as part of the group's credit risk management process for advances measured at fair value through profit or loss to determine credit losses and change in credit spreads in various economic conditions. The probability of default is adjusted either upwards or downwards versus the base case.
Investment securities	Credit, growth rates and P/E ratios of unlisted investments	Credit, growth rates or P/E ratios of unlisted investments	Increased and decreased by 10%.
Deposits	Credit risk of the cash collateral leg of credit-linked notes	Credit migration matrix	The deposits included in level 3 of the hierarchy represent the collateral leg of credit-linked notes. The most significant unobservable input in determining the fair value of the credit-linked notes is the credit risk component. The sensitivity to credit risk has been assessed in the same way as for advances, using the credit migration matrix, with the deposit representing the cash collateral component thereof.
Other liabilities	Performance of underlying contracts	Profits on the underlying contracts	Increased and decreased by 1%.

26 FAIR VALUE MEASUREMENTS continued

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

	Reasonably possible alternative fair value					
	2019 IFRS 9			2018 IAS 39		
R million	**Fair value**	**Using more positive assumptions**	**Using more negative assumptions**	Fair value	Using more positive assumptions	Using more negative assumptions
Assets						
Derivative financial instruments	**802**	**814**	**792**	563	569	556
Advances	**32 564**	**32 705**	**32 419**	167 052	167 445	166 738
Investment securities	**1 763**	**1 836**	**1 647**	1 468	1 617	1 383
Total financial assets measured at fair value in level 3	**35 129**	**35 355**	**34 858**	169 083	169 631	168 677
Liabilities						
Derivative financial instruments	**842**	**835**	**846**	630	622	636
Deposits	**1 052**	**1 035**	**1 070**	344	310	379
Other liabilities	**322**	**319**	**326**	1 529	1 513	1 544
Total financial liabilities measured at fair value in level 3	**2 216**	**2 189**	**2 242**	2 503	2 445	2 559

26 FAIR VALUE MEASUREMENTS continued

26.4 Financial instruments not measured at fair value

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

	2019 IFRS 9				
R million	**Carrying value**	**Total fair value**	**Level 1**	**Level 2**	**Level 3**
Assets					
Advances	**817 862**	**826 917**	**-**	**110 535**	**716 382**
Investment securities	**107 712**	**107 312**	**81 443**	**25 869**	**-**
Total assets at amortised cost	**925 574**	**934 229**	**81 443**	**136 404**	**716 382**
Liabilities					
Deposits	**1 001 372**	**1 002 090**	**-**	**1 000 471**	**1 619**
Other liabilities	**2 576**	**2 575**	**-**	**2 575**	**-**
Tier 2 liabilities	**22 428**	**22 913**	**-**	**22 913**	**-**
Total liabilities at amortised cost	**1 026 376**	**1 027 578**	**-**	**1 025 959**	**1 619**

	2018 IAS 39				
R million	Carrying value	Total fair value	Level 1	Level 2	Level 3
Assets					
Advances	649 796	656 550	-	104 283	552 267
Investment securities	31 226	31 166	28 370	2 796	-
Total assets at amortised cost	681 022	687 716	28 370	107 079	552 267
Liabilities					
Deposits	882 554	882 480	2 534	878 571	1 375
Other liabilities	773	773	-	773	-
Additional Tier 1 and Tier 2 liabilities	26 668	27 036	-	27 036	-
Total liabilities at amortised cost	909 995	910 289	2 534	906 380	1 375

26 FAIR VALUE MEASUREMENTS continued

26.5 Day 1 profit or loss

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

R million	**2019 IFRS 9**	2018 IAS 39
Opening balance	**54**	51
Day 1 profits or losses not recognised on financial instruments initially recognised in the current year	**32**	13
Amount recognised in profit or loss as a result of changes which would be observable by market participants	**(35)**	(10)
Closing balance	**51**	54

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

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

26 FAIR VALUE MEASUREMENTS continued

26.6.1 Financial assets designated at fair value through profit or loss

The bank has designated certain financial assets at fair value through profit or loss that would otherwise have been measured at amortised cost or fair value through other comprehensive income. The table below contains details on the change in credit risk attributable to these financial assets.

	2019 IFRS 9			
			Change in fair value due to credit risk	
R million	**Carrying value**	**Mitigated credit risk**	**Current period**	**Cumulative**
Advances	**9 300**	**180**	**15**	**(11)**
Investment securities	**6**	**-**	**-**	**-**
Total	**9 306**	**180**	**15**	**(11)**

Certain instruments designated at fair value also meet the definition of loans and receivables in terms of IAS 39.

The table below contains details on the change in credit risk attributable to these instruments.

	2018 IAS 39			
			Change in fair value due to credit risk	
R million	Carrying value	Mitigated credit risk	Current period	Cumulative
Advances	171 556	4 325	719	(1 387)
Investment securities	1 452	-	-	-
Total	173 008	4 325	719	(1 387)

Losses are indicated in brackets.

26 FAIR VALUE MEASUREMENTS continued

26.6.2 Financial liabilities designated at fair value through profit or loss

	2019 IFRS 9		2018 IAS 39	
R million	**Fair value**	**Contractually payable at maturity**	Fair value	Contractually payable at maturity
Deposits	**9 587**	**8 948**	94 704	95 241
Other liabilities	**746**	**746**	3 608	3 738
Total	**10 333**	**9 694**	98 312	98 979

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

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

R million	**2019 IFRS 9**	2018 IAS 39
Total fair value income for the year has been disclosed as:		
Fair value gains and losses included in non-interest revenue	**3 214**	5 364
Fair value of credit of advances included in the impairment of advances	**35**	774

27 SEGMENT INFORMATION

27.1 Reportable segments

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

27 SEGMENT INFORMATION continued

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

27 SEGMENT INFORMATION continued

27.2 Description of normalised adjustments

Normalised adjustments
The bank believes normalised earnings more accurately reflect operational performance. Consequently, earnings have been adjusted to take into account non-operational and accounting anomalies. Normalised earnings is the measurement basis used by the chief operating decision maker to manage the bank. Normalised earnings adjustments include reallocation entries where amounts are moved between income statement lines and lines of the statement of financial position, without having an impact on the IFRS profit or loss for the year and total assets and total liabilities reported in terms of IFRS. Other normalised adjustments have an impact on the profit or loss reported for the year.

27 SEGMENT INFORMATION continued

Normalised adjustments	
Margin-related items included in fair value income	In terms of IFRS the bank is required to or has elected to measure certain financial assets and liabilities at fair value through profit or loss. In terms of the group's IFRS accounting policies, the gains or losses in these assets and liabilities are included in fair value income within NIR. This results in NIR including gains or losses that are related to lending, borrowing and economic interest rate hedges. In order to reflect the economic substance of these amounts, the amount of fair value income that relates to margin is presented in NII in the normalised results. The amount reclassified from NIR to NII includes the following items: • the margin on the component of the wholesale advances book in RMB that is measured at FVTPL; • 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.
IAS 19 remeasurement of plan assets	In terms of IAS 19 – Employee benefits (IAS 19), interest income is recognised on the plan assets and set off against staff costs in the income statement. All other remeasurements of plan assets are recognised in other comprehensive income. In instances where the plan asset is a qualifying insurance policy, which has a limit of indemnity, the fair value of the plan asset is limited to that limit of indemnity. The limit of indemnity continually reduces as payments are made in terms of the insurance policy. After the recognition of interest income on the plan asset, any further adjustment required to revalue the plan asset to the limit of indemnity is recognised in other comprehensive income. To the extent, therefore, that interest income on plan assets results in an increase in the fair value of the plan asset above the limit of indemnity, a downward fair value measurement is recognised in other comprehensive income. Economically, the value of the plan asset has simply reduced with claims paid. Normalised results are adjusted to reflect this by increasing staff costs for the value of the interest on the plan assets and increasing other comprehensive income.

27 SEGMENT INFORMATION continued

Normalised adjustments	
Cash-settled share-based payments and the economic hedge	The bank entered into a total return swap (TRS) with external parties in order to economically hedge itself against the exposure to changes in the FirstRand share price associated with the bank's long-term incentive schemes. In terms of IFRS 9 the TRS is accounted for as a derivative instrument at fair value with the full fair value change recognised in NIR. In accordance with IFRS 2, the expense resulting from these option schemes is recognised over the vesting period of the schemes. This leads to a mismatch in the recognition of the profit or loss of the hedge and the share-based payment expense. When calculating normalised results, the bank defers the recognition of the fair value gain or loss on the hedging instrument to the specific reporting period in which the IFRS 2 impact will manifest in the bank's results. This reflects the economic substance of the hedge and associated IFRS 2 impact for the bank. In addition, the portion of the share-based payment expense which relates to the remeasurement of the liability arising from changes in the share price is reclassified from operating expenses into NIR in accordance with the economics of the transaction. The share-based payment expense included in operating expenses is equal to the grant date fair value of the awards given.
Headline earnings adjustments	All adjustments that are required by *SAICA Circular 4/2018 Headline earnings* in calculating headline earnings are included in normalised earnings on a line-by-line basis based on the nature of the adjustment. The description and amount of these adjustments are provided in the reconciliation between headline earnings and IFRS profit.

Movements in reportable segments

DirectAxis, previously reported as part of WesBank's earnings, has been moved into a personal loans cluster within FNB, alongside the FNB loans business. In addition, the assets and liabilities of fellow subsidiary, Direct Axis (Pty) Ltd, were transferred to FirstRand Bank during the year for a consideration equal to the net book value of R102 million. The assets and liabilities transferred comprised of accounts receivable of R211 million, a deferred tax asset of R15 million, property and equipment of R36 million, intangible assets of R50 million employee liabilities of R122 million and creditors and accruals of R88 million. The consideration for the transfers has been paid at 30 June 2019.

The comparative information has been restated to reflect these changes.

In May 2019, the operations of the MotoNovo business unit within WesBank were transferred to MotoNovo Finance Limited, a fellow subsidiary, for a cash consideration equal to the net book value. Refer to the table on the next page.

27 SEGMENT INFORMATION continued

Disposal of MotoNovo operations

R million	2019
Assets	
Intangible assets	**71**
Property and equipment	**153**
Motor dealer advances	**1 225** *
Accounts receivable and other assets	**423**
Total assets	**1 872**
Liabilities	
Employee liabilities	**90**
Creditors and other liabilities	**141**
Total liabilities	**231**
Net assets	**1 641**
Cash received via intercompany bank account	**(1 641)**

** Gross advances before impairment amounted to R1 237 million.*

27 SEGMENT INFORMATION continued

27.3 Reportable segments

	2019 (IFRS 9)			
R million	FNB	FNB Africa*	WesBank	
Net interest income before impairment of advances	31 630	(60)	4 641	
Impairment and fair value of credit of advances	(5 879)	-	(1 916)	
Net interest income after impairment of advances	25 751	(60)	2 725	
Non-interest revenue	23 460	862	2 413	
Net income from operations	49 211	802	5 138	
Operating expenses	(27 369)	(1 162)	(3 879)	
Income before indirect tax	21 842	(360)	1 259	
Indirect tax	(587)	(2)	(8)	
Profit before income tax	21 255	(362)	1 251	
Income tax expense	(5 952)	102	(350)	
Profit for the year	15 303	(260)	901	
The income statement includes				
Depreciation	(1 680)	(2)	(656)	
Amortisation	(64)	-	(7)	
Net impairment charge	(81)	-	2	
Non-interest revenue includes the following revenue from customers:				
Banking fees and commissions	24 484	(2)	454	
Non-banking fees and commissions	652	-	12	
Insurance income (excluding risk related income)	354	-	118	
Management, trust and fiduciary fees	439	-	513	
Other non-interest revenue from customers	364	-	185	
The statement of financial position includes				
Total assets	411 372	594	121 816	
Total liabilities	394 934	955	121 690	

* *Relates to head office costs and FNB's activities in India. Earnings from subsidiaries in the rest of Africa form part of FREMA and are not reported in bank (see simplified group structure in section A).*

Geographical segments

	2019 (IFRS 9)			
R million	South Africa	United Kingdom	Asia	Total
Net interest income after impairment of advances	37 330	1 703	(23)	39 010
Non-interest revenue	35 035	850	167	36 052
Non-current assets*	16 020	30	3	16 053

* *Exclude financial instruments, accounts receivable, deferred income tax assets, current tax assets and post-employment benefit assets.*

	2019 (IFRS 9)						
	Retail and commercial	RMB		FCC (including Group Treasury)	FirstRand Bank - normalised	Normalised adjustments	FirstRand Bank - IFRS
		Investment banking	Corporate banking				
	36 211	4 999	2 025	3 700	46 935	535	47 470
	(7 795)	(26)	(25)	(614)	(8 460)	-	(8 460)
	28 416	4 973	2 000	3 086	38 475	535	39 010
	26 735	6 504	1 894	(452)	34 681	1 371	36 052
	55 151	11 477	3 894	2 634	73 156	1 906	75 062
	(32 410)	(5 548)	(2 395)	(3 362)	(43 715)	16	(43 699)
	22 741	5 929	1 499	(728)	29 441	1 922	31 363
	(597)	(140)	(9)	(83)	(829)	-	(829)
	22 144	5 789	1 490	(811)	28 612	1 922	30 534
	(6 200)	(1 620)	(418)	1 203	(7 035)	(430)	(7 465)
	15 944	4 169	1 072	392	21 577	1 492	23 069
	(2 338)	(93)	(9)	(59)	(2 499)	-	(2 499)
	(71)	(46)	-	(18)	(135)	-	(135)
	(79)	(6)	-	-	(85)	(83)	(168)
	24 936	1 817	1 702	574	29 029	-	29 029
	664	-	1	87	752	-	752
	472	-	-	88	560	-	560
	952	227	-	(1)	1 178	-	1 178
	549	1	56	2	608	53	661
	533 782	407 507	60 197	289 918	1 291 404	-	1 291 404
	517 579	402 578	59 603	212 216	1 191 976	-	1 191 976

27 SEGMENT INFORMATION continued

	2018 (IAS 39) Restated		
R million	**FNB**	**FNB Africa***	**WesBank**
Net interest income before impairment of advances	**28 548**	**(33)**	**4 793**
Impairment and fair value of credit of advances	**(4 507)**	**2**	**(1 904)**
Net interest income after impairment of advances	**24 041**	**(31)**	**2 889**
Non-interest revenue	**20 668**	**814**	**2 336**
Net income from operations	**44 709**	**783**	**5 225**
Operating expenses	**(25 231)**	**(1 272)**	**(3 722)**
Income before indirect tax	**19 478**	**(489)**	**1 503**
Indirect tax	**(499)**	**(2)**	**(47)**
Profit before income tax	**18 979**	**(491)**	**1 456**
Income tax expense	**(5 315)**	**130**	**(408)**
Profit for the year	**13 664**	**(361)**	**1 048**
The income statement includes			
Depreciation	**(1 565)**	**(2)**	**(603)**
Amortisation	**(49)**	**-**	**(5)**
Net impairment charge	**(13)**	**(161)**	**(1)**
The statement of financial position includes			
Total assets	**383 196**	**590**	**126 868**
Total liabilities	**364 140**	**1 051**	**125 412**

* *Relates to head office costs and FNB's activities in India. Earnings from subsidiaries in the rest of Africa form part of FREMA and are not reported in bank (see simplified group structure in section A).*

Geographical segments

	2018 (IAS 39)			
R million	South Africa	United Kingdom	Asia	Total
Net interest income after impairment of advances	32 615	1 821	68	34 504
Non-interest revenue	33 130	452	105	33 687
Non-current assets*	15 463	296	3	15 762

* *Exclude financial instruments, accounts receivable, deferred income tax assets, current tax assets and post-employment benefit assets.*

	2018 (IAS 39) Restated						
	Retail and commercial	RMB		FCC (including Group Treasury)	FirstRand Bank - normalised	Normalised adjustments	FirstRand Bank - IFRS
		Investment banking	Corporate banking				
	33 308	4 125	1 798	3 515	42 746	(1 583)	41 163
	(6 409)	105	(3)	(352)	(6 659)	-	(6 659)
	26 899	4 230	1 795	3 163	36 087	(1 583)	34 504
	23 818	6 205	1 765	(186)	31 602	2 085	33 687
	50 717	10 435	3 560	2 977	67 689	502	68 191
	(30 225)	(5 118)	(2 202)	(2 833)	(40 378)	(319)	(40 697)
	20 492	5 317	1 358	144	27 311	183	27 494
	(548)	(113)	(7)	(137)	(805)	-	(805)
	19 944	5 204	1 351	7	26 506	183	26 689
	(5 593)	(1 458)	(378)	1 327	(6 102)	(70)	(6 172)
	14 351	3 746	973	1 334	20 404	113	20 517
	(2 170)	(133)	(7)	(56)	(2 366)	-	(2 366)
	(54)	(35)	-	(5)	(94)	-	(94)
	(175)	-	-	-	(175)	-	(175)
	510 654	376 138	49 467	267 618	1 203 877	-	1 203 877
	490 603	371 819	49 004	201 551	1 112 977	-	1 112 977

28 RELATED PARTIES

28.1 Balances with related parties

R million	2019 IFRS 9	2018 IAS 39
Advances		
Entities that have significant influence over the parent and its subsidiaries	**13 052**	6 461
Associates	**8 812**	11 738
Joint ventures	**4 827**	14 710
Key management personnel	**49**	16
Accounts receivable		
Associates	**851**	518
Joint ventures*	**17 022**	10
Amounts due by holding company and fellow subsidiaries		
Fellow subsidiaries	**53 027**	52 419
Derivative assets		
Joint ventures	**-**	178
Investments under co-investment scheme		
Key management personnel	**50**	75
Deposits		
Entities that have significant influence over the parent and its subsidiaries	**28**	44
Associates	**466**	2 248
Joint ventures	**3 890**	2 542
Key management personnel	**141**	73
Accounts payable		
Associates	**8**	5
Joint ventures	**9**	16
Amounts due to holding company and fellow subsidiaries		
Parent	**826**	524
Fellow subsidiaries	**24 958**	19 469
Commitments		
Associates	**4 857**	1 161
Joint ventures	**-**	-

** The current year includes cash collateral balances that was included in advances in the prior year.*

All joint ventures are joint ventures of FirstRand Limited.

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

28 RELATED PARTIES continued

28.2 Transactions with related parties

R million	2019 IFRS 9	2018 IAS 39
Interest received		
Fellow subsidiaries	**1 992**	1 555
Associates	**776**	696
Joint ventures	**1 261**	746
Key management personnel	**4**	3
Interest paid		
Fellow subsidiaries	**(904)**	(797)
Associates	**(4)**	(44)
Joint ventures	**(361)**	(195)
Key management personnel	**-**	(10)
Non-interest revenue		
Entities that have significant influence over the parent and their subsidiaries	**83**	473
Fellow subsidiaries	**1 807**	1 532
Associates	**565**	645
Joint ventures	**979**	1 156
Operating expenses		
Fellow subsidiaries (note 3)	**(1 154)**	(1 206)
Associates	**(657)**	(547)
Joint ventures	**(1)**	(47)
Dividends (paid)		
Parent	**(12 645)**	(16 508)
Net interest return credited in respect of investments under the co-investment scheme		
Key management personnel	**5**	14
Financial consulting fees and other		
Key management personnel	**3**	3
Salaries and other employee benefits		
Key management personnel	**96**	132
- Salaries and other short-term benefits	**63**	99
- Share-based payments	**33**	33

All joint ventures are joint ventures of FirstRand Limited.

Deferred compensation of R20 million (2018: R51 million) is due to key management personnel and is payable in FirstRand Limited shares. A list of the board of directors of the bank is in section A of the annual report. During the financial year, no contracts were entered into in which directors or officers of the company had an interest and which significantly affected the business of the bank. The directors had no interest in any third party or company responsible for managing any of the business activities of the bank except to the extent that they are shareholders in RMB Holdings Limited which, together with Remgro, has significant influence over FirstRand.

During the year, a portfolio of loans held by the Bank which are denominated in USD were sold to RMB International Mauritius (RMBIM), a fellow subsidiary of FirstRand Bank. The consideration received of $635 million was based on the fair values of the loans at the dates of the transfers.

28 RELATED PARTIES continued

The net carrying amount of the loans was $632 million and a profit of $3 million was therefore recognised in relation to the transfer.

28.3 Post-retirement benefit fund

Details of transactions between the bank and the bank's post-retirement benefit plan are listed below

R million	**2019** **IFRS 9**	2018 IAS 39
Dividend income	**5**	7
Deposits and current accounts held with the bank	**744**	374
Interest income	**34**	31

29 INTERESTS IN OTHER ENTITIES

The bank has significant influence over the Vumela Enterprise Development Fund. The entity provides funding to qualifying small to medium enterprises in South Africa. As the bank does not prepare consolidated financial statements, no further disclosures have been provided.

In terms of IFRS 12, disclosures about structured entities are only required in the consolidated financial statements, unless separate financial statements are the only annual financial statements prepared by an entity. As the bank does not prepare consolidated financial statements, the following disclosures have been made. Refer to accounting policy 9.2 for additional information about the bank’s decision not to prepare consolidated financial statements.

29.1 Structured entities

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

Sponsorships of unconsolidated structured entities

The bank has provided liquidity facilities and credit enhancement facilities to non-recourse vehicles. The non-recourse vehicle is consolidated by the bank’s fellow subsidiary, FRIHL. During the current year, assets to the value of R3 549 million were transferred by the bank to this entity. Assets to the value of R3 883 million were transferred in the prior year.

29.2 Liquidity facilities

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

R million	Transaction type	**2019** **IFRS 9**	2018 IAS 39
Own transaction		**3 094**	2 213
iVuzi	Conduit	**3 094**	2 213
Total facilities provided		**3 094**	2 213

29 INTERESTS IN OTHER ENTITIES continued

All liquidity facilities granted in the table above rank senior in terms of payment priority in the event of the drawdown. Due to the liquidity facility and credit enhancement extended to iVuzi the same economic capital is allocated to each of the underlying assets held by the bank.

30 FINANCIAL RISK

Overview of financial risks

The financial instruments recognised on the bank's statement of financial position expose the bank to various financial risks. The information presented in this note represents the quantitative information required by IFRS 7 and sets out the bank's exposure to these financial risks This section also contains details about the bank's capital management process. For additional information about the bank's overall risk management processes, refer to the summary risk and capital management report in section B.

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

Other sources of credit risk arise from:
➢ cash and cash equivalents;
➢ accounts receivable;
➢ derivative balances; and
➢ off-balance sheet exposures.</td><td>The following information is presented for these assets:
➢ summary of all credit assets (30.1.1);
➢ information about the quality of credit assets (30.1.2);
➢ exposure to concentration risk (30.1.4); and
➢ credit risk mitigation and collateral held (30.1.5).</td></tr>
</table>

30 FINANCIAL RISK continued

Overview of financial risks		
Liquidity risk	Liquidity risk is the risk that the bank is unable to meet its obligations when they fall due. It is also the risk of not being able to realise assets when required to do so to meet repayment obligations in a stress scenario.	
	Liquidity risk arises from all assets and liabilities with differing maturity profiles.	The following information is presented for these assets and liabilities: ➢ undiscounted cash flow analysis of financial liabilities (30.2.1); ➢ discounted cash flow analysis of total assets and liabilities (30.2.2); ➢ collateral pledged (30.2.3); and ➢ concentration analysis of deposits (30.2.4).
Market risk	The bank distinguishes between **market risk in the trading book** and **non-traded market risk**. For non-traded market risk, the group distinguishes between **interest rate risk in the banking book** and **structural foreign exchange risk**. Market risk in the trading book is the risk of adverse revaluation of any financial instrument as a consequence of changes in the market prices or rates.	
	Market risk in the trading book (30.3.1) emanates mainly from the provision of hedging solutions for clients, market-making activities and term-lending products, and is taken and managed by RMB.	The following information is presented for market risk in the trading book: ➢ 1 — day 99% Value-at-risk (VaR) analysis; and ➢ 10 — day 99% VaR analysis.
	Interest rate risk in the banking book (30.4.1) originates from the differing repricing characteristics of balance sheet positions/instruments, yield curve risk, basis risk and client optionality embedded in banking book products.	The following information is presented for interest rate risk in the banking book: ➢ projected NII sensitivity to interest rate movements; and ➢ banking book NAV sensitivity to interest rate movements as a percentage of total bank capital.
	Structural foreign exchange risk (30.4.2) arises from balances denominated in foreign currencies and bank entities with functional currencies other than the South African rand.	Information about the bank's net structural foreign exposure and the sensitivity of the exposure is presented.

30 FINANCIAL RISK continued

Overview of financial risks		
Equity investment risk	The risk of an adverse change in the fair value of an investment in a company, fund or listed, unlisted or bespoke financial instruments.	
	Equity investment risk (30.5) arises primarily from equity exposures from private equity and investment banking activities in RMB, and strategic investments held by WesBank, FNB and FCC.	The following information is presented for these assets: • Investment risk exposure, risk weighted assets, and sensitivity of investment risk exposure; and • Estimated sensitivity of remaining investment balances.
Capital management	The overall capital management objective is to maintain sound capital ratios and a strong credit rating to ensure confidence in the bank's solvency and quality of capital during calm and turbulent periods in the economy and financial markets. The bank, therefore, maintains capitalisation ratios aligned to its risk appetite and appropriate to safeguard operations and stakeholder interests. The key focus areas and considerations of capital management are to ensure an optimal level and composition of capital, effective allocation of resources including capital and risk capacity, and a sustainable dividend policy.	

30 FINANCIAL RISK continued

30.1 Credit risk

Objective

Credit risk management objectives are twofold:

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

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

Assessment and management

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

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

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

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

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

30 FINANCIAL RISK continued

Mapping of FR grades to rating agency scales

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

** Indicative mapping to the international rating scales of S&P Global Ratings (S&P). The bank currently only uses mapping to S&P's rating scales.*

30 FINANCIAL RISK continued

30.1.1 Credit assets

The following assets and off-balance sheet amounts expose the bank to credit risk. For all on-balance sheet exposures, the gross carrying amount disclosed represents the maximum exposure to credit risk, before taking into account collateral and other credit enhancements.

R million	2019 IFRS 9	2018 IAS 39
On-balance sheet exposures		
Cash and short-term funds	**70 419**	64 800
- Money at call and short notice	**44 719**	41 322
- Balances with central banks	**25 700**	23 478
Gross advances	**921 846**	858 954
Retail secured	**334 832**	323 619
- Residential mortgages	**217 164**	204 969
- Vehicle asset finance*	**117 668**	118 650
Retail unsecured	**90 298**	76 047
- Credit card	**32 443**	27 140
- Personal loans	**39 947**	33 055
- Other retail	**17 908**	15 852
Corporate and commercial	**457 964**	421 532
- FNB Commercial	**105 128**	93 962
- WesBank corporate	**27 945**	32 149
- RMB corporate banking	**57 932**	46 592
- RMB investment banking	**266 959**	248 829
Group treasury and other	**38 752**	37 756
Derivatives	**43 181**	41 386
Debt investment securities	**170 119**	149 623
Financial accounts receivable	**3 139**	4 242
Amounts due by holding company and fellow subsidiaries	**53 027**	52 419
Off-balance sheet exposure	**179 787**	159 929
- Total contingencies	**57 829**	44 680
- Guarantees	**49 443**	34 711
- Letters of credit#	**8 386**	9 969
- Irrevocable commitments	**117 028**	111 642
- Credit derivatives	**4 930**	3 607
Total	**1 441 518**	1 331 353

* *Includes public sector.*

\# *Includes acceptances.*

30 FINANCIAL RISK continued

30.1.2 Quality of credit assets

The following table shows the gross carrying amount of advances carried at amortised cost and the fair value of advances measured at fair value through profit or loss, as well as the exposure to credit risk of loan commitments and financial guarantee per class of advance and per internal credit rating.

The amounts in stage 3 that do not have a rating of FR 91-100 relates to technical cures (performing accounts that have previously defaulted but don’t meet the 12-month curing definition remain in stage 3) and paying debt-review customers as the PDs on these customers are lower than operational stage 3 advances and the PD drives the FR rating. In addition, where the bank holds a guarantee against a stage 3 advance, the FR rating would reflect same.

30 FINANCIAL RISK continued

	2019 (IFRS 9)					
	FR 1-25		FR 26-90		FR 91-100	
R million	On balance sheet	Off balance sheet	On balance sheet	Off balance sheet	On balance sheet	Off balance sheet
Retail secured						
Residential mortgages						
Stage 1	**28 906**	**17 633**	**168 064**	**34 555**	**1 403**	**51**
Stage 2	**10**	**1**	**5 360**	**474**	**4 783**	**128**
Stage 3	**4**	**-**	**788**	**54**	**7 846**	**211**
Total residential mortgages	**28 920**	**17 634**	**174 212**	**35 083**	**14 032**	**390**
Vehicle asset finance						
Stage 1	**-**	**-**	**99 256**	**198**	**175**	**-**
Stage 2	**-**	**-**	**5 210**	**-**	**5 554**	**-**
Stage 3	**-**	**-**	**599**	**-**	**6 874**	**-**
Total Vehicle asset finance	**-**	**-**	**105 065**	**198**	**12 603**	**-**
Retail unsecured						
Credit card						
Stage 1	**11**	**-**	**27 749**	**-**	**587**	**-**
Stage 2	**-**	**-**	**1 209**	**-**	**478**	**-**
Stage 3	**-**	**-**	**-**	**-**	**2 409**	**-**
Total credit card	**11**	**-**	**28 958**	**-**	**3 474**	**-**
Personal loans						
Stage 1	**262**	**-**	**29 810**	**-**	**723**	**-**
Stage 2	**-**	**-**	**1 110**	**-**	**2 194**	**-**
Stage 3	**-**	**-**	**32**	**-**	**5 816**	**-**
Total personal loans	**262**	**-**	**30 952**	**-**	**8 733**	**-**
Other retail unsecured						
Stage 1	**431**	**593**	**13 665**	**66**	**807**	**-**
Stage 2	**1**	**-**	**512**	**1**	**510**	**-**
Stage 3	**2**	**-**	**-**	**-**	**1 980**	**-**
Total other retail unsecured	**434**	**593**	**14 177**	**67**	**3 297**	**-**
Corporate and commercial						
FNB commercial						
Stage 1	**64**	**468**	**91 803**	**10 462**	**222**	**36**
Stage 2	**-**	**-**	**5 761**	**169**	**2 722**	**23**
Stage 3	**1**	**-**	**104**	**-**	**4 451**	**75**
Total FNB commercial	**65**	**468**	**97 668**	**10 631**	**7 395**	**134**
WesBank corporate						
Stage 1	**8 084**	**4 857**	**17 227**	**-**	**564**	**-**
Stage 2	**4**	**-**	**1 090**	**-**	**452**	**-**
Stage 3	**-**	**-**	**49**	**-**	**475**	**-**
Total WesBank corporate	**8 088**	**4 857**	**18 366**	**-**	**1 491**	**-**

30 FINANCIAL RISK continued

	2019 (IFRS 9)					
	FR 1-25		FR 26-90		FR 91-100	
R million	On balance sheet	Off balance sheet	On balance sheet	Off balance sheet	On balance sheet	Off balance sheet
RMB corporate banking						
Stage 1	**28 491**	**30 643**	**22 266**	**20 313**	**-**	**82**
Stage 2	**-**	**-**	**6 834**	**4 113**	**-**	**44**
Stage 3	**-**	**-**	**-**	**-**	**236**	**206**
Purchased or originated credit impaired	**-**	**-**	**-**	**-**	**105**	**-**
Total RMB corporate banking	**28 491**	**30 643**	**29 100**	**24 426**	**341**	**332**
RMB investment banking						
Stage 1	**119 694**	**17 282**	**130 872**	**12 688**	**-**	**-**
Stage 2	**2 927**	**-**	**11 032**	**1 314**	**-**	**-**
Stage 3	**-**	**-**	**-**	**-**	**2 434**	**-**
Total RMB investment banking	**122 621**	**17 282**	**141 904**	**14 002**	**2 434**	**-**
Group Treasury and other						
Stage 1	**35 458**	**1 250**	**3 161**	**-**	**89**	**-**
Stage 2	**-**	**-**	**44**	**-**	**-**	**-**
Stage 3	**-**	**-**	**-**	**-**	**-**	**-**
Total Group Treasury and other	**35 458**	**1 250**	**3 205**	**-**	**89**	**-**
Stage 1	**221 401**	**72 726**	**603 873**	**78 282**	**4 570**	**169**
Stage 2	**2 942**	**1**	**38 162**	**6 071**	**16 693**	**195**
Stage 3	**7**	**-**	**1 572**	**54**	**32 521**	**492**
Purchased or originated credit impaired	**-**	**-**	**-**	**-**	**105**	**-**
Total Advances	**224 350**	**72 727**	**643 607**	**84 407**	**53 889**	**856**

30 FINANCIAL RISK continued

30.1.2 Quality of credit assets

Age analysis of advances

	2018 (IAS 39)				
		Past due but not impaired			
R million	Neither past due nor impaired	One full instalment past due	Two full instalments past due	Impaired (NPLs)	Total
FNB	340 617	4 677	2 590	11 200	359 084
- Retail	249 890	4 456	2 290	8 486	265 122
- Commercial[*]	90 727	221	300	2 714	93 962
RMB investment banking	229 150	-	151	899	230 200
RMB corporate banking	46 462	-	1	129	46 592
WesBank	150 989	4 345	2 404	8 955	166 693
FCC (including Group Treasury)	56 385	-	-	-	56 385
Total	823 603	9 022	5 146	21 183	858 954
Percentage of total book (%)	95.9	1.0	0.6	2.5	100.0

[*] *Includes public sector.*

Categorisations have been made in order to keep reporting in line with management structures.

	2018 (IAS 39)						
		FNB					
R million	Total	Retail*	Commercial**	RMB investment banking	RMB corporate banking	WesBank	FCC (including Group Treasury)
FR 1 - 25	225 227	36 080	-	110 650	24 749	-	53 748
FR 26 - 90	589 138	208 178	89 680	118 412	21 281	149 041	2 546
Above FR 90	9 238	5 632	1 047	88	432	1 948	91
Total	823 603	249 890	90 727	229 150	46 462	150 989	56 385

* *Reclassification due to the distribution of the risk bands that have been inferred from the PD distribution of the total book.*

** *Includes public sector.*

For more detail about the FR rating scales and the link to rating agency scales refer to the credit section in the summary risk and capital management report in section B.

30 FINANCIAL RISK continued

Analysis of impaired advances (stage 3)

	2019 (IFRS 9)		
R million	Total	Security held and expected recoveries	Stage 3 impairment
Stage 3 by class			
Retail secured	**16 111**	**11 862**	**4 249**
- Residential mortgages	**8 638**	**6 967**	**1 671**
- Vehicle asset finance	**7 473**	**4 895**	**2 578**
Retail unsecured	**10 239**	**2 399**	**7 840**
- Credit card	**2 409**	**540**	**1 869**
- Personal loans	**5 848**	**1 414**	**4 434**
- Other retail	**1 982**	**445**	**1 537**
Corporate and commercial	**7 855**	**4 263**	**3 592**
- FNB Commercial	**4 556**	**2 253**	**2 303**
- WesBank corporate	**524**	**345**	**179**
- RMB corporate banking	**341**	**248**	**93**
- RMB investment banking	**2 434**	**1 417**	**1 017**
Total stage 3	**34 205**	**18 524**	**15 681**
Stage 3 by category			
Overdrafts and cash management accounts	**3 620**	**1 316**	**2 304**
Term loans	**1 980**	**864**	**1 116**
Card loans	**2 598**	**551**	**2 047**
Instalment sales and hire purchase agreements	**8 225**	**5 356**	**2 869**
Lease payments receivable	**72**	**49**	**23**
Property finance	**8 974**	**7 153**	**1 821**
Personal loans	**6 646**	**1 616**	**5 030**
Preference share agreements	**30**	**29**	**1**
Investment bank term loans	**1 867**	**1 417**	**450**
Other	**193**	**173**	**20**
Total stage 3	**34 205**	**18 524**	**15 681**

The table represents an analysis of impaired advances for financial assets measured at amortised cost and debt instruments measured both at fair value through other comprehensive income and fair value through profit or loss, in line with the manner the bank manages credit risk.

30 FINANCIAL RISK continued

	2018 (IAS 39)		
R million	Total	Security held and expected recoveries	Impairment
NPLs by class			
- Retail	10 156	6 430	3 726
- Commercial	2 714	1 699	1 015
FNB	12 870	8 129	4 741
- Investment banking	898	352	546
- Corporate banking	129	115	14
RMB	1 027	467	560
WesBank	6 816	4 739	2 077
FCC and other	470	180	290
Total NPLs	21 183	13 515	7 668
NPLs by category			
Overdraft and cash management accounts	2 096	1 032	1 064
Term loans	1 213	572	641
Card loans	1 148	375	773
Instalment sales and hire purchase agreements	7 264	4 933	2 331
Lease payments receivable	65	37	28
Property finance	5 291	4 349	942
Personal loans	3 626	1 864	1 762
Investment bank term loans	467	352	115
Other	13	1	12
Total NPLs	21 183	13 515	7 668

30 FINANCIAL RISK continued

30.1.3 Quality of credit assets – non-advances

The following table shows the gross carrying amount of non-advances carried at amortised cost and the fair value of non-advances measured at fair value through profit or loss or through other comprehensive income per external credit rating.

	2019 (IFRS 9)		
R million	**AAA to BBB**	**BB+ to B-**	**CCC**
Investment securities at amortised cost			
Stage 1	**105 352**	**1 078**	**-**
Stage 2	**-**	**1 324**	**-**
Investment securities at fair value through comprehensive income			
Stage 1	**624**	**-**	**-**
Total investment securities	**105 976**	**2 402**	**-**
Accounts receivable			
Stage 2	**155**	**3 055**	**14**
Stage 3	**-**	**2**	**-**
Cash and cash equivalents			
Stage 1	**70 138**	**243**	**38**
Total cash and cash equivalents	**70 138**	**243**	**38**
Derivative assets	**36 288**	**6 893**	**-**

	2018 (IAS 39)					
R million	Debt investment securities	Derivatives	Cash and short-term funds	Amounts due by fellow subsidiaries	Accounts receivable	Total
AAA to BBB-	136 382	35 253	49 469	52 419	383	273 906
BB+ to B-	13 241	6 123	15 317	-	3 640	38 321
CCC	-	10	-	-	9	19
Unrated	-	-	14	-	-	14
Total	149 623	41 386	64 800	52 419	4 032	312 260

30 FINANCIAL RISK continued

The age analysis of financial instruments included in accounts receivable is provided in the table below.

	2018					
	Neither past due nor	Past due but not impaired				
R million	impaired	1 - 30 days	31 - 60 days	61 - 90 days	Impaired	Total
Items in transit	2 338	-	-	-	-	2 338
Interest and commission accrued	72	-	-	-	-	72
Sundry debtors	691	6	-	-	-	697
Other accounts receivable	931	66	80	57	1	1 135
Total financial accounts receivable	4 032	72	80	57	1	4 242

30.1.4 Concentration risk

Credit concentration risk is the risk of loss to the bank arising from an excessive concentration of exposure to a single counterparty, industry, market, product, financial instrument or type of security, country or region, or maturity. This concentration typically exists when a number of counterparties are engaged in similar activities and have similar characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

Concentration risk is managed based on the nature of the credit concentration in each portfolio. The bank’s credit portfolio is well diversified, which is achieved through setting maximum exposure guidelines to individual counterparties. The bank constantly reviews its concentration levels and sets maximum exposure guidelines for these.

The bank seeks to establish a balanced portfolio profile and closely monitors credit concentrations.

30 FINANCIAL RISK continued

The following tables provide a breakdown of credit exposure across geographical areas.

Geographic concentration of significant credit asset exposure

	2019 (IFRS 9)							
R million	South Africa	Rest of Africa	United Kingdom	Other Europe	North and South America	Austra-lasia	Asia	Total
On-balance sheet exposures								
Cash and short-term funds	**56 555**	**19**	**4 352**	**7 129**	**1 957**	**50**	**357**	**70 419**
Total advances	**837 764**	**30 476**	**28 338**	**13 974**	**2 123**	**2**	**9 169**	**921 846**
Stage 3 advances	**32 702**	**268**	**604**	**-**	**566**	**-**	**65**	**34 205**
Derivatives	**22 066**	**379**	**18 081**	**1 998**	**273**	**-**	**384**	**43 181**
Debt investment securities (excluding non-recourse investments)	**141 498**	**639**	**19 339**	**1 013**	**1 514**	**-**	**6 116**	**170 119**
Accounts receivable	**3 671**	**114**	**108**	**25**	**996**	**2**	**47**	**4 963**
Off-balance sheet exposures								
Guarantees, acceptances and letters of credit	**33 107**	**18 505**	**1 488**	**436**	**66**	**93**	**4 134**	**57 829**
Irrevocable commitments	**109 542**	**2 192**	**815**	**2 267**	**818**	**-**	**1 394**	**117 028**

30 FINANCIAL RISK continued

	2018 (IAS 39)							
R million	South Africa	Rest of Africa	United Kingdom	Other Europe	North and South America	Austra-lasia	Asia	Total
On-balance sheet exposures								
Cash and short-term funds	57 458	69	4 056	1 055	1 823	111	228	64 800
Total advances	770 259	33 611	35 973	12 129	2 281	2	4 699	858 954
NPLs	20 246	166	340	27	404	-	-	21 183
Derivatives	23 298	343	13 944	2 429	297	-	1 075	41 386
Debt investment securities (excluding non-recourse investments)	120 096	777	14 769	1 332	8 394	-	4 255	149 623
Accounts receivable	4 572	88	734	32	598	1	50	6 075
Off-balance sheet exposures								
Guarantees, acceptances and letters of credit	35 032	5 037	304	444	564	129	3 170	44 680
Irrevocable commitments	102 422	5 940	1 656	939	602	-	83	111 642

30 FINANCIAL RISK continued

Sector analysis concentration of advances

Advances expose the bank to concentration risk to the various industry sectors. The tables below set out the bank's exposure to the various industry sectors for total advances and stage 3 advances.

	2019 (IFRS 9)			
		Stage 3		
R million	Total advances	Advances	Security held and expected recoveries	Impairment
Sector analysis				
Agriculture	**39 002**	**1 781**	**1 351**	**430**
Banks	**20 068**	**-**	**-**	**-**
Financial institutions	**161 302**	**224**	**131**	**93**
Building and property development	**50 028**	**1 154**	**565**	**589**
Government, Land Bank and public authorities	**23 438**	**79**	**76**	**3**
Individuals	**409 307**	**25 162**	**13 507**	**11 655**
Manufacturing and commerce	**107 274**	**2 779**	**1 785**	**994**
Mining	**10 611**	**660**	**34**	**626**
Transport and communication	**22 778**	**337**	**187**	**150**
Other services	**78 038**	**2 029**	**888**	**1 141**
Total advances	**921 846**	**34 205**	**18 524**	**15 681**

30 FINANCIAL RISK continued

	2018 (IAS 39)			
		NPLs		
R million	Total advances	Total value net of ISP	Security held and expected recoveries	Impairment
Sector analysis				
Agriculture	32 859	908	820	88
Banks	20 867	-	-	-
Financial institutions	137 937	79	40	39
Building and property development	48 961	672	383	289
Government, Land Bank and public authorities	22 471	313	307	6
Individuals	384 235	16 307	10 702	5 605
Manufacturing and commerce	100 870	1 134	554	580
Mining	11 297	521	51	470
Transport and communication	18 456	191	98	93
Other services	81 001	1 058	560	498
Total advances	858 954	21 183	13 515	7 668

30 FINANCIAL RISK continued

30.1.5 Credit risk mitigation and collateral held

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

Although, in principle, credit assessment focuses on the counterparty's ability to repay the debt, credit mitigation instruments are used where appropriate to reduce the bank's lending risk, resulting in security against the majority of exposures. These include financial or other collateral, netting agreements, guarantees or credit derivatives. The collateral types are driven by portfolio, product or counterparty type.

Credit risk mitigation instruments

- Mortgage and instalment sale finance portfolios in FNB, WesBank and Aldermore are secured by the underlying assets financed.
- FNB commercial credit exposures are secured by the assets of the SME counterparties and commercial property finance deals are secured by the underlying property and associated cash flows.
- Structured facilities in RMB are secured as part of the structure through financial or other collateral, including guarantees, credit derivative instruments and assets.
- Counterparty credit risk in RMB is mitigated through the use of netting agreements and financial collateral. For additional information relating to the use of the netting agreements refer to page C222.
- Personal loans, overdrafts and credit card exposures are generally unsecured or secured by guarantees and securities.
- Invoice finance within Aldermore is secured by the underlying receivables (trade invoices).
- Working capital facilities in RMB corporate banking are secured.

The bank employs strict policies governing the valuation and management of collateral across all business areas. Collateral is managed internally to ensure that title is retained over collateral taken over the life of the transaction. Collateral is valued at inception of the credit agreement and subsequently, where necessary, through physical inspection or index valuation methods. For corporate and commercial counterparties, collateral is reassessed during the annual review of the counterparty's creditworthiness to ensure that proper title is retained. For mortgage portfolios, collateral is revalued on an ongoing basis using an index model and physical inspection, which is performed at the beginning of the recovery process. For asset finance, the total security reflected represents only the realisation value estimates of the vehicles repossessed at the date of repossession. Where the repossession has not yet occurred, the realisation value of the vehicle is estimated using internal models and is included as part of total recoveries.

Concentrations in credit risk mitigation types, such as property, are monitored and managed at a product and credit segment level, in line with the requirements of the bank credit risk appetite framework.

Collateral is taken into account for capital calculation purposes through the determination of LGD. Collateral reduces LGD, and LGD levels are determined through statistical modelling techniques based on historical experience of the recovery processes as well as forward looking information.

30 FINANCIAL RISK continued

The table below sets out an analysis of the maximum exposure to credit risk for financial assets at amortised cost and fair value through profit or loss, as well as a breakdown of collateral, both financial and non-financial held against the exposure, along with other credit enhancements and netting arrangements.

	2019 (IFRS 9)				
R million	**Gross carrying amount**	**Off-balance sheet exposure**	**Loss allowance**	**Maximum exposure to credit risk**	
Residential mortgages	**217 164**	**53 107**	**(2 541)**	**267 730**	
Vehicle and asset finance*	**117 668**	**198**	**(4 745)**	**113 121**	
Credit card	**32 443**	**-**	**(2 883)**	**29 560**	
Personal loans	**39 947**	**-**	**(6 853)**	**33 094**	
Other retail	**17 908**	**660**	**(2 725)**	**15 843**	
FNB commercial	**105 128**	**11 233**	**(3 812)**	**112 549**	
WesBank corporate	**27 945**	**4 857**	**(338)**	**32 464**	
RMB corporate banking	**57 932**	**55 401**	**(688)**	**112 645**	
RMB investment banking	**266 959**	**31 284**	**(2 517)**	**295 726**	
Group Treasury and other	**38 752**	**1 250**	**(201)**	**39 801**	
Total advances	**921 846**	**157 990**	**(27 303)**	**1 052 533**	
Investment securities**	**170 162**	**-**	**(44)**	**170 118**	
Cash and cash equivalents	**70 419**	**-**	**-**	**70 419**	
Accounts receivable	**3 225**	**-**	**(86)**	**3 139**	
Derivatives	**43 181**	**-**	**-**	**43 181**	

** Includes MotoNovo old book in the bank with a closing balance of R22 917 million.*

*** Includes debt instruments measured at fair value, but excludes equity and non-recourse investments.*

**** Secured represents balances which have non-financial collateral attached to the financial asset.*

2019 (IFRS 9)			
	Netting and financial collateral	**Unsecured**	**Secured*** **
	3 270	**618**	**263 842**
	-	**-**	**113 121**
	-	**29 560**	**-**
	-	**32 557**	**537**
	-	**14 455**	**1 387**
	1 447	**24 712**	**86 391**
	-	**-**	**32 464**
	-	**67 232**	**45 413**
	5 294	**27 316**	**263 116**
	89	**33 437**	**6 275**
	10 100	**229 887**	**812 546**
	-	**162 827**	**7 292**
	19 835	**50 584**	**-**
	-	**3 139**	**-**
	-	**43 181**	**-**

30 FINANCIAL RISK continued

The table below sets out an analysis of NPLs at amortised cost

R million	2018 IAS 39
Retail	4 221
Commercial	2 125
FNB	6 346
Investment banking	1 089
Corporate banking	308
RMB	1 397
WesBank	3 335
Total	11 078

The financial effect of collateral and other credit enhancements has been calculated separately per class of advance for the performing book (IBNR and portfolio specific impairments) and the non-performing book. The amounts disclosed above represent the difference between the impairment recognised in the statement of financial position using the actual LGD and a proxy LGD for all secured portfolios. The proxy LGD is based on the LGD used to determine the impairment on the statement of financial position for unsecured portfolios.

Where there is no collateral or where collateral is disregarded for provisioning purposes, no financial effect is calculated.

R million	**2019** **IFRS 9**	2018 IAS 39
Cash collateral held	**10 164**	16 832

30 FINANCIAL RISK continued

The table below sets out the collateral that the bank holds and has the ability to sell or repledge in the absence of default by the owner of the collateral.

Collateral held in structured transactions

	2019 IFRS 9		2018 IAS 39	
R million	**Fair value**	**Fair value of collateral sold or repledged in the absence of default**	Fair value	Fair value of collateral sold or repledged in the absence of default
Cash and cash equivalents	**7 166**	**1 802**	8 535	2 819
Investment securities and other investments - held under reverse repurchase agreements	**44 077**	**24 624**	32 203	16 333
Total collateral pledged	**51 243**	**26 426**	40 738	19 152

* *The amount excludes securities lending transactions where securities are obtained as collateral for securities lent. This is in line with industry practice.*

30 FINANCIAL RISK continued

Offsetting of financial assets and financial liabilities

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

The bank uses International Swaps and Derivatives Association (ISDA) and International Securities Market Association agreements for the purpose of netting derivative transactions and repurchase transactions respectively. These master agreements as well as associated credit support annexes (CSA) set out internationally accepted valuation and default covenants, which are evaluated and applied daily, including daily margin calls based on the approved CSA thresholds.

The table on the following page includes information about financial assets and financial liabilities that are:

- offset and the net amount presented in the bank's statement of financial position in accordance with the requirements of IAS 32; and
- subject to enforceable MNA or similar agreements where the amounts have not been offset because one or both of the requirements of IAS 32 are not met, or the amounts relate to financial collateral (cash or non-cash) that mitigates credit risk.

Structured transactions refer to reverse repurchase, securities borrowing and similar arrangements, repurchase in the asset table, and securities lending and similar arrangements in the liability section of the table.

The net amount reported in the statement of financial position represents the net amount of financial assets and financial liabilities where offsetting has been applied in terms of IAS 32 and financial instruments that are subject to MNA and similar agreements, but no offsetting has been applied.

The financial collateral included in the table below is limited to the net statement of financial position exposure in line with the requirements of IFRS 7 and excludes the effect of any over-collateralisation. The amount of collateral included in the table for IFRS 7 disclosure purposes has been determined at a business unit level. If these limits were determined on a bank wide level, the amount of collateral included in this table could increase. The total amount reported on the statement of financial position is the sum of the net amount reported in the statement of financial position and the amount of financial instruments not subject to set-off or MNA.

30 FINANCIAL RISK continued

	Derivatives		Structured transactions		Other advances/ (deposits)		Intercompany	
R million	**2019 IFRS 9**	2018 IAS 39	**2019 IFRS 9**	2018 IAS 39	**2019 IFRS 9**	2018 IAS 39	**2019 IFRS 9**	2018 IAS 39
Assets								
Offsetting applied								
Gross amount	**57 307**	49 855	**41 445**	40 261	**-**	-	**3 332**	686
Amount set-off	**(14 321)**	(11 003)	**(9 697)**	(18 092)	**-**	-	**(629)**	(171)
Net amount reported on the statement of financial position	**42 986**	38 852	**31 748**	22 169	**-**	-	**2 703**	515
Offsetting not applied								
Financial instruments subject to MNA and similar agreements	**(33 874)**	(30 186)	**(5 419)**	(88)	**-**	-	**(2 104)**	(255)
Financial collateral	**(2 526)**	(1 406)	**(26 329)**	(22 081)	**-**	-	**-**	-
Net amount	**6 586**	7 260	**-**	-	**-**	-	**599**	260
Financial instruments not subject to set-off or MNA	**195**	2 534	**12 515**	10 034	**850 280**	811 603	**50 324**	51 904
Total as per statement of financial position	**43 181**	41 386	**44 263**	32 203	**850 280**	811 603	**53 027**	52 419
Liabilities								
Offsetting applied								
Gross amount	**59 744**	55 031	**42 982**	51 498	**-**	-	**3 062**	1 216
Amount set-off	**(14 321)**	(11 003)	**(9 697)**	(18 092)	**-**	-	**(629)**	(171)
Net amount reported on the statement of financial position	**45 423**	44 028	**33 285**	33 406	**-**	-	**2 433**	1 045
Offsetting not applied								
Financial instruments subject to MNA and similar agreements	**(33 874)**	(30 186)	**(5 419)**	(88)	**-**	-	**(2 104)**	(255)
Financial collateral	**(1 248)**	(3 151)	**(27 866)**	(19 693)	**-**	-	**-**	-
Net amount	**10 301**	10 691	**-**	13 625	**-**	-	**329**	790
Financial instruments not subject to set-off or MNA	**2 630**	6 210	**9 413**	(10 563)	**1 015 741**	954 415	**23 351**	18 948
Total as per statement of financial position	**48 053**	50 238	**42 698**	22 843	**1 015 741**	954 415	**25 784**	19 993

30 FINANCIAL RISK continued

30.2 Liquidity risk

Objective

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

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

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

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

Liquidity risk arises from all assets and liabilities with differing maturity profiles.

Assessment and management

The group focuses on continuously monitoring and analysing the potential impact of other risks and events on the funding and liquidity position of the group to ensure business activities preserve and improve funding stability. This ensures the group is able to operate through periods of stress when access to funding is constrained.

Mitigation of market and funding liquidity risks is achieved via contingent liquidity risk management. Buffer stocks of high quality, highly liquid assets are held either to be sold into the market or provide collateral for loans to cover any unforeseen cash shortfall that may arise.

The group's approach to liquidity risk management distinguishes between structural, daily and contingency liquidity risk management across all currencies. Various approaches are employed in the assessment and management of these on a daily, weekly and monthly basis.

Structural liquidity risk	Daily liquidity risk	Contingency liquidity risk
Managing the risk that structural, long-term on- and off-balance sheet exposures cannot be funded timeously or at reasonable cost.	Ensuring that intraday and day-to-day anticipated and unforeseen payment obligations can be met by maintaining a sustainable balance between liquidity inflows and outflows.	Maintaining a number of contingency funding sources to draw upon in times of economic stress.

Regular and rigorous stress tests are conducted on the funding profile and liquidity position as part of the overall stress testing framework with a focus on:

30 FINANCIAL RISK continued

- quantifying the potential exposure to future liquidity stresses;
- analysing the possible impact of economic and event risks on cash flows, liquidity, profitability and solvency position; and
- proactively evaluating the potential secondary and tertiary effects of other risks on the bank.

30.2.1 Undiscounted cash flow

The following table presents the bank's undiscounted cash flows of financial liabilities and off-balance sheet amounts and includes all cash outflows related to principal amounts, as well as future payments. These balances will not reconcile to the balance sheet for the following reasons:

- balances are undiscounted amounts whereas the statement of financial position is prepared using discounted amounts;
- the table includes cash flows not recognised on the statement of financial position;
- all instruments held for trading purposes are included in the call to three-month bucket and not by maturity, as trading instruments are typically held for short periods of time; and
- cash flows relating to principal and associated future coupon payments have been included on an undiscounted basis.

	2019 IFRS 9			
		Term to maturity		
R million	**Carrying amount**	**Call-3 months**	**4-12 months**	**> 12 months and non-contractual**
On-balance sheet amounts				
Deposits and current accounts	**1 149 947**	**742 259**	**162 207**	**245 481**
Short trading positions	**5 355**	**5 355**	**-**	**-**
Derivative financial instruments	**48 188**	**45 359**	**968**	**1 861**
Creditors, accruals and provisions	**16 035**	**10 650**	**842**	**4 543**
Tier 2 liabilities	**29 507**	**357**	**3 570**	**25 580**
Other liabilities	**3 472**	**587**	**2 477**	**408**
Amounts due to holding company and fellow subsidiaries	**25 929**	**24 195**	**1 398**	**336**
Off-balance sheet amounts				
Financial and other guarantees	**42 587**	**40 846**	**1 564**	**177**
Operating lease commitments	**1 828**	**288**	**628**	**912**
Other contingencies and commitments	**3 321**	**474**	**2 283**	**564**
Facilities not drawn	**117 028**	**117 028**	**-**	**-**

30 FINANCIAL RISK continued

	2018 IAS 39			
		Term to maturity		
R million	Carrying amount	Call-3 months	4-12 months	> 12 months and non-contractual
On-balance sheet amounts				
Deposits and current accounts	1 067 260	664 113	144 308	258 839
Short trading positions	9 981	9 981	-	-
Derivative financial instruments	50 451	48 837	237	1 377
Creditors, accruals and provisions	14 197	9 135	780	4 282
Tier 2 liabilities	34 099	357	9 146	24 596
Other liabilities	4 725	609	1 919	2 197
Amounts due to holding company and fellow subsidiaries	19 752	19 202	462	88
Off-balance sheet amounts				
Financial and other guarantees	42 132	39 679	2 343	110
Operating lease commitments	2 404	310	739	1 355
Other contingencies and commitments	2 593	985	1 550	58
Facilities not drawn	111 642	111 642	-	-

30 FINANCIAL RISK continued

30.2.2 Discounted cash flow analysis

The following table represents the bank's contractual discounted cash flows of total assets, liabilities and equity for the bank. Relying solely on the liquidity mismatch when assessing a bank's maturity analysis would overstate risk, since this represents an absolute worst case assessment of cash flows at maturity.

Due to South Africa's structural liquidity position, banks tend to have a particularly pronounced negative gap in the shorter term due to short-term institutional funds which represent a significant proportion of banks' liabilities. These are used to fund long-term assets, e.g. mortgages.

	2019 IFRS 9			
		Term to maturity		
R million	**Carrying amount**	**Call-3 months**	**4-12 months**	**> 12 months**
Total assets	**1 291 404**	**421 066**	**146 933**	**723 405**
Total equity and liabilities	**1 291 404**	**830 075**	**159 222**	**302 107**
Net liquidity gap	**-**	**(409 009)**	**(12 289)**	**421 298**
Cumulative liquidity gap	**-**	**(409 009)**	**(421 298)**	**-**

	2018 IAS 39			
		Term to maturity		
R million	Carrying amount	Call-3 months	4-12 months	> 12 months
Total assets	1 203 877	386 041	127 184	690 652
Total equity and liabilities	1 203 877	754 330	144 378	305 169
Net liquidity gap	-	(368 289)	(17 194)	385 483
Cumulative liquidity gap	-	(368 289)	(385 483)	-

As illustrated in the table above, the negative liquidity short-term gap increased in the short end on a cumulative basis. This is aligned to the funding strategy to grow the deposit franchise via transactional deposit accounts. Management continues to align stress-funding buffers both locally and offshore, taking into account prevailing economic and market conditions.

30 FINANCIAL RISK continued

30.2.3 Collateral pledged

The bank pledges assets under the following terms and conditions:

- assets are pledged as collateral under repurchase agreements with other banks and for security deposits relating to local futures and options; and
- collateral in the form of cash and other investment securities is pledged when the bank borrows equity securities from third parties. These transactions are conducted under the terms and conditions that are usual and customary to standard securities lending arrangements.

All other pledges are conducted under terms which are usual and customary to lending arrangements.

The following assets have been pledged to secure the liabilities set out in the table below. These assets are not available in the normal course of business.

R million	**2019** **IFRS 9**	2018 IAS 39
Cash and cash equivalents	**20 193**	16 932
Advances	**3 830**	3 983
Investment securities — held under repurchase agreements	**21 918**	13 754
Investment securities — other	**15 929**	13 496
Total assets pledged	**61 870**	48 165

The following liabilities have been secured by the bank pledging either its own or borrowed financial assets, except for the short trading positions, which are covered by borrowed securities only.

R million	**2019** **IFRS 9**	2018 IAS 39
Short trading positions	**5 355**	9 981
Creditors and accruals	**-**	85
Total deposits	**55 081**	35 210
- Deposits under repurchase agreements	**40 896**	19 334
- Deposits in securities lending transactions*	**1 802**	3 509
- Other secured deposits	**12 383**	12 367
Amounts due to holding company and fellow subsidiaries	**35**	-
Other	**23 368**	20 820
Total	**83 839**	66 096

** Securities lending transactions include only those where cash is placed against the securities borrowed. Transactions where securities are lent and borrowed and other securities placed against the borrowing and lending are excluded.*

30 FINANCIAL RISK continued

30.2.4 Concentration analysis of deposits

R million	**2019** **IFRS 9**	2018 IAS 39
Sector analysis		
Deposit current accounts and other loans		
Sovereigns, including central banks	**103 346**	97 200
Public sector entities	**30 046**	28 576
Local authorities	**14 011**	9 004
Banks	**49 105**	67 424
Securities firms	**8 768**	9 907
Corporate customers	**579 486**	518 546
Retail customers	**268 029**	241 609
Other	**5 648**	4 992
Total deposits	**1 058 439**	977 258
Geographical analysis		
South Africa	**968 293**	873 719
Rest of Africa	**21 275**	20 126
UK	**43 090**	54 924
Other	**25 781**	28 489
Total deposits	**1 058 439**	977 258

30 FINANCIAL RISK continued

30.3 Market risk

The bank distinguishes between market risk in the trading book and non-traded market risk.

Objective

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

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

Assessment and management

Management and monitoring of the FirstRand domestic banking book is split between the RMB book and the remaining domestic banking book. RMB manages the majority of its banking book under the market risk framework, with risk measured and monitored in conjunction with the trading book and management oversight provided by the market and investment risk committee. The RMB banking book interest rate risk exposure was R55 million on a 10-day expected tail loss (ETL) basis at 30 June 2019 (2018: R45 million). Interest rate risk in the remaining domestic banking book is discussed in the interest rate risk in the banking book section.

The risk related to market risk-taking activities is measured as the height of the group's internal ETL measure (as a proxy for economic capital) and regulatory capital based on Value-at-Risk (VaR) plus stressed VaR (sVaR).

ETL	The internal measure of risk is an ETL metric at the 99% confidence level under the full revaluation methodology using historical risk factor scenarios (historical simulation method). In order to accommodate the regulatory stress loss imperative, the set of scenarios used for revaluation of the current portfolio comprises historical scenarios which incorporate both the past 260 trading days and at least one static period of market distress observed in history (2008/2009). The choice of period 2008/2009 is based on the assessment of the most volatile period in recent history. ETL is liquidity adjusted for illiquid exposures. Holding periods, ranging between 10 and 90 days or more, are used in the calculation and are based on an assessment of distressed liquidity of portfolios.
VaR	VaR is calculated at the 99%, 10-day actual holding period level using data from the past 260 trading days.

30 FINANCIAL RISK continued

30.3.1 Market risk in the trading book

VaR analysis by risk type

The following table reflects the 1-day VaR at the 99% confidence level at 30 June 2019.

	2019				2018
R million	**Min***	**Max***	**Average**	**Period end**	Period end
Risk type**					
Equities	0.4	47.3	7.4	5.9	1.7
Interest rates	10.2	82.5	34.6	59.9	22.0
Foreign exchange	2.8	85.6	25.9	15.8	36.3
Commodities	1.4	17.5	8.3	6.1	12.0
Traded credit	3.6	31.0	14.7	16.1	10.6
Diversification effect				(12.0)	(37.4)
Diversified total	5.9	105.6	52.1	91.8	45.1

* The maximum and minimum VaR figures for each asset class did not necessarily occur on the same day. Consequently, a diversification effect was omitted from the above table.

** Excludes foreign branches, which are reported on in the standardised approach for market risk section of this document.

The following table reflects the 10-day VaR and sVaR at the 99% confidence level. The 10-day VaR calculation is performed using 10-day scenarios created from the past 260 trading days, whereas the 10-day sVaR is calculated using scenario data from the static stress period.

	2019								2018	
	Period end								Period end	
	VaR				**sVaR**					
R million	**Min***	**Max***	**Average**	**Period end**	**Min***	**Max***	**Average**	**Period end**	VaR	sVaR
Risk type**										
Equities	1.0	132.3	18.1	15.4	1.9	96.5	25.5	10.9	5.0	8.8
Interest rates	29.4	169.5	85.3	152.5	52.7	388.9	138.8	318.4	93.6	90.8
Foreign exchange	3.3	164.3	71.2	46.2	8.5	228.1	91.6	142.5	130.4	181.6
Commodities	3.9	38.6	21.4	11.3	7.1	74.8	37.6	10.6	18.8	37.7
Traded credit	10.1	99.7	36.1	20.8	8.7	30.4	17.2	15.8	59.3	12.2
Diversification effect	(27.7)	(274.5)	(90.6)	(120.8)	(7.5)	(362.9)	(118.7)	(102.8)	(122.2)	(126.5)
Diversified total	19.9	329.9	141.6	125.4	71.4	455.7	192.0	395.4	185.0	204.7

* The maximum and minimum VaR figures for each asset class did not necessarily occur on the same day. Consequently, a diversification effect was omitted from the above table.

** Excludes foreign branches, which are reported on the standardised approach for market risk. The VaR numbers relates to FirstRand Bank SA only.

30 FINANCIAL RISK continued

30.4 Non-traded market risk

30.4.1 Interest rate risk in the banking book

IRRBB originates from the differing repricing characteristics of balance sheet positions/instruments, yield curve risk, basis risk and client optionality embedded in banking book products.

Assessment and management

FirstRand Bank (South Africa)

The measurement techniques used to monitor IRRBB include NII sensitivity/earnings risk and NAV/economic value of equity (EVE). A repricing gap is also generated to better understand the repricing characteristics of the balance sheet. In calculating the repricing gap, all banking book assets, liabilities and derivative instruments are placed in gap intervals based on repricing characteristics. The repricing gap, however, is not used for management decisions.

The internal funds transfer pricing process is used to transfer interest rate risk from the franchises to Group Treasury. This process allows risk to be managed centrally and holistically in line with the group's macroeconomic outlook. Management of the resultant risk position is achieved by balance sheet optimisation or through the use of derivative transactions. Derivative instruments used are mainly interest rate swaps, for which a liquid market exists. Where possible, hedge accounting is used to minimise accounting mismatches, thus ensuring that amounts deferred in equity are released to the income statement at the same time as movements attributable to the underlying hedged asset/liability. Interest rate risk from the fixed-rate book is managed to low levels with remaining risk stemming from timing and basis risk.

Foreign operations

Management of international branches is performed by in-country management teams with oversight provided by Group Treasury and FCC Risk Management.

Sensitivity analysis

A change in interest rates impacts both the earnings potential of the banking book (as underlying assets and liabilities reprice to new rates), as well as in the economic value/NAV of an entity (as a result of a change in the fair value of any open risk portfolios used to manage the earnings risk). The role of management is to protect both the financial performance as a result of a change in earnings and to protect the long-term economic value. To achieve this, both earnings sensitivity and economic sensitivity measures are monitored and managed within appropriate risk limits and appetite levels, considering the macroeconomic environment and factors which would cause a change in rates.

Earnings sensitivity

Earnings models are run on a monthly basis to provide a measure of the NII sensitivity of the existing banking book to shocks in interest rates. Underlying transactions are modelled on a contractual basis and behavioural adjustments are applied where relevant. The calculation assumes a constant balance sheet size and product mix over the forecast horizon. A pass-through assumption is applied in relation to non-maturing deposits, which reprice at the bank's discretion. This assumption is based on historical product behaviour.

30 FINANCIAL RISK continued

The following tables show the 12-month NII sensitivity for a sustained, instantaneous parallel 200 bps downward and upward shock to interest rates.

Most of NII sensitivity is a result of the endowment book mismatch. The bank's average endowment book was R230 billion for the year (2018: R211 billion).

Projected ZAR NII sensitivity to interest rate movements

	Change in projected 12-month NII	
	2019	2018
R million	**IFRS 9**	IAS 39
Downward 200 bps	**(3 678)**	(3 045)
Upward 200 bps	**3 118**	2 551

Assuming no change in the balance sheet and no management action in response to interest rate movements, an instantaneous, sustained parallel 200 bps decrease in interest rates would result in a reduction in projected 12-month NII of R3 678 million (2018: R3 045 million). A similar increase in interest rates would result in an increase in projected 12-month NII of R3 118 million ((2018: R2 551 million).

30 FINANCIAL RISK continued

Economic value of equity

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

The EVE shock applied is based on regulatory guidelines and is a sustained, instantaneous parallel 200 bps downward and upward shock to interest rates. This is applied to risk portfolios as managed by Group Treasury which, as a result of the risk transfer through the internal funds transfer pricing process, captures relevant open risk positions in the banking book. This measure does not take into account the unrealised economic benefit embedded as a result of the banking book products which are not recognised at fair value.

The following table:

- highlights the sensitivity of banking book NAV as a percentage of total capital; and
- reflects a point-in-time view which is dynamically managed and can fluctuate over time.

Banking book NAV sensitivity to interest rate movements as a percentage of total bank capital

	2019	2018
%	**IFRS 9**	IAS 39
Downward 200 bps	**1.98**	3.07
Upward 200 bps	**(1.77)**	(2.69)

30 FINANCIAL RISK continued

30.4.2 Structural foreign exchange risk

Objective

The bank is exposed to foreign exchange risk as a result of on-balance sheet transactions in a currency other than the rand, as well as through structural foreign exchange risk from the translation of foreign entities' results into rand. The impact on equity as a result of structural foreign exchange risk is recognised in the foreign currency translation reserve balance, which is included in qualifying capital for regulatory purposes.

Structural foreign exchange risk as a result of net investments in entities with a functional currency other than rand is an unavoidable consequence of having offshore operations and can be a source of both investor value through diversified earnings, and unwanted volatility as a result of rand fluctuations. Group Treasury is responsible for actively monitoring the net capital invested in foreign entities, as well as the currency value of any capital investments and dividend distributions. Reporting and management for the group's foreign exchange exposure and macro prudential limit utilisation is centrally owned by Group Treasury as the clearer of all currency positions in the group. Group Treasury is also responsible for oversight of structural foreign exchange risk with reporting through to group ALCCO, a subcommittee of the RCC committee.

Assessment and management

The ability to transact on-balance sheet in a currency other than the home currency (rand) is governed by in-country macro-prudential and regulatory limits. In the group, additional board limits and management appetite levels are set for this exposure. The impact of any residual on-balance positions is managed as part of market risk reporting (see market risk in the trading book section). Group Treasury is responsible for consolidated group reporting and utilisation of these limits against approved limits and appetite levels.

Foreign exchange risk in the banking book comprises funding and liquidity management, as well as risk mitigating activities which are managed to low levels. To minimise funding risk across the group, foreign currency transactions are matched where possible, with residual liquidity risk managed centrally by Group Treasury. Structural foreign exchange risk impacts both the current NAV of the group as well as future profitability and earnings potential. Economic hedging is done where viable, given market constraints and within risk appetite levels. Where possible, hedge accounting is applied. Any open hedges are included as part of market risk in the trading book.

The table below provides an overview of the bank's exposure to entities with functional currencies other than the South African rand and the pre-tax impact on equity of a 15% change in the exchange rate between the South African rand and the relevant functional foreign currencies. There were no significant structural hedging strategies employed by the bank in the current financial year.

30 FINANCIAL RISK continued

Net structural foreign exposures

	2019		2018	
	Carrying value of net investment	**Pre-tax impact on equity from 15% currency translation shock**	Carrying value of net investment	Pre-tax impact on equity from 15% currency translation shock
United States dollar	**3 333**	**500**	2 807	421
Sterling	**1 877**	**281**	2 220	333
Indian rupee	**684**	**103**	636	95
Total	**5 894**	**884**	5 663	849

30.5 Equity investment risk

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

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

Ashburton Investments, the bank's asset management business, also contributes to equity investment risk. This risk emanates from long-term and short-term seeding activities both locally and offshore. Short-term seeding of new traditional and alternative funds exposes the group to equity investment risk until the funds reach sufficient scale for sustainable external distribution. The timeline for short-term seeding is defined in the business cases for the funds and typically ranges between one and three years.

Long-term seeding is provided if there is alignment with the business strategy, the business case meets the bank's internal return hurdle requirements, and the liquidity and structure of the funds imply that an exit will only be possible over a longer period, aligned with the interests of other investors in these funds. Long-term investments, such as investment in private equity and real estate, will only be exited at the end of the investment horizon of the funds. This maturity period typically ranges from five to eight years post investment into the fund.

Assessment and management

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

For each transaction, an appropriate structure is put in place which aligns the interests of all parties involved through the use of incentives and constraints for management and other investors. Where appropriate, the group seeks to take a number of seats on the company's board and maintains close oversight through monitoring of operations and financial discipline.

30 FINANCIAL RISK continued

The investment thesis, results of the due diligence process and investment structure are discussed at the investment committee before final approval is granted. In addition, normal biannual reviews are carried out for each investment and crucial parts of these reviews, such as valuation estimates, are independently peer reviewed.

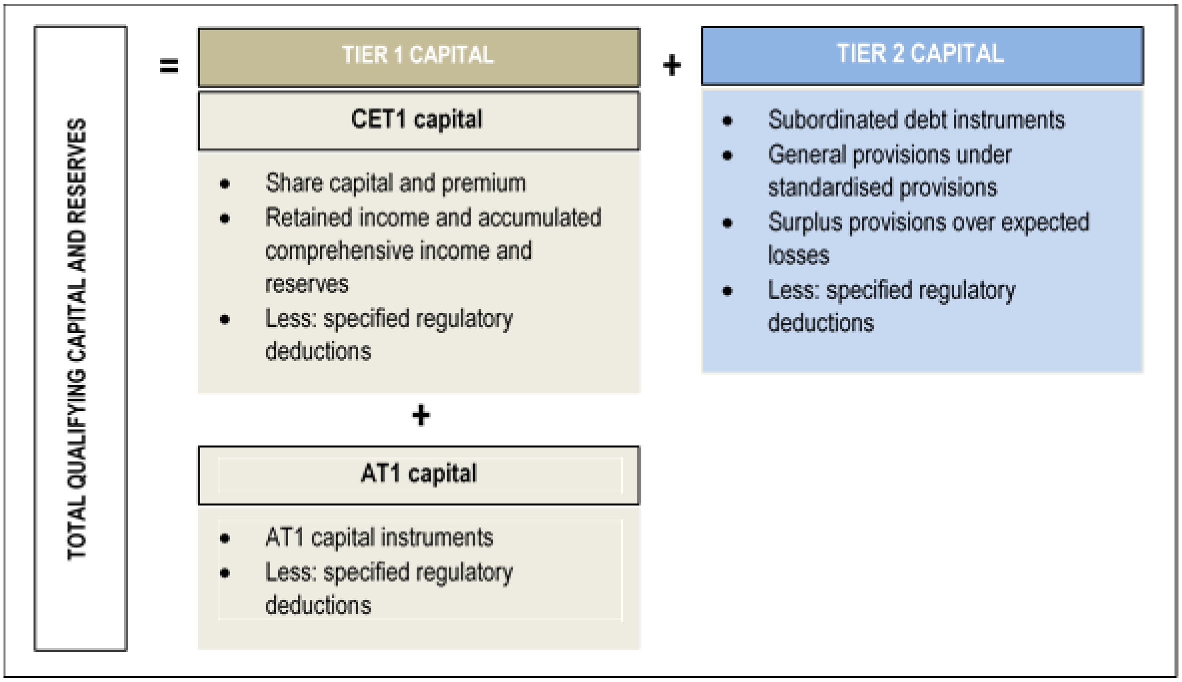
The table below shows the equity investment risk exposure and sensitivity. The 10% sensitivity movement is calculated on the carrying value of investments excluding investments subject to the ETL process and includes the carrying value of investments in associates and joint ventures. The impact of the sensitivity movements would be recognised in profit or loss.

Investment risk exposure and sensitivity of investment risk exposure

R million	**2019 IFRS 9**	2018 IAS 39
Listed investment risk exposure included in the equity investment risk ETL	**170**	-
Estimated sensitivity of remaining investment balances		
Sensitivity to 10% movement in market value on investment fair value	**160**	163

30 FINANCIAL RISK continued

30.6 Capital management



CET1 capital

- Share capital and premium
- Retained income and accumulated comprehensive income and reserves
- Less: specified regulatory deductions

AT1 capital

- AT1 capital instruments
- Less: specified regulatory deductions

TIER 2 CAPITAL

- Subordinated debt instruments
- General provisions under standardised provisions
- Surplus provisions over expected losses
- Less: specified regulatory deductions

The capital planning process ensures that the total capital adequacy and Common Equity Tier 1 (CET1) ratios remain within or above targets across economic and business cycles, which includes a range of normal and severe stress scenarios. The bank aims to back all economic risk with loss-absorbing capital and remains well capitalised in the current environment.

The bank operated above its capital and leverage targets during the year. The internal targets are approved by the board and are subject to ongoing review and consideration of various stakeholder requirements. The bank continues to focus on maintaining strong capital and leverage levels, with focus on the quality of capital as well as optimisation of the bank's risk weighted assets (RWA) and capital stack.

The bank's foreign branches must comply with the Prudential Authority's (PA's) regulations and those of the respective in-country regulators, with primary focus placed on Tier 1 and total capital adequacy ratios. Based on the outcome of detailed stress testing, each entity targets a capital level in excess of the in-country regulatory minimum. Adequate controls and processes are in place to ensure that each entity is adequately capitalised to meet regulatory and economic capital requirements. Capital generated by branches in excess of targeted levels is returned to FirstRand Bank, usually in the form of return of profits. During the year, no restrictions were experienced on the repayment of such profits to the bank.

Composition of capital analysis

	CET1 capital	Tier 1 capital	Total qualifying capital
Internal targets	**10%-11%**	**>12%**	**>14%**

31 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The following new and revised standards and interpretations are applicable to the business of the bank. The bank will comply with these from the stated effective date.

Standard	Impact assessment	Effective date
IFRS 9	**Financial Instruments** **Prepayment features with Negative Compensation** The IASB issued a narrow-scope amendment to IFRS 9 to enable companies to measure at amortised cost some prepayable financial assets with negative compensation. The assets affected, that include some advances and debt securities which would otherwise be measured at FVTPL. Negative compensation arises where the contractual terms permit the borrower to prepay the instrument before its contractual maturity, but the pre-payment amount could be less than the unpaid amounts of principal and interest. To qualify for amortised cost measurement, the negative compensation must be a reasonable compensation for early termination of the contract.	Annual periods commencing on or after 1 January 2019
IFRS 16	**Leases** IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions. IFRS 16 will be effective for the bank from 1 July 2019. Under the current standard on leases, operating lease payments were expensed by the lessee when incurred, with no recognition on the statement of financial position. Under IFRS 16, the accounting treatment of leases by the lessee will change fundamentally. IFRS 16 eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead there is a single on-balance sheet model that is similar to the current finance lease accounting with the exception of short-term leases (where the lease term is less than 12 months) or leases where the underlying asset is considered to be low-value. Lessor accounting remains similar to current accounting, whereby the lessor continues to classify leases as finance or operating leases. Enhanced disclosure requirements for lessors have been introduced under IFRS 16. The biggest impact of IFRS 16 on the bank will be on lessee accounting because of the requirement for lessees to recognise a right of- use asset (ROUA) and corresponding liability in respect of leases that were previously classified as operating leases.	Annual periods commencing on or after 1 January 2019

31 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE continued

Standard	Impact assessment	Effective date
IFRS 16	During the 2019 year, the bank established an IFRS 16 steering committee that focused on the implementation of the new standard and focused on the following aspects: ➢ Data gathering that was used in determining the policies to be developed for the bank in relation to the low value exemption as well as this being a completeness check; ➢ Developing financial statement disclosures that comply with the requirements of IFRS 16; ➢ Implementing the IT solution that will ensure the leases are recognised, accounted for and disclosed in terms of IFRS 16 The bank elected to apply the modified approach on adoption, with the option that the ROUA is equal to the lease liability calculated at transition. This approach results in the bank not restating comparatives as well as there being no adjustment to opening reserves. The implementation of IFRS 16 on the bank results in recognition of lease liabilities of R1 631 million and ROUA of R1 542 million (approximately). The difference between the lease liability and ROUA is the IAS 17 smoothing balance of approximately R100 million as at 30 June 2019, which will be incorporated into the ROUA, as required by the transition method elected. The lease liability was calculated using the Banks transition date incremental borrowing rate. The Bank will classify the ROUAs as Property and Equipment, with this impacting the CET1 ratios as the ROUAs are risk-weighted-assets with the same risk weighting as the underlying Property and Equipment.	Annual periods commencing on or after 1 January 2019

31 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE continued

Standard	Impact assessment	Effective date
IFRS 17	**Insurance contracts** IFRS 17 is the new standard that prescribes the accounting for insurance contracts and will replace the current insurance contracts standard, IFRS 4. IFRS 17 aims to provide more transparency and comparability between insurance companies and other industries by providing a prescriptive approach to determining policyholder liabilities as well as the release of profits on these contracts to the income statement. IFRS 17 will be effective for the bank from 1 July 2022. The recognition of insurance revenue will be consistent with that of IFRS 15. Insurance revenue is derived by the movement in the liability for the remaining insurance coverage period. The insurance contract liability is initially made up of: ➢ the fulfilment cash flows, which represent the risk-adjusted present value of the entity’s rights and obligations to the policyholders; and ➢ the contractual service margin (CSM), which represents the unearned profit the entity will recognise as it provides services over the coverage period. Subsequently, the liability will comprise two components, namely, the liability for remaining coverage (fulfilment cash flows and the CSM) and the liability for incurred claims (fulfilment cash flows for claims and expenses incurred but not yet paid). Currently the bank does not hold any insurance contracts that fall into the scope of IFRS 17.	Annual periods commencing on or after 1 January 2022

31 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE continued

IAS 19	**Employee benefits plan amendment, curtailment or settlement** The amendments require an entity to use the updated assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement; and to recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that impact was not previously recognised because of the impact of the asset ceiling. Changes In the terms or membership of a defined benefit plan may result in a plan amendment or a curtailment or settlement. IAS 19 requires an entity to determine the amount of any past service cost, or gain or loss on settlement, by remeasuring the net defined liability before and after the amendment, using current assumptions and the fair value plan assets at the time of the amendment. If the net defined liability is remeasured to determine past service cost or the gain or loss on curtailment or settlement, current service cost and net interest for the remainder of the period is remeasured using the same assumptions and the same fair value of the plan assets. This means that the amounts which would've ended up in profit or loss in the period after the amendment will be changed. A plan amendment, curtailment or settlement might reduce or eliminate a surplus, which could change the effect of the asset ceiling. Past service cost, or a gain or loss on settlement is recognised in profit or loss. This reflects the substance of the transaction because a surplus which has been used to settle an obligation or provide additional benefits is recovered. The impact on the asset ceiling is recognised on other comprehensive income and is not reclassified to profit or loss. The impact of this amendment is to confirm that these effects are not offset.	Annual periods commencing on or after 1 January 2019
IAS 28	**Long-term interests in associates (amendments to IAS 28)** The amendments clarify that an entity should apply IFRS 9, including impairment requirements, to long-term interests in associates and joint ventures that in substance form part of the net investment in the associate or joint venture. The bank has assessed the impact of this amendment on the annual financial statements as part of the overall adoption of IFRS 9 and confirmed that we currently comply with this amendment.	Annual periods commencing on or after 1 January 2019

31 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE continued

IFRIC 23	**Uncertainty over income tax treatments** This interpretation is to be applied to the determination of taxable profit or loss, tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. This interpretation clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency. When considering that the filing deadlines for tax returns and financial statement may be months apart, IFRIC 23 may require more rigour when finalising the judgements about the amounts to be included in the tax return before the financial statements are finalised. The bank has always been in compliance with the guidance issued by the IFRIC.	Annual periods commencing on or after 1 January 2019
Conceptual framework	The improvements to the conceptual framework include: revising the definitions of an asset and liability, updating the recognition criteria for including assets and liabilities in financial statements and the following concepts have been clarified; prudence, stewardship, measurement uncertainty and substance over form. Minor amendments have also been made to various other standards. The amendments are not expected to have a significant impact on the group's accounting policies.	Annual periods commencing on or after 1 January 2020
IFRS 3	**Business Combinations - Amendments to clarify the definition of a business** The amendments clarify the definition of a business, with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendment is not expected to have a material impact on the group and the clarified requirements will be applied on a transaction by transaction basis.	Annual periods beginning on or after 1 January 2020
IAS 1 and **IAS 8**	**Amendments regarding the definition of material** The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS Standards. In addition, the explanations accompanying the definition have been improved. The amendments ensure that the definition of material is consistent across all IFRS Standards. The amendments will be applied prospectively. The amendment is not expected to have a significant impact on the annual financial statements.	Annual periods beginning on or after 1 January 2020

31 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE continued

Annual improvements 2015-2017 cycle	**Improvements to IFRS** The IASB issued the *Annual improvements to IFRS standards 2015-2017 Cycle*. These annual improvements include amendments to the following standards. ➢ IFRS 3 and IFRS 11 ─ The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business. ➢ IAS 12 ─ The amendments clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognised in profit or loss, regardless of how the tax arises. ➢ IAS 23 ─ The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, and that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.	Annual periods commencing on or after 1 January 2019

32 SUBSEQUENT EVENTS

The directors are not aware of any other material events that have occurred between the date of the statement of financial position and the date of this report.

D

supplementary information

D

supplementary information

Company information

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Listed debt instruments of the bank

at 30 June 2019

Issuer: FirstRand Bank Limited

JSE

Domestic medium-term note programme

Bond code	ISIN code	Bond code	ISIN code	Bond code	ISIN code
Subordinated debt					
FRB13	ZAG000116286	FRB18	ZAG000135229	FRB23	ZAG000146754
FRB14	ZAG000116294	FRB19	ZAG000135310	FRB24	ZAG000155102
FRB15	ZAG000124199	FRB20	ZAG000135385	FRB25	ZAG000157512
FRB16	ZAG000127622	FRB21	ZAG000140856	FRB26	ZAG000159955
FRB17	ZAG000127630	FRB22	ZAG000141219	FRB27	ZAG000159963
Senior unsecured					
FRBZ01	ZAG000049255	FRJ25	ZAG000124256	FRX25	ZAG000152828
FRBZ02	ZAG000072711	FRJ26	ZAG000156969	FRX26	ZAG000112160
FRBZ03	ZAG000080029	FRJ27	ZAG000141912	FRX27	ZAG000142506
FRJ20	ZAG000109596	FRJ29	ZAG000156951	FRX28	ZAG000152836
FRJ21	ZAG000115858	FRX19	ZAG000073685	FRX30	ZAG000124264
FRJ22	ZAG000142498	FRX20	ZAG000109604	FRX31	ZAG000084195
FRJ23	ZAG000149436	FRX23	ZAG000104969	FRX32	ZAG000142514
FRJ24	ZAG000156977	FRX24	ZAG000073693	FRX45	ZAG000076480
Inflation-linked bonds					
FRBI22	ZAG000079666	FRBI29	ZAG000145608	FRI33	ZAG000141706
FRBI23	ZAG000076498	FRBI33	ZAG000079245	FRI38	ZAG000141862
FRBI25	ZAG000109588	FRBI46	ZAG000135302		
FRBI28	ZAG000079237	FRBI50	ZAG000141649		

Structured note and preference share programme

Credit-linked notes					
FRC66	ZAG000088485	FRC69	ZAG000088766	FRC71	ZAG000088923

Note programme

Bond code	ISIN code
Structured notes	
FRS36	ZAG000077397
FRS37	ZAG000077793
FRS43	ZAG000078643
FRS46	ZAG000079807
FRS49	ZAG000081787
FRS51	ZAG000086117
FRS62	ZAG000090614
FRS64	ZAG000092529
FRS81	ZAG000100892
FRS85	ZAG000104985
FRS87	ZAG000105420
FRS90	ZAG000106410
FRS100	ZAG000111634
FRS101	ZAG000111774
FRS103	ZAG000111840
FRS104	ZAG000111857
FRS108	ZAG000113515
FRS109	ZAG000113564
FRS110	ZAG000113663
FRS112	ZAG000115395
FRS114	ZAG000116070
FRS119	ZAG000118951
FRS120	ZAG000119298
FRS121	ZAG000120643
FRS122	ZAG000121062
FRS123	ZAG000121328
FRS124	ZAG000122953
FRS126	ZAG000125188
FRS127	ZAG000125394
FRS129	ZAG000125865
FRS131	ZAG000126186
FRS132	ZAG000126194
FRS133	ZAG000126541
FRS134	ZAG000126574
FRS135	ZAG000126608
FRS136	ZAG000126780
FRS137	ZAG000127549
FRS138	ZAG000127556
FRS142	ZAG000130782
FRS143	ZAG000130790
FRS145	ZAG000134263
FRS146	ZAG000134636
FRS147	ZAG000135724
FRS149	ZAG000136573
FRS150	ZAG000136615
FRS151	ZAG000136987
FRS152	ZAG000136995
FRS153	ZAG000137670
FRS158	ZAG000145012
FRS159	ZAG000145020
FRS160	ZAG000145038
FRS161	ZAG000145046
FRS162	ZAG000145111
FRS163	ZAG000145129
FRS164	ZAG000145160
FRS165	ZAG000145178
FRS167	ZAG000145764
FRS168	ZAG000145772
FRS169	ZAG000145780
FRS170	ZAG000145954
FRS171	ZAG000147448
FRS172	ZAG000147455
FRS173	ZAG000148180
FRS174	ZAG000148198
FRS175	ZAG000149451
FRS176	ZAG000149444
FRS177	ZAG000152885
FRS178	ZAG000153107
FRS179	ZAG000153321
FRS180	ZAG000154147
FRS181	ZAG000154188
FRS182	ZAG000154386
FRS183	ZAG000154568
FRS184	ZAG000155490
FRS185	ZAG000155540
FRS186	ZAG000156522
FRS187	ZAG000156514
FRS188	ZAG000156506
FRS189	ZAG000157462
FRS190	ZAG000157835
FRS191	ZAG000157827
FRS192	ZAG000157850
FRS193	ZAG000157892
FRS194	ZAG000160516
FRS195	ZAG000160524
RMBI01	ZAG000050865
RMBI02	ZAG000052986
Credit-linked notes	
FRC169	ZAG000104852
FRC178	ZAG000107897
FRC179	ZAG000108168
FRC181	ZAG000108549
FRC195	ZAG000114745
FRC207	ZAG000117649
FRC208	ZAG000117656
FRC209	ZAG000118613
FRC210	ZAG000120296
FRC212	ZAG000121054
FRC246	ZAG000135476
FRC247	ZAG000135484
FRC248	ZAG000135450
FRC249	ZAG000135542
FRC250	ZAG000135559
FRC251	ZAG000141813
FRC252	ZAG000142225
FRC254	ZAG000144825
FRC256	ZAG000145806
FRC257	ZAG000146564
FRC278	ZAG000153560
FRC279	ZAG000153578
FRC280	ZAG000153776
FRC281	ZAG000153834
FRC282	ZAG000154063
FRC283	ZAG000154394
FRC284	ZAG000154642
FRC285	ZAG000155201
FRC286	ZAG000156548
FRC287	ZAG000156860

Listed debt instruments of the bank continued

Bond code	ISIN code
Credit-linked notes *continued*	
FRC213	ZAG000121047
FRC215	ZAG000121021
FRC219	ZAG000121138
FRC221	ZAG000121229
FRC225	ZAG000121435
FRC233	ZAG000128752
FRC234	ZAG000130816
FRC236	ZAG000135211
FRC237	ZAG000135203
FRC238	ZAG000135237
FRC239	ZAG000135245
FRC240	ZAG000135252
FRC241	ZAG000135393
FRC242	ZAG000135401
FRC243	ZAG000135419
FRC244	ZAG000135427
FRC245	ZAG000135468
FRC258	ZAG000146580
FRC259	ZAG000147414
FRC260	ZAG000147596
FRC261	ZAG000147653
FRC262	ZAG000147646
FRC264	ZAG000149345
FRC265	ZAG000149485
FRC266	ZAG000149824
FRC267	ZAG000150004
FRC269	ZAG000150806
FRC270	ZAG000151234
FRC271	ZAG000151556
FRC272	ZAG000151564
FRC274	ZAG000151952
FRC275	ZAG000152372
FRC276	ZAG000152430
FRC277	ZAG000153552
FRC288	ZAG000156852
FRC289	ZAG000157108
FRC290	ZAG000157447
FRC291	ZAG000157629
FRC292	ZAG000157777
FRC293	ZAG000158783
FRC294	ZAG000158791
FRC295	ZAG000159310
FRC296	ZAG000159369
FRC297	ZAG000159351
FRC298	ZAG000159427
FRC299	ZAG000159575
FRC300	ZAG000159674
FRC301	ZAG000159872
FRC302	ZAG000160029
FRC303	ZAG000160425
FRC304	ZAG000160565

Other

Bond code	ISIN code
FRK01	ZAE000193959
FRPT01	ZAE000205480

London Stock Exchange (LSE)

European medium-term note programme

ISIN code	
Senior unsecured	**Subordinated debt**
XS1178685084	XS1810806395
XS0610341967	
XS1225512026	

Definitions

Additional Tier 1 (AT1) capital	AT1 capital instruments 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 and qualifying reserves 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 bank 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
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
Technical cures	Performing accounts that are classified as stage 3/NPL because they have defaulted in the past and do not meet the stringent cure definition of performance for several consecutive months
Tier 1 ratio	Tier 1 capital divided by RWA
Tier 1 capital	CET1 capital plus AT1 capital
Tier 2 capital	Qualifying subordinated debt instruments and general provisions for entities on the standardised approach less specified regulatory deductions
Total qualifying capital and reserves	Tier 1 capital plus Tier 2 capital

Abbreviations

ALM	Asset and liability management
APE	Annual premium equivalent
ASF	Available stable funding
AT1	Additional Tier 1
AUA	Assets under administration
AUE	Assets under execution
AUM	Assets under management
BCBS	Basel Committee on Banking Supervision
BEE	Black economic empowerment
BIS	Bank for International Settlements
BPRMF	Business performance and risk management framework
BSE	Botswana Stock Exchange
BTL	Buy-to-let
C&TB	Corporate and transactional banking
CAGR	Compound annual growth rate
Capex	Capital expenditure
CAR	Capital adequacy ratio
CB	RMB corporate banking
CCyB	Countercyclical buffer
CET1	Common Equity Tier 1
CIB	Corporate and investment banking
CIS	Collective investment scheme
CLF	Committed liquidity facility
DA	DirectAxis
DIA	Date of initial application
DIS	Deposit insurance scheme
D-SIB	Domestic systemically important bank
DWT	Dividend withholding tax
ECL	Expected credit loss
ELI	Employee liability insurance
EMTN	European medium-term note
EPS	Earnings per share
FLAC	First loss-absorbing capacity
FLI	Forward-looking information
FML	Full maintenance leasing
FRB	FirstRand Bank Limited
FREMA	FirstRand EMA Holdings (Pty) Ltd
FRI	FirstRand International Limited (Guernsey)
FRIHL	FirstRand Investment Holdings (Pty) Ltd
FRNs	Floating rate notes
FSB	Financial Services Board
FSLAB	Financial Sector Laws Amendment Bill
FSR	FirstRand Limited
FVOCI	Fair value through other comprehensive income
FVTPL	Fair value through profit or loss
FX	Foreign exchange
HQLA	High-quality liquid assets
IB	Investment banking
IB&A	Investment banking and advisory
IFRS-IC	IFRS Interpretation Committee

IM	Investment management
INV	Investing
IRRBB	Interest rate risk in the banking book
ISP	Interest in suspense
JSE	Johannesburg Stock Exchange
JV	Joint venture
LCR	Liquidity coverage ratio
LGD	Loss given default
LISP	Linked investment service provider
LSE	London Stock Exchange
LTV	Loan to value
M&S	Markets and structuring
MCA	Market Conduct Authority
Moody's	Moody's Investors Service
MTM	Mark-to-market
NCAA	National Credit Amendment Act
NCDs	Negotiable certificate of deposits
NCNR	Non-cumulative non-redeemable
NIACC	Net income after cost of capital
NII	Net interest income
NIR	Non-interest revenue
NPLs	Non-performing loans
NSFR	Net stable funding ratio
NSX	Namibian Stock Exchange
PA	Prudential Authority
PD	Probability of default
P/E	Price/earnings
PN	Promissory note
RA	Resolution Authority
RCC	Risk, capital management and compliance
RMBS	Residential mortgage-backed securities
ROA	Return on assets
ROE	Return on equity
RSF	Required stable funding
RWA	Risk weighted assets
S&P	S&P Global Ratings
SAICA	South African Institute of Chartered Accountants
SARB	South African Reserve Bank
SICR	Significant increase in credit risk
SME	Small and medium enterprises
SOEs	State-owned entities
SPPI	Solely payments of principal and interest
SRB	Special Resolution Bill
TLAC	Total loss-absorbing capacity
TRS	Total return swap
TTC	Through-the-cycle
UK	United Kingdom
VAF	Vehicle asset finance
VAPS	Value-added products and services
WIM	Wealth and investment management

Abbreviations of financial reporting standards

INTERNATIONAL FINANCIAL REPORTING STANDARDS

IFRS 1	First-time Adoption of International Financial Reporting Standards
IFRS 2	Share-based Payment
IFRS 3	Business Combinations
IFRS 4	Insurance Contracts
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations
IFRS 7	Financial Instruments – Disclosures
IFRS 8	Operating Segments
IFRS 9	Financial Instruments
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
IFRS 13	Fair Value Measurement
IFRS 15	Revenue
IFRS 16	Leases
IFRS 17	Insurance Contracts

INTERNATIONAL ACCOUNTING STANDARDS

IAS 1	Presentation of Financial Statements
IAS 2	Inventories
IAS 7	Statement of Cash Flows
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10	Events After the Reporting Period
IAS 12	Income Taxes
IAS 16	Property, Plant and Equipment
IAS 17	Leases
IAS 18	Revenue
IAS 19	Employee Benefits
IAS 20	Accounting for Government Grants and Disclosure of Government Assistance
IAS 21	The Effects of Changes in Foreign Exchange Rates
IAS 23	Borrowing Costs
IAS 24	Related Party Disclosures
IAS 27	Consolidated and Separate Financial Statements
IAS 28	Investments in Associates and Joint Ventures
IAS 29	Financial Reporting in Hyperinflationary Economies
IAS 32	Financial Instruments – Presentation
IAS 33	Earnings Per Share
IAS 34	Interim Financial Reporting
IAS 36	Impairment of Assets
IAS 37	Provisions, Contingent Liabilities and Contingent Assets
IAS 38	Intangible Assets
IAS 39	Financial Instruments – Recognition and Measurement
IAS 40	Investment Property

IFRS INTERPRETATIONS COMMITTEE INTERPRETATIONS

IFRIC 17	Distributions of Non-cash Assets to Owners
IFRIC 22	Foreign Currency Transactions and Advance Consideration
IFRIC 23	Uncertainty over Income Tax Treatments

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